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# Answers

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**Section A**

- 1 A** M58,594
- 2 B**
- 3 D** The date of supply of the goods is the earliest of:
- delivery of the goods to the customer,
  - the issue of the invoice, or
  - payment being made by the customer.
- The date of dispatch by the supplier is not relevant for the purposes of determining the date of supply for VAT purposes.
- 4 D** M4,000  $((230,000 \times 20\%) - (50,000 \times 25\%)) - (50,000 \times 75\%)$
- 5 C** Donation for sport of M1,000 or more is allowable provided that it is paid to LSRC for distribution to the beneficiary.
- 6 A** The due date for monthly withholding remittance is within 15 days of the end of the month in which the payments were made.
- The due date for submission of the information return is within 28 days of the end of the year of assessment in which the payments were made.
- 7 C** M346,500  $(315,000 + 31,500)$
- The relocation expenses paid to Kabelo are excluded because they represent passage granted which does not form part of chargeable employment income.
- 8 A** 31 days and 16 days
- The due date for filing a corporation tax return in respect of a year of assessment ending on 30 June 2019 is 30 September 2019 (i.e. within three months of the end of the year of assessment).
- The due date for filing an FBT return for the quarter ending on 30 September 2019 is 14 October 2019 (i.e. within 14 days of the end of the quarter).
- 9 C** The difference of M400  $(180,625 - 180,225)$  is not depreciable; it is treated as a deduction because it is less than M500.
- 10 B** M63,200  $(110,000 - ((6,000/12,500) \times 97,500))$
- 11 C** M80,000
- Foreign employment income taxed overseas and payments for child support are exempt from income tax.
- 12 B** M21,400  $((6200 + 4,500) \times 200\%)$
- 13 D** M210,000  $(180 + (150/5 \text{ years estimated useful life}))$

**14 A M121,632**  $((61,080 \times 20\%) + ((450,000 - 61,080) \times 30\%) - 7,260)$

Marginal rates are applicable to chargeable income of a deceased person's estate in the first two years of assessment (YA), which in this case is the YAs 2017/18 and 2018/19. Thereafter, a flat rate equal to the maximum marginal rate (i.e. 30%) is applicable. As the year ended 31 March 2019 is the second YA, marginal rates apply.

**15 C M106,667**  $((200 \times 3)/900 \times 160,000)$

The interest deduction allowable for a company is limited to a debt to equity ratio of 3:1.

2 marks each

**30**

Section B

Marks

1 Jane

- |     |  |    |
|-----|--|----|
| (a) | – The penalty charged for late renewal of a trader's licence is specifically disallowed for income tax purposes because it results from a breach of law. | 1  |
|     | The Lesotho Revenue Authority (LRA) is therefore justified in disallowing the whole cost of M14,500.   | 1  |
| –   | Annuity payments to former employees are allowable up to M1,200 per annum.   | 1  |
|     | The LRA should therefore disallow M11,300 (12,500 – 1,200).  | 1  |
| –   | The compensation costs are allowable to the extent that they do not exceed a reasonable amount.  | 1  |
|     | The LRA should indicate how much of the expenditure may be regarded unreasonable, instead of disallowing the whole cost.                                 | 1  |
|     |  | 6  |
|     |  |    |
| (b) | Jane can lodge an objection to the amended assessment within four years after service of the original assessment, or                                     | 1  |
|     | 60 days after service of the amended assessment,   | 1  |
|     | whichever is later. (Section 137)(1)   | 1  |
|     |  | 3  |
|     |  |    |
| (c) | Jane is obliged to pay the additional income tax liability arising as a result of the amended assessment notwithstanding the objection lodged.           | 1  |
|     |  | 10 |

2 Kenny

(a) VAT payable for September 2019

Output VAT		M	
Kenny's sales revenue ((26,900 – 1,500 – 400) x 15/115)	3,261		3
Rentals: CJ (exempt: manufacturer)	0		½
Dee (10,500 x 15/115)	1,370		1
	4,631		
Input VAT			
Repairs: (M700 (non-vendor)	0		½
Refrigerator (200 x 15/115)	26		½
Bank charges (exempt)	0		½
Electricity (260 x 8/108)	19		½
Other expenses (3,400 x 15/115)	444		½
	489		
VAT payable (4,631 – 489)	4,142		½
Due date for VAT payable	20 October 2019		½
			8

- |     |   |    |
|-----|---|----|
| (b) | Kenny does not qualify for bad debt relief because the credit arises on the later of:     |    |
| –   | the date on which the debt was written off in the accounts of the vendor; and             | 1  |
| –   | 12 months after the end of the tax period to which VAT was paid in respect of the supply. | 1  |
|     |   | 2  |
|     |   | 10 |

## 3 William

## (a) FBT payable by Hydro-Energy (Pty) Ltd in respect of William for the year ended 31 March 2019

	M	
Accommodation (8,500 x 12) – (1,500 x 12)	84,000	1
Car fringe benefit (480,000 x 15%)	72,000	1
Utility fringe benefit (900 x 12)	10,800	½
Taxable values	166,800	
(166,800/0.70)	238,286	1
FBT (238,286 x 30%)	71,486	½

## Annual tax deductible expenses in respect of William for Hydro-Energy (Pty) Ltd for the year ended 31 March 2019

	M	
Salary	720,000	½
Education allowance	6,000	½
Car depreciation (430,000 x 25%)	107,500	1
Car running costs	35,000	½
Cell phone bill (900 x 12)	10,800	½
Medical aid contributions (1,200 x 12)	14,400	½
Fringe benefits tax (FBT) (see above)	71,486	½
	965,186	
		8

## (b) If Hydro-Energy Pty (Ltd) were a PIO, there would not be any tax-deductible expenses because a PIO is not subject to tax in all respects.

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The taxable values of M166,800 would be treated as part of William's chargeable employment income.

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## 4 Hloni

## Adjustments to total chargeable income

## Business assets

	M	
<b>Furniture and equipment</b>		
Sale price	180,000	½
Adjusted cost base (ACB) (working)	104,000	
Chargeable income	<u>76,000</u>	
<b>Motor vehicles</b>		
Sale price	350,000	½
ACB (working)	383,334	
Allowable loss	<u>(33,334)</u>	
Rental income (64,000 x 8/12)	42,667	1
Chargeable income (76,000 – 33,334 + 42,667)	<u>85,333</u>	

## Chargeable gains

## Investment assets

	M	M	
<b>Property</b>			
Sale price		2,500,000	½
ACB: Land (24,000 x 680/210)	77,714		1
Buildings (533,500 x 680/300)	1,209,267		1
Security wall	<u>50,000</u>		½
		<u>(1,336,981)</u>	
Chargeable gain		<u>1,163,019</u>	
<b>Shares</b>			
Sale price		555,000	½
ACB: 1,000 shares	80,000		½
(500 shares x M135)	<u>67,500</u>	<u>(147,500)</u>	1
Chargeable gain		<u>407,500</u>	
<b>Total chargeable gains</b>		<u>1,570,519</u>	

## Workings: ACB

	M	
Furniture and equipment ACB April 2018	120,000	½
Less: depreciation (120,000 x 20% x 8/12)	<u>(16,000)</u>	½
ACB 1 Dec 2018	<u>104,000</u>	
Motor vehicles (not replaced) ACB April 2019 (460,000 – 95,000)	365,000	½
Less: depreciation (365,000 x 25% x 8/12)	<u>(60,833)</u>	½
ACB 1 Dec 2018	<u>304,167</u>	
Motor vehicle (replaced, so claimable cost restricted) ACB April 2018	95,000	½
Less: depreciation (95,000 x 25% x 8/12)	<u>(15,833)</u>	½
ACB 1 Dec 2018	<u>79,667</u>	
Total (304,167 + 79,667)	<u>383,334</u>	

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## 5 Partnership: Peter and Moses

## (a) Notional chargeable income

	Business income		Property income	
	Lesotho source	Foreign source		
	M	M	M	
Trading income	1,200,000	800,000		1/2
Interest			65,000	1
Gross income	1,200,000	800,000	65,000	
Less: expenses				
Salaries	290,000	255,000	–	1/2
Pension contributions (working)	19,000	–	–	1/2
Interest on capital	14,500	14,500	–	1/2
Sundry expenses	360,000	195,000		1
	(683,500)	(464,500)	–	
Notional chargeable income	516,500	335,500	65,000	

## Working: Pension contributions

	M	
Maximum allowable contributions (70,000 x 2) x 20%	28,000	1/2
Partners' contributions (4,500 x 2)	(9,000)	1/2
Deduction for partnership contributions restricted to	19,000	
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## (b) Income tax payable by each partner for the year ended 31 March 2019

	Peter M	Moses M	
Distributive share:			
Lesotho source (516,500/2)	258,250	258,250	1
Foreign source (335.5 + 65/2)	200,250	–	1
Salaries	70,000		1
Birthday present	6,200	–	1
Interest on capital	14,500	14,500	1
Gross income	549,200	272,750	
Less: expenses			
Pension contribution	(4,500)	–	1
Loss b/wd (45,000/2)	(22,500)	–	1
Chargeable income	522,200	272,750	
Tax payable:			
61,080 x 20%	12,216	12,216	1
(522,200 – 61,080) x 30%	138,336	–	1/2
(272,750 – 61,080) x 30%	–	63,501	1/2
	150,552	75,717	
Less: personal tax credit	(7,260)	(7,260)	1
Net tax payable	143,292	68,457	
			10
			15

## 6 CK Motors Ltd

## (a) ACT for the year ended 30 June 2019

	M	
Dividends paid	35,000	1
Disguised dividends (200,000 – 175,000)	25,000	1
	<u>60,000</u>	
ACT (60,000 x 25/75)	<u>20,000</u>	<u>1</u>
		<u>3</u>

**Tutorial note:** A payment for property or release of a liability by a company on behalf of a member which is in substance a distribution, such as the sale of an asset to them at a price below market value, is treated as disguised dividends.

## (b) Corporation tax payable for the year ended 30 June 2019

	M	M	
<b>Business income</b>			
Trading income		3,300,000	½
Less: expenses			
Staff costs (see working)	1,145,625		
Repairs (200,000 – 90,000)	110,000		1
Entertainment (35,000 x 50%)	17,500		1
Marketing expenses	10,000		½
Insurance premium (180,000 x 60%)	108,000		1
Sundry expenses	<u>600,000</u>		½
		(1,991,125)	
		<u>1,308,875</u>	
<b>Property income</b>			
Dividends: Lesotho source (exempt)		0	½
Foreign source ((75,000 x 55%) + 4,125)		<u>45,375</u>	1
Chargeable income		<u>1,354,250</u>	
Tax payable (1,354,250 x 25%)		338,562	½
Less: foreign tax credit		(4,125)	½
ACT (as in (a) above)		<u>(20,000)</u>	½
Net tax payable		<u>314,438</u>	

**Working: Staff costs**

	M	
Staff costs	1,100,000	
Add: 25% approved training expenditure ((7,500 x 3) x 25%)	5,625	1
Entertainment allowance	<u>40,000</u>	½
	<u>1,145,625</u>	
		<u>9</u>

## (c) Corporation tax instalments for the year ended 30 June 2020

**Each instalment**

	M	
Net tax payable for the year ended 30 June 2019	<u>314,438</u>	1
Each instalment (314,438 x 30%)	94,331	½



**Due dates for each instalment:**

First instalment    31 December 2019  
Second instalment   31 March 2020  
Third instalment    30 June 2020

**Marks**

$\frac{1}{2}$   
 $\frac{1}{2}$   
 $\frac{1}{2}$

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**15**

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