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# Answers

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**Section B**

**Marks**

**1 (a) Tax payable by the trustee ('Makananelo)**

	2016 M	2017 M	
Notional chargeable trust income:			
Lesotho source	140,000	201,000	1
Foreign source (52,000 – 25,000)	27,000	65,000	1½
	<u>167,000</u>	<u>266,000</u>	
Share of notional chargeable trust income: (65%)	<u>108,550</u>	<u>172,900</u>	1
<b>Tax payable:</b>			
56,964 x 20%	11,393		½
51,586 x 30%	15,476		½
	<u>26,869</u>		
Less: personal tax credit	<u>(6,732)</u>		½
	<u>20,137</u>		
(172,900 x 30%)		<u>51,870</u>	1
			<u>6</u>

**(b) Tax payable by the beneficiary (Kananelo)**

	M	
Share of notional chargeable trust income:		
266,000 x (35%)	<u>93,100</u>	½
<b>Tax payable:</b>		
56,964 x 20%	11,393	½
36,136 x 30%	10,841	½
	<u>22,234</u>	
Less: personal tax credit	<u>(6,732)</u>	½
	<u>15,502</u>	2

**(c) The trustee is chargeable to tax on the foreign source trust income if any of the following conditions are satisfied:**

(i) The grantor was resident in Lesotho at the time of making a transfer to the trustee.	1
(ii) The grantor was resident in Lesotho in the relevant year of assessment.	
(iii) A Lesotho resident person may ultimately benefit from the income.	1
	<u>2</u>
	<b><u>10</u></b>

## 2 Leseli Motors

## (a) Value added tax payable (VAT) for the tax period ended 31 October 2017

	M	
<b>Output VAT</b>		
Saloon car 1 ((45,000 – 34,000) x 14/114)	1,351	1
Saloon car 2 (3,500 x 14/114)	430	1
Delivery truck lease payments (2,300 x 14/114)	282	1
Spare parts (15,200 x 14/114)	1,867	1
	<u>3,930</u>	
<b>Input VAT</b>		
Repairs of saloon car 1 ((6,000 x 75%) x 14/114)	552	1½
Insurance premium (exempt)	0	½
Other operating expenses ((68,000 – 3,200) x 14/114)	7,958	1
	<u>8,510</u>	
VAT refundable (8,510 – 3,930)	<u>4,580</u>	½
Due date of submission of VAT return is on or before 20 November 2017.		½
		<u>8</u>

## (b) The obligation of a vendor on deregistration

A vendor should apply in writing to the Commissioner for deregistration within 14 days after ceasing to make taxable supplies.

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## (c) Leseli Motors' entitlement to deregister

Leseli Motors would be entitled for deregistration if the value of its taxable supplies is below the threshold of M850,000 per annum.

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## 3 Chargeable gains (Lerotholi)

## (a) Chargeable gains tax payable for the year ended 31 March 2017

	M	M	
<b>Shares</b>			
Sale price		290,000	½
Adjusted cost base (ACB)		(150,000)	½
Loss brought forward		(5,500)	½
		<u>134,500</u>	
<b>Factory building</b>			
Sale price		2,300,000	½
ACB: Land (320/215 x 35,000)	52,093		1
Construction (320/245 x 320,000)	417,959		1
Security wall (320/270 x 85,000)	100,741		1
Paving	20,000		1
Equipment	65,000		½
Commission	<u>4,500</u>		½
		(660,293)	
Chargeable gain		<u>1,639,707</u>	<u>7</u>

**(b) Disposal of an investment asset**

No gain or loss is taken into account for the purposes of determining chargeable income on:

– A transfer of assets between spouses.	1
– A transfer of assets between former spouses as part of divorce settlement.	1
– The involuntary conversion of an asset where the proceeds are reinvested in an asset of a like kind.	1
	<u>3</u>
	<b>10</b>

**4 Thomas and WHO (PIO)****(a) Chargeable income of Thomas for the year ended 31 March 2017**

	<b>M</b>	
Salary	420,000	½
Taxable values of:		
Accommodation fringe benefit ((8,500 – 1,000) x 12)	90,000	1
Education allowance (10,500 x 2)	21,000	½
Car fringe benefit (310,000 x 15%)	46,500	½
Pension contributions paid by the WHO	0	½
Security guard (exempt)	0	½
Utilities: mobile phone bill	14,900	½
Chargeable employment income	<u>592,400</u>	<u>4</u>

**(b) Fringe benefits tax (FBT) payable by tax exempt employer**

	<b>M</b>	
Accommodation fringe benefit	90,000	½
Car fringe benefit	46,500	½
Utilities	14,900	½
Excessive superannuation contributions (see working)	3,920	½
Taxable values	<u>155,320</u>	
Taxable amount (157,420/0.7)	221,886	1
FBT (221,886 x 30%)	66,566	1

**Excessive superannuation fund contributions****Working:**

	<b>M</b>	
Employer contributions (10,200 x 12)	122,400	1
Maximum contributions allowable (592,400 x 20%)	118,480	1
Excessive superannuation contributions	<u>3,920</u>	<u>6</u>
		<b>10</b>

**5 Partnership: Lefa and Brian****(a) Notional chargeable income**

	<b>M</b>	
Operating profit	197,250	
Add:		
Withholding tax from local bank (38,880 x 10/90)	4,320	1
Excess pension contributions ((45,000) – (150,000 x 20%))	15,000	1
Overstated depreciation (see working) (85,750 – 26,483)	59,267	1
Trading loss	18,250	½
Notional chargeable income	<u>294,087</u>	

**Working:**

Depreciation on:

	M	
<b>Vehicle</b>		
31 March 2015 depreciation ( $120,000 \times 25\% \times 8/12$ )	20,000	1/2
31 March 2016 depreciation ( $((120,000 - 20,000) \times 25\%)$ )	25,000	1/2
31 March 2017 depreciation ( $((100,000 - 25,000) \times 25\%)$ )	18,750	1/2
<b>Office equipment</b>		
31 March 2016 depreciation ( $((40,000 \times 20\% \times 2/12)$ )	1,333	1/2
31 March 2017 depreciation ( $((40,000 - 1,333) \times 20\%)$ )	7,733	1/2
Total depreciation for 31 March 2017 ( $18,750 + 7,733$ )	26,483	<u>6</u>

**(b) Tax payable by each partner**

	Lefa (resident) M	Brian (resident non-res.) M	
Distributive share of partnership income			
Lesotho source ( $((294,087 - 21,120) \times 50\%$ )	136,484	136,484	1
Foreign source ( $21,120 \times 50\%$ )	10,560	0	1
Salaries	75,000	75,000	1
Gross income	222,044	211,484	
Less expenses:			
Trading loss ( $18,250 \times 50\%$ )	(9,125)	(9,125)	1
Chargeable income	<u>212,919</u>	<u>202,359</u>	
<b>Tax payable:</b>			
( $56,964 \times 20\%$ )	11,393	11,393	1
( $155,955 \times 30\%$ )	46,787		1/2
( $145,395 \times 30\%$ )		43,619	1/2
	<u>58,180</u>	<u>55,012</u>	
Less personal tax credit	(6,732)	(6,732)	1
	<u>51,448</u>	<u>48,280</u>	
Less withholding tax ( $4,320 \times 50\%$ )	(2,160)	(2,160)	1
foreign tax credit ( $3,500 \times 50\%$ )	(1,750)	0	1
Tax payable	<u>47,538</u>	<u>46,120</u>	<u>9</u>
			<u>15</u>

**6 PP Securities**

- (a) PP securities should make an application in writing to the Lesotho Revenue Authority (LRA), showing the compelling need. In the case of PP Securities, the compelling need would be to have the same accounting period as that of the holding company. 2
- (b) PP Securities qualifies to be a resident company regardless of whether it is wholly owned by a foreign company or not, because of the following:
- It was incorporated under the laws of Lesotho. 1
  - It has its management and control in Lesotho. 1
  - It undertakes majority of its operations in Lesotho. 1
- 3

**Marks****(c) Advance corporation tax (ACT)**

	M	
Dividends paid	74,000	½
ACT (74,000 x 25/75)	24,667	½
Due date is on or before 7 October 2016.		1
		<u>2</u>

**(d) Corporation tax payable for the year ended 30 November 2016**

	M	M	
Trading income		430,000	½
Investment income (120,000 – 42,000)		78,000	1
Gross income		508,000	
Less: expenses (see workings)			
Administrative expenses	104,000		
Selling and distribution costs	78,500		
		(182,500)	
Chargeable income		325,500	
Tax payable (325,500 x 25%)		81,375	½
Less: foreign tax credit restricted to (85,000 x 25%)		(21,250)	1
ACT (as in (c) above)		(24,667)	½
Net tax payable		35,458	

**Workings:****1. Administrative expenses**

	M	
Administrative expenses as given	205,000	
Capital expenditure (equipment)	(72,000)	½
Provision for directors' emoluments	(60,000)	1
Depreciation for equipment (72,000 x 20% x 6/12)	31,000	1
	104,000	

**2. Selling and distribution costs**

	M	
Selling and distribution costs as given	180,000	
Large scale advertising	(110,000)	1
Donation to local orphanage (30,000 x 45%)	(13,500)	½
Amortisation of large scale advertising (110,000 x 20%)	22,000	½
	78,500	8

**15**