Suggested solution

Section A

1 C

[(M70,900 x 20%) – M11,640] x 200% = M5,080

The additional tax for failure to maintain proper records is double the amount of tax payable.

2 B

The correct answer is M5,606

Chargeable income
(M140,900 + M8,600) = M149,500

Corporate income tax on chargeable income
M149,500 x 25% = M37,375

Repatriated profits
(M149,500 – M37,375) x 20% = M22,425

Tax on repatriated profits
M22,425 x 25% = M5,606

The amount of tax on repatriated profits is 25% of after-tax profits which are not re-invested in Lesotho.

3 A and C

The following taxes are examples of indirect taxes:

- Taxes paid on the purchase of inventory
- Taxes paid on the purchase of fuel for company vehicles

Indirect taxes are taxes which are not paid directly to the state by a person who ultimately bears the cost.

Statements B and D provide examples of direct taxes.

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4 C

The correct statements are:

- 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
- When a beneficiary of the trust is a Lesotho tax resident
- When the grantor of the trust is a Lesotho tax resident in the year of making the transfer of assets into the trust

Taxation of chargeable trust income does not depend on the residence of the trustee because the trustee has no entitlement in a personal sense to income.

5 B, D and F

The following statements correctly relate to the proportional taxes within the Lesotho tax system:

- Proportional tax levies the same rate of tax on all taxpayers regardless of their level of income
- Fringe benefits tax is an example of a proportional tax
- Corporation tax is an example of a proportional tax.

Statements A and E relate to progressive taxes. C relates to regressive taxes.

6 A and D

The following statements are correct:

- The corporation tax instalment payable by UBA (Pty) Ltd for the year ending 30 November 2026 is M36,930
- The second instalment is due to be paid by 31 August 2026

30% x (M110,500 + M12,600) = M36,930

The corporation tax instalment is 30% of the tax payable for the preceding year of assessment before deduction of advance corporation tax (ACT). The due date of the second instalment is 31 August 2026, which is the ninth month after the date on which the substituted accounting period commences.

31 May 2026 is the due date for the first instalment.

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7 A

The correct answer is M1,500 refundable:

	M
Output VAT (M0 + (M80,000 x 15%))	12,000
Less input VAT	
((M60,000 x 15%) + (M30,000 x 15%) + M0)	(13,500)
Refundable	**(1,500)**

Value added tax (VAT) payable is the excess of output VAT over input VAT. Input VAT is calculated only on the purchases relating to both sales taxable at the standard rate and zero-rated sales, all of which VAT has been paid to the supplier. No VAT is claimable relating to zero rated sales of which no VAT has been paid to the supplier.

8 M117,500

(M480,000 – (M1,450,000 x 25%)) = M117,500

The taxable amount is the excess of terminal benefit over 25% of basic salary earned throughout employment tenure.

9 M145,200

(M84,900 + M60,300) = M145,200

Total chargeable income cannot be reduced by losses realised from other different sources of income.

10 D

(M30,900 + M6,200 + (M6,200/0.70 x 30%) = M39,757

The cost includes the cost of provision of exempt and taxable fringe benefits; and the fringe benefits tax.

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11 A and C

The correct statements are:

- George is an expatriate taxpayer in Lesotho
- George will be taxed at marginal rates of tax

An expatriate taxpayer is a resident individual, other than a citizen or permanent resident of Lesotho, who is employed or engaged under a technical services contact. They are taxable at marginal rates.

12 C

Option 3

Corporation tax instalment payments - M76,800 = given

Dividend payment - M0 ((M60,000 × 25/75) - M25,600))

The total corporation tax instalments are credited against the corporation tax liability irrespective of whether they were used to settle or reduce the advance corporation tax (ACT) liability. For the dividend payment, the first instalment of M25,600 (M76,800/ 3) paid on 30 September 2025 will be used to fully settle the ACT liability of M20,000 (M60,000 × 25/75) which is payable on 8 November 2025.

13 M22,680

(M680,400 x 5% x 30/45) = M22,680

The proportion of the building premises which is attributable to the office buildings is not depreciable for tax purposes. Pooling does not apply to group four assets such as factory buildings which will therefore be depreciated using the single asset method regardless of whether a pooling election has been made.

14 C

((21% x 2/3) – 6%) x M12,500 x 8/12 = M667

The taxable value is the difference between the interest paid during the year of assessment, if any, and the interest which would have been paid if the loan had been made at the interest rate equal to two thirds of the Central Bank of Lesotho discount rate.

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15 D

(M185,000 – M145,600) = M39,400

Where there is a deemed disposal, the excess of insurance proceeds over the replacement cost is treated as a chargeable gain.

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Section B

16

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

Chargeable contract income = Estimated profit x percentage of completion

	M
31 March 2025	
(M1,100,000 x 70%(W))	770,000
31 March 2026	
(1,100,000 x 30%(W))	330,000

Working:

Estimated profit (M2,500,000 - M1,400,000) M1,100,000

Percentage of completion:

Y/e 31 March 2025 (M980,000/M1,400,000) 70%

Y/e 31 March 2026 (M420,000/M1,400,000) 30%

(b) Basis on which withholding tax should be calculated and tax withheld

BZ Estates Ltd (BZ) should calculate withholding tax on payments made to Tema on the basis that Tema is a resident contractor; and their payments exceed M3,000.

Tax withheld is ((M1,500,000/0.95) x 5%) M78,947

(c) Consequences of a failure by a withholding tax agent to withhold and remit tax withheld to Revenue Services Lesotho (RSL)

A withholding tax agent who fails to remit withholding tax is personally liable to pay the RSL the tax which has not been withheld and remitted.

In such circumstances, the agent is entitled to recover the amount from the payee.

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(d) Information to be given on information returns

Information to be given on the information returns provided by a withholding tax agent:

- The name and address of each payee;
- The amounts payable to such persons;
- The amounts of tax withheld; and
- Any other information as required by the Commissioner General (such as type of business or occupation of each payee).

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17

(a) Fringe Benefits tax (FBT) payable by LAD Limited for the year ended 31 March 2026

	M
Car fringe benefits (M180,000 x 15%)	27,000
Housing fringe benefit restricted to (see working)	79,020
Pension contributions (excluded)	0
Domestic assistance fringe benefit:	
- Security guard (exempt)	0
- Housekeeper (M1,300 x 12)	15,600
Taxable value	**121,620**
Taxable amount (M121,620/0.70)	173,743
FBT (M173,743 x 30%)	**52,123**

The due date for submission of the first quarter's return is on or before 14 July 2025.

Working:

	M
Taxable value for housing fringe benefit:	
Market rentals (M8,500 x 12) – (M1,500 x 12)	84,000
Restricted to:	
[M210,000 + M27,000 + M84,000 + (M210,000 x 21%) + (M2,500 × 12)] x 20%	79,020

(b) Tax treatment for the pension contribution

If LAD was a tax-exempt employer it would be liable to pay additional FBT on excessive pension fund contributions over 20%.

The FBT payable would be M900 ((M210,000 x 1%)/0.70 x 30%)).

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18

(a) Value added tax (VAT) return for Lebo Computers for the tax period ended 31 October 2026

	M
Output VAT	
Revenue [(M74,900 + M600 + M850) x 15%)]	**11,453**
Input VAT	
Inventory [(M30,900 - M4,500) x 15%]	3,960
Rent (VAT would not have been charged by a non-vendor)	0
Electricity [(M7,500 – M5,000) x 10%]	250
Office furniture ((M6,300 + M400) x 15%)	1,005
Debts written off: (M1,200 x 15%)	180
(M2,400 × 0)	0
	5,395
VAT payable (M11,453 – M5,395)	**6,058**

Due date for payment of VAT is on or before 20 November 2026.

(b) Basis on which credit for debts written off is claimable

Credit for VAT on debts written off is claimable on the later of:

(i) 12 months after the end of the tax period to which VAT was paid in respect of the supply; and
(ii) The date on which the debt was written off in the accounts of the vendor.

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19

Nkoe's chargeable gains and adjustments to total chargeable income

Shares

Transfer of shares to:

- Local old age home as donation:

	M
Deemed consideration (500 x M350)	175,000
Adjusted cost base (ACB) ((M310,000/5,000) x 500)	(31,000)
Chargeable gain	**144,000**

- Spouse:
  There is no recognition of gain or loss for income tax purposes where shares are transferred to a former spouse as part of divorce settlement.

Property

	M	**M**
Sale price		3,900,000
Land ACB (M420,000 x 210/110)	801,818	
Property ACB (M750,000 x 210/140)	1,125,000	
		(1,926,818)
Chargeable gain		**1,973,182**

Furniture and equipment

	M
Sale price	580,000
ACB (M230,000 – (M230,000 x 20% x 8/12))	(199,333)
Chargeable gain	**380,667**

	M
Total chargeable gains (less legal fees of disposal)	
(M144,000 + M1,973,182 + M380,667 – M6,500)	2,491,349

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Rentals	**M**
Revenue (M65,000 x 10/12)	54,167
Less: loss brought forward	(15,000)
Chargeable income	**39,167**

	M
Total chargeable income adjustments:	
(M2,491,349 + M39,167 - M30,667 (depreciation))	2,499,849

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20

(a) Thamae's tax payable for the year ended 31 March 2026

	M	M
Chargeable income		
Basic salary		380,500
Car allowance		19,025
Responsibility allowance		6,000
Commission		38,050
Employer pension contribution		0
Reimbursements		0
Passage granted		0
Gifts:		
- Employer		900
- Workmates		0
Gross income		**444,475**
Less: expenses		
Employee pension contributions	38,050	
Subscriptions:		
- Journals	2,400	
- Golf membership fee	0	
		(40,450)
		404,025
Interest income:		
- Nedbank		0
- Standard bank		0
Chargeable income		**404,025**
Tax payable		
M74,040 x 20%		14,808
((M404,025 - M74,040) x 30%)		98,996
Less: Personal tax credit		(11,640)
Less: PAYE		(328,180)
Net tax refundable		**(226,016)**

(b) Tax treatment of travelling expenses had they not been reimbursed

If the travelling expenses were not reimbursed, the whole amount of M1,600 would be treated as an allowable expense against Thamae's employment income because they were incurred in the production of employment income.

(c) Tax on interest income

Thamae's interest has been excluded in his chargeable income calculation because the interest was charged tax at source by the bank at the rate of 10%. The tax charged is the final tax, meaning it is not included as part of chargeable income.

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(d) Withholding tax on Thamae's interest income

	M
Interest from Nedbank Lesotho savings nominated account:	
((M2,600 – M500) x 10%)	210
Interest from Standard Lesotho Bank fixed deposit account:	
(M2,300 x 10%)	230
Total withholding tax	**440**

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21

(a) Tax treatment of the loan

Where a director who is also a shareholder receives amounts which are not in payment for services rendered, or receives property, this is treated as a distribution. The Act provides that any distribution in favour of a shareholder is deemed as a dividend paid by the company to the shareholder, therefore, the loan without clear terms of repayment granted to the managing director who is a shareholder is treated as disguised dividends.

Tutorial note: Any distribution in favour of a shareholder is a disguised dividend paid by the company to the shareholder, and therefore attracts advance corporation tax (ACT), if paid out of non-qualified income.

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

	M
Business income	
Operating income (M1,600,400 – M320,200 + M320,200/0.95)	1,617,253
Add: profit on disposal of motor van (M170,500-M141,600)	28,900
	1,646,153
Less: operating expenses (working 1)	(387,068)
	1,259,085
Investment income (working 2)	98,922
Chargeable income	**1,358,007**
Tax payable	
Manufacturing income (M1,259,085 x 10%)	125,909
Non-manufacturing income (M98,922 x 25%)	24,731
	150,640
Less: foreign tax credit (working 3)	(4,477)
Local withholding tax (WHT) on manufacturing income ((M320,200/0.95) - M320,200)	(16,853)
WHT on Lesotho source interest (M58,222 – M52,400)	(5,822)
ACT	(0)
Net tax payable	**123,488**

Tutorial note: The deemed dividends in (a) above, do not attract ACT because it is assumed that the distribution of M30,100 was first paid out of qualified income. Since the qualified income exceeds M30,100, there is no ACT payable.

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Workings

1. Operating expenses

	M
Operating expenses as per question	464,000
Add: additional allowable expenses:	
- Fringe benefits tax (M30,200/0.70 x 30%)	12,943
- Approved training expenditure relief (M4,500 x 0.25)	1,125
Less: Disallowed expenses:	
- Excess annuity payment (M32,000 -M1,200)	(30,800)
- Accounting loss on disposal	(60,200)
Adjusted operating expenses	**387,068**

2. Investment income

	M
Investment income per question	105,700
Add: additional taxable income:	
- Withholding tax on Lesotho source interest ((M52,400/0.90) - M52,400)	5,822
Less: exempt Lesotho source dividends	(12,600)
Adjusted investment income	**98,922**

3. Foreign tax credit

Average tax rate: M150,640/M1,358,007	11%
	M
Average Lesotho tax: Foreign source dividends (M40,700 x 11%)	4,477
Foreign tax paid	10,989
Foreign tax credit available	4,477

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	Tema Construction Pty's chargeable contract income for the two years of assessment ending 31 March 2026: - Chargeable contract income formula - Chargeable contract income y/e 31 March 2025 - Chargeable contract income y/e 31 March 2026 - Working	 0.5 0.5 0.5 1.5
Maximum 3 marks		
b	Basis on which withholding tax should be calculated and tax withheld: - Basis - Calculation	 2 1
Maximum 3 marks		
c	Consequences of a failure by a withholding tax agent to withhold and remit tax withheld to Revenue Services Lesotho (RSL): - Personally liable - Recover from payee	 1 1
Maximum 2 marks		
d	Information to be give on information returns: - 1 mark for 2 – 3 correct items - 2 marks for 4 correct items	 2
Maximum 2 marks		
Total 10 marks		

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Question 17

a	Fringe benefits tax (FBT) payable by LAD Limited for the year ended 31 March 2026:	
	- Car fringe benefit	1
	- Housing fringe benefit (working)	2
	- Pension contributions	0.5
	- Domestic assistance fringe benefit	1.5
	- Taxable amount	0.5
	- FBT	0.5
	- Due date	1
Maximum 7 marks		
b	Tax treatment for the pension contribution:	
	- Explanation	1
	- Calculation	2
Maximum 3 marks		
Total 10 marks		

Question 18

a	Value added tax (VAT) return for Lebo Computers for the tax period ended 31 October 2026:	
	- Output VAT	2
	Input VAT	
	- Inventory	1
	- Rent	0.5
	- Electricity	1.5
	- Office furniture	1
	- Debts written off	1
	- VAT payable	0.5
	- Due date	0.5
Maximum 8 marks		
b	Basis on which credit for debts written off is claimable:	
	- Later of	0.5
	- 12 months	1
	- Date written off	0.5
Maximum 2 marks		
Total 10 marks		

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Question 19

	Nkoe's chargeable gains and adjustments to total chargeable income:	
	Shares	
	- Deemed consideration	0.5
	- Adjusted cost base (ACB)	1.5
	- Spouse	1
	Property	
	- Sale price	0.5
	- Land ACB	1
	- Property ACB	1
	Furniture and equipment:	
	- Sale price	0.5
	- ACB	1.5
	Legal fees	0.5
	Rentals	
	- Revenue	1
	- Loss brought forward	0.5
	Depreciation	0.5
Maximum 10 marks		
Total 10 marks		

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Question 20

a	Thamae's tax payable for the year ended 31 March 2026: Chargeable income - Salary - Car allowance - Responsibility allowance - Commissions - Employer pension contribution - Reimbursements - Passage granted - Gifts - Employee pension contributions - Subscriptions - Interest income Tax payable - M70,500 at 20% - Balance at 30% - Personal tax credit - PAYE	 0.5 0.5 0.5 0.5 0.5 0.5 0.5 1 0.5 1 1 0.5 0.5 0.5 0.5
Maximum 9 marks		
b	Tax treatment of travelling expenses had they not been reimbursed: - Whole amount allowable - As incurred in production of employment income	 1 1
Maximum 2 marks		
c	Tax on interest income: - Excluded as interest charged tax at source - Tax charged is final tax	 1 1
Maximum 2 marks		
d	Withholding tax on Thamae's interest income: - Nedbank - Standard Lesotho bank	 1.5 0.5
Maximum 2 marks		
Total 15 marks		

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Question 21

a	Tax treatment on loan: - Treated as a distribution - Disguised dividends	 1 1
Maximum 2 marks		
b	Corporation tax payable by HAI Manufacturers Ltd for the year ended 31 March 2026: Chargeable income - Operating income - Profit on disposal of motor van Tax payable - Tax on manufacturing income - Tax on non-manufacturing income - Local withholding tax (WHT) on manufacturing income - WHT on Lesotho source interest - Advance corporation tax W1 Operating expenses - Amount per question - Fringe benefits tax - Approved training expenditure relief - Excess annuity payment - Accounting loss on disposal W2 Investment income - Amount per question - WHT on Lesotho source interest - Exempt Lesotho source dividends W3 Foreign tax credit - Average rate of tax - Foreign tax paid - Foreign tax credit available	 1.5 0.5 0.5 0.5 0.5 0.5 1 0.5 1 1 1 0.5 0.5 1 0.5 1 0.5 0.5
Maximum 13 marks		
Total 15 marks		

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