Specimen Exam

Exam Name: Taxation (E1 LSO)
Time Allowed: 3 hours
Pass Mark: 50%

This exam contains 2 sections:

Section A:
15 questions, each worth 2 marks
30 marks in total

Section B:
4 questions, each worth 10 marks
2 questions, each worth 15 marks
70 marks in total

Note: This specimen examination has been prepared based on legislation passed by 30 September 2025 (to be updated).

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Section A

Question 1

Bulane submitted his income tax return for the year of assessment ended 31 March 2026 to the Revenue Services Lesotho (RSL). The return showed his chargeable income as M62,900. The RSL requested supporting documents to substantiate claims amounting to M8,000 which Bulane had made in the return. Bulane failed to respond to the request as he had not maintained proper records. The RSL rejected the claims by adding them back to chargeable income.

What is the additional tax which will be levied on Bulane for failure to maintain proper records for the year ended 31 March 2026?

A M2,540
B M141,800
C M5,080
D M28,360

Question 2

KTS is a Lesotho branch of a non-tax resident company based in South Africa. KTS repatriates 20% of its chargeable profits after tax to its head office in South Africa every financial year. KTS's financial records for the year ended 31 March 2026 show a profit before tax of M140,900. This amount is after the deduction of a provision for irrecoverable debts of M8,600.

What is the amount of tax on repatriated profits by KTS branch to its head office for the year ended 31 March 2026?

A M5,284
B M5,606
C M22,425
D M21,135

Question 3

Which TWO of the following taxes are examples of indirect taxes?

A Taxes paid on the purchase of inventory
B Taxes paid on the sale of property
C Taxes paid on the purchase of fuel for company vehicles
D Taxes paid on the provision of fringe benefits

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Question 4

Which of the following are circumstances where a trustee is subject to income tax on foreign-source chargeable trust income?

(1) When the trustee is a Lesotho tax resident
(2) When the grantor of the trust is a Lesotho tax resident in the year of assessment in which the income is received by the trustee
(3) When a beneficiary of the trust is a Lesotho tax resident
(4) When the grantor of the trust is a Lesotho tax resident in the year of making the transfer of assets into the trust

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

Question 5

Which THREE of the following statements relating to proportional taxes within the Lesotho tax system are correct?

A Proportional tax levies a higher average tax rate on taxpayers with a higher level of income
B Proportional tax levies the same rate of tax on all taxpayers regardless of their level of income
C Proportional tax levies a lower rate of tax on all taxpayers regardless of their level of income
D Fringe benefits tax is an example of a proportional tax
E Individual income tax is an example of a proportional tax
F Corporation tax is an example of a proportional tax

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Question 6

UBA (Pty) Ltd uses a substituted accounting period ending 30 November. Its corporation tax payable for the year ended 30 November 2025 was M110,500. This amount was after the deduction of M12,600 of advance corporation tax (ACT) paid.

Which TWO of following statements are correct?

A The corporation tax instalment payable by UBA (Pty) Ltd for the year ending 30 November 2026 is M36,930
B The corporation tax instalment payable by UBA (Pty) Ltd for the year ending 30 November 2026 is M33,150
C The second instalment is due to be paid by 31 May 2026
D The second instalment is due to be paid by 31 August 2026

Question 7

Tau Stores (Tau), a vendor for value added tax (VAT) purposes, makes both zero rated and standard rated supplies.

The following information provides the results of Tau for the month of October 2026. All amounts are exclusive of VAT, where appropriate:

	M
Standard rated sales	80,000
Zero rated sales	50,000
Total sales	**130,000**
Standard rated purchases related directly to taxable sales	60,000
Standard rated purchases related directly to zero rated sales	30,000
Zero rated purchases related directly to zero rated sales	10,000
Total purchases	**100,000**

What is the value added tax (VAT) payable by /or refundable to Tau Stores on its VAT return for the tax period ended 31 October 2026?

A M1,500 refundable
B M3,000 refundable
C M7,500 payable
D M1,304 refundable

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Question 8

In September 2026, Themba received a lump sum payment of M480,000 as a terminal benefit from his employer. Themba's basic salary over his three-year employment tenure totalled M1,450,000.

Calculate the taxable amount of Themba's terminal benefits.

M ☐

Question 9

Mohapi, a Lesotho tax resident sole proprietor, submitted his self-assessment return for the year of assessment ended 31 March 2026, which shows his different sources of income as follows:

	Income/ (Loss)
	M
Property income	(7,500)
Employment income	84,900
Business income: Lesotho source	60,300
Business income: foreign source	(7,200)

Calculate Mohapi's total chargeable income for the year of assessment ended 31 March 2026.

M ☐

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Question 10

The financial records of Santo Polytechnic (Santo) show M45,600 included within staff costs for the year ended 31 March 2026. This amount comprises the following:

1. M8,500 entertaining employees during sports activities held during the year
2. M30,900 for meals provided to all employees of Santo at the staff canteen on equal terms
3. M6,200 for meals provided exclusively to the executives of Santo

What is the total cost for the provision of fringe benefits by Santo Polytechnic for the year ended 31 March 2026?

A M8,857
B M37,100
C M41,350
D M39,757

Question 11

George, a citizen of Ireland, arrived in Lesotho in July 2025 to take up a job under a one-year contract offered by the FWC Aid project. George is expected to provide technical assistance to the Government of Lesotho under the Ministry of Works.

Which TWO of the following statements are correct in relation to George for the year of assessment ended 31 March 2026?

A George is an expatriate taxpayer in Lesotho
B George will be taxed at the standard rate of tax
C George will be taxed at marginal rates of tax
D George is a resident non-resident taxpayer

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Question 12

The accounting records of RJH Ltd (RJH) indicate that the company made the following payments during the year ended 31 March 2026:

- Corporation tax instalments of M76,800 in total
- Dividends of M60,000 paid on 1 November 2025

The relevant taxes were paid on their respective due dates and RJH takes advantage of any available tax reliefs.

Which of the following options shows by how much RJH Ltd's corporation tax liability would be reduced as a result of the corporation tax instalments and the dividend payment?

Option	Corporation tax instalment payments	Dividend payment
1	M56,800	M20,000
2	M76,800	M20,000
3	M76,800	M0
4	M56,800	M0

A Option 1
B Option 2
C Option 3
D Option 4

Question 13

Moru Manufacturers (Moru) constructed building premises at a total cost of M680,400. The premises have a total area of 45 square metres of which 15 square metres are used as office buildings with the remaining 30 square metres being used for manufacturing purposes. The premises became available for use with effect from 1 April 2026. This is Moru's first group building. There were no new acquisitions during the year. Moru has elected for the pooling method of depreciation to apply.

Calculate the depreciation allowance for Moru Manufacturer's building premises for the year ending 31 March 2027.

M ☐

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Question 14

Leeto borrowed M12,500 from his employer on 1 August 2025. The interest chargeable on the borrowed funds is 6% when the Central Bank discount rate averaged 21%. Leeto is expected to repay the borrowed funds over a 12-month period, starting from the end of August 2025.

What is the taxable value of the loan fringe benefit for Leeto's employer for the year ended 31 March 2026?

A M1,000
B M952
C M667
D M1,250

Question 15

On 30 September 2025, Mpho, a sole proprietor, received insurance proceeds of M185,000 as compensation for his delivery van which had been involved in an accident in June 2025. The adjusted cost base of the van on the date of the accident was M190,500. Mpho used M145,600 of the proceeds to purchase a new van of a similar kind.

What is the chargeable gain or (allowable loss) realised by Mpho in the year ended 31 March 2026?

A M44,900
B M0
C (M5,500)
D M39,400

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Section B

Question 16

The following scenario relates to four requirements.

In August 2024, Tema Construction Pty (Tema), was contracted by BZ Estates Ltd (BZ) to build Masowe Shopping Complex. The project was scheduled to last two years, from October 2024 to September 2026. The contract price was set at M2,500,000. The estimated costs for the entire project are tabled below:

Period	**Costs M**
October 2024 to March 2025	980,000
April 2025 to September 2026	420,000
	1,400,000

Tema had received payments of M1,500,000 (net of withholding tax) from BZ by the end of November 2025. The agreement was that the remaining balance would be paid on completion of the project.

Requirements:

(a) Calculate Tema Construction Pty's chargeable contract income for the two years of assessment ending 31 March 2026.

(3 marks)

(b) Analyse the basis on which BZ Estates Ltd should calculate the withholding tax chargeable on the payments made to Tema Construction Pty and calculate the amount of tax withheld on the payments.

(3 marks)

(c) Summarise the consequences of a failure by a withholding tax agent to withhold and remit the tax withheld to the Revenue Services Lesotho (RSL).

(2 marks)

(d) Summarise the information which needs to be provided by a withholding tax agent on the information return in respect of the tax withheld.

(2 marks)

(10 marks)

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Question 17

The following scenario relates to two requirements.

Thaka is working as the marketing director of LAD Limited (LAD). In addition to his annual salary of M210,000, Thaka's remuneration package for the year ended 31 March 2026 consisted of the following:

1. A company car which is used for both business and private purposes. The market value of the car when it was first provided to Thaka on 1 July 2024 was M180,000. The adjusted cost base and market value of the car on 1 April 2025 were M150,000 and M145,000, respectively.

2. Provision of a fully furnished house by LAD. Monthly market rental for similar houses is M8,500. Thaka pays M1,500 per month for use of the house.

3. A pension contribution of 21% of Thaka's basic salary per annum, payable by LAD.

4. Reimbursement of domestic assistance payments based on supporting documents up to a maximum of M2,500 per month. The payments comprise M1,200 for a security guard and M1,300 for a housekeeper. Thaka submitted supporting documents of M2,700 per month, which includes an incentive payment of M200 to the housekeeper.

Requirements:

(a) Assess the fringe benefits tax (FBT) payable by LAD Limited in respect of the benefits provided to Thaka for the year ended 31 March 2026, including the due date of submission of the first quarter's FBT return for the year ended 31 March 2026.

Note: Your answer should refer to all items mentioned in the question, indicating by the use of a zero (0) any items which are exempt or excluded.

(7 marks)

(b) Analyse, with supporting calculations, the tax treatment for the pension contribution given in note (3) if LAD Limited was a tax-exempt employer.

(3 marks)

(10 marks)

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Question 18

The following scenario relates to two requirements.

Lebo Computers (Lebo) is a value added tax (VAT) vendor engaged in the business of selling computers and accessories. Lebo has drafted a VAT return showing the output VAT and input VAT for the tax period ended 31 October 2026 as provided below. However, Lebo is not conversant with various provisions of the VAT Act. The draft tax return therefore contains a number of errors.

	Note	M
Output VAT		
Revenue	1	11,235
Input VAT		
Inventory	2	4,635
Rent payable to a non-vendor	3	825
Electricity	4	750
Purchase of office furniture	5	945
Debts written off	6	540

The following notes are relevant. All amounts exclude VAT where appropriate:

1. The total revenue for the month was M74,900. Included in this amount is M1,500 for inventory which was sold at a price of M600 below market value.

2. Inventory purchased during the month amounted to M30,900. The following amounts are included:

   (i) Inventory items of M4,500 which were returned to the supplier as they had factory faults.
   (ii) DVD discs of M600 which were taken by Lebo for private use. The discs should have been sold for M850

3. Lebo pays rent amounting to M5,500 per month. The rent is payable to a non-vendor.

4. Electricity incurred for the month was M7,500. The relevant threshold exemption had not been granted in any earlier VAT returns.

5. The cost of office furniture was M6,300. This amount excludes the installation cost of M400 paid to a vendor.

6. Total debts of M3,600 relating to two long standing debts owed to Lebo were written off during the month. The debts had proved to be irrecoverable. The M3,600 comprises the following:

   (i) Debt for M1,200. The VAT on this sale had originally been included in the tax return for the tax period ended 31 August 2024.

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(ii) Debt for M2,400. The VAT on this sale had been included in the tax return for the tax period ended 30 November 2025.

Requirements:

(a) Prepare a corrected value added tax (VAT) return for Lebo Computers for the tax period ended 31 October 2026, including the correct payment date.

Notes:

1. Your answer should use the information provided in notes (1) to (6) to prepare the corrected return rather than adjusting the figures in Lebo's draft return.
2. Indicate, by the use of a zero (0), any items mentioned for which no VAT is payable or claimable.

(8 marks)

(b) Analyse the basis on which a credit for debts written off is claimable.

(2 marks)

(10 marks)

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Question 19

The following scenario relates to one requirement.

Nkoe is an entrepreneur engaged in different business ventures. In the year ended 31 March 2026, he made the following disposals in relation to his investment and business assets (all assets were sold at their market values where relevant):

Assets	Note	Original cost M	Market value at disposal date M
Investment assets			
Shares	1	310,000	1,750,000
Property	2	1,100,000	3,900,000
Business assets			
Furniture and Equipment	3	300,200	580,000
		1,710,200	**6,230,000**

Notes:

1. On 31 August 2025, Nkoe transferred 2,500 of his 5,000 shares to an old-age home and his former spouse. The market value of the shares on the date of transfer was M350 per share. The shares were transferred as follows:

   - 500 were donated to a local old-age home
   - 2,000 were transferred to his former spouse as part of a divorce settlement

   He had originally purchased the 5,000 shares at a total cost of M310,000 in October 2015.

2. On 31 January 2026, the property was sold.

   The cost of the property includes M350,000, relating to the land on which the building was constructed. Nkoe acquired the land at a discount from a business associate in July 2016. The open market value of the land on the date of acquisition was M420,000. The remaining M750,000 relates to the cost of construction of the property. The property was made available for use in September 2020.

   The property is rented out to various business merchants. Nkoe receives rental income of M65,000 in total per annum. However, Nkoe realised a loss of M15,000 on rentals in the year ended 31 March 2025.

3. On 30 November 2025, the furniture and equipment were sold. The adjusted cost base of furniture and equipment on 1 April 2025 was M230,000.

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Further information

4. Nkoe incurred M6,500 in total as legal costs for the sale of his assets.

5. Relevant price indices are as follows:

January 2026	210
November 2025	185
August 2025	180
September 2020	140
July 2016	110
October 2015	105

Requirement:

Calculate Nkoe's chargeable gains and the adjustments to his total chargeable income arising from the holding and disposal of his assets during the year ended 31 March 2026.

Note: Your answer should include a brief explanation of any items excluded from your calculations of the chargeable gains.

(10 marks)

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Question 20

The following scenario relates to four requirements.

Thamae is a new employee of Naledi Media Pty (Naledi) working as a marketing director. Thamae also has interest income. The following information relates to Thamae's remuneration and interest income for the year ended 31 March 2026:

	Note	M
Employment income		
Basic salary		380,500
Car allowance		19,025
Responsibility allowance		6,000
Commission		38,050
Employer pension contributions		57,075
Employee pension contributions		(38,050)
Reimbursements	1	1,600
Passage granted		5,120
Gifts	2	1,400
Other sources of income		
Interest income (gross)	3	4,900

Notes:

1. Reimbursements relate to payments for business travel where Thamae had to use his own car with the approval of his manager.

2. Thamae received an award worth M900 from his employer for best employee of the year. The remaining M500 relates to contributions made by fellow workmates in recognition of his performance.

3. Thamae received interest income from the following bank accounts:

	M
Nedbank Lesotho savings account (which is a nominated account)	2,600
Standard Lesotho Bank fixed deposit account	2,300
	4,900

The relevant tax had been withheld at source.

Other relevant information

4. PAYE of M328,180 was withheld on Thamae's employment income by Naledi and remitted to the Revenue Services Lesotho (RSL).

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5. Thamae spends M3,100 every year on subscriptions. M2,400 is the subscription for trade books and journals which are relevant to Thamae's current job. The remaining M700 is a subscription fee for golf membership.

Requirements:

(a) Calculate the tax payable by/refundable to Thamae for the year ended 31 March 2026.

Note: Your answer should deal with all the items mentioned in the question, indicating those which are not taxable or deductible by use of a zero (0).

(9 marks)

(b) Analyse the tax treatment of the travelling expenses of M1,600 in note (1) if they had not been reimbursed to Thamae.

(2 marks)

(c) Analyse how Thamae is taxed on his interest income.

(2 marks)

(d) Calculate the withholding tax on Thamae's interest income.

(2 marks)

(15 marks)

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Question 21

The following scenario relates to two requirements.

HAI Manufacturers Ltd (HAI) specialises in the manufacturing of jeans. Below is HAI's summarised financial information for the year ended 31 March 2026:

	Note	M
Revenue:		
Operating income	1	1,600,400
Investment income	2	105,700
		1,706,100
Expenses:		
Operating expenses	3	464,000

Notes:

1. Operating income is attributable to manufacturing operations. It includes M320,200 which is stated after the deduction of withholding tax at the rate of 5%.

2. Investment income comprises:

   - Lesotho source interest of M52,400 (net of withholding tax).
   - Lesotho source dividends of M12,600.
   - Foreign source dividends of M40,700, which includes M10,989 of foreign withholding tax paid.

3. Operating expenses comprises:

   - Wages and salaries of M310,100.
   - Taxable values of M30,200 (which are tax deductible) for fringe benefits provided to the employees. No further expenses were accounted for in relation to the fringe benefits.
   - An annuity payment of M32,000 to a former employee who was injured while on duty.
   - Training expenditure of M4,500 in total for two supervisors, at a local approved training institution; and M6,300 for a manager who was trained in South Africa.
   - An accounting loss of M60,200 realised from the sale of one of the company's motor vans. The van was sold for M170,500 on 30 August 2025, when its adjusted cost base was M141,600.
   - Other operating expenses of M20,700 which are all tax deductible.

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Additional information

On 31 January 2026, the managing director, who is also one of the shareholders, was granted a personal loan of M30,100, by the company without clear terms of repayment.

Requirements:

(a) Analyse the tax treatment of the loan provided to the managing director on 31 January 2026.

(2 marks)

(b) Calculate the corporation tax payable by HAI Manufacturers Ltd for the year ended 31 March 2026.

Note: When calculating the adjusted chargeable income and allowable expenses, you should start your workings with the total income/ expense amounts given in the question.

(13 marks)

(15 marks)

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