Fundamentals Level – Skills Module

Taxation (Lesotho)

Monday 3 December 2007

Paper F6 (LSO)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest M.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and tax allowances are to be used in answering the questions:

Second Schedule
(Section 9 (1))
Resident individual income tax rates

Chargeable income	Rate of tax
First M35,060	25%
Over M35,060	35%

Personal tax credit M3,500

Third Schedule
(Section 10)
Resident company income tax rates

Nature of income	Rate of tax
1. Manufacturing income derived from a manufacturing activity of an industrial, scientific or educational nature which promotes industrial, scientific, educational or other development within Lesotho.	10%
2. Other manufacturing income	10%
3. Other income	25%

Fourth Schedule
(Sections 9 (2), 11, 109, and 116)
Tax rate for trustees, minors, fringe benefits and electing non-residents

The applicable rate is 35%

Fifth Schedule
(Section 16)
Minimum chargeable income

1. The multiplication factors for the purpose of Section 16 (2) are:

Air travel amount	100%
Electricity amount	100%
Principal residence amount	5%
Schooling amount	100%
Secondary home amount	5%
Vehicle amount	25%

2. The amounts specified for the purpose of Section 16 (6) are:

	M
Air travel amount	2,500
Electricity amount	3,000
Principal residence amount	150,000
Schooling amount, per child	1,000
Secondary home amount	20,000
Vehicle amount	20,000

Sixth Schedule
(Section 41)
Declining balance depreciation rates

Group	Depreciation rate	Assets included
1	25%	Automobiles, taxis, light general purpose trucks, tractors for use over-the-road, special tools and devices.
2	20%	Office furniture, fixtures and equipment, computers and peripheral equipment and data handling equipment, buses, heavy general purpose trucks, trailers and trailer mounted containers, construction equipment.
3	10%	Any depreciable asset not included in another group.
4	5%	Railroad cars and locomotives and railroad equipment, vessels, barges, tugs and similar water transportation equipment, industrial buildings, engines and turbines, public utility plant.

[P.T.O.

ALL FIVE questions are compulsory and MUST be attempted

1 Mr Lengau, a Lesotho resident business proprietor, operates both a transport hire and a building construction business. His self-assessment tax return for the year of assessment ended 31 March 2007 reflected the following information:

		M
Income from transport hire		400,890
Income from bridge construction	1	250,000
Wages and salaries	2	192,000
Depreciation	3	142,400
Other business expenses	4	276,200
Withholding tax	5	12,500

Notes:

1. Income from building construction
   In January 2006, Mr Lengau won a tender for M500,000 from the Government of Lesotho to build four bridges in the rural areas of Mokhotlong District. The construction work commenced in March 2006 and is planned to be completed in December 2008.

   The Government agreed to pay Mr Lengau the total contract sum of M500,000 in two equal instalments, payable in December 2006 and February 2008. The amount of income from the bridge construction which was declared by Mr Lengau in his tax return constituted the first instalment received as per the agreement.

   The total estimated contract costs are M230,400, but Mr Lengau only incurred M144,000 in costs for the year ended 31 March 2007. The costs incurred are included in the other business expenses shown above.

2. Wages and salaries
   Part of this amount relates to three foremen working as permanent employees of Mr Lengau who were deployed to the construction project. Each of these foremen earns a monthly salary of M4,500. The remaining balance was paid to casual labour whose wages are below the tax threshold.

3. Depreciation
   Mr Lengau owns a number of light general purpose trucks, all of which were acquired prior to 31 March 2005. On 1 April 2006 the adjusted cost base (ACB) of these vehicles was M450,000. One of the trucks, whose adjusted cost base was M65,200, was disposed of for M62,400 on 30 June 2006. It was replaced by a brand new truck at a cost of M120,000 on 31 July 2006. Mr Lengau has elected for the pooling method of depreciation.

4. Other business expenses
   These are all tax deductible.

5. Withholding tax
   Tax at 5% was withheld at source by the Government of Lesotho on the construction payments.

Required:

(a) Compute the total tax due and the balance (net amount) of tax payable by Mr Lengau for the year of assessment ended 31 March 2007. (13 marks)

(b) State the circumstances in which the Commissioner of Income Tax will disallow the carry back of an overall loss on a contract to previous years. (4 marks)

(c) Compute the total tax payable by Mr Lengau's employees, which he, as an agent, should have remitted to the Lesotho Revenue Authority (LRA) for the year of assessment ended 31 March 2007 and state the due date of payment. (4 marks)

(d) State why the M12,500 withholding tax has been deducted from Mr Lengau's payment under the contract. (2 marks)

(e) State, giving reasons, whether or not Mr Lengau will be obliged to register as a vendor for value added tax (VAT) purposes. (2 marks)

(25 marks)

2 **(a)** Lesotho Furnitures Limited (LFL) is a Lesotho resident subsidiary of a South African based holding company. It is engaged in selling household furniture and appliances to the local market. At 1 October 2006, LFL's shares were held by its South African holding company (60%) and a Lesotho minority shareholder (40%).

The following information relates to LFL's financial year ended 30 September 2007.

	Note	M	M
Turnover (inclusive of VAT at 14%)			950,000
Interest received (net)	1		80,900
Dividends from a South African company (net)	2		46,200
Dividends from a Lesotho company (net)	3		64,300
Proceeds from the disposal of assets	4		34,400
Gain on the disposal of shares (net)	5		10,500
Operating expenses (all tax deductible)	6		718,260

Notes:

1. Interest received
This interest comprises 70% of foreign source and 30% domestic source. The related withholding tax is M5,000 and M2,697, respectively.

2. Dividends from a South African company
Withholding tax was deducted at 15%. The related ACT amounted to M24,200.

3. Dividends from a Lesotho company
The related ACT amounted to M12,500.

4. Proceeds from the disposal of assets
On 30 June 2007, LFL sold two office computers for M17,200 each. These computers had been acquired in 2004. Their total adjusted cost base (ACB) was M27,000 at the date of disposal. On the same date the company replaced them with the latest different model at a total cost of M40,800.

5. Gain on the disposal of shares
This gain relates to shares disposed of outside Lesotho. Foreign withholding tax deducted amounted to M1,167.

6. Operating expenses
These include approved training expenditure of M25,200. It is LFL's policy to train two staff members every year at Quadrant Computers.

7. On 1 November 2006, LFL paid a dividend of M2 per share on the 35,500 shares of M1 each in issue. This dividend was paid entirely out of non-qualified income. Immediately following this the company redeemed 12,000 shares from the Lesotho resident shareholder. These shares had originally been issued at M1·50 per share. They were redeemed at M2 per share.

Required:

(i) Compute the advanced corporation tax (ACT) payable by Lesotho Furnitures Limited for the year ended 30 September 2007, and state the due date of payment. (5 marks)

(ii) Compute the corporation tax payable by Lesotho Furnitures Limited for the year ended 30 September 2007 and state the due date of payment. (17 marks)

(iii) Compute the instalments payable by Lesotho Furnitures Limited for the year ended 30 September 2008 and state the due dates of payment. (5 marks)

(b) Wyeburn Wholesalers (Pty) Limited (WWL) is a South African company which operates through various branches throughout the region, including one branch in Lesotho. It is WWL's policy to repatriate 35% of the income of each branch to the company's headquarters in South Africa, annually.

For the financial year ended 30 June 2007, the Lesotho branch had taxable income of M300,000. The branch is not involved in manufacturing activity.

Required:

Compute the tax payable by the Lesotho branch of Wyeburn Wholesalers (Pty) Limited on the repatriation of profits for the year ended 30 June 2007. (3 marks)

(30 marks)

3 Maluti Enterprise (Pty) Ltd (MEL) is a Lesotho resident company engaged in the selling of new and second-hand furniture and the letting of building premises to commercial businesses. MEL has recently registered for value added tax (VAT); the following are its VAT related transactions for the month of October 2007:

(1) Sold a second-hand three piece bedroom suite for M6,500 (excluding VAT). This bedroom suite was originally purchased from a non vendor for M3,400. MEL paid an amount of M850 (including VAT) for repairs to the headboard and dressing table doors to T.T Carpenters Ltd, a local vendor.

(2) Received monthly rental income amounting to M5,200 (excluding VAT) from King Sho Umbrella Manufacturers and Retailers (Pty) Limited (KSU), 60% of the rent is attributed to the portion of the building in which KSU's manufacturing process is carried out and the remaining 40% is used for KSU's retail trade.

(3) MEL sells stock on both a cash basis and by hire purchase agreement. For the month of October 2007, stock worth M9,800 (inclusive of VAT) was sold on hire purchase. The total amount received from customers in the month was M15,680, of which M5,120 related to hire purchase sales, M300 to a down payment against a future sale, and the remainder to cash sales.

(4) Sold a coffee table worth M520 (including VAT) for M220 (including VAT) to one of its employees. The difference between the sale price and the market value was treated in the company books as commission paid to the employee for inviting the most customers for the month.

(5) Incurred M1,520 for water and sewerage utilities.

Required:

(a) Explain the value added tax (VAT) treatment of each of the transactions listed above, clearly identifying the taxable values and input/or output VAT, if any. You should deal with each transaction independently. (12 marks)

(b) State the duties/obligations that Maluti Enterprise (Pty) Ltd must meet as a voluntarily registered vendor. (3 marks)

(15 marks)

4 On 1 March 2006 Mr Molao was appointed by the Lesotho Highlands Authority (LHDA) to supervise the construction of the 'Maletsunyane Dam' in Semonkong, in the rural highlands of Lesotho. Mr Molao is expected to stay in Semonkong for the duration of the project. The project is planned to be completed by the end of March 2007. On completion of the project, Mr Molao will receive a gratuity and severance pay amounting to M600,000 and M80,500, respectively.

The LHDA provides Mr Molao with the following benefits:

(1) A basic salary of M505,200 per annum.

(2) Free accommodation. The fair market rent for the house is M10,400 per month.

(3) Provision of a company car valued at M230,500. The LHDA pays for all the running costs of this car which are estimated at M9,000 per annum.

(4) M4,500 per month as a mountain allowance.

(5) M1,300 per month for his cell phone bill.

(6) Free meals provided in a luxurious dining room at an annual cost to the LHDA of M8,000 per person. The meals are provided to Mr Molao and other senior officers of the project only.

(7) M2,500 per month as an education allowance per child, for children between the ages of six and 22 years. Mr Molao has two children aged 12 and 16 years who are still at high school.

(8) The LHDA pays for the following monthly expenses in respect of the house that will be used by Mr Molao:

Utilities	M4,300
Domestic servants	M1,500

The financial year end for LHDA is 30 November each year.

Required:

(a) Compute the fringe benefit tax payable by the LHDA in respect of the benefits provided to Mr Molao for the month of December 2006, and state the due date of payment of this tax. (8 marks)

(b) Compute the tax payable by Mr Molao for the year ended 31 March 2007, assuming that the project is completed on schedule. (7 marks)

(15 marks)

5 The following information relates to Mapetla Investment Properties (Pty) Ltd (MIPL), which owns building premises that are rented out to commercial businesses. In addition, MIPL holds shares in other companies in Lesotho and abroad. The financial year end for MIPL is 31 December.

In January 2007, MIPL acquired land in Maputsoe with a view to expanding its operations. The fair market value of the land was M150,200. MIPL settled the whole amount at the time of acquisition and paid M140,000 net of a discount for immediate payment. However, due to financial constraints, MIPL was compelled to sell half of the land in October 2007 for M90,400. The market value of the land at the time of this disposal was M220,300.

In February 1993, MIPL bought 15,000 shares at M1·50 per share in De Beers Mining Limited, a South African resident company listed on the Johannesburg Stock Exchange (JSE) in South Africa. The market value of the shares at that time was M2 per share. In February 2007, 12,000 shares were disposed of for M30,000.

In June 1996, MIPL bought dilapidated premises which had originally been used as a warehouse by the owner. The purchase price was M50,000. The premises were extensively renovated at a total cost of M250,000. The renovation cost entailed M175,000 for demolition and reconstruction, and M75,000 for extending the premises. The work was completed in January 1998. In April 1998, the premises were rented out to general retailers at a total rental of M16,800 per month until October 2007, when MIPL sold the premises to the Lesotho National Development Corporation (LNDC) at their market value of M1,120,100.

The relevant indexation numbers are as follows:

June 1996	140
January 1998	150
October 2007	250

Required:

(a) Compute the taxable amounts arising on Mapetla Investments (Pty) Ltd for the year ended 31 December 2007, from each of the transactions above. In each case, clearly identify whether the transaction results in a chargeable gain or in chargeable income. (11 marks)

(b) State the circumstances in which neither a gain nor a loss on the disposal of assets is taken into account. (4 marks)

(15 marks)

End of Question Paper