
Answers

Section A

Marks

- 1 C M1,400 $((3,000 - 1,200) - 400)$
The taxable value is the difference between the sale price and the cost of the goods when they were acquired from a non-vendor less incidental costs incurred to bring the goods to their saleable condition.
- 2 D
- 3 C M112,632 $(61,080 \times 20\%) + ((420,000 - 61,080) \times 30\%) - 7,260$
An act of failure to withhold PAYE constitutes tax evasion.
- 4 B M2,405 $(240,500 \times (21\% - 20\%))$
The contributions for both employer and employee in excess of 20% of employment income are treated as excessive superannuation contributions fringe benefit in the case of an exempt employer.
- 5 D
- 6 B M48,500 $(38,000 + 10,500)$
- 7 C The tax laws are enacted by the Parliament of Lesotho and enforced by the LRA.
- 8 A A permanent resident is a resident individual (other than a citizen) who has been in Lesotho for the period of seven years or more.
- 9 B M90,000 $(45,000 \times 2)$
The additional amount payable for submission of false statements is equal to double the amount of the tax unpaid.
- 10 C
- 11 A M75 $(30 + 45)$
The cost of acquiring a depreciable asset which is M50 or less is treated as an outright deduction.
- 12 C M17,333 $((130,000 \times 40\%) \times 25/75)$
Dividends paid out of manufacturing income are not subject to advance corporation tax.
- 13 A M40,632 $((61,080 \times 20\%) + ((180,000 - 61,080) \times 30\%) - 7,260)$
Where the chargeable income declared is less than the minimum chargeable income, the chargeable income will therefore be the minimum chargeable income.
- 14 D
- 15 C M0 The gain of M5,000 $(150,000 - 145,000)$ is not recognised for tax purposes.

2 marks each

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1 Withholding taxes – Pitso

- (a) Pitso is justified in excluding both his farming and interest income from his self-assessment tax return for the following reasons:

– Pitso is a resident individual who is engaged in subsistence farming, that is, primary farming operations, the output of which is mainly for personal consumption.	2
– Interest from both bank accounts was charged tax at source at the rate of 10%. The tax so charged is a final tax. That is, the interest should therefore not form part of Pitso's gross income.	2
	<u>4</u>

(b) Withholding tax charged on Pitso's income

	M	
– Board member fees (90,000 x 5%)	4,500	½
– Rentals (130,000 x 5%)	6,500	½
– Interest:		
Standard Lesotho Bank (5,400 – 500) x 10%	490	1
Nedbank Lesotho (3,100 x 10%)	310	½
– Farming income	0	½
	<u>11,800</u>	<u>3</u>

- (c) The information to be provided by a withholding tax agent on the information return is as follows:

– The name, address and where appropriate, the tax identification number of each person to whom the payments subjected to withholding tax were made.	1
– The amount paid; and	½
– Any additional information as the Commissioner General may require.	½
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- (d) The information return for withholding tax should be filed within 28 days of the end of the year of assessment in which the payments were made, i.e. for the year ended 31 March 2019, the return should be filed by 28 April 2019.

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2 Fringe benefits tax (FBT) – KBC**(a) FBT payable**

	M	
Accommodation (4,500 x 3)	13,500	½
Company car fringe benefit (450,000 x 15%) x 3/12	16,875	1
(360,000 x 15%) x 3/12 – (350 x 3)	12,450	1½
Meals and refreshments fringe benefit ((250 + 250) x 3)	1,500	1
Utilities fringe benefits ((3,500 + 2,300) x 3)	17,400	1
Taxable values	<u>61,725</u>	
Taxable amount (61,725/0.70)	88,179	½
Fringe benefits tax (88,179 x 30%)	26,453	½
		<u>6</u>

(b) Monthly total tax deductible expense for remuneration

	M	
Salaries (45,600 + 38,500 + 12,800)	96,900	1/2
Rent paid on behalf of CEO	4,500	1/2
Depreciation for company cars (310,000 + 220,600) x (25% x 1/12)	11,054	1
Meals and refreshments (250 + 250)	500	1/2
Utilities (3,500 + 2,300)	5,800	1/2
FBT (as in (a) above) (26,453/3)	8,818	1
	<u>127,572</u>	<u>4</u>
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3 LMS (Pty) Ltd (LMS)

- (a)** LMS is required to register compulsorily for VAT because the taxable value of its supplies for the 12-month period from March 2018 is M890,000, which is in excess of the registration threshold of M850,000. 2

The due date for registration was 14 March 2019, which is 14 days after the end of the tax period during which the registration threshold was met.

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- (b)** The penalty chargeable to LMS is (((93,000 + 94,000) x 15%) x 200%) M56,100 1

Tutorial note: A penalty at the rate of 200% on the VAT payable for the period which the vendor should have been registered.

(c) VAT payable for May 2019

	M	
Output VAT		
Sales (92,000 x 15/115)	<u>12,000</u>	1
Input VAT		
Opening inventory ((17,000 + 15,500) x 15/115)	4,239	2
Purchases (32,000 x 15/115)	4,174	1
Expenses: ((28,000 – 3,400) x 15/115)	3,209	1
(3,400 x 9/109)	<u>281</u>	1/2
	<u>11,903</u>	
VAT payable (12,000 – 11,903)	97	1/2
		<u>6</u>
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Tutorial note: A vendor may claim input VAT on inventory on hand provided that it was acquired not more than two months prior to the date of registration. Inventory of M12,500 was acquired in February which is beyond two months.

4 Chargeable gains – Dr Chinzaya

	M	M	
Shares:			
Sale proceeds		160,000	½
Less: ACB		70,000	1
Gain on disposal		<u>90,000</u>	
Surgery premises:			
Sale proceeds (M5,500,000 – M1,500,000)		4,000,000	1
Less: ACB:			
Surgery premises (450,000 x 350/212)	742,925		1
Consultation rooms	150,000		1
Land (46,700 x 350/190)	86,026		1
Security wall (55,500 x 350/220)	88,295		1
Paving (60,800 x 350/230)	<u>95,522</u>		1
		(1,162,768)	
Gain on disposal		<u>2,837,232</u>	
Beauty parlour:			
Sale proceeds (180/850 x 1,500,000)		317,647	1
ACB: (180,000 x 350/210)		<u>(300,000)</u>	1
Gain on disposal		<u>17,647</u>	
Total chargeable gains:			
Shares in medical practice		90,000	
Surgery premises		2,837,232	
Beauty parlour		<u>17,647</u>	
		<u>2,944,879</u>	

The chargeable gain related to the residential premises is excluded because it represents part of the premises which are of a personal nature.

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5 Individual income tax – Celina

(a) Individual income tax payable

	M	
Employment		
Basic salary	210,000	½
Housing allowance	21,000	½
Education allowance	10,000	½
Gift	4,500	1
Employer contribution to pension fund	0	½
Reimbursement of travel expenses	<u>0</u>	½
	245,500	
Less: Employee contribution to pension fund	(4,800)	1
Subscription	(2,800)	1
Cost of attending intervarsity games	<u>0</u>	½
	<u>237,900</u>	
Consultancy		
Consultation fees (180,000 x 80%)	144,000	1
(180,000 x 20%)/0.95	37,895	1
Less: Utilities (29,500 x 30%)	(8,850)	½
Depreciation (20,500 x 700 km/1,500 km)	<u>(9,567)</u>	1
	<u>163,478</u>	
Chargeable income (237,900 + 163,478)	<u>401,378</u>	

	M	Marks
Tax payable		
M61,080 x 20%	12,216	½
M340,298 x 30%	102,089	½
	<hr/> 114,305	
Less: Personal tax credit	(7,260)	½
	<hr/> 107,045	
Withholding taxes: PAYE	(58,923)	1
Consultation fees (37,895 x 5%)	(1,895)	1
	<hr/> 46,227	<hr/> 13
(b) The reimbursement is excluded from employment income because it represents the cost which was incurred by the employee on behalf of their employer for which the employer is entitled to a deduction.		1
(c) If the car expenses were not reimbursed, the whole amount of M5,200 would be treated as an allowable expense against Celina's employment income because it was incurred in the production of employment income.		1
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6 Corporation tax – Likila Limited

(a) Income tax instalments payable for the year ended 31 March 2019

Each instalment ((147,500 + 20,000) x 30%)	M50,250	1
Due dates for each instalment		
First instalment	30 September 2018	1
Second instalment	31 December 2018	½
Third instalment	31 March 2019	½
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(b) ACT payable

	M	
Dividends paid	144,500	
Disguised dividends	25,500	1
Total dividends	<hr/> 170,000	
ACT (170,000 x 25/75)	56,667	1
ACT liability		
(Offset against instalment(s) (56,667 – 50,250)	6,417	1
The ACT is due for payment by 9 November 2018.		1
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Tutorial note: Any distribution in favour of a shareholder is deemed as a dividend paid by the company to the shareholder.

ACT of M56,667 is payable on or before 2 November 2018. It will be offset against the first income tax instalment of M50,250 paid on 30 September 2018, calculated in (a) above. The excess will be payable on the due date.

Marks**(c) Corporation tax payable**

	M	M	
Profit before tax		610,000	
Adjustment for chargeable income			
Add: Cost of desktop computer	25,500		½
Accounting loss realised	75,000		½
Profit on disposal (working 1)	35,449		½
Foreign tax paid on dividends excluded	12,300		½
		148,249	
Less: Exempt Lesotho source dividends included		(35,000)	½
Chargeable income		723,249	
Corporation tax liability (723,249 x 25%)		180,812	1
Less: Foreign tax credit (working 2)		(11,500)	
Less: ACT (as in (b) above)		(6,417)	½
Less: Instalments paid up (50,250 x 3)		(150,750)	1
Corporation tax payable		12,145	

Workings**1. Gain on disposal – Motor van**

	M	
1 November 2016 cost	450,000	
31 March 2017 depreciation (25% x 5/12)	(46,875)	½
ACB	403,125	
31 March 2018 depreciation (25%)	(100,781)	½
ACB	302,344	
30 September 2018 depreciation (25% x 6/12)	(37,793)	½
ACB	264,551	
Proceeds on sale	(300,000)	
Profit	35,449	½

2. Foreign tax credit (FTC)

	M	
Foreign source dividends	46,000	
Foreign tax paid abroad	12,300	
FTC available restricted to (46,000 x 25%)	11,500	1
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