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# Answers

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Section B

Marks

1 Long-term contracts

(a) (i) Chargeable contract income – Lipetu

Chargeable contract income = Estimated profit x percentage of completion

	M	
31 March 2017 (600,000 x $\frac{2}{3}$ )	400,000	1
31 March 2018 (600,000 x $\frac{1}{3}$ )	200,000	1
		<u>2</u>

Working:

Estimated profit (1,800,000 – 1,200,000) 600,000

- (ii) Mountain Scenery Hotel is justified to withhold tax on payments to Lipetu because Lipetu is a resident contractor and their payments exceed M3,000. 2

Tax withheld is (1,520,000 x 5/95) 80,000 1  
3

- (b) (i) An overall contract loss of a non-resident taxpayer may be carried backward indefinitely to the preceding year(s) of assessment. 1

This may occur when a taxpayer is not a citizen of Lesotho, as in the case of Gumby Ltd, and the completed long-term contract is the only income producing activity in Lesotho. 1

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(ii) Year	1 M	2 M	3 M	
Chargeable income	86,400	57,600	48,000	
Less loss carried backward	<u>(2,400)</u>	<u>(57,600)</u>	<u>–</u>	3
Taxable profit	<u>84,000</u>	<u>–</u>	<u>–</u>	
				<u>10</u>

**2 Chargeable income – Toka**

	M	M	
<b>Land</b>			
Sale proceeds		64,800	½
Less adjusted cost base (ACB) (36,000 x 238/183)		(46,820)	1
Chargeable gain		<u>17,980</u>	
<b>Shares</b>			
Sale proceeds		118,300	½
Less ACB		(120,500)	½
Allowable loss		<u>(2,200)</u>	
<b>Building premises</b>			
Sale proceeds		2,100,000	½
Less ACB:			
Land (46,700 x 238/180)	61,748		1½
Premises (550,400 x 238/190)	689,448		1½
Repairs	0		½
Car parking (40,500 x 238/235)	41,017		1½
Security wall	<u>45,300</u>		½
		(837,513)	
Chargeable gain		<u>1,262,487</u>	
Total chargeable gain		1,278,267	
Rental income (26,000 x 6)	156,000		½
Less loss brought forward	<u>(179,000)</u>		½
		Nil	½
Chargeable income		<u>1,278,267</u>	

**10****3 Shiny Beauty****(a)** The time of supply is the earlier of the date on which the:

- |  |          |
|--|----------|
| (i) goods are delivered or made available;     | ½        |
| (ii) performance of the services is completed; | ½        |
| (iii) invoice for the supply is issued;        | ½        |
| (iv) payment for the supply is received.       | ½        |
|  | <u>2</u> |

**(b)** Shiny Beauty does not qualify for any bad debt relief in February 2018 because the relief is available on the later of:

- |  |          |
|--|----------|
| – the date on which the debt was written off in the accounts of the vendor; or                                       | 1        |
| – 12 months after the end of the tax period in which VAT was paid to the LRA in respect of the supply to a customer. | 1        |
|  | <u>3</u> |

**(c) VAT payable/refundable**

	M	
<b>Output VAT</b>		
Revenue:		
Services (55,300 x 14%)	7,742	½
Sales of hair and beauty products (18,500 x 14/114)	2,272	½
	<u>10,014</u>	
<b>Input VAT</b>		
Electricity (6,200 x 5/105)	295	1
Water consumption (exempt)	0	1
Purchases (21,700 x 14/114)	2,665	½
Rent (4,500 x 14/114)	553	½
Bad debts (not claimable)	0	½
	<u>3,513</u>	
VAT payable (10,014 – 3,513)	6,501	½
		<u>5</u>
		<b><u>10</u></b>

**4 Namane – Fringe benefits tax (FBT)****(a) Types of benefits or payments excluded from employment income are:**

– Taxable fringe benefits.	½
– Exempt fringe benefits.	½
– The reimbursement of expenditure incurred by an employee on behalf of the employer for which the employer would be entitled to a deduction.	½
– Passage granted to an employee at the commencement or termination of employment.	½
	<u>2</u>

**(b) FBT payable by LCC**

	M	
Car fringe benefit (380,000 x 15%) – (1,500 x 12)	39,000	1½
Medical (exempt)	0	1
Excessive superannuation contributions (W)	2,000	½
Meals fringe benefit	4,500	1
Utilities fringe benefit	10,500	1
Taxable values	<u>56,000</u>	
Taxable amount (56,000/0.70)	80,000	1
Fringe benefit tax (80,000 x 30%)	24,000	1
<b>Working</b>		
	M	
Maximum allowable contributions (590,000 x 20%)	118,000	½
Employer's contributions (10,000 x 12)	120,000	½
Excess contributions	<u>2,000</u>	8
		<b><u>10</u></b>

## 5 Thato

- (a) Thato is obliged to declare the rental income derived from his rented house to the Lesotho Revenue Authority because the Act requires a resident taxpayer to declare and file a return of all income regardless of source and type. The income is subject to tax at marginal rates.

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Failure to file a tax return results in additional tax at a specified rate on the tax payable for the year of assessment from the date the return was due.

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## (b) Individual income tax payable

	M	
Employment income		
Basic salary (34,800 x 9)	313,200	½
Excess reimbursement ((1,400 km – 600 km) x M10·5)	8,400	1
	<u>321,600</u>	
Less allowable expenses		
Interest (600 km/1,400 km x 5,700)	(2,443)	1
Subscription	(3,200)	1
Travel expenses (Thato's only)	(950)	½
	<u>315,007</u>	
Terminal benefits (see working)	37,584	
	<u>352,591</u>	
Other sources of income		
Catering business income:		
Government ((54,700 x 65%)/0·95)	37,426	1
Other clients (54,700 x 35%)	19,195	½
	<u>56,621</u>	
Less expenses	(10,500)	½
	<u>46,121</u>	
Rental income	30,000	½
Chargeable income	<u>428,712</u>	
Tax payable		
M58,680 x 20%	11,736	½
M370,032, x 30%	111,010	½
	<u>122,746</u>	
Less personal tax credit	(6,960)	½
Withholding tax (37,426 x 5%)	(1,871)	1
Net tax payable	<u>113,915</u>	
Due date of payment is on or before 30 June 2018.		½

**Working: Terminal benefits exempt**

	M	
Terminal benefits received (given)	350,784	
Exempt portion limited to (34,800 x 12 x 3) x 25%	(313,200)	1
Taxable portion	<u>37,584</u>	½
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- (c) The terminal benefits are exempt from income tax provided that they do not exceed 25% of the basic salary earned during the period of employment.

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## 6 Tau Shoes Manufacturer

## (a) Corporation tax payable for the year ended 31 March 2018

	Business income		Property income	
	Manufacturing	Non-manufacturing		
	M	M	M	
Turnover:				
Manufacturing (550,120/1·14)	482,561			1
Profit on disposal (working 1)	21,420			½
Retail trade		320,300		½
Interest received (38,160/0·90)			42,400	1
	<u>503,981</u>	<u>320,300</u>	<u>42,400</u>	
Less expenses				
Operating expenses (working 2)	(159,627)	–	–	
Finance costs (working 3)	(27,902)			
Chargeable income	<u>316,452</u>	<u>320,300</u>	<u>42,400</u>	
Tax payable:				
Manufacturing income (316,452 x 10%)			31,645	½
Non-manufacturing income ((320,300 + 42,400) x 25%)			90,675	½
			<u>122,320</u>	
Less withholding tax on interest (42,400 – 38,160)			(4,240)	1
Instalments paid up (22,300 x 3)			<u>(66,900)</u>	1
Net tax payable			<u>51,180</u>	

## Workings

## 1. Profit and depreciation – truck

		M	
1 August 2015	Cost	180,500	
31 March 2016	Depreciation (25% x 8/12)	<u>(30,083)</u>	½
		150,417	
31 March 2017	Depreciation	<u>(37,604)</u>	½
		112,813	
31 March 2018	Depreciation (25% x 7/12)	<u>(16,452)</u>	½
		96,361	
Proceeds		<u>117,781</u>	
Profit on disposal		<u>21,420</u>	½

## 2. Operating expenses

	M	
Operating expenses per question	206,000	
Less excess depreciation (45,125 – 16,452)	<u>(28,673)</u>	1
50% entertainment expenses disallowed	<u>(17,700)</u>	½
	<u>159,627</u>	

## 3. Finance costs

	M	
Finance costs per question	54,200	
Less interest on excess debt disallowed (W4)	<u>(21,498)</u>	1
Municipality taxes	<u>(4,800)</u>	½
	<u>27,902</u>	

## 4. Interest on long-term loan restricted to debt to equity ratio of 3:1.

Debt:	310,500	Equity:	52,700	
Excess debt = 310,500 – (52,700 x 3) = 152,400				1
Disallowed interest ((152,400/310,500) x 43,800)			<u>21,498</u>	1

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(b) Due dates for each income tax instalment and tax payable for the year ended 31 March 2018

Marks

Income tax instalments

First instalment            30 September 2017  
Second instalment        31 December 2017  
Third instalment          31 March 2018

1/2

1/2

1/2

Tax payable is due on 30 June 2018.

1/2

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