Answers

Section A *Marks*

1 D

2 A M110,000

The contract overall loss realised at the end of the project is carried back to the preceding year and offset against income in the preceding year.

3 B M2,700 (((2/3 x 21%) – 5%) x 30,000)

4 C M3,042 (49,500/90,000 x (42,400 x 15/115))

The input VAT incurred jointly for both exempt and taxable supplies is apportioned on the basis of turnover.

5 D M66,000

Employment income which has been taxed abroad and maintenance payments are exempt income.

6 A

7 A M65,000

Where the asset is disposed of by way of a gift, the deemed consideration received is the greater of the adjusted cost base and the market value at the date of transfer.

8 C

9 B 30 April 2019

The first income tax instalment is due on the last day of the sixth month after the end of the year of assessment.

10 D M29,000 (58,000 x 25% x 200%)

11 A M37,500 ((1,250,000 – (4,400,000 x 25%)) x 25%)

The taxable portion is the difference between terminal benefits and 25% of the employment income earned throughout the service of employment.

12 C M42,000 ((280,000 x 20%) – 14,000)

13 B M81,150 (270,500 x 30%)

14 A M395,600 (204,800 + 190,800)

A loss realised at the end of the year cannot be offset against any income, but will be carried forward and offset against the relevant source of income.

15 D 14 January 2020

The due date for filing the fringe benefits tax return for the third quarter is 14 days after the end of the third quarter.

2 marks each **30**

Section B *Marks*

1 Branch taxation – Teddy Spares

(a) A company is treated as a resident company if it meets any of the following tests:

– Is incorporated or formed under the laws of Lesotho.	1
– Has its management and control in Lesotho.	1
– It undertakes the majority of its operation in Lesotho.	1
	3

(b) Big Ted Machine Spares Ltd is not resident in Lesotho because it meets none of the tests above.	½
A Lesotho branch of a non-resident company is treated as a separate entity, which is a Lesotho resident company.	1
All operations of the Teddy Spares branch are in Lesotho, so the branch is treated as a separate resident company.	½
	2

(c) **Tax payable by Teddy Spares on repatriated profits for the year ended 31 March 2020**

	M	
Profit before tax	360,000	
Less: Exempt dividends	(48,600)	1
Add: Overstated annuity payment (65,000 – 1,200)	63,800	1
Omitted foreign source interest	25,700	1
Chargeable income	400,900	
Less: Corporate income tax (25%)	(100,225)	½
	300,675	
Less: Reinvested profit (70%)	(210,472)	
Repatriated profits	90,203	1
Tax thereon (90,203 x 25%)	22,551	½
		5
		10

2 Fringe benefits – Johan

(a) An expatriate taxpayer means a resident individual other than a citizen or permanent resident of Lesotho, who is employed under a permanent technical services contract.	2

(b) **Fringe benefits tax (FBT) payable by Highlands Diamonds Ltd for the year ended 31 March 2020 on benefits provided to Johan**

	M	
Car ((489,000 x 15%) – (1,500 x 12))	55,350	1½
Housing: restricted to 20% of remuneration (Working 1)	128,550	
Domestic assistance:		
– Housekeeper	32,400	½
– Security guard (exempt)	0	½
Taxable value	216,300	
Taxable amount (216,300/0·70)	309,000	½
FBT (309,000 x 30%)	92,700	½

Marks

Working

Taxable value for housing fringe benefit:

	M	
Rental payments (15,000 x 12)	180,000	½
Restricted to (375,000 + 55,350 + (15,000 x 12) + 32,400) x 20%	128,550	2
		6

(c) Transportation costs paid by his employer are excluded from Johan's taxable employment income because they are passage granted on commencement of employment. 1

Transportation costs will be allowable expenses to Highland Diamonds Ltd. 1

2

10

3 Value added tax (VAT) – Kamah

(a) VAT payable by Kamah for the period ending 30 April 2020

	M	
Output VAT		
Sales ((110,000 – 50,500 + 30,400) x 15/115)	11,726	1
Output tax on gift to employee (330 x 15/115)	43	1
	11,769	
Input VAT		
Purchases ((45,300 – 8,500) x 15/115)	4,800	1
Rent (7,500 x 15/115)	978	½
Electricity (6,400 x 8/108)	474	½
Insurance (exempt)	0	½
Bank charges (exempt)	0	½
Accounting fees to a non-vendor	0	½
Communication bills (2,900 x 12/112)	311	½
Refreshments (not claimable)	0	½
	6,563	
VAT payable (11,769 – 6,563)	5,206	½
		7

(b) The time of supply for goods sold on a deferred payment basis or agreement for periodic payments is the earlier of either

– the date when payment is received; or ½
– the date when payment becomes due. ½

1

(c) The obligations of VAT vendors include the following:

– Display the VAT registration certificate in the public area of the business
– Charge VAT on taxable supplies
– Submit VAT returns and pay VAT on or before the due date to Lesotho Revenue Authority (LRA)
– Provide proper VAT invoices containing details required by law
– Advise LRA of any change in business details

NB: Only four obligations required.

½ mark each x 4 2

10

			Marks
4 Nala – Chargeable gains for the year ended 31 March 2020			
	M	M	
Damaged building			
Insurance proceeds		180,000	1
Reconstruction cost		(150,000)	1
Chargeable gain		30,000	
The profit of M5,000 (180,000 – 145,000 – 30,000) is not taxable,			½
it is deferred until the damaged building is sold.			½
Shares			
Sale price		210,000	½
Adjusted cost base (ACB) (190,000 x 1,500/5,000)		(57,000)	1
Legal fee		(900)	½
Chargeable gains		152,100	
A gain of M30,000 (405,000 – 375,000) arising from transfer of a building between Nala and his former spouse is not recognised for tax purposes.			1
Building sold			
Sale price		1,640,000	½
ACB: Acquisition cost (210,000 x 216/110)	412,364		1
Extension (305,000 x 216/180)	366,000		1
Repairs claimed against rent income	0		½
Paving	75,000		½
		(853,364)	
		786,636	
Total chargeable gains (30,000 + 152,100 + 786,636)		968,736	
Loss brought forward		(61,500)	½
		907,236	**10**

5 (a) Molapo – Income tax payable for the year ended 31 March 2020

	M	M	
Income ((494,000/0·95) + 260,000)		780,000	1½
Drawings		45,000	½
		825,000	
Less: Expenses			
Wages and salaries (395,000 – 45,000)	350,000		1
Depreciation (W1)	118,817		
Repairs (61,000 x 80%)	48,800		1
Hire purchase interest (W2)	2,400		
Sundry expenses	48,900		½
		(568,917)	
Chargeable income		256,083	
Tax payable			
M61,080 x 20%		12,216	½
M195,003 x 30%		58,501	½
		70,717	
Less: Personal tax credit		(9,600)	½
		61,117	
Less: Withholding tax (520,000 – 494,000)		(26,000)	½
Net tax payable		35,117	

			Marks
Workings			
1.	**Depreciation allowance calculations for the year ended 31 March 2020**		
		M	
	Group 1 assets (motor van)		
	1 May 2019 Cost	260,000	
	Depreciation (260,000 x 25% x 11/12)	(59,584)	1½
	31 March 2020 adjusted cost base	200,416	
	Claim reduced to 80% x 59,584 because of private use	47,667	½
	Group 2 assets (heavy general purpose trucks plus equipment)		
	Depreciation for year ended 31 March 2019 (truck 1)		
	1 April 2018 opening balance	0	
	Add: 50% current year acquisition (250,000 x 50%)	125,000	½
	Add: 50% previous year acquisition	0	
		125,000	
	Depreciation allowance (125,000 x 20%)	(25,000)	½
	Adjusted cost base	100,000	
	Depreciation for year ended 31 March 2020		
	1 April 2019 opening balance (see above)	100,000	
	Add: 50% current year acquisition ((210,500 + 51,000) x 50%)	130,750	1
	Add: 50% previous year acquisition (250,000 x 50%)	125,000	½
		355,750	
	Depreciation allowance (355,750 x 20%)	(71,150)	½
	ACB	284,600	
	Total depreciation allowance for year ended 31 March 2020 (47,667 + 71,150)	118,817	

Tutorial note: *Molapo's motor van cannot be depreciated using the pooling method because it is only partly used for business purposes. It will be depreciated using the single asset method regardless of whether Molapo has elected for the pooling method for his other assets.*

2.	**Hire purchase interest**		
		M	
	Market value	51,000	½
	Total instalments (5,250 x 12)	(63,000)	½
	Interest	12,000	
	For five months (12,000/5)	2,400	½
			13

(b) The pooling method of depreciation is available if the following conditions are met:

– The taxpayer has made an election for this method to apply.	1
– It can be claimed for any depreciable assets other than group 4 assets.	½
– It is not available for assets which have partial non-business use.	½
	2
	15

6 Corporation tax – MPL *Marks*

(a) Corporation tax payable by MPL for the year ended 31 March 2020

	Manufacturing M	Other M	Marks
Revenue			
Business manufacturing income	500,300		½
Non-resident dividends (50,200 + 21,514)		71,714	1
Gross income	500,300	71,714	
Less: Operating expenses (W1)	(482,240)	0	
Chargeable income	18,060	71,714	
Corporation tax payable			
Manufacturing income at 10%		1,806	½
Non-manufacturing income at 25%		17,929	½
		19,735	
Less: Foreign tax credit (W2)		(15,777)	
Net tax payable		3,958	

Workings

1. **Operating expenses**

	M	Marks
Operating expenses	663,300	
Less: Disallowed expenses		
Start-up costs	(140,000)	½
Market research	(36,600)	½
Capital expenditure	(38,700)	½
	448,000	
Add: Additional deductions available		
25% uplift for approved training ((75,200 – 68,300) x 25%)	1,725	1
Amortised start-up costs (140,000 x 20%)	28,000	1
Depreciation allowance (38,700 x 20% x 7/12)	4,515	1
	482,240	

Note: *Alternatively, a mark will also be awarded for a four-year write off on amortisation of start-up costs.*

2. **Foreign tax credit**

	M	Marks
Foreign tax suffered	21,514	
Average Lesotho rate 19,731/(18,020 + 71,714)	22%	1
Foreign tax credit restricted to (71,714 x 22%)	15,777	1
		9

(b) Withholding tax

	M	Marks
(i) Royalty payments for:		
– Use of technology (40,000 x 10%)	4,000	1
– Trade name (20,000 x 25%)	5,000	1
	9,000	
(ii) Operating lease payments (35,000 x 10%)	3,500	1
	12,500	
		3

			Marks
(c) Income instalments			
		M	
Tax liability for previous year (as in (a) above)		19,735	
Less: Foreign tax credit		(15,777)	
		3,958	½
Each instalment (3,958 x 30%)		1,187	½
Total instalments (1,187 x 3)		3,561	½
Due dates for each instalment:			
First instalment	30 September 2021		½
Second instalment	31 December 2021		½
Third instalment	31 March 2022		½
			3
			15