

Applied Skills

Taxation – Lesotho (TX – LSO)

Tuesday 4 December 2018



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 M58,680	20%
Over M58,680	30%
Personal tax credit	M6,960

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, fringe benefits and electing non-residents	30%
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**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 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	14%
Supplies of electricity and telephone calls	5%
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 The Lesotho Revenue Authority (LRA) computed a minimum chargeable income for Letuka, a resident entrepreneur, for the year ended 31 March 2018. Included in the calculation was the principal residence amount. Letuka lives in a rented seven-roomed house. He pays a negotiated monthly rent of M6,500. The monthly market rent of similar houses is M8,500.

What is the principal residence included in Letuka's minimum chargeable income for the year ended 31 March 2018?

- A M22,500
- B M40,800
- C M31,200
- D M19,500

- 2 For the year ended 31 March 2018, Thamae, a resident individual, declared gross income of M190,000, comprising employment income of M120,000; and business income of M70,000.

Thamae also claimed education expenses of M1,200; and other expenses of M10,500; all of which were deductible against employment income.

What is the minimum allowable amount of Thamae's education expenses and other expenses?

	Education	Other
A	M1,000	M10,500
B	M1,200	M10,500
C	M1,000	M9,500
D	M1,200	M9,500

- 3 Mokorotlo Ltd is a resident company whose long-term capital is M920,000. This amount is comprised of share capital of M216,000 and loan stock of M704,000. For the year ended 31 March 2018, the company claimed a deduction of M138,000 for interest paid on loan stock .

What is the amount of interest deduction which the Commissioner General may disallow for the year ended 31 March 2018?

- A M10,977
- B M0
- C M138,000
- D M127,023

- 4 **Which of the following statements describes the regressive nature of indirect taxes?**

- A The average rate of tax remains constant as income increases
- B The average rate of tax decreases as income increases
- C The tax burden is always levied on the final consumer
- D The average rate of tax increases as income increases

- 5 Seabata, a property agent, bought 12 acres of land on 1 May 2005 at a negotiated price of M155,000.

On 1 September 2018, Seabata sold eight acres of the same land for M205,000 when the adjusted cost base (ACB) of the entire 12 acres was M180,000. The market value of the eight acres sold on 1 September 2018 was M160,000.

How much is the chargeable gain/(loss) realised by Seabata on disposal of the eight acres of land on 1 September 2018?

- A M20,000
- B M20,000 (loss)
- C M25,000
- D M85,000

- 6 Lehakoe Properties Ltd (Lehakoe), a vendor, specialises in renting out its property to companies engaged in manufacturing operations and non-manufacturing operations.

For the month of October 2018, Lehakoe's turnover totalled M85,000, comprising M54,300 received from manufacturing tenants and M30,700 from non-manufacturing tenants. All amounts are inclusive of value added tax (VAT) where applicable.

Lehakoe incurred input VAT of M5,200 in respect of all the rental properties, which could not be attributed separately to manufacturing or non-manufacturing tenants.

What is the amount of input VAT claimable by Lehakoe Properties Ltd for the month of October 2018?

- A M5,200
- B M1,878
- C M3,322
- D M4,004

- 7 Mojela Investments Ltd, a resident company, uses a substituted accounting period ending 30 September every year. For the year ended 30 September 2018, the company paid income tax instalments of M76,500 in total. Each instalment was paid on the relevant due date.

On 30 May 2018, the company paid dividends of M120,000 out of unqualified income.

What is the amount of advance corporation tax (ACT) payable by Mojela Investments Ltd in respect of the dividends paid on 30 May 2018, after utilising any available tax reliefs?

- A M0
- B M25,500
- C M14,500
- D M40,000

- 8 The Association of Academic Researchers in Lesotho (AARL) has a total income of M250,300 for the year ended 31 October 2018, derived from the following sources:

	M
– General bookshop owned by the association (including M21,300 from sales of AARL's symbolic attire and accessories)	85,000
– Annual subscriptions	48,000
– Fundraising activities (for AARL's purposes)	52,700
– Rentals receivable from AARL properties, which are rented out	64,600
	<hr/> 250,300 <hr/>

How much is the exempt income of AARL for the year ended 31 October 2018?

- A M0
B M250,300
C M100,700
D M122,000
- 9 Which of the following is a reason for applying different rates of value added tax (VAT) to the sale of different items?
- A To encourage exports
B To maximise the tax revenues raised by VAT
C To discourage the consumption of some commodities which are considered harmful to people
D To lessen inequality in the distribution of wealth and income in the economy
- 10 Tumelo resigned as a senior lecturer for a local university, and left employment on 1 January 2018. When he left employment with the university, Tumelo had three years to complete of a five-year bond which he had used to pay for his doctorate degree studies.

The university requested him to pay a total of M310,000, representing payment for the remaining three years, inclusive of a penalty charge of M93,000 for failure to honour his contract. Tumelo's new employer agreed to discharge his debt without any further obligation for Tumelo to repay the amount.

What is the taxable value of the fringe benefit which arises in respect of the waiver of Tumelo's debt?

- A M217,000
B M132,857
C M310,000
D M442,857
- 11 PK Limited is a resident company which uses a substituted accounting period ending on 31 December each year. On 1 May 2018, the company filed the following returns:
- Corporation tax return for the year ended 31 December 2017
– Record of payments and tax withheld for the year ended 31 March 2018

By how many days and/or months late (if any) is PK Ltd in filing the two returns?

	Corporation tax return	Record of payments and tax withheld
A	Nil	2 days
B	1 month	Nil
C	Nil	Nil
D	1 month	2 days

12 Under which circumstances can the Lesotho Revenue Authority (LRA) enquire into the self-assessment income tax return of a taxpayer?

- (1) Understatement of income
- (2) Understatement of deductions
- (3) Omission of any information deemed necessary for the LRA to substantiate a taxpayer's statements
- (4) Overstatement of income
- (5) Overstatement of deductions

- A** 1 and 2
- B** 1, 3 and 5
- C** 2, 3 and 4
- D** 4 and 5

13 Mahomed, a vendor for value added tax (VAT) purposes, was penalised by the Lesotho Revenue Authority (LRA) in connection with the provision of false statements for the tax period ended 31 October 2018. As a result of these false statements, Mahomed's VAT return for the same period showed tax payable of M6,800. The correct amount of VAT payable on the basis of substantiated records was M9,400.

How much additional tax is chargeable on Mahomed as a result of providing false statements for the period ended 31 October 2018?

- A** M282
- B** M9,400
- C** M470
- D** M5,200

14 The T&T partnership consists of two partners, Teboho, a resident, and Themba, a non-resident. The partners share profits and losses equally. The partnership has two businesses, one operating in Maseru, and the other one operating in South Africa.

The notional chargeable income (NCI) of the partnership for the year ended 31 March 2018 was M240,000. 70% of the NCI was derived from the business in Maseru. For the year ended 31 March 2017, the partnership realised a loss of M8,400, all of which was attributable to the business in South Africa.

What is the chargeable income for each of the partners for the year ended 31 March 2018?

	Teboho (resident)	Themba (non-resident)
A	M115,800	M84,000
B	M120,000	M120,000
C	M111,600	M120,000
D	M115,800	M115,800

15 Which of the following payments give rise to Lesotho source income?

- (1) A payment received by a non-resident consultant from the World Food Program (WFP) for providing training services to government officials in Maseru
- (2) A compensation payment received by a resident individual from their former employer, a non-resident company
- (3) A monthly salary received by a resident individual from their employer, a non-resident company, which provides services both inside and outside Lesotho
- (4) A bonus payment received by Mike, a non-resident individual, by his employer, a Lesotho resident company

- A** 1 and 2
- B** 2 and 3
- C** 4 only
- D** 1, 3 and 4

(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 Greg Hypermarket Lesotho (GHL) is a Lesotho branch of a South African company. GHL's income statement for the year ended 30 September 2018 showed profit before tax of M280,000. This amount is after taking account of the following expenses:

- (1) Staff costs of M105,600 which include an annuity payment of M35,500 to a former employee who was injured while on duty; and a fine of M500 paid on behalf of an employee for driving a delivery truck with an expired permit.
- (2) A gift to an orphanage of grocery items costing M20,000, as part of social responsibility.
- (3) Provision for bad debts of M45,300.
- (4) Training costs of M15,000 paid to the Institute of Development Management Lesotho to train GHL employees who are also citizens of Lesotho.

GHL repatriates 20% of its chargeable profits after tax to its head office in South Africa.

Other relevant information

In the year ended 30 September 2017, GHL's tax payable was M74,300, after deducting the following amounts:

	M
– Local withholding tax	3,600
– Foreign tax credit	2,850
– Advance corporation tax (ACT)	8,900

GHL has always paid all income tax instalments and outstanding taxes on the required due dates. In addition, GHL always claims the maximum allowable deductions available.

Required:

- (a) **Explain the extent to which a Lesotho branch of a non-resident company is subject to Lesotho income tax.**
(1 mark)
- (b) **Calculate the tax payable on the profits repatriated by GHL to its head office in South Africa for the year ended 30 September 2018.**
(6 marks)
- (c) **Calculate the total income tax instalments paid by GHL for the year ended 30 September 2018, and state the due date for each instalment.**
(3 marks)

(10 marks)

2 Rebecca has accepted the post of chief executive with Makara Ltd (Makara), a Lesotho resident company. Her remuneration package will consist of the following:

- (1) A basic salary of M50,500 per month.
- (2) A non-contributory pension scheme into which Makara will contribute 5% of basic salary every month on Rebecca's behalf.
- (3) Payment of utility bills of M15,000 per annum
- (4) Provision of the following assistants, with salaries to be paid by Makara:

	M (per month)
Housekeeper	800
Security guard	1,200

- (5) Makara will allow Rebecca to choose either:
 - a monthly car allowance of 10% of her basic salary; or
 - to use a company car which Makara bought for M375,000 in October 2016. The current market value of the car is M280,000.

If Rebecca chooses to take the monthly car allowance, the annual cost (including depreciation) of running her own car is estimated to be M50,000 on average.

Required:

(a) Calculate Rebecca's annual after tax remuneration if she chooses:

- the monthly car allowance; or
- the company car;

and conclude on which option she should choose.

Note: Identify by the use of a zero (0) any item(s) which are exempt from income tax. (6 marks)

(b) Calculate the annual fringe benefits tax (FBT) payable by Makara Ltd in respect of fringe benefits which will be provided to Rebecca.

Note: You should assume that Rebecca will choose to take the company car instead of the monthly car allowance. Identify by the use of a zero (0) any item(s) which are exempt from FBT. (4 marks)

(10 marks)

- 3** Leslie, a vendor for value added tax (VAT) purposes, operates a business running a gym. His records for the tax period ended 31 October 2018 show total income of M84,600 and costs of M40,850.

Leslie always submits his VAT return and pays the associated VAT, if any, on or before the due date.

Additional information:

- (1) Income is derived from customer membership fees payable either on a monthly or quarterly basis. During the month of October 2018, M50,000 was received from customers who paid for three months' membership from October to December 2018. The remaining M34,600 relates to invoiced amounts which were not paid until November 2018.
- (2) Costs are comprised of the following:
 - (i) Rent of M5,500 paid to a vendor. The payment includes M500, which was outstanding from September 2018.
 - (ii) Utilities of M2,100 comprising water consumption of M700, and electricity expense of M1,400.
 - (iii) Repair costs paid to a non-vendor of M550.
 - (iv) Purchase of office equipment for M23,100. Leslie paid M18,000 in October 2018, and the balance was settled on 25 November 2018.
 - (v) Payment of M4,500 for annual insurance in respect of the gym equipment.
 - (vi) Refreshments for employees working as assistants. Leslie paid M1,200.
 - (vii) M3,900 for sundry expenses, all subject to VAT at the standard rate.
- (3) Leslie accounts for VAT using the cash basis.

All amounts are inclusive of VAT where applicable.

Required:

- (a) Explain why Leslie is eligible to use the cash basis of accounting for VAT.** (2 marks)

- (b) Calculate the VAT payable by or refundable to Leslie for the tax period of October 2018.**

Note: Indicate expenditure items which are exempt or not claimable by the use of a zero (0). (8 marks)

(10 marks)

- 4 Soli and his wife, both aged 60, were the owners of Lefa Pty (Lefa) which had been in operation for many years. The core business of the company was buying and selling pieces of art. The majority of products kept at Lefa's gallery building were for display purposes, as customers' orders were placed on request. Soli and his wife decided to retire and close the company with effect from 1 May 2017. The following company assets were sold by Lefa during the year ended 31 March 2018:

- (1) 5,000 shares in Moses Ltd, an unconnected company, were sold at a market price of M35.50 per share.

Lefa had purchased 4,000 shares at a market value of M12.50 per share in 2005. The remaining shares were acquired in 2010 via a bonus issue. The market value of Moses Ltd shares on the date of the bonus issue was M14 per share.

- (2) Paintings were sold for M125,000.

Lefa had originally purchased the paintings at a total cost of M65,500 in 2009. The paintings were stolen in November 2016. Lefa received compensation of M86,400 from its insurance company in January 2017 to replace the stolen paintings. Lefa spent M75,300 to buy replacement paintings in February 2017. The new paintings were similar to the ones which had been stolen.

- (3) Lefa's gallery building was sold to Soli's youngest son at a reduced price of M110,000.

The market value of the building on the date of sale was M220,000. The building was acquired eight years previously for M68,000. The indexation allowance on the date of sale was M62,000.

- (4) Total incidental costs of M4,200 were realised on the disposal of Lefa Pty's assets. The costs included a trading loss of M1,300 realised in the year ended 31 March 2017.

Required:

- (a) Calculate the chargeable gain or loss realised by Lefa Pty in relation to the paintings stolen in the year ended 31 March 2017 (see note 2 above) and also the adjusted cost base of the replacement paintings for a future disposal.

Note: Your answer should include calculations for any unrecognised and deferred gains for tax purposes.

(4 marks)

- (b) Calculate the total chargeable gains of Lefa Pty for the year ended 31 March 2018.

(6 marks)

(10 marks)

- 5 Paul is a resident entrepreneur who owns a fleet of heavy and light general purpose trucks for hire. Paul's income tax return for the year ended 31 March 2018 consisted of the following financial information:

	Note	M
Revenue		920,000
Expenses		
Staff costs	(1)	350,000
Depreciation	(2)	135,000
Insurance premium	(3)	28,600
Other expenses (all tax deductible)		40,100

Notes:

- (1) Staff costs of M350,000 comprised the following:
- (i) Employee salaries of M264,200, relating to both casual and non-casual employees. The total salary cost for casual employees was M95,000 and all casual employees were paid below the tax threshold.
There are two non-casual employees, who earn salaries of M84,600 each, one of whom is a non-resident. Neither employee has any other income for the year ended 31 March 2018.
 - (ii) Pension contributions of M30,000 in total, exclusively for the two non-casual employees. Each employee contributed M3,000.
 - (iii) M55,800 withdrawn from the business account by Paul for payment of the membership fee to a local club where he might meet new clients.
- (2) Depreciation relates to all the trucks held on 1 April 2017.
- (3) Insurance premium includes M5,900 which is payable to a non-resident insurer in South Africa.

Additional information

- (4) The following are depreciable assets held by Paul on 1 April 2017:

Assets	Adjusted cost base (ACB) M
Heavy general purpose trucks	110,500
Light general purpose trucks	205,600

The ACB of the heavy general purpose trucks includes a heavy general purpose truck which was acquired for M150,400 in the year ended 31 March 2017.

- (5) On 1 October 2017, Paul purchased a new light general purpose truck at a cost of M120,000.
- (6) On 1 November 2017, Paul purchased a motor van for M230,600, for both private and business use in a proportion of 60% and 40%, respectively. Paul paid M2,500 (included in the insurance premium above) for the motor van to a resident insurer. No further record was made in the books in relation to the motor van.
- (7) Paul has elected for the pooling method to apply.

Required:

- (a) Calculate the income tax payable by Paul for the year ended 31 March 2018 (11 marks)
- (b) Calculate the income tax payable by each of Paul's two non-casual employees on their employment income for the year ended 31 March 2018. (4 marks)

(15 marks)

- 6 Basotho Flours Ltd (BFL) is a resident manufacturing company which specialises in the production of wheat and maize flour. The summarised trading results of BFL for the year ended 30 September 2018 are as follows:

	Note	M
Revenue		
Trading income	(1)	1,620,500
Other income		
Dividends (gross)	(2)	65,300
Interest (net)	(3)	40,600
		<u>1,726,400</u>
Operating expenses	(4)	<u>860,000</u>

Notes

- (1) Trading income includes M420,000 which was received from government institutions. The amount includes 5% withholding tax.
- (2) 25% of the dividends were received from resident companies. The remaining 75% were received from non-resident companies. The foreign withholding tax paid in relation to foreign source dividends totalled M4,500.
- (3) The net interest received is comprised of:

	M
Lesotho source interest	16,300
Foreign source interest	<u>24,300</u>
	<u>40,600</u>

The foreign source interest was received net of withholding tax of M6,200.

- (4) Operating expenses of M860,000 (all attributable to manufacturing income) included the following:
- (i) Research and development expenditure of M125,400:

	M
Cost of engineering design	50,160
Purchase of equipment	<u>75,240</u>

The equipment was purchased on 1 November 2017, and there was no further record of this transaction in the books of the company.

- (ii) Donations totalling M45,900:
- M20,000 of this amount was donated to one of the local churches. The remaining M25,900 was donated to one of the local volleyball teams, in accordance with the relevant tax provisions.
- (iii) Entertainment expenditure of M4,300, in respect of a prospective client.
- (iv) Operating lease payment of M74,300 to a South African company for equipment used in the production of the wheat and maize flour.

Additional information:

- (5) BFL paid dividends of M54,500 in total to shareholders during the year ended 30 September 2018. The dividends were all paid out of trading income. M32,000 of the dividends were paid to a non-resident company based in Botswana.

Required:

- (a) Calculate the corporation tax payable by Basotho Flours Ltd for the year ended 30 September 2018, and state the due date of payment of the tax liability.

Note: Your answer should start with the trading income of M1,620,500 and should deal with each of the items mentioned in the question. Indicate any items which are not taxable by the use of a zero (0). (13 marks)

- (b) Calculate the total withholding tax which should be remitted to the Lesotho Revenue Authority (LRA) in respect of the operating lease payment and the dividends paid by Basotho Flours Ltd in the year ended 30 September 2018. (2 marks)

(15 marks)

End of Question Paper