

Applied Skills

Taxation – Lesotho (TX – LSO)

Tuesday 4 June 2019



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–3.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

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

OSL
–
TXL

Think Ahead



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 in Section B.

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 M61,080	20%
Over M61,080	30%
Personal tax credit	M7,260

Withholding tax rates

Payments to resident contractors	5%
Payments of interest by a resident to a resident	10%
Payments of Lesotho services contract to a non-resident	10%
Payments of international transactions (A lower withholding tax rate may apply under a double tax treaty entered into by the government of Lesotho)	25%

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, minors, fringe benefits and electing non-residents

The applicable rate is 30%

**Fifth Schedule
Section 16(2))
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 amount	M2,500
Electricity amount	M3,000
Principal residence amount	M150,000
Schooling amount per child	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 data 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)

Standard rate (all other taxable supplies and services)	15%
Supplies of electricity	8%
Telecommunications	9%
Basic foods and agricultural inputs	0%
Exports	0%

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

- 1 Kuena, a vendor for value added tax (VAT) purposes, is engaged in buying and selling second-hand household electrical equipment. In March 2019, he sold a second-hand electric stove for M3,000. Kuena had acquired the stove from a non-vendor for M1,200 and he paid another vendor M400 in total to repair the stove and put it into its saleable condition. All amounts exclude VAT where applicable.

What is the taxable value for the purposes of value added tax (VAT) of the electric stove sold by Kuena in March 2019?

- A M1,800
B M3,000
C M1,400
D M210

- 2 Tau Bakeries (Pty) Ltd had total research and development expenses of M160,400 for the year ended 31 March 2019, comprised of the following:

	M
Sales promotion	13,400
Market research	20,000
Acquisition of equipment used in research and development activities	85,000
Production engineering	42,000
	<hr/> 160,400 <hr/>

What is Tau Bakeries (Pty) Ltd's tax-deductible expense in relation to its research and development expenses for the year ended 31 March 2019?

- A M160,400
B M75,400
C M20,000
D M42,000

- 3 Tumo is a resident individual and a director of T&M Holdings Limited (T&M), earning a monthly salary of M35,000. For the year ended 31 March 2019, the financial records of T&M indicate that Tumo deliberately received his salary for the whole year without the deduction of any pay as you earn (PAYE).

What is the amount of tax in total avoided/evaded by T&M Holdings Limited on Tumo's emoluments for the year ended 31 March 2019?

Note: You should assume that this is the only source of income for Tumo.

	Amount	Avoided/Evaded
A	M112,632	avoided
B	M105,000	evaded
C	M112,632	evaded
D	M105,000	avoided

- 4 Thamae is a non-casual employee of Leseli (Pty) Ltd (Leseli), a tax-exempt employer. Thamae contributes 3% of his salary every year to a superannuation fund established by Leseli for all non-casual employees. Leseli contributes 18% of each employee's salary to the fund. Thamae's salary for the year ended 31 March 2019 was M240,500.

Which of the following correctly describes the taxability/deductibility of the contributions to the superannuation fund for the year ended 31 March 2019 for either Leseli (Pty) Ltd (Leseli) or Thamae?

- A The contributions have no tax impact for either Leseli or Thamae
B Taxable fringe benefit of M2,405 for Leseli
C Additional chargeable income of M2,405 for Thamae
D Allowable expense of M1,031 for Leseli
- 5 **Under which of the following circumstances is a trustee subject to income tax on foreign-sourced chargeable trust income?**
- (1) When the trustee is a Lesotho resident
(2) When the grantor of the trust was a Lesotho resident in the year of assessment in which the income was received by the trustee
(3) When the grantor of the trust was a Lesotho resident in the year of making the transfer of assets into the trust
(4) When a beneficiary of the trust is a Lesotho resident
- A 1 only
B 2 and 4 only
C 1 and 3
D 2, 3 and 4
- 6 The financial records for Lucky (Pty) Ltd (Lucky) for the year ended 31 March 2019 show chargeable business income of M38,000; and chargeable property income of M120,000. At 1 April 2018, Lucky had brought forward trading losses of M45,000; and a brought forward allowable loss against property income of M10,500. The chargeable income for the year ended 31 March 2019 is stated before taking into consideration any previous losses.

What is the maximum deduction which Lucky (Pty) Ltd can claim for the year ended 31 March 2019 in respect of the losses brought forward?

- A M55,500
B M48,500
C M38,000
D M10,500
- 7 **Which of the following bodies are responsible for the ENACTMENT and ENFORCEMENT of tax laws?**
- | | Enactment | Enforcement |
|---|-------------------|---------------------------------|
| A | National Assembly | Senate |
| B | Senate | National Assembly |
| C | Parliament | Lesotho Revenue Authority (LRA) |
| D | LRA | Parliament |

- 8 Abel, a Nigerian national and a medical doctor in one of Lesotho's public hospitals, arrived in Lesotho on 1 October 1998. Since his arrival in Lesotho, Abel has been staying in a government house free of charge.

Why is Abel considered to be a permanent resident in Lesotho for the tax year ended 31 March 2019?

- A Because he has been resident for more than seven years in Lesotho
B Because he has spent more than five years in Lesotho
C Because he has spent more than 182 consecutive days in Lesotho during the year of assessment
D Because he has a normal place of abode in Lesotho
- 9 Puleng, a resident individual, reported income tax payable of M65,000 in her self-assessment return for the year ended 31 March 2019. However, an audit investigation into this return by the Lesotho Revenue Authority (LRA) revealed reckless under-declaration of income which resulted in an understatement of M45,000 of income tax payable.

What is the total amount payable by Puleng as a result of the understatement of income tax payable in respect of the year ended 31 March 2019?

- A M45,000
B M90,000
C M110,000
D M55,000
- 10 Thabang, a vendor for value added tax (VAT) purposes, submitted his VAT return for April 2019 on 30 May 2019. The VAT payable was M8,500.

How many days late is Thabang in submitting his VAT return for April 2019 and what amount of penalty will be chargeable as a result of the late submission of the return?

	Number of days late	Penalty chargeable
A	15 days	M128
B	15 days	M213
C	10 days	M85
D	10 days	M142

- 11 Mpho is an entrepreneur trading as a caterer. During the year ended 31 March 2019, she purchased catering equipment at a total cost of M6,275 comprising the following:

	M
Serving plates	30
Cutlery set	45
Cooking pots	5,200
Serving tables	1,000
	<hr/>
	6,275

How much is the outright deduction available for Mpho's catering equipment purchased during the year ended 31 March 2019?

- A M75
B M6,200
C M6,275
D M30

- 12** CLT Manufacturers (Pty) Ltd paid total dividends of M130,000 during its substituted accounting period ended 31 October 2018. 60% of the dividends were entirely paid out of manufacturing income.

What is CLT Manufacturers (Pty) Ltd's advance corporation tax (ACT) liability as a result of the dividends paid in the substituted accounting period ended 31 October 2018?

- A** M43,333
- B** M0
- C** M17,333
- D** M26,000

- 13** Polumo's chargeable income for the year ended 31 March 2019, as per his self-assessment return, is M95,000. However, a tax investigation conducted by the Lesotho Revenue Authority (LRA) into Polumo's return shows minimum chargeable income of M180,000 for the year ended 31 March 2019.

What is the income tax payable by Polumo for the year ended 31 March 2019?

- A** M40,632
- B** M28,500
- C** M54,000
- D** M15,132

- 14** Which of the following statements describes the time limit during which the Lesotho Revenue Authority (LRA) can issue an amended assessment as a result of deliberate overstatement of deductions?

- A** Within 90 days after service of notice of the assessment
- B** At any time
- C** On or before the last day of the third month following the end of the relevant year of assessment
- D** Within four years after service of notice of the assessment

- 15** The financial records of Khama, an entrepreneur, indicate that one of the trucks used in his business was involved in an accident beyond repair in October 2018. The adjusted cost base (ACB) of the truck on the date on which the accident occurred was M145,000. Khama received insurance proceeds of M150,000 as compensation. Khama purchased a similar truck on 31 January 2019 at a cost of M135,000 as a replacement for the destroyed truck.

What is Khama's taxable gain in relation to the destroyed truck in October 2018?

- A** M145,000
- B** M5,000
- C** M0
- D** M150,000

(30 marks)

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

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** Pitso, a resident and individual taxpayer, is a board member of WASCO (Pty) Ltd. He had the following amounts of gross income for the year ended 31 March 2019:

	Note	M
Board member fee		90,000
Rental income from commercial property		130,000
Farming income	1	50,000
Interest income	2	8,500

Notes:

- (1) Farming income is from the sale of livestock, the proceeds of which have been mainly used for the education of Pitso's grandchildren.
- (2) Interest was received from the following bank accounts:

	M
Standard Lesotho Bank savings account (which is a nominated account)	5,400
Nedbank Lesotho fixed deposit account	3,100
	<hr/>
	8,500

Additional information:

- (3) All of Pitso's income was subject to withholding tax, where appropriate, in accordance with the relevant tax provisions.
- (4) Pitso did not include either the farming income nor the interest income in his income tax self-assessment return for the year ended 31 March 2019.

Required:

- (a) **Explain if Pitso is justified in excluding farming and interest income from his income tax self-assessment return for the year ended 31 March 2019.** (4 marks)
- (b) **Calculate the withholding tax, where appropriate, which will have been charged on each of Pitso's sources of income for the year ended 31 March 2019.**
Note: Indicate by use of a zero ('0') any sources of income which are not subject to withholding tax. (3 marks)
- (c) **State the information which should be provided by a withholding tax agent on the information return in respect of the tax withheld.** (2 marks)
- (d) **State the date by when a withholding tax agent should file a return of payments for withholding tax to the Commissioner General.** (1 mark)

(10 marks)

- 2 KBC (Pty) Ltd (KBC) has three permanent employees: the chief executive officer (CEO), finance and administration officer (FAO) and receptionist. The following is the monthly remuneration package of the three KBC employees:

	Note	CEO M	FAO M	Receptionist M
Basic salary		45,600	38,500	12,800
Accommodation	1	4,500		
Company car	2	310,000	220,600	
Meals and refreshments	3	250	250	
Utilities	4	3,500	2,300	

Notes:

- (1) The accommodation amount relates to rent paid by KBC on the CEO's behalf.
- (2) The company cars are stated at their adjusted cost base on 1 April 2018. The cars have also been available for use by the employees for the previous three years. The market values of the cars at the time when they were first provided to the CEO and FAO were M450,000 and M360,000, respectively. The FAO pays M350 on a monthly basis in respect of the private use of the company car.
- (3) The meals and refreshments amount is incurred on the last Friday of each month at their chosen lounge suite to socialise with other business people.
- (4) The utilities amounts relate to telephone bills for personal phone calls payable by KBC directly to the relevant service providers.

Required:

- (a) Calculate the quarterly fringe benefits tax (FBT) payable by KBC (Pty) Ltd in respect of the fringe benefits provided to its employees for the quarter ended 30 June 2018. (6 marks)
- (b) Calculate KBC (Pty) Ltd's total tax deductible expense in relation to the remuneration packages of its three employees in respect of the MONTH of June 2018. (4 marks)

(10 marks)

- 3** LMS (Pty) Ltd (LMS) commenced its operations as suppliers of a wide range of health products to hospitals and pharmacies on 1 March 2018. LMS registered for value added tax (VAT) on 1 May 2019. The Lesotho Revenue Authority (LRA) charged LMS a penalty for late registration based on its financial records since commencement.

The following sales figures (exclusive of VAT unless stated otherwise) were extracted from LMS general ledger:

	M
2018	
March	51,000
April	57,000
May	56,000
June	64,000
July	61,000
August	68,000
September	76,000
October	88,000
November	85,000
December	91,000
2019	
January	95,000
February	98,000
March	93,000
April	94,000
May (inclusive of VAT)	92,000

Other relevant information:

- (1) In May 2019, LMS's cost of sales (inclusive of VAT) comprised the following:

	M
Opening inventory	45,000
Purchases	32,000
	<hr/>
	77,000
Closing inventory	(17,000)
	<hr/>
	60,000

The opening inventory of M45,000 is comprised of M12,500, M17,000, and M15,500 relating to purchases for February, March and April, respectively.

- (2) The general operating expenses for May 2019 amounted to M28,000 (inclusive of VAT), of which M3,400 relates to telephone calls, and the remaining amount relates to stationery and other office supplies.

Required:

- (a) Explain why LMS (Pty) Ltd is compulsorily required to register for VAT, and state the date by which the company should have registered. (3 marks)
- (b) Calculate the penalty chargeable to LMS (Pty) Ltd by the Lesotho Revenue Authority (LRA) for late registration. (1 mark)
- (c) Calculate the net VAT payable by/refundable to LMS (Pty) Ltd for the month of May 2019.

Note: You should assume that LMS (Pty) Ltd is registered for VAT with effect from the month of May 2019 and ignore sales figures given in relation to previous months. (6 marks)

(10 marks)

- 4 Dr Chinzaya, a Zimbabwe national, is married to Mosa, a Lesotho national. Dr Chinzaya has been resident in Lesotho, operating as a medical practitioner, for the past 25 years. On 31 October 2018, he ceased practising in Lesotho and returned to Zimbabwe with his entire family. His investment and business assets were professionally valued and disposed of on 31 October 2018 for their market values as follows:

	Original cost M	Market value M
Shares in medical practice	(Note 1)	160,000
Property	(Note 3)	5,500,000 (Note 2)

Notes:

- (1) Dr Chinzaya had purchased the shares from his business partner at a negotiated price of M65,000 in July 2003. The market value of the shares at the date of acquisition was M70,000.
- (2) M1,500,000 of the M5,500,000 proceeds for the property relates to Dr Chinzaya's residential premises and outbuilding.
- (3) The original cost of the property is comprised of the following:
 - (i) M450,000 for the construction of surgery premises which were made available for use in July 2003. The land on which the surgery was constructed was inherited from Dr Chinzaya's grandmother in November 1998. The market value of the land at the date of her death was M46,700.
 - (ii) Additional consultation rooms were built at a total cost of M150,000 in May 2018.
 - (iii) M55,500 for a security wall around the surgery premises which was completed in April 2007.
 - (iv) M60,800 for paving the entire compound comprising the surgery premises in August 2008.
 - (v) M850,000 in relation to residential premises constructed by Dr Chinzaya in February 2003 for the use of him and his family. This cost includes M180,000 in respect of an outbuilding, which was built and completed in February 2003. The outbuilding was mainly used by Mosa for her beauty parlour business, which has been legally registered for the past five years.

Required:

Calculate the total chargeable gains realised by Dr Chinzaya on disposal of his assets in the year ended 31 March 2019.

Note: Please provide explanations for any amounts not included in your computation.

Note: Relevant price indices are as follows:

March 1995	185
November 1998	190
February 2003	210
July 2003	212
April 2007	220
August 2008	230
October 2018	350

(10 marks)

- 5 Celina, a linguist and sign language expert, is employed by a local university. In addition, she operates a home-based consultancy on a part-time basis to assist people who are deaf to communicate easily.

The following information is available for the year ended 31 March 2019:

	Note	M
Employment		
Basic salary		210,000
Housing allowance		21,000
Education allowance	1	10,000
Employer contribution to pension fund		24,000
Employee contribution to pension fund		(4,800)
Intervarsity games	2	(3,600)
Subscription	3	(2,800)
Reimbursement	4	5,200
Gift	5	4,500
Tax of M58,923 was withheld on Celina's employment income by her employer and remitted to the Lesotho Revenue Authority (LRA).		
Home-based consultancy		
Consultation receipts	6	180,000
Expenses	7	(50,000)

Notes:

- (1) The university pays employees an education allowance of M5,000 per annum per child aged between six and 18 years. Celina has two children aged 14 and 17 years old.
- (2) Celina paid a total of M3,600 for transport and accommodation to attend the intervarsity games in Swaziland during the year. The games are attended by staff members of a number of Southern African universities on an annual basis.
- (3) Celina paid a subscription to a professional sign language association of which she is a member.
- (4) The reimbursement relates to business travel expenses where Celina used her own car for official field trips at the request of her employer.
- (5) Her employer provided her with a gift valued at M4,500, as a long service award.
- (6) 20% of the consultation receipts are net of 5% tax withheld at source.
- (7) The consultancy expenses comprise the following:
 - (i) Utility costs amounting to M29,500 for Celina's entire house. 30% of the cost is attributable to the home-based consultancy.
 - (ii) Depreciation of M20,500 in relation to Celina's car calculated at 25% on a reducing balance basis. The car is used for both business and private purposes. During the year, Celina travelled 1,500 kilometres (km), of which 700 km were business related.

Required:

- (a) Calculate the income tax payable by Celina for the year ended 31 March 2019.

Note: You should indicate by the use of a zero ('0') any items in the question which are not taxable/tax deductible. (13 marks)

- (b) Explain the income tax treatment of the reimbursed business travel expenses in note (4). (1 mark)

- (c) Explain how the income tax treatment of the business travel expenses would differ if Celina were a sales agent whose duties required significant travel on official trips; and the travel expenses in note (4) above were not reimbursed by her employer. (1 mark)

(15 marks)

6 The income statement of Likila Limited (Likila) for the year ended 31 March 2019 showed profit before tax of M610,000.

(1) The profit before tax is after deduction of the following two expenses:

- Staff costs of M680,000. Included in this amount is the cost of the desktop computer amounting to M25,500 which was distributed on 2 November 2018 to the chief executive officer, who is also one of the shareholders. The number of desktop computers purchased during the year by Likila were in excess of the required number.
- A loss of M75,000 on the disposal of a motor van. The motor van was acquired by Likila for M450,000 on 1 November 2016. It was sold on 30 September 2018 for M300,000.

(2) The profit before tax also includes total dividends received by the company of M68,700. M35,000 of the total were Lesotho source dividends. The remaining M33,700 were foreign source dividends. This amount is stated net of foreign tax of M12,300 paid overseas.

Additional information:

(3) The company paid dividends of M144,500 out of unqualified income on 2 November 2018.

(4) Likila's corporation tax liability for the year ended 31 March 2018 was M147,500. This amount is after deduction of advance corporation tax (ACT) of M20,000 and withholding taxes of M7,500.

Required:

(a) Calculate each income tax instalment payable by Likila Limited for the year ended 31 March 2019, and state the due date for each instalment. (3 marks)

(b) Calculate the advance corporation tax (ACT) payable by Likila Limited in respect of the dividends of M144,500 paid during the year ended 31 March 2019 and state the due date for payment. You should indicate how the instalments calculated in part (a) can be offset against ACT.

Note: You should assume that the instalments calculated in (a) above were paid on their respective due dates. (4 marks)

(c) Calculate the corporation tax payable by Likila Limited for the year ended 31 March 2019. You should start your answer with the profit before tax figure of M610,000. (8 marks)

(15 marks)

End of Question Paper