Fundamentals Level – Skills Module

Taxation (Lesotho)

Tuesday 4 June 2013

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.

Paper F6 (LSO)

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

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 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 M48,744	22%
Over M48,744	35%
Personal tax credit	M5,755

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%

Fifth Schedule
Minimum Chargeable Income

The multiplication factors are:	
Air travel	100%
Electricity amount	100%
Principal – residence amount	5%
Schooling amount	100%
Secondary home amount	5%
Vehicle amount	25%

The amounts specified are:	
Air travel	M2,500
Electricity amount	M3,000
Principal – residence amount	M150,000
Schooling amount	M1,000
Secondary home amount	M20,000
Vehicle amount	M20,000

Sixth Schedule
(Section 41)
Declining balance depreciation rates:

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

Value Added Tax (VAT) Rates

Standard rate	14%
Supplies of electricity and telephone calls	5%
Basic foods and agricultural inputs	0%
Exports	0%

ALL FIVE questions are compulsory and MUST be attempted

1 Ms Moyo, a Zimbabwean citizen, is an expatriate taxpayer. She was employed on a five-year contract by Anglo Insurance Ltd (Anglo) as a Procurement Advisor. Anglo is a resident company. Her employment contract expired on 30 November 2012.

In addition to an annual basic salary of M548,400, she received the following benefits and payments from Anglo for the period ended 30 November 2012:

(1) A fully furnished house. A fair market rent for the house is M3,500 per month. Ms Moyo pays a monthly rent of M1,200 to Anglo for this benefit. The amount is deducted from her monthly salary.

(2) A company car which was valued at M350,000 when it was first provided to her in 2009. The current market value of the car is M208,400. Anglo pays M2,500 per month to Ms Moyo as an allowance for maintenance and running costs of the car.

(3) A reimbursement of taxable utilities fringe benefits, based on supporting receipts up to 30 November 2012, amounted to M3,000. The maximum amount Anglo can reimburse for the year is M5,000.

(4) An entertainment allowance of M1,000 per month.

(5) A bonus of M12,500 paid in August 2012.

(6) A non-contributory medical aid scheme. Anglo pays M600 per month for every employee regardless of the level.

(7) Provision of free meals and refreshments at one of the executive suites costing M350 per month. The benefit is for senior management of Anglo only.

(8) On 1 February 2012, Ms Moyo obtained a personal loan of M60,000 from Anglo, payable over a period of 12 months at an interest rate of 8% per annum. She, however, repaid the whole amount after six months. The Central Bank rate averaged 21% throughout the year.

(9) Ms Moyo contributed M2,700 per a month to an approved employer superannuation fund. Anglo contributed M4,200 on her behalf.

(10) Payment of terminal benefits of M480,500, comprising contract gratuity of M320,500 and severance pay of M160,000.

Other relevant information:

Ms Moyo received additional income from the following sources for the year ended 31 March 2013:

		M
–	Business income from her consultancy in Zimbabwe	26,500
–	Fixed deposit interest from Standard Lesotho Bank	7,900
–	Gain from disposal of shares held in Labeyo Ltd in Zimbabwe	11,400

Required:

(a) Calculate the income tax payable by Ms Moyo for the year ended 31 March 2013.

Note: You should clearly state any exempt, excluded and disallowed items by the use of a zero. (8 marks)

(b) Calculate fringe benefits tax payable by Anglo in respect of the benefits and payments provided to Ms Moyo in the year ended 31 March 2013. State when employers should file quarterly fringe benefits tax returns. (10 marks)

(c) Explain how the tax position of Ms Moyo and Anglo would change if Anglo was a Public International Organisation (PIO). (3 marks)

(d) Outline the tax obligation of the Standard Lesotho Bank in respect of the fixed deposit interest of M7,900 received by Ms Moyo, as stated under other relevant information above. (4 marks)

(25 marks)

2 Celtic Pharmaceutical Corporation (Pty) Ltd [CPC] is a resident company. It is a wholly owned subsidiary of Oskar Limited, a Chinese company. The core business of CPC is to manufacture pharmaceutical and cosmetic products for the local market. It commenced operations in November 2011. The financial year end of CPC is 31 October, which is similar to that of Oskar Limited.

The following information was reflected in the income statement of CPC for the year ended 31 October 2012:

	Note	M	M
Turnover			1,500,600
Cost of sales			(375,150)
Gross profit			1,125,450
Other income	1		40,500
			1,165,950
Operating expenses (all attributable to manufacturing operations)			
Staff costs	2	330,000	
Research and development	3	160,400	
Start-up costs	4	42,300	
Professional fees	5	30,200	
Depreciation	6	178,400	
Miscellaneous	7	75,600	
			(816,900)
Net profit before tax			349,050
Corporate tax			(34,905)
Net profit after tax			314,145

Notes:

	M
1. Other income:	
Interest	
Lesotho source interest (net)	20,430
Related withholding tax paid	2,270
Foreign source (net)	13,300
Related withholding tax paid	4,500
	40,500

2. Staff costs:

Wages and salaries	298,500
Pension contribution (allowable)	16,500
Entertainment	15,000
	330,000

3. Research and development:

Production engineering	67,800
Quality control (pre production)	12,000
Production equipment (at cost on 1 May 2011)	80,600
	160,400

4. Start-up costs:

	M
Goodwill purchased (four years write-off)	19,300
Patent fees (five years useful life)	23,000
	42,300

5. Professional fees:

	M
Trading licences	15,100
Penalty for VAT evasion	900
Accounting and audit fees (payable to a South African company)	8,300
Management fees (payable to Oskar Limited)	5,900
	30,200

6. Depreciation:

Fixed asset register shows the following information as at 31 October 2012:

	Acquisition date	**Cost**	**Depn**	**Net book value**	**Adjusted cost base**
Furniture and fittings	1 November 2011	65,000	16,250	48,750	41,500
Plant and machinery	1 November 2011	120,000	24,000	96,000	96,000
Delivery van	1 November 2011	460,000	138,150	321,850	345,375
		645,000	178,400	466,600	482,875

7. Miscellaneous expenses:

	M
Insurance payable – resident company	14,940
– non-resident company	9,960
Other (all tax deductible)	50,700
	75,600

Other relevant information:

CPC signed a 24-month finance lease agreement on 1 November 2011 to acquire the plant and machinery at M120,000 as reflected in note (6) above. The lease payments amount to M68,000 per annum, payable in advance. Interest at the rate of 15% is charged on the balance at the end of each year. Only the depreciation amount of M24,000 has been charged to the income statement.

Required:

(a) (i) Explain the condition(s) which must be met for a taxpayer to use a substituted accounting period; and explain whether Celtic Pharmaceutical Corporation (CPC) (Pty) Ltd is justified to use the said period; (4 marks)

(ii) State the reason(s) why the Commissioner may impose conditions where a permission to use a substituted accounting period is granted. (2 marks)

(b) Calculate the chargeable income of CPC (Pty) Ltd for the year ended 31 October 2012.

Note: Your calculations should start with the figure for net profit before tax of M349,050. (12 marks)

(c) Calculate the tax payable by CPC (Pty) Ltd for the year ended 31 October 2012 and state the due date for the tax return.

Note: Your calculations should start with the chargeable income calculated in (b) above. (6 marks)

(d) Calculate the withholding tax payable by CPC (Pty) Ltd and explain when it should be remitted to the Lesotho Revenue Authority. (3 marks)

(e) Calculate the income tax instalments payable by CPC (Pty) Ltd for the year ending 31 October 2013 and state the due dates for each instalment. (3 marks)

(30 marks)

3 Makhaola Concrete Blocks Limited (MCB) voluntarily registered for value added tax (VAT) in October 2009 though the value of its taxable supplies was below the threshold. MCB is currently engaged in manufacturing concrete blocks, supplying both the local and foreign markets .

The following transactions (inclusive of VAT where appropriate) took place during the month of April 2013:

	Note	M
Receipts:		
Local sales		45,300
Export sales		15,900
Payments:		
Cement		25,600
Repairs	1	4,800
New equipment	2	1,500
Installations	3	5,300
Electricity		2,400
Electric heater		600
Water consumption		800
Wages and salaries		1,800
Interest paid on bank overdraft		300

Notes:

1. Repairs cost relates to the company's delivery truck payable to Nkata Mechanics, who has not yet registered for VAT.
2. The equipment is used in the manufacturing process. The cost of equipment amounted to M17,670. MCB acquired the equipment on hire purchase agreement in which M1,800 is payable in 12 monthly instalments.
3. Installations were for office fixtures and fittings. The expense was payable to a registered vendor.

Required:

(a) Calculate the VAT payable to/refundable from the Lesotho Revenue Authority.

Note: Your calculations should state whether any transactions are zero rated, excluded or exempt and include them with a zero. (9 marks)

(b) Briefly explain the difference between zero rated and exempt supplies. (2 marks)

(c) Briefly explain the advantage of voluntary VAT registration. (1 mark)

(d) State any THREE tax obligations of Makhaola Conrete Blocks Limited as a registered vendor. (3 marks)

(15 marks)

4 Mrs Kepu, a 55-year-old widow, has been in charge of the business of her late husband for the past six years. As they did not have children, she decided to emigrate to her home country, Swaziland, for her retirement. Most of the business assets were disposed of by November 2012. Chargeable gains were realised to that effect. The assets disposed of included the following:

1. Unimproved land sold for M65,000 in May 2012. The land was acquired by Mrs Kepu's late husband for M35,300 in April 2002.
2. A guest house which cost M450,000 in May 1999 was sold for M2,250,000 in September 2012. In May 2012, Mrs Kepu spent a total of M120,000 for renovation of the premises. It comprised M80,000 for an extension of the premises. The balance was for minor repairs of the entire premises.
3. Rental premises sold for M1,260,700 (including M60,300 for land) on 1 November 2012. The building was constructed at a cost of M260,000. It was completed in April 2002. The premises were sub-let to retailers at a total rental of M12,500 per month until 31 October 2012. The land was acquired in June 2000 from one of the business associates at a reduced price of M25,000. The market value at the date of acquisition amounted to M32,400.
4. Shares held in one of the local companies were sold for M50,800 in November 2012. The shares were purchased in September 2011 at a market value of M42,400.

The relevant indexation numbers are given as follows:

May 1999	120
June 2000	150
April 2002	180
September 2011	230
May 2012	260
September 2012	265
November 2012	270

Other relevant information

– The profit arising from Mrs Kepu's trading activities (other than rentals) for the year ended 31 March 2013 totalled M65,000. The amount is stated before taking into consideration a loss brought forward from the year ended 31 March 2012 amounting to M7,800.

– Mrs Kepu is also contemplating the disposal of her private assets, which include her residence at Hillsview in Maseru, and other private belongings.

Required:

(a) Calculate the chargeable income for Mrs Kepu for the year ended 31 March 2013. (13 marks)

(b) Advise Mrs Kepu on the tax treatment of the disposal of private assets. (2 marks)

(15 marks)

5 Mpeli Contractors Pty is a resident company which has been in the construction business for the past ten years. In April 2011, it was contracted by Lesotho Road Fund to construct rural roads in the Thaba-Tseka District. The construction commenced in August 2011. It was completed in September 2012. A contract price for the entire construction amounted to M2,200,000. The estimated contract costs totalled M1,320,000.

Lesotho Road Fund paid Mpeli Contractors Pty in four instalments as tabled below. The amounts are stated after the deduction of 5% withholding tax.

Years	**November 2011**	**February 2012**	**June 2012**	**October 2013**
	M	M	M	M
Amount paid	284,000	341,000	800,000	665,000

Mpeli Contractors Pty incurred the actual costs amounting to M792,000 and M528,000 for the years ended 31 March 2012 and 2013, respectively.

Required:

(a) Calculate the chargeable income of Mpeli Contractors Pty for the years ended 31 March 2012 and 2013, respectively. (5 marks)

(b) Calculate the withholding tax credit available to Mpeli Contractors Pty for the years ended 31 March 2012 and 2013, respectively. (2 marks)

(c) Explain whether Lesotho Road Fund is justified to withhold tax at the rate of 5% from payments made to Mpeli Contractors Pty. (2 marks)

(d) Advise Mpeli Contractors Pty on alternative ways in which a contract overall loss may be utilised for tax purposes. Your answer should include any conditions which must be met. (6 marks)

(15 marks)

End of Question Paper