Answers

Sec	Section B					Marks	
1	Lon	Long-term contracts					
	(a)	(i)	Chargeable contract income – Lipetu Chargeable contract income = Estima	ted profit x perceptage of	completion		
			31 March 2017 (600,000 x $^{2}/_{3}$) 31 March 2018 (600,000 x $^{1}/_{3}$)	teu pront x percentage or	Completion	M 400,000 200,000	$\frac{1}{2}$
		(ii)	Working: Estimated profit (1,800,000 –1,200, Mountain Scenery Hotel is justified to contractor and their payments exceed Tax withheld is (1,520,000 x 5/95)	withhold tax on paymen	ts to Lipetu because Li	600,000 petu is a resident 80,000	2 2 1
	(b)	(i)	 An overall contract loss of a non-resident taxpayer may be carried backward indefinitely to the preceding year(s) of assessment. 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. 			3 1 1 2	
		(ii)	Year Chargeable income Less loss carried backward Taxable profit	1 M 86,400 (2,400) 84,000	2 M 57,600 (57,600)	3 M 48,000 	3 10

2 Chargeable income – Toka

	М	М	
Land Sale proceeds Less adjusted cost base (ACB) (36,000 x 238/183)		64,800 (46,820)	1/2 1
Chargeable gain		17,980	
Shares Sale proceeds Less ACB		118,300 (120,500)	1/2 1/2
Allowable loss		(2,200)	
Building premises Sale proceeds Less ACB:		2,100,000	1/2
Loos (46,700 x 238/180) Premises (550,400 x 238/190) Repairs Car parking (40,500 x 238/235) Security wall	61,748 689,448 0 41,017 45,300		1 ¹ / ₂ 1 ¹ / ₂ 1 ¹ / ₂ 1 ¹ / ₂ 1 ¹ / ₂
		(837,513)	
Chargeable gain		1,262,487	
Total chargeable gain Rental income (26,000 x 6) Less loss brought forward	156,000 (179,000)	1,278,267	1/2 1/2
		Nil	1/2
Chargeable income		1,278,267	
			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;				
	(ii) performance of the services is completed;				
	(iii)	invoice for the supply is issued;	1/2		
	(iv)	payment for the supply is received.	1/2		
			2		
(b)		ny Beauty does not qualify for any bad debt relief in February 2018 because the relief is available on the r of: the date on which the debt was written off in the accounts of the vendor; or 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 1 		

Marks

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

4 Namane – Fringe benefits tax (FBT)

(a)	Туре	Types of benefits or payments excluded from employment income are:			
	_	Taxable fringe benefits.	1/2		
	_	Exempt fringe benefits.	1/2		
	_	The reimbursement of expenditure incurred by an employee on behalf of the employer for which the employer would be entitled to a deduction.	1/2		
	_	Passage granted to an employee at the commencement or termination of employment.	1/2		
			2		

(b) FBT payable by LCC

	Μ	
Car fringe benefit (380,000 x 15%) – (1,500 x 12)	39,000	$1\frac{1}{2}$
Medical (exempt)	0	1
Excessive superannuation contributions (W)	2,000	1/2
Meals fringe benefit	4,500	1
Utilities fringe benefit	10,500	1
Taxable values	56,000	
Taxable amount (56,000/0·70)	80,000	1
Fringe benefit tax (80,000 x 30%)	24,000	1
Working		
	М	
Maximum allowable contributions (590,000 x 20%)	118,000	1/2
Employer's contributions (10,000 x 12)	120,000	1/2
Excess contributions	2,000	8
		10

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.

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

	Μ	
Employment income Basic salary (34,800 x 9)	313,200	1/2
Excess reimbursement ((1,400 km $-$ 600 km) x M10·5)	8,400	1
	321,600	
Less allowable expenses		
Interest (600 km/1,400 km x 5,700) Subscription	(2,443) (3,200)	1 1
Travel expenses (Thato's only)	(3,200) (950)	1 1/2
	315,007	
Terminal benefits (see working)	37,584	
	352,591	
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	1/2
Less expenses	56,621 (10,500)	1/2
		12
	46,121	1 (
Rental income	30,000	1/2
Chargeable income	428,712	
Tax payable		
M58,680 x 20%	11,736	1/2
M370,032, x 30%	111,010	1/2
Less personal tax credit	122,746 (6,960)	1/2
Withholding tax (37,426 x 5%)	(1,871)	1
Net tax payable	113,915	
Due date of payment is on or before 30 June 2018.		1/2
Working: Terminal benefits exempt		
	М	
Terminal benefits received (given) Exempt portion limited to (34,800 x 12 x 3) x 25%	350,784 (313,200)	1
Taxable portion	37,584	1/2
		11

(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.

y		2
		15

6 Tau Shoes Manufacturer

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

Profit on disposal (working 1) 21,420 Retail trade 320,300 42,400 Less expenses Operating expenses (working 2) (159,627) Finance costs (working 3) (27,902) Chargeable income 316,452 320,300 42,400 Chargeable income 316,452 320,300 42,400 Tax payable: Manufacturing income (130,452 x 10%) Non-manufacturing income (130,400 + 42,400) x 25%) 90,675 9 Chargeable income (130,400 + 42,400) x 25%) 90,675 9 Less withholding tax on interest (42,400 - 38,160) (4,240) Less withholding tax on interest (42,400 - 38,160) (4,240) Net tax payable Less withholding tax on interest (42,400 - 38,160) (4,240) Net tax payable 51,180 Workings 1. Profit and depreciation - truck 100,500 31 March 2015 Cost 100,500 31 March 2016 Depreciation (25% x 8/12) (30,083) 9 Tay 10, 2017 Depreciation (25% x 8/12) (30,083) 9 Proceeds 117,781 Profit on disposal 21,420 9 2. Operating expenses per question (25% x 7/12) (16,452) 9 96,6361 Proceeds 117,781 Profit on disposal 21,420 9 2. Operating expenses disallowed (W4) (21,498) Cass interest on excess debt disallowed (W4) (21,498) Municipality taxes (4,800) 9 Less workers on excess debt disallowed (W4) (21,498) Municipality taxes (4,800) 9 Excess debt = 310,500 Equity: 52,700 Excess debt = 310,500 Equity: 52,700 Excess debt = 310,500 Equity: 52,700 Excess debt = 310,500 X 3,800 21,498					ess income	Property income	
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Disallowed interest ((152,400/310,500) x 43,800) 21,498		Debt: 310,5	00	Equity: 5	2,700		
—		Excess debt = 310	,500 – (52,700 x	3) = 152,400			1
—		Disallowed interest	((152,400/310.50	00) x 43,800)		21.498	1
			, ,	, ,		,	13

(b)	Due dates for each inc	come tax instalment and tax payable for the year ended 31 March 2018	Marks
	Income tax instalment First instalment Second instalment Third instalment		1/2 1/2 1/2
	Tax payable is due on	30 June 2018.	<u>1/2</u>
			<u> </u>