

FOUNDATIONS IN ACCOUNTANCY

Foundations in Taxation (Lesotho)

Monday 11 June 2012



Time allowed: 2 hours

This paper is divided into two sections:

Section A – ALL TEN questions are compulsory and **MUST** be attempted

Section B – ALL NINE 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.

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

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants



Paper FTX (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 allowances are to be used when answering the questions:

Second Schedule 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 Resident Company Income Tax Rates

Nature of income

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

Tax rates for trustees, minors, fringe benefits and electing non-residents	35%
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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
Declining Balance Depreciation Rates

Group	Asset 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 & turbines; public utility plant	5%
5	Mining	100%

Value Added Tax (VAT)

Standard rate (All other taxable supplies and services)	14%
Supplies of electricity and telephone calls	5%
Basic foods and agricultural inputs	0%

Section A – ALL TEN questions are compulsory and MUST be attempted

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple-choice question.

Choose only ONE answer to each question.

1 When is the due date for filing a VAT return?

- A** 15th of every month
- B** 20th of every month

(1 mark)

2 Neo receives maintenance and child support payments from her former husband, Lefa. During the year ended 31 March 2012, she received M50,000.

Assuming that this is the only income she received during the year, how much is the tax payable by Neo for the year ended 31 March 2012?

- A** M7,252
- B** M0
- C** M7,500
- D** M12,500

(2 marks)

3 M Plc's motor vehicle was involved in an accident. The adjusted cost base of the motor vehicle was M198,345 before the accident. The insurance proceeds received by M Plc from the insurance company in respect of the accident were M200,000. M Plc acquired a similar motor vehicle for M240,000.

How much is M Plc's gain/loss on disposal of the motor vehicle?

- A** M0
- B** M1,655 gain
- C** M41,655 gain
- D** M40,000 loss

(2 marks)

4 R Ltd has acquired a motor vehicle from Lesotho on a finance lease. The motor vehicle was acquired on 1 April 2011. R Ltd's year end is 31 December 2011. The motor vehicle cost M226,000, while the finance lease amount was M180,800. The interest rate is 15% per annum.

How much is R Ltd's allowable finance lease interest as at 31 December 2011?

- A** M25,425
- B** M33,900
- C** M20,340
- D** M27,120

(3 marks)

- 5 A (Pty) Ltd's year end is 30 September 2011. On 31 March 2011, A (Pty) Ltd paid a dividend of M120,000. The company had already paid instalments of tax of M90,000 during the year.

How much is the advance corporation tax payable?

- A M0
- B M30,000
- C M13,333
- D M40,000

(2 marks)

- 6 If a company's year end is 31 October 2011 and a dividend was paid on the 31 August 2011, when is the advance corporation tax payable to the Lesotho Revenue Authority?

- A 31 March 2012
- B 31 January 2011
- C 31 October 2011
- D 7 September 2011

(2 marks)

- 7 Phil worked at ABSA Bank, South Africa, as a consultant for six months during the year ended 31 March 2012. He earned employment income amounting to M203,400. The amount has already been taxed in South Africa. The total tax deducted was M86,321. Phil was also employed by the National University of Lesotho as a lecturer. During the year ended 31 March 2012, he earned a salary of M180,000.

How much tax is payable in Lesotho by Phil for the year ended 31 March 2012?

- A M52,752
- B M123,942
- C M154,155
- D M139,073

(3 marks)

- 8 What tax rate is applicable to a non-resident individual who elects to be taxed by assessment?

- A 25%
- B 35%
- C 22%, 35%
- D 14%

(2 marks)

- 9** NRH Co provides medical aid to all its employees on equal terms. During the quarter ended 30 June 2011, NRH Co paid medical aid amounting to M28,300.

How much is the taxable value of the medical aid fringe benefit provided by NRH Co for the quarter ending 30 June 2011?

- A** M43,538
- B** M15,238
- C** M28,300
- D** M0

(2 marks)

- 10 What is the registration threshold for VAT?**

- A** M250,000
- B** M500,000

(1 mark)

Section B – ALL NINE questions are compulsory and MUST be attempted

- 1** Mpati Tsola is employed by the United Nations, a Public International Organisation, in Lesotho. The following are her records for the year ended 31 March 2012.

	M
Salary	405,000
Motor car allowance	48,000
Housing allowance	36,400
Utilities	12,000

- She contributed 15% of salary towards a pension to Sanlam, a non-resident pension fund company.
- She also contributed M19,200 towards a medical aid with Lesotho Medical Aid.

Mpati also operates a catering business. The catering business' records are as follows:

	Notes	M
Business income		90,000
Expenses		
Repairs and maintenance	1	32,800
Salaries (employees)		22,500
Insurance		8,900
Heating and electricity	2	11,060
Rent		7,260

1. Repairs and maintenance include repairs amounting to M12,200 for Mpati's private motor car.
2. Heating and electricity was still outstanding at 31 March 2012.

Required:

Calculate the tax payable by Mpati Tsola for the year ended 31 March 2012. Indicate any items which are either not taxable or not deductible by the use of a zero.

(15 marks)

- 2 Molepe (Pty) Ltd is a company engaged in a business of retail trading. The following were extracted from the company's records for the year ended 31 December 2011:

Income	Notes	M
Sales		792,480
Proceeds from insurance	1	240,392
Other income	2	308,800
		<u>1,341,672</u>
Expenditure		
Wages and salaries	3	356,000
Business entertainment	4	34,869
Telephone		68,900
Rent		180,000
Insurance	5	108,440
Water and electricity		31,500
Depreciation	6	405,948
		<u>1,185,657</u>
Net profit		<u>156,015</u>

Notes

1. Proceeds from insurance were in relation to goods which were stolen from the company's store room. The goods were stolen on 28 October 2010. They were treated as an allowable deduction in that year.

2. Other Income:

	M
Interest from Lesotho Bank	87,900
Amortisation of capital grant	220,900
	<u>308,800</u>

3. Wages and salaries:

	M
Provision for severance pay	39,000
Dividends paid	72,000
Salaries	245,000
	<u>356,000</u>

4. Business entertainment:

	M
Customers entertainment	16,389
Refreshments for a prospective customer	8,478
Donations to staff dependants	10,002
	<u>34,869</u>

5. Insurance includes a premium of M28,000 for staff medical aid paid to a non-resident company.

6. Depreciation:

The company depreciates assets on a straight-line basis using the following rates:

Heavy motor vehicles	25%
Furniture and equipment	10%

These assets were acquired during the year. The heavy motor vehicles were acquired on 1 April 2011 for M2,000,000, while furniture and equipment was acquired for M309,480 on 1 January 2011.

Required:

(a) Calculate the chargeable income of Molepe (Pty) Ltd for the year ended 31 December 2011. (14 marks)

(b) Calculate the tax payable by Molepe (Pty) Ltd for the year ended 31 December 2011. (1 mark)

(15 marks)

- 3 Sefate Ltd is a VAT registered vendor. During the month of November 2011, Sefate Ltd's value added tax (VAT) related records were as follows. All items are stated inclusive of VAT, where appropriate.

	M
Sales	503,270
Interest received	13,800
Government grant	52,660
Purchases	310,924
Depreciation	81,020
Repairs	18,620
Motor vehicle	285,700

Notes

1. Repairs relate to repairs to motor trucks owned by Sefate Ltd.
2. The motor vehicle relates to the acquisition of a new truck.

Required:

Calculate the value added tax (VAT) payable or refundable for Sefate Ltd for the month ended 30 November 2011. Where any items are disregarded for VAT purposes, indicate this by the use of a zero.

(10 marks)

- 4 World Food Programme (WFP) is a Public International Organisation. The following taxpayers were employed by the WFP office in Lesotho during the year ended 31 March 2012.

1. Mpho Maine, a resident
2. Libe Libe, a foreign diplomat currently posted to Lesotho
3. George Gordon, a non-resident

The following information for the year relates to each individual:

		M
Salary	Mpho	283,700
	Libe	409,610
	George	331,000
Motor car fringe benefit	Mpho	6,700
	Libe	18,900
	George	9,200
Contributions to a resident pension fund	Mpho	28,700
	Libe	40,961
	George	33,100

Required:

Calculate the chargeable income for Mpho Maine, Libe Libe and George Gordon for the year ended 31 March 2012.

(10 marks)

- 5** Malumeng Traders is a resident company engaged in different types of businesses. During the year ended 31 March 2012, the chargeable income of each business activity was as follows:

	M
1. Business profit/(loss) – non-manufacturing	108,332
manufacturing	(52,628)
2. Loss on property rental business	(14,079)
3. Commercial farming profits	33,361

Required:

Calculate the tax payable by Malumeng Traders for the year ended 31 March 2012.

(6 marks)

- 6** (a) State the due date for remitting withholding tax to the Lesotho Revenue Authority. (2 marks)
- (b) State when a withholding agent should file a return. (1 mark)
- (c) State the consequences for a withholding agent of a failure to withhold tax. (3 marks)

(6 marks)

- 7 Moosa and Albert are equal partners in a partnership whose head office is in Maseru, Lesotho. Albert is a non-resident partner while Moosa is a resident partner. A motor car that had always been used by Albert for partnership business at a branch of the partnership in Ladybrand was sold in Ladybrand, RSA. The adjusted cost base of the motor car was M142,900 on 1 January 2012. It was sold for M180,000 on 1 April 2012.

Required:

Calculate the chargeable income of each partner, assuming that neither had any other income in the tax year.

(6 marks)

- 8 Outline ANY THREE differences between the single asset and pooling methods of depreciation.**

(6 marks)

- 9** Mofo Mofo retired on 30 June 2011. Lesotho Life Group paid him a gross lump-sum pension of M650,000 on 30 September 2011. On 10 October 2011, Mofo instructed Lesotho Life Group to use $\frac{2}{3}$ of the lump-sum to purchase an annuity. The balance of $\frac{1}{3}$ was immediately paid to him.

Required:

- (a) Calculate the tax payable by Mofo Mofo for the year ended 31 March 2012. (4 marks)
- (b) Define a complying superannuation fund. (2 marks)

(6 marks)

End of Question Paper

Answers

Section A

Marks

- | | | | |
|-----------|----------|--|----------|
| 1 | B | The due date for filing the VAT return is the 20th of every month. | 1 |
| 2 | B | M0, as maintenance and child support payments are not subject to tax. | 2 |
| 3 | A | M0, although the insurance proceeds are in excess of the adjusted base cost of the car, the proceeds are not taxable because the whole amount of proceeds was used towards the acquisition of a replacement car. | 2 |
| 4 | C | M20,340 $(180,800 \times 15\%) \times 9/12$ | 3 |
| 5 | A | M0. The instalment already paid satisfies the ACT amount because ACT is lower than the instalment paid. | 2 |
| 6 | D | The ACT is payable within seven days following dividend payment. | 2 |
| 7 | A | M52,752 $[(180,000 - 40,368) \times 35\% + (40,368 \times 22\%) - 5,000]$. | 3 |
| 8 | B | 35%. Tax rates for electing non-residents is 35%. | 2 |
| 9 | D | Medical aid is not a taxable fringe benefit because it is available to all employees on equal terms. | 2 |
| 10 | B | The VAT threshold is M500,000. | 1 |

Section B

1 Calculation of tax payable by Mpati Tsolo for the year ended 31 March 2012

	Employment Income M	Business Income M	
Salary	405,000		1
Car allowance	48,000		1
Housing allowance	36,400		1
Utilities	12,000		1
Business income		90,000	1
	<u>501,400</u>	<u>90,000</u>	
Less: Expenses			
Pension	0		1
Medical aid	0		1
Repairs and maintenance (32,800 – 12,200)		20,600	1½
Salaries		22,500	½
Insurance		8,900	½
Heating and electricity		0	1½
Rent		7,260	½
	<u>501,400</u>	<u>30,740</u>	
Chargeable income (501,400 + 30,740) = 532,140			½
Tax payable			
First 40,368 x 22%		8,881	1
M491,772 x 35%		172,120	1
Less: tax credit		(5,000)	1
		<u>176,001</u>	15

2 (a) Calculation of chargeable income for the year ended 31 December 2011

	M	
Business income		
Sales	792,480	½
Proceeds from insurance	240,392	1
Other income (87,900 + 0)	87,900	1½
	<u>1,120,772</u>	
Less: Expenses		
Wages (0 + 0 + 245,000)	245,000	2
Business entertainment (16,389/2 + 8,478/2 + 0)	12,434	3
Telephone	68,900	½
Rent	180,000	½
Insurance (108,440 – 28,000)	80,440	1½
Water and electricity	31,500	½
Depreciation wk1	361,896	
	<u>980,170</u>	
Chargeable income	<u>140,602</u>	

Working 1

Depreciation

	M	
Motor vehicles 2,000,000 x 20% x 9/12	300,000	2
Furniture and equipment 309,480 x 20%	61,896	1
	<u>361,896</u>	14

(b) Tax payable 140,602 x 25%	<u>35,151</u>	1
		15

3 VAT payable by Sefate Ltd for the month of November 2011

	VAT M	
Output VAT		
Sales ($503,270 \times \frac{14}{114}$)	61,805	1½
Interest received	0	1
Government grant	0	1
	<u>61,805</u>	
Input VAT		
Purchases ($310,924 \times \frac{14}{114}$)	38,184	1½
Depreciation	0	1
Repairs ($18,620 \times \frac{14}{114}$)	2,287	1½
Motor vehicle ($285,700 \times \frac{14}{114}$)	35,086	1½
	<u>75,557</u>	
VAT refundable	13,752	1
		<u>10</u>

4 Chargeable income of Mpho Maine, Libe Libe and George Gordon for the year ended 31 March 2012

	Mpho M	Libe M	George M	
Salary	283,700	0	331,000	3
Motor car fringe benefit	6,700	0	9,200	3
	<u>290,400</u>	<u>0</u>	<u>340,200</u>	
Pension contribution	28,700	0	0	4 (1 + 1 + 2)
Chargeable income	<u>261,700</u>	<u>0</u>	<u>340,200</u>	<u>10</u>

Tutorial note: Pension contributions are not deductible for non-residents.

5 Tax payable by Malumeng Traders for the year ended 31 March 2012

	M	
Business income – other income $108,332 \times 25\%$	27,083	1½
Manufacturing	0	1½
Property income	0	1½
Commercial farming $33,361 \times 10\%$	3,336	1½
		<u>6</u>

6 (a) Upon making a relevant payment, a withholding agent must immediately pay over of all taxes withheld to the Lesotho Revenue Authority.

2

(b) A withholding agent must file a return of all taxes withheld within 28 days after the end of the year of assessment, or within such further time as the Commissioner may allow.

1

(c) A withholding agent who fails to withhold tax is personally liable to pay to the Commissioner the amount of tax which has not been so withheld. The withholding agent is, however, entitled to recover such tax amount from the payee.

3

6

7 Calculation of profit/loss on disposal of a car

	M	
Adjusted cost base	142,900	½
Depreciation 31 March 2012 ($142,900 \times 25\% \times \frac{3}{12}$)	(8,931)	1½
Adjusted cost base at 31 March 2012	133,969	
Proceeds	180,000	1
Profit on disposal	46,031	1

Chargeable income of partners

	Moosa	Albert	
Profit on disposal	23,015	0	2
			<u>6</u>

8 Differences:

Under the single asset method, depreciation allowance is granted for the period of the year that the asset is in use, whereas under the pooling method, the assets are depreciated as if they were acquired half-way through the year.

The single asset method can be applied to assets both fully and partially used in production of taxable income, through apportionment of the depreciation amount attributable to the production of income but the pooling method is only applicable to assets used wholly in the production of taxable income.

The single asset method is always applicable to group 4 assets but the pooling method cannot be applied to group 4 assets.

Under the single asset method, when the asset is disposed of, a gain or loss may occur which will form part of business income or, in the case of a loss, will be an allowable deduction against business income. However, under the pooling method gains and losses do not arise because disposal proceeds are deducted from the balance of the pool. If all assets in the pool are disposed of and the balance in the pool is negative, it is an allowable deduction; if the balance of the pool is positive then the balance forms part of business income in the year it arises.

The single asset method requires the business to maintain a detailed asset register whereas the pooling method does not.

The single asset method may be used without making any election, but for the pooling method to apply, an irrevocable election is necessary.

ANY THREE, 2 marks each

Maximum 6

9 (a) Tax payable by Mofo Mofo for the year ended 31 March 2012

$M650,000 \times \frac{1}{3} \times 25\%$	54,167	2
The M433,333 is exempt from tax because it was used to purchase an annuity within 90 days of the date of payment.		<u>2</u>
		<u>4</u>

(b) A complying superannuation fund is an employer superannuation fund and a self-provided superannuation fund which satisfies the conditions prescribed by the Income Tax Regulations.

2
6