

# Foundations in Taxation (LSO)

## June & December 2016

This syllabus and study guide is designed to help with teaching and learning and is intended to provide detailed information on what could be assessed in any examination session.

### THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

#### Relational diagram with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers. These links are shown as solid line arrows. The links between papers where there is only an indirect link and no required underpinning are shown as dotted line arrows. The relational diagram therefore indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

#### Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

#### Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

#### Relational diagram of main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

#### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

#### Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

#### Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

#### Study Guide

This is the main document that students and learning and content providers should use as the basis of their studies, instruction and materials respectively. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (\*see intellectual levels below).

#### LEVEL OF ASSESSMENTS – INTELLECTUAL DEMAND

ACCA qualifications are designed to progressively broaden and deepen the knowledge and skills demonstrated by the student at a range of levels on their way through each qualification. These relate to intellectual levels as designated by the UK qualifications and credit framework (QCF) and other qualifications frameworks. As a benchmark, these levels progress from GCSE equivalent at the Introductory Certificate level of the Foundations in Accountancy (FIA) programme, to A level, or its equivalent, at the Intermediate Certificate level and to first year degree level at the Diploma level. The Advanced Diploma (the Skills module plus professional Ethics Module) within the ACCA Qualification is equivalent to undergraduate degree

level and the Professional level is benchmarked at Masters level.

Throughout, the study guides assess both knowledge and skills. Therefore a clear distinction is drawn, within each subject area, between assessing knowledge and skills and in assessing their application within an accounting or business context. The assessment of knowledge is denoted by a superscript<sup>K</sup> and the assessment of skills is denoted by the superscript<sup>S</sup>.

## VALUE OF ASSESSMENTS – GUIDED LEARNING HOURS

For the FIA syllabuses the approximate number of standard learning hours that a candidate needs to commit to each examination is based on the credit value of the Qualifications and Credit Framework (QCF) UK, units which make up the syllabus. For FTX, Foundations in Taxation, the total learning hours or credit value of the syllabus is 15 credits or 150 hours which includes direct tuition time, self study, revision and assessment time.

## GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The FIA examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

All FIA examinations are assessed by two-hour paper based examinations.

The pass mark for all FIA examination papers is 50%.

## GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the tax papers, ACCA will publish *examinable documents*, or tax rates and allowances tables, once a year to indicate exactly what legislation could potentially be assessed within identified examination sessions. These should be read in conjunction with the information below.

For **LSO** tax papers, the June and December examinations will be based on legislation passed before the previous 30 September. I.e. June and December 2016 papers will be based on legislation passed by 30 September 2015.

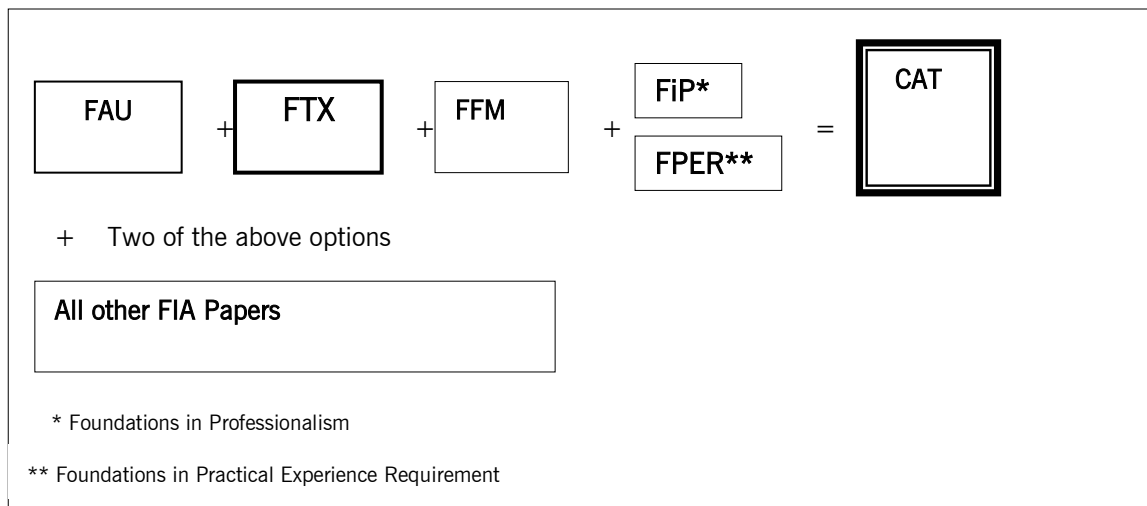
Tax rates and allowance tables will be provided at the front of the examination paper.

Calculations should be made to the nearest month and the nearest M.

Knowledge of section numbers will not be needed to understand questions in this paper, nor will students be expected to use them in their answers. If students wish to refer to section numbers in their answers, they may do so and will not be penalised if old, or even incorrect section numbers, are used.

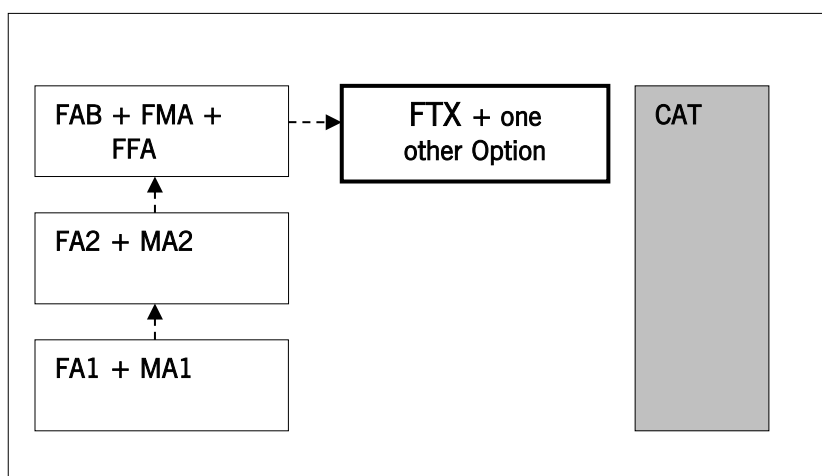
# Qualification structure

The Certified Accounting Technician (CAT) Qualification consists of nine papers which include seven of the FIA examination papers, at all three levels, plus two examinations from three of the specialist options papers. The CAT qualification also requires the completion of the Foundations in Professionalism (FiP) module and 12 months relevant work experience, including the demonstration of 10 work based competence areas. Exemptions can be claimed from a maximum of the first four FIA papers for relevant work experience.



# Syllabus structure

The CAT syllabus is designed at three discrete levels. To be awarded the CAT qualification, students must either pass or be exempted from all nine examinations including two specialist options papers. Exemptions based on relevant work experience can be claimed from up to the first four FIA papers.



# Syllabus

## AIM

To develop the ability to prepare computations of tax liability for both individuals and businesses resident in Lesotho for the purpose of income tax, corporation tax and value added tax. In addition, to develop knowledge and understanding of the tax administration in Lesotho, including knowledge of the statutory timescales for the submission of claims and returns and the due dates for the payment of tax liabilities.

## RATIONALE

The syllabus for the foundation in taxation paper introduces candidates to the subject of taxation and provides the core knowledge of the underlying principles and the major technical areas of taxation, as they affect the activities of individuals and businesses, at a level appropriate for someone working at technician level.

Candidates are introduced to the rationale behind – and the functions of – the tax system. The syllabus then considers the separate taxes that a technician accountant would need to have knowledge of, such as income tax from self-employment, employment and investments, the corporation tax liability of individual companies, the value added tax liability of businesses, and the chargeable gains arising on

disposals of investments by both individuals and companies. In addition an understanding of the administration aspects of these taxes should be gained, such as knowledge of the statutory timescales for the submission of claims and returns and the due dates for payment of tax liabilities.

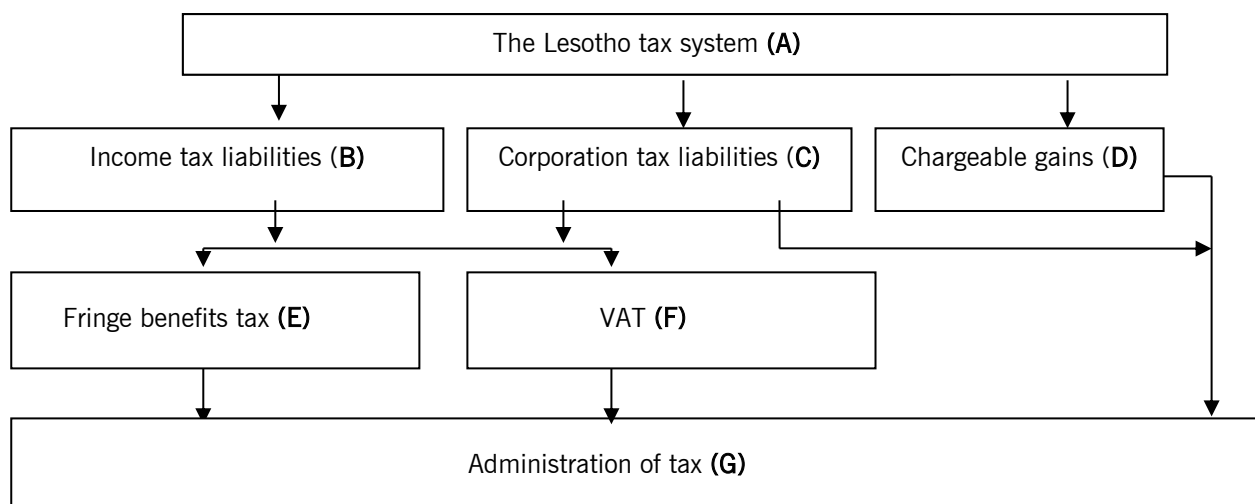
Having covered the core areas of the basic taxes, candidates should be able to compute tax liabilities, explain the basis of their calculations, and identify the compliance issues for each major tax through a variety of business and personal scenarios and situations.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Explain the basic operation and scope of the Lesotho tax system
- B** Explain and compute the income tax liability of individuals
- C** Explain and compute the corporation tax liabilities of companies
- D** Explain and compute the chargeable gains and allowable losses arising on companies and individuals
- E** Explain and compute the effects of fringe benefits tax
- F** Explain and compute the value added tax (VAT) liability, and complete and submit the VAT return
- G** General administration of tax

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **DETAILED SYLLABUS**

### **A. The basic operation and scope of the Lesotho tax system**

1. Principal sources of tax laws and practice
2. Explain the different types of taxes

### **B. Income tax liability of individuals**

1. The scope of income tax
2. Income from employment
3. Income from self-employment (unincorporated business)
4. Income from property, including investments
5. The comprehensive computation of chargeable income and income tax liability
6. The use of exemptions and reliefs in deferring and minimising income tax liabilities

### **C. Corporation tax liabilities**

1. The scope of corporation tax
2. Income chargeable to corporation tax
3. The comprehensive computation of corporation tax liabilities

### **D. Chargeable gains and allowable losses**

1. The scope of the taxation of chargeable gains
2. The computation of gains and losses

### **E. Fringe benefits tax**

1. The scope of fringe benefits tax (FBT)
2. The computation of FBT liabilities.

### **F. Value Added Tax (VAT)**

1. The scope of VAT

2. VAT registration requirements

3. The basic principles of VAT

4. Accounting for VAT

5. The treatment of imports and exports

6. The computation of VAT liabilities

7. The administration of VAT

### **G. General administration of tax**

1. The systems for self-assessment and the making of returns

## APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a two hour paper-based examination. Questions will assess all parts of the syllabus.

The examination will consist of two sections structured as follows:

	Marks
Section A – 10 compulsory multiple choice questions worth 1, 2 or 3 marks each	20
Section B – Nine compulsory questions	
Q1 +2 (15 marks each)	30
Q3 +4 (10 marks each)	20
Q5 to Q9 (6 marks each)	<u>30</u>
	100

Question 1 will focus on income tax and question 2 will focus on corporation tax. The remaining questions will examine topics from any area of the syllabus.

# Study Guide

## A THE BASIC OPERATION AND SCOPE OF THE LESOTHO TAX SYSTEM

### 1. Principal sources of tax laws and practice

- a) Describe the overall structure of the Lesotho tax system.<sup>[K]</sup>
- b) Identify the main sources of Lesotho tax legislation.<sup>[K]</sup>
- c) Describe the organisation of the Lesotho Revenue Authority and its terms of reference including the appeals system.<sup>[K]</sup>
- d) Describe the objections and appeals process.<sup>[K]</sup>

### 2. Explain the different types of taxes

- a) Identify the different types of taxes.<sup>[K]</sup>
- b) Explain the difference between direct and indirect taxation.<sup>[K]</sup>

#### Excluded topics

- *Anti – avoidance legislation*

## B INCOME TAX LIABILITIES

### 1. The scope of income tax

- a) Explain the scope of income tax with regard to chargeable income for individuals and businesses.<sup>[K]</sup>
- b) Distinguish between income and gains/losses on disposal of business and investment assets.<sup>[S]</sup>
- c) Outline the key elements of a personal tax computation including gross income and exempt income.<sup>[S]</sup>

### 2. Income from employment

- a) Explain the difference between employment and self employment and its implications.<sup>[K]</sup>
- b) Identify the principal categories of deductions and illustrate their scope.<sup>[K]</sup>

- c) Compute employment income
  - i) Lesotho source income
  - ii) Foreign source income.<sup>[S]</sup>
- d) Calculate termination payments
  - i) Contract gratuities
  - ii) Severance pay
    - Exempt portion of severance pay
  - iii) Leave pay.<sup>[S]</sup>

#### Excluded topics

- *Detailed operation of the PAYE system*
- *Share incentive scheme*

### 3. Income from self-employment (unincorporated businesses)

- a) Define business income and recognise the basis of assessment
  - i) Lesotho source income
  - ii) Foreign source income.<sup>[K]</sup>
- b) Explain the principles of deductible and non-deductible expenditure.<sup>[K]</sup>
- c) Determination of minimum chargeable income
  - i) Scope of minimum chargeable income
  - ii) Multiplication factors
  - iii) Amounts specified.<sup>[S]</sup>
- d) Depreciation allowances
  - i) Explain the principles relating to depreciation allowances and ensure that assets are correctly grouped/classified.<sup>[K]</sup>
  - ii) Prepare depreciation allowance computations using both the pooling method and the single asset method.<sup>[S]</sup>
  - iii) Illustrate the difference between the pooling method and the single asset method.<sup>[S]</sup>
- e) Finance leases and hire purchase contracts
  - i) The implications of acquiring assets under a finance lease or a hire purchase contract.<sup>[K]</sup>
  - ii) Define a finance lease for tax purposes.<sup>[K]</sup>
  - iii) Compute the allowable interest and depreciation allowances for assets acquired under both finance leases and hire purchase contracts.<sup>[S]</sup>
- f) Explain and apply relief for losses.<sup>[K]</sup>
- g) Partnerships
  - i) Explain the principles of taxation for partnerships.<sup>[K]</sup>
  - ii) Determine partnership residence.<sup>[S]</sup>

- iii) Calculate partnership income / loss.<sup>[S]</sup>
- iv) Calculate the individual partners' tax.<sup>[S]</sup>
- v) Demonstrate the effect of changes in partnerships.<sup>[S]</sup>

- h) Prepare chargeable income for clubs and associations.<sup>[S]</sup>

#### Excluded topics

- *Badges of trade*
- *Successions*
- *Long life assets*
- *Depreciation allowances on hotels and intangible assets*
- *Change of accounting date*
- *Limited liability partnerships*
- *Foreign income of partnerships and companies*
- *Double tax relief*
- *Formation, reconstitution or dissolution of a partnership*
- *Determination of adjusted cost base of partner's interest*

#### 4. Income from property, including investments

- a) Define property income.<sup>[K]</sup>
- b) Identify the categories of property income.<sup>[K]</sup>
- c) Calculate taxable income from dividends, interest, rent and royalties.<sup>[S]</sup>

#### 5. The comprehensive computation of chargeable income and income tax liability

- a) Prepare examples of income tax computations using standard layout.<sup>[S]</sup>
- b) Prepare chargeable income computations
  - i) Gross income
  - ii) Allowable deductions
  - iii) Taxation rates
  - iv) Personal tax credit.<sup>[S]</sup>
- c) Explain entitlement to and the amount of the personal tax credit.<sup>[K]</sup>
- d) Explain and illustrate the treatment of gains/losses on the disposal of assets.<sup>[K]</sup>
- e) Explain and illustrate the differences between total tax liabilities.<sup>[K]</sup>

- f) Explain and calculate minimum chargeable income.<sup>[K]</sup>

- g) Withholding tax obligations
  - i) Withholding of tax by employers
  - ii) Payments to resident contractors
  - iii) Payments of interest
  - iv) Payments to superannuation
  - v) International payments.<sup>[S]</sup>

- h) General provisions relating to withholding of tax at source
  - i) Dates of payment of withholding taxes
  - ii) Penalties relating to failure to withhold and remit withholding tax
  - iii) Withholding tax certificates.<sup>[K]</sup>

#### 6. The use of exemptions and reliefs in deferring and minimising income tax liabilities

- a) Recognise the types of income that are exempt.<sup>[K]</sup>
- b) Explain and calculate the relief available for contributions to an employers' superannuation fund for both employer and employee.<sup>[K]</sup>
- c) Explain and calculate the relief available for contributions to a self-provided superannuation fund.<sup>[S]</sup>
- d) Explain and calculate the relief available for contributions to a non-resident superannuation fund.<sup>[S]</sup>
- e) Describe the treatment of a complying superannuation fund.<sup>[K]</sup>

### C CORPORATION TAX LIABILITIES

#### 1. The scope of corporation tax

- a) Explain the scope of corporation tax including the concepts of residence and source.<sup>[K]</sup>
- b) Accounting periods
  - i) Including periods longer than and less than 12 months.<sup>[K]</sup>

#### 2. Income chargeable to corporation tax

- a) Identify different classes of income
  - i) Lesotho source



- Manufacturing income
- Non manufacturing income
- Commercial income
- ii) Non Lesotho income.<sup>[K]</sup>

- b) Explain and illustrate the treatment of gains/losses on the disposal of business assets.<sup>[K]</sup>
- c) Compute chargeable income for Lesotho resident companies.<sup>[S]</sup>
- d) Compute depreciation allowances (as for income tax) .<sup>[S]</sup>
- e) Explain and apply relief for losses.<sup>[K]</sup>
- f) Compute the income chargeable to corporation tax.<sup>[S]</sup>

#### Excluded topics

- *Anti-avoidance*
- *Personal service companies*
- *Share incentive schemes*
- *Mergers & acquisitions*
- *Incorporation and liquidation roll over*
- *Reconstructions*
- *Long term contracts*
- *Change in control of companies*
- *Double taxation agreements and treaties*
- *Foreign income of companies*
- *Reinvestment relief*
- *Negligible value claims*
- *Wasting assets and leases*
- *Incorporation relief*
- *Change of accounting date*

### 3. The comprehensive computation of corporation tax liabilities

- a) Compute the corporation tax liability for Lesotho resident companies at appropriate rates
  - i) corporation taxation
  - ii) commercial farming
  - iii) manufacturing income.<sup>[S]</sup>
- b) Explain and apply taxes already paid
  - i) Advance corporation tax
  - ii) Instalments
  - iii) Withholding tax.<sup>[S]</sup>

#### Excluded topics

- *Foreign tax credit*

## D CHARGEABLE GAINS

### 1. The scope of the taxation of chargeable gains

- a) Identify chargeable individuals, chargeable assets, chargeable disposals and exempt disposals.<sup>[K]</sup>
- b) Explain the circumstances in which market value will be used as either the transfer value or the base cost.<sup>[K]</sup>

### 2. The computation of gains and losses

- a) Explain and calculate exemptions and reliefs.<sup>[K]</sup>
- b) Calculate gain/loss on disposal on business and investments assets.<sup>[S]</sup>
- c) Calculate disposal for post 1983 assets taking into consideration indexation for the effects of inflation.<sup>[S]</sup>
- d) Explain and illustrate how relief for losses is given.<sup>[K]</sup>

## E FRINGE BENEFITS TAX

### 1. The scope of fringe benefits tax (FBT)

- a) Describe the scope of fringe benefits tax.<sup>[K]</sup>

### 2. The computation of FBT liabilities

- a) Identify and calculate the taxable value and taxable amount of fringe benefits.<sup>[K]</sup>
- b) Calculate the fringe benefits tax liability.<sup>[S]</sup>
- c) Identify the due date of payment of fringe benefit tax.<sup>[K]</sup>
- d) Explain the process for filing a return on fringe benefit tax.<sup>[K]</sup>

## **E VALUE ADDED TAX**

### **1. Explain the scope of value added tax**

- a) Explain the scope of value added tax.<sup>[K]</sup>

### **2. VAT registration requirements**

- a) Explain the VAT registration requirements.<sup>[K]</sup>
- b) Explain when a business must register for VAT.<sup>[K]</sup>
- c) Outline the benefits of voluntary registration for VAT.<sup>[K]</sup>
- d) Explain when and why a business can apply for exemption from registration of VAT.<sup>[K]</sup>
- e) Explain the circumstances under which a business can apply for deregistration for VAT.<sup>[K]</sup>

#### **Excluded topics**

- *Group registration*
- *Default interest*

### **3. The basic principles of VAT**

- a) Explain and contrast the types of supply
  - i) standard rated
  - ii) zero rated
  - iii) exempt.<sup>[K]</sup>

### **4. Accounting for VAT**

- a) Explain the detail required on VAT invoices.<sup>[K]</sup>
- b) Outline the process for accounting for VAT.<sup>[K]</sup>
- c) Explain and outline the circumstances under which the business can account for VAT using the cash method.<sup>[K]</sup>
- d) Explain and outline the circumstances under which the business can account for VAT using the invoice method.<sup>[K]</sup>

### **5. The treatment of imports and exports**

- a) Explain the treatment of imports and exports.<sup>[K]</sup>

### **6. The computation of VAT liabilities**

- a) Recognise the time of supply/tax point for inputs and outputs.<sup>[K]</sup>
- b) Compute VAT liability
  - i) input tax
  - ii) output tax
  - iii) bad debts
  - iv) discounts
  - v) irrecoverable debts.<sup>[S]</sup>

### **7. The administration of VAT**

- a) Detail the basic VAT administration requirements
  - i) returns and assessments
  - ii) objections and appeals
  - iii) collection and recovery
  - iv) refund of value added tax
  - v) additional tax and offences
  - vi) late registration penalties
  - vii) late filing penalties.<sup>[K]</sup>

## **F GENERAL ADMINISTRATION OF INCOME TAX**

### **1. The systems for self-assessment and the making of returns**

- a) Describe the administrative procedures relating to returns of income and the corporation tax assessment rules, including the filing of returns and filing dates, and cases where returns are not required.<sup>[K]</sup>
- b) Describe the administrative procedures relating to assessments including deemed assessments, default and special assessments, amended assessments and enquiries.<sup>[K]</sup>
- c) Outline the process for the collection and refund of tax.<sup>[K]</sup>
- d) Identify and recognise the due dates for the payment of income taxes.<sup>[K]</sup>
- e) Explain the processes and outline the dates for the payment of tax, including tax by instalments, advance corporation tax and the quarterly payments system.<sup>[K]</sup>
- f) Explain how a repayment of overpaid tax can be obtained.<sup>[K]</sup>

## READING LIST

Income Tax Act, 1993 (as amended) Lesotho

Income Tax Act, 1993 Explanatory  
Memorandum Lesotho

Income Tax Regulations Lesotho

Value Added Tax Act, 2001 Lesotho

Value Added Tax Regulations, 2001 Lesotho

The Lesotho-South Africa Double Taxation  
Agreement

The study of relevant articles in ACCA's *student  
accountant* magazine is also recommended.

## **SUMMARY OF CHANGES TO FTX (LSO)**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

There have been no changes to the syllabus for 2016.