

Fundamentals Level – Skills Module

Taxation (Lesotho)

Tuesday 12 June 2012



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

ACCA



Paper F6 (LSO)

SUPPLEMENTARY INSTRUCTIONS

- 1 Calculations and workings need only be made to the nearest M.
- 2 All apportionments should be made to the nearest month.
- 3 Unless stated otherwise, it should be assumed that a taxpayer is resident.
- 4 All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and tax allowances are to be used in answering the questions:

Second Schedule (Section 9(1))

Resident individual income tax rates

| Chargeable income | Rate of tax |
|---------------------|-------------|
| First M40,368 | 22% |
| Over M40,368 | 35% |
| Personal tax credit | M5,000 |

Third Schedule (Section 10)

Resident company income tax rates

| Nature of income | Rate of tax |
|--|-------------|
| 1. Manufacturing income derived from a manufacturing activity of an industrial, scientific or educational nature which promotes industrial, scientific, educational or other development within Lesotho. | 10% |
| 2. Other manufacturing income | 10% |
| 3. Other income | 25% |
| 4. Commercial farming income | 10% |

Fourth Schedule (Sections 109, and 116)

Tax rate for trustees, fringe benefits and electing non-residents

The applicable rate is 35%

**Sixth Schedule
(Section 41)**

Declining balance depreciation rates:

| Group | Assets included | Depreciation rate |
|-------|--|-------------------|
| 1 | Automobiles; taxis; light general purpose trucks; tractors for use over-the-road; special tools and devices | 25% |
| 2 | Office furniture, fixtures and equipment; computers and peripheral equipment and data handling equipment; buses; heavy general purpose trucks; trailers and trailer mounted containers; construction equipment | 20% |
| 3 | Any depreciable asset not included in another group | 10% |
| 4 | Railroad cars and locomotives and railroad equipment; vessels, barges, tugs, and similar water transportation equipment; industrial buildings; engines and turbines; public utility plant | 5% |
| 5 | Mining | 100% |

Value added tax (VAT)

| | |
|---|-----|
| Standard rate | 14% |
| Electricity, telephone, water and sewerage rate | 5% |
| Basic foods and agricultural inputs | 0% |

ALL FIVE questions are compulsory and MUST be attempted

1 Mr Mphofu, a Lesotho resident, is employed as a finance director by CCL Insurance Brokers Lesotho (CCL Insurance). He commenced his employment on 1 June 2011. In addition to his employment by CCL Insurance, Mr Mphofu operates a consultancy business.

The following information relates to the year of assessment ended 31 March 2012:

EMPLOYMENT

Mr Mphofu received the following cash payments and benefits from his employer, CCL Insurance:

- (i) A monthly basic salary of M34,500.
- (ii) A housing allowance of 10% of the basic salary.
- (iii) A car allowance of M12,000 per annum.
- (iv) An entertainment allowance of M800 per month.
- (v) A birthday present worth M900.
- (vi) Reimbursements for the year in respect of:

| | M |
|-----------------------|----------|
| Water and electricity | 8,400 |
| Security guard | 3,600 |

- (vii) Every Friday, CCL Insurance provides lunch in an executive suite at Maseru Sun Hotel for its top management. The monthly payment to the hotel by CCL Insurance in respect of the meals is M1,400 per person.
- (viii) Cellular telephone usage bill of M700 per month, paid directly to a resident utility company by CCL Insurance.
- (ix) Mr Mphofu contributes M500 per month to CCL Insurance's approved superannuation fund. CCL Insurance contributes M1,200 on his behalf.

The withholding tax (PAYE) remitted to the Lesotho Revenue Authority (LRA) by CCL Insurance in respect of Mr Mphofu's employment income amounted to M103,400.

CONSULTANCY

The summarised trading results for Mr Mphofu's consultancy for the year ended 31 March 2012 are set out below:

| | Notes | M |
|-----------------------|--------------|----------|
| Revenue | | 174,000 |
| Expenses: | | |
| Rent | | 30,000 |
| Staff costs | 1 | 102,700 |
| Other sundry expenses | 2 | 47,500 |

Notes:

1. Staff costs pertain to salaries for two employees, a manager and assistant manager who are both Lesotho residents. The annual gross salaries for the manager and the assistant manager are M55,500 and M47,200, respectively. Mr Mphofu contributes 15% of the employees' salaries to an approved pension fund. The employees contribute 5% of their salaries.
2. Other sundry expenses include the depreciation allowance for Mr Mphofu's motor van amounting to M4,500. The motor van is used by the consultancy manager for both business and private purposes. For the year ended 31 March 2012, a log book for the motor van shows that 60% of the total mileage travelled is attributable to business, while 40% is for private purposes. The value of the motor van was M70,000 when it was first provided to the manager.

Required:

- (a) Calculate the income tax payable by Mr Mphofu for the year ended 31 March 2012. In your computations, indicate items that are either not taxable or not deductible by the use of a zero, giving brief explanations. (14 marks)
- (b) Calculate the total income tax that should have been remitted to the Lesotho Revenue Authority (LRA) for the year ended 31 March 2012 by Mr Mphofu as an employer in his agency capacity and state, in general terms, the date by which monthly withholding tax from salaries must be paid to the LRA. (7 marks)
- (c) Calculate the fringe benefits tax payable by CCL Insurance Brokers Lesotho in respect of benefits provided to Mr Mphofu for the 10 months ended 31 March 2012. (4 marks)

(25 marks)

2 GUT Security (Pty) Ltd is a Lesotho resident company trading as GUT. The company is engaged in provision of various security services to both the Government of Lesotho (GOL) and private entities.

The following summarises the trading activities of GUT for the financial year ended 31 December 2011:

| | Note | M |
|----------------------------------|------|---------|
| Business income | 1 | 417,800 |
| Other income: | | |
| Lesotho source interest (Net) | | 31,950 |
| Foreign source interest (Gross) | | 42,300 |
| Related withholding tax | | 12,400 |
| Lesotho source dividends | | 7,500 |
| Foreign source dividends (Gross) | | 20,700 |
| Related withholding tax | | 1,600 |
| Proceeds from disposal of shares | 2 | 32,600 |
| Administrative expenses | 3 | 230,500 |

Notes:

1. Business income includes:

- (i) M247,000 relating to the services provided to GOL. This amount is stated after the deduction of withholding tax at the rate of 5%. The remaining M160,000, which is gross, was derived from private entities.
- (ii) M10,800 in respect of accounting profit realised from the disposal of one of the company's motor vehicles. The market value and adjusted cost base (ACB) of the motor vehicle at the date of disposal were M80,500 and M64,600, respectively. The motor vehicle was disposed of at its market value.

2. Proceeds from disposal of shares:

These relate to the disposal of 1,700 shares which were bought at M6.20 per share in 2000 from one of the local companies. The market value of the shares at that time was M9.50 per share.

3. Administrative expenses include:

- (i) M24,800 incurred on legal fees against a lawsuit instigated by the Lesotho Revenue Authority (LRA) for tax evasion by GUT Security (Pty) Ltd.
- (ii) M14,500 payable on an annual basis to one of the former security guards who was attacked and paralysed while on night duty.

Additional information:

- (i) The company paid dividends amounting to M54,000 on 30 November 2011.
- (ii) Tax payable by the company for the previous year of assessment ended 31 December 2010 amounted to M31,300. This amount is before deduction of the following:

| | M |
|---------------------------|--------|
| – Withholding taxes | 8,500 |
| – Advance corporation tax | 4,200 |
| – Instalments paid | 10,500 |

Required:

- (a) Calculate income tax instalments payable by GUT Security (Pty) Ltd for the year ended 31 December 2011. (2 marks)
- (b) Explain the alternative ways in which advance corporation tax (ACT) can be utilised. (4 marks)
- (c) Calculate the ACT payable by GUT Security (Pty) Ltd in respect of the dividends paid on 30 November 2011 and state the due date for payment. (3 marks)
- (d) Calculate the corporation tax payable by GUT Security (Pty) Ltd for the year ended 31 December 2011 and state the due date for payment, clearly identifying any items which are not taxable or not deductible by the use of a zero. Give explanations for your computation of foreign tax credits. (21 marks)

Note: You should assume that the income tax instalments calculated in (a) were paid on their respective due dates.

(30 marks)

- 3 (a) CompuTech (Pty) Ltd is a registered vendor for value added tax (VAT). The company is engaged in selling and repairing computers and computer equipment. It also provides a wide range of IT services. Further, the company has a special unit which provides computer training at different levels.

The company's records for the month of March 2012 disclosed the following VAT inclusive (where appropriate) information:

CompuTech (Pty) Ltd wrote off an amount of M6,500 as bad during the month. The amount pertains to the sale of computer equipment on credit in November and December 2010. The sale was taxable at the rate of 14%. The VAT in relation to the supply was remitted to the Lesotho Revenue Authority (LRA) in November and December 2010.

Required:

State, giving reasons, the tax period in which the amount of value added tax (VAT) remitted to the LRA on the debts written off during the month of March 2012 is claimable. (3 marks)

- (b) The following VAT related transactions are also relevant to CompuTech (Pty) for the month of March 2012:

| | Note | M |
|--------------------------------------|------|--------|
| Revenue | 1 | 85,500 |
| Costs: | | |
| Stock for resale | | 42,300 |
| Rent | 2 | 5,500 |
| Furniture and fittings | 3 | 12,600 |
| Electricity | | 1,500 |
| Water consumption | | 1,200 |
| Sundry expenses (all taxable at 14%) | | 14,400 |

Notes:

- 65% of the revenue comprises sales revenue. The remaining 35% relates to tuition fees for computer training offered by the company.
- Rent is payable to Ntsie Properties, a resident company. CompuTech (Pty) Ltd occupies 255 square metres of a rented building, of which 115 square metres is used specifically for training purposes.
- Furniture and fittings cost includes M600 paid as labour to a carpenter who has not registered for VAT.
- CompuTech (Pty) Ltd repaired a computer for one of its business associates at a reduced price of M1,800. Related VAT is included in the company's revenue above. The fair market value (FMV) of the repairs is M2,500.

Amounts stated are inclusive of VAT, where appropriate.

Required:

Calculate the VAT payable to/refundable from the Lesotho Revenue Authority for CompuTech (Pty) Ltd for the month of March 2012.

Note: You should take into consideration your advice given in part (a) above, and where items do not give rise to VAT inputs or outputs, indicate this by the use of a zero, providing brief explanations. (12 marks)

(15 marks)

4 (a) Explain the following terms, and give an example of a situation when each can occur:

(i) Tax evasion; (2 marks)

(ii) Tax avoidance. (2 marks)

(b) Mr Tau, a Lesotho resident, will be retiring from his current employment in September 2012. On his retirement, he will be entitled to a lump-sum pension payment of M230,000 (gross) from his employer. Mr Tau is contemplating depositing the entire lump-sum into his fixed deposit account for a period of two years.

Required:

(i) State the tax implications, with relevant calculations, of Mr Tau's decision to deposit the proceeds into his fixed deposit account; (3 marks)

(ii) Advise Mr Tau about any tax saving option(s) available for him to avoid tax that would be payable on his lump-sum payments. (5 marks)

(c) Mr Tau owns building premises which are rented out to various business merchants. On 31 October 2011, one of the premises with an adjusted cost base of M165,000 was destroyed by fire. On 1 December 2011, Mr Tau received insurance compensation amounting to M220,000. Only M180,000 of the insurance compensation was used to reconstruct similar premises.

Required:

Advise Mr Tau of the tax treatment of the above transaction and calculate any chargeable gain or loss in respect of the destroyed premises. (3 marks)

(15 marks)

5 The Lesotho tax system [under Income Tax Regulations 1994 (as amended)] provides for certain costs incurred by employees to be allowable deductions against employment income.

Required:

(a) State which expenses are allowable as a deduction against employment income as per the Income Tax Regulations 1994 (as amended) and give details of the conditions to be met for the expenses to be deductible. Where the whole amount incurred might not be deductible, explain, in general terms, how the tax deductible amounts are computed. (12 marks)

(b) State the minimum threshold required for the expenses listed in (a) above to be tax deductible. (3 marks)

(15 marks)

End of Question Paper