

Taxation (F6) Lesotho (LSO) June 2008

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram of paper with other papers

This diagram shows where any direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other, such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate and the broad intellectual level at which these may need to be demonstrated (*See intellectual levels below)

Reading lists

ACCA examiners will recommend study texts and text books where these are available, which students may read as part of their preparation for the exam. Relevant articles will also be published in *student accountant*.

INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension

Level 2: Application and analysis

Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours because increasingly study and learning patterns and styles vary greatly between people and organisations and in different personal, professional and educational circumstances.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down in those particular papers.

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Performance Management* (F5) and *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks.

The pass mark for all ACCA Qualification examination papers is 50%.

GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers, ACCA will publish *examinable documents* every six months to indicate exactly what regulations and legislation could potentially be assessed at the following examination session.

Knowledge of new examinable regulations will not be assessed until at least six calendar months after the last day of the month in which documents are issued or legislation is passed. The relevant cut-off date for the June examinations is 30 November of the previous year, and for the December examinations, it is 31 May of the same year.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

Syllabus

(F6) LSO

AIM

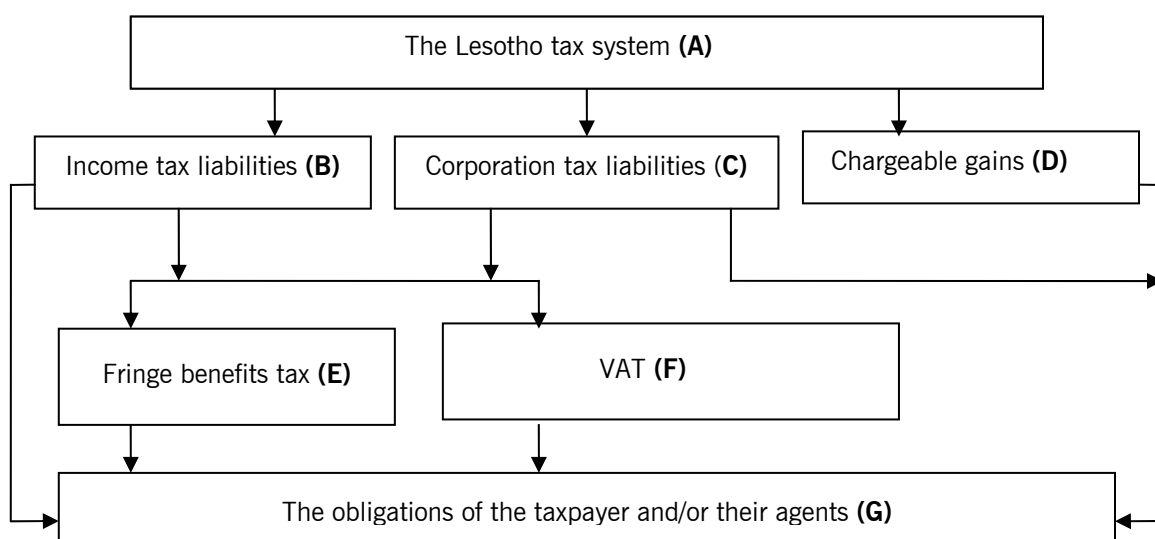
To develop knowledge and skills relating to the tax system as applicable to individuals and companies.

MAIN CAPABILITIES

After completing this examination paper students should be able to:

- A** Explain the operation and scope of the Lesotho tax system
- B** Explain and compute the income tax liabilities of individuals
- C** Explain and compute the corporation tax liabilities of companies
- D** Explain and compute the chargeable gains arising on companies and individuals
- E** Explain and compute the effect of fringe benefits tax
- F** Explain and compute the effects of value added tax on incorporated and unincorporated businesses
- G** Identify and explain the obligations of taxpayers and/or their agents and the implications of non-compliance.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

This syllabus introduces candidates to the subject of taxation and provides the core knowledge of the underlying principles and major technical areas of taxation, as they affect the activities of individuals and businesses.

In this syllabus, candidates are introduced to the rationale behind and the functions of the tax system. The syllabus then considers the separate taxes that an accountant would need to have a detailed knowledge of, such as income tax from self employment, employment and property; the corporation tax liabilities of companies; the fringe benefits tax liability of employers; the value added tax liability of businesses; and the chargeable gains arising on disposals of capital assets by both individuals and companies.

Having covered the core areas of the basic taxes, the candidate should be able to compute tax liabilities, explain the basis of their calculations, apply tax planning techniques for individuals and companies and identify the compliance issues for each major tax through a variety of business and personal scenarios and situations.

DETAILED SYLLABUS

A The Lesotho tax system

1. The overall function and purpose of taxation in a modern economy
2. Different types of taxes
3. Principal source of tax laws and practice
4. Tax avoidance and tax evasion

B Income tax liabilities

1. The scope of income tax
2. Income from employment
3. Income from self-employment (unincorporated business)
4. Income from property, including investments.
5. The comprehensive computation of

chargeable income and income tax liability

6. The use of exemptions and reliefs in deferring and minimising income tax liabilities

C Corporation tax liabilities

1. The scope of corporation tax
2. Income chargeable to corporation tax
3. The comprehensive computation of corporation tax liabilities
4. The use of exemptions and reliefs in deferring and minimising corporation tax liabilities

D Chargeable gains

1. The scope of the taxation of chargeable gains
2. The computation of gains and losses
3. The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets

E Fringe benefits tax

1. The scope of fringe benefits tax (FBT)
2. The computation of FBT liabilities.

F Value added tax

1. The scope of value added tax (VAT)
2. The VAT registration requirements
3. The computation of VAT liabilities
4. The administration of VAT

G The obligations of taxpayers and/or their agents

1. The systems for self-assessment and the making of returns

2. The time limits for the submission of information, claims and payment of tax, including payments on account
3. The procedures relating to enquiries, objections, appeals and disputes
4. Penalties for non-compliance

APPROACH TO EXAMINING THE SYLLABUS

The paper will be mainly computational and will have five questions, all of which will be compulsory.

- Questions one will focus on income tax and question 2 will focus on corporation tax. The two questions will total 55 marks, with one of the questions being for 30 marks and the other for 25 marks.
- Question three will be for 15 marks, and will focus on value added tax.
- Questions four and five will be on any area of the syllabus and will be for 15 marks each.

Chargeable gains and fringe benefits tax may each be examined either as a separate question, or part question, or as part of an income tax or corporation tax scenario.

Any of the five questions might include the consideration of issues relating to the minimisation or deferral of tax liabilities.

Study Guide

A THE LESOTHO TAX SYSTEM

1. The overall function and purpose of taxation in a modern economy

- a) Describe the purpose (economic, social etc) of taxation in a modern economy.^[2]

2. Different types of taxes

- a) Identify the different types of taxes.^[1]
- b) Explain the difference between direct and indirect taxation.^[2]

3. Principal source of tax laws and practice

- a) Describe the overall structure of the Lesotho tax system.^[1]
- b) Explain how tax laws are enacted and enforced.^[1]
- c) Appreciate the interaction of the Lesotho tax system with that of other jurisdictions, in particular South Africa.^[2]

4. Tax avoidance and tax evasion

- a) Explain the difference between tax avoidance and tax evasion.^[1]
- b) Explain the need for an ethical and professional approach.^[2]

Excluded topics

- *Anti-avoidance legislation, except as specifically referred to in the study guide.*
- *Double tax treaties, other than the Lesotho-South African Double Taxation Agreement.*

B INCOME TAX LIABILITIES

1. The scope of income tax

- a) Explain how the residence of an individual is determined.^[2]

- b) Understand and apply the concept of Lesotho source income.^[2]

- c) Distinguish between the treatment of residents and non-residents.^[2]

Excluded topics

- *Income from trusts and estates of deceased persons.*

2. Income from employment

- a) Recognise the factors that determine whether an engagement is treated as employment or self-employment.^[1]
- b) Define employment income and recognise the basis of assessment.^[2]
- c) Identify the amounts specifically excluded from employment income.^[2]
- d) Distinguish between the reimbursements and benefits that are part of chargeable income and those that are subject to fringe benefits tax.^[2]
- e) Explain how a gift can be treated as part of employment income.^[1]
- f) Recognise the allowable deductions including self-education expenses.^[2]
- g) Compute the chargeable income.^[2]
- h) Explain the obligation to withhold tax at source under PAYE system.^[1]
- i) Explain how different remuneration packages can result in different amounts of chargeable income and tax liability.^[2]

Excluded topics

- *Share and share option incentive schemes for employees.*

3. Income from self-employment (unincorporated business)

- a) Define business income and recognise the basis of assessment.^[2]

- b) Recognise the expenditure that is allowable in calculating chargeable income.^[2]
- c) Identify the expenditure that is specifically disallowed.^[2]
- d) Recognise the relief that can be obtained for start-up costs.^[2]
- e) Recognise the relief that can be obtained for approved training expenditure.^[2]
- f) Change of method of accounting
 - i) Distinguish between the cash basis and the accrual basis of accounting ^[2]
 - ii) Recognise the factors that will influence the choice of method of accounting ^[2]
 - iii) State the conditions that must be met for a change in the method of accounting to be valid ^[1]
 - iv) Compute the chargeable income on a change in the method of accounting. ^[2]
- g) Depreciation allowances
 - i) Define depreciable assets for depreciation allowances purposes ^[1]
 - ii) Distinguish between the single asset and pooling methods of depreciation ^[2]
 - iii) Recognise the circumstances in which each method can be applied ^[2]
 - iv) Compute depreciation allowances for all groups of depreciable assets using the prescribed rates under both methods ^[2]
 - v) Recognise the treatment of small value depreciable assets ^[2]
 - vi) Compute balancing adjustments arising on the disposal of depreciable assets ^[2]
 - vii) Understand the circumstances under which the balance of the pool can be allowed as a deduction ^[2]
- h) Finance lease and hire purchase contracts
 - i) Understand the tax implication of acquiring assets by way of finance lease and hire purchase contract ^[2]
 - ii) Compute the amount of allowable finance charges (interest) accruing under both forms of contract ^[2]
 - iii) Compute the depreciation allowances applicable under both forms of contract ^[2]
- i) Long term contracts
 - i) Understand how income and deductions are accounted for in both the initial years and the final year of a contract ^[2]
 - ii) Compute the relevant amount using the percentage of contract completed method ^[2]
 - iii) Recognise the circumstances in which an overall loss can be carried back to previous years ^[2]
- j) Relief for allowable losses
 - i) Understand how allowable losses can be carried forward ^[2]
 - ii) Explain how allowable losses can be claimed against taxpayer's total income ^[2]
 - iii) Recognise the treatment of relief for a loss arising on the disposal of a business asset.^[1]
- k) Partnerships
 - i) Explain the principle of taxation for partnerships ^[2]
 - ii) Understand how residence of a partnership is determined ^[2]
 - iii) Compute chargeable income for both resident and non-resident partners ^[2]
 - iv) Compute the chargeable income for individual partners following a change in the constitution of the partnership ^[2]
 - v) Understand the extent to which a partner's distributive share of partnership loss is allowed.^[2]

Excluded topics

- *Allowances for intangible assets (copyrights, patents, trade marks etc.) and scientific research and experimental costs, other than on start up.*

4. Income from property, including investments

- a) Define property income.^[2]
- b) Recognise the treatment of rental income derived from a property letting business.^[2]
- c) Explain the relief available for rental losses.^[2]
- d) Recognise the treatment of interest income.^[2]

- e) Explain the relief available the first M500 of interest derived from a nominated savings account.^[2]
- f) Recognise the treatment of dividend income.^[2]
- g) Recognise the treatment of royalty and natural resource income.^[2]
- h) Understand the obligation to withhold tax at source from different categories of property income paid to non-residents and to residents.^[2]
- i) Understand the treatment of gains and losses on the disposal of investment assets as part of property income.^[2]

5. The comprehensive computation of chargeable income and income tax liability

- a) Prepare a basic income tax computation involving different types of income.^[2]
- b) Compute the amount of income tax payable by different categories of taxpayer at the appropriate rates.^[2]
- c) Explain the entitlement of different categories of taxpayer to personal tax credit.^[2]
- d) Withholding taxes
 - i) Distinguish between situations in which the tax withheld constitutes the final tax and when it does not^[2]
 - ii) Compute the credit available in cases where the tax withheld does not constitute the final tax^[2]
 - iii) Compute the tax payable by an electing non-resident.^[2]
- e) Foreign tax credit
 - i) Explain how relief can be obtained for foreign tax paid on foreign income^[2]
 - ii) Compute the foreign tax credit available.^[2]
- f) Explain the circumstances in which the minimum chargeable income provisions will be applied.^[1]

Excluded topics

- *The income of minors.*

6. The use of exemptions and reliefs in deferring and minimising income tax liabilities

- a) Recognise the types of income that are exempt.^[2]
- b) Explain and apply the relief given for contributions to both employer and self provide superannuation funds.^[2]
- c) Recognise the limitation on total deductions available to employees and employers and where contributions are made to more than one fund.^[2]
- d) Explain the circumstances in which lump sum payments made by a complying superannuation fund can be exempt.^[2]
- e) Explain the treatment of gifts and donations.^[2]
- f) Recognise and apply the reliefs provided by the Income Tax Act in the appropriate circumstances.^[2]

Excluded topics

- *The requirements that must be met by a superannuation fund in order to satisfy the conditions prescribed in the regulations. Early withdrawal from a superannuation fund*
- *Superannuation contributions to non-complying non-resident funds*
- *The pension rules that applied before 1 April 1993.*

C CORPORATION TAX LIABILITIES

1. The scope of corporation tax

- a) Explain how the residence of a company is determined.^[2]
- b) Recognise the conditions that must be met to obtain approval of a substituted accounting period.^[1]

- c) Identify the companies and/or income eligible to be taxed at reduced manufacturing rate.^[2]

Excluded topics

- *Co-operative societies*
- *Insurance companies (life and non-life business)*
- *Mining companies.*
- *Companies in receivership or liquidation.*
- *Reorganisations.*
- *The purchase by a company of its own shares.*
- *The corporate venturing scheme.*

2. Income chargeable to corporation tax

- a) Recognise the expenditure that is allowable in calculating business income.^[2]
- b) Recognise the relief that can be obtained for start-up costs.^[2]
- c) Recognise the relief that can be obtained for approved training expenditure.^[2]
- d) Compute depreciation allowances (as for income tax).^[2]
- e) Compute deductible amounts in respect of finance leases and hire purchase contracts (as for income tax).^[2]
- f) Compute the chargeable income arising from long term contracts (as for income tax).^[2]
- g) Transfer pricing
- i) Recognise the circumstances in which the transfer pricing rules will be applied ^[2]
 - ii) Understand and apply the arms length principle to relevant transactions.^[2]
- h) Recognise the circumstances in which the Commissioner may disallow a deduction for interest paid. ^[2]
- i) Recognise the expenditure that is allowable in calculating property income.^[2]
- j) Losses
- i) Understand how allowable losses can be utilised in the year of loss and carried forward ^[2]

- ii) Explain the restrictions that can apply to the use of losses where there are changes in ownership and control.^[2]

- k) Compute the income chargeable to corporation tax.^[2]

- l) Branches
- i) Distinguish between the treatment of a branch and a subsidiary ^[2]
 - ii) Define the tax treatment for a branch in Lesotho of a non-resident company ^[2]
 - iii) Compute the chargeable income for a branch of a non resident company.^[2]

Excluded topics

- *Allowances for intangible assets (copyrights, patents, trade marks etc.) and scientific research and experimental costs, other than on start up*
- *Mineral extraction expenditure.*

3. The comprehensive computation of corporation tax liabilities

- a) Compute the corporation tax liability in relation to both qualifying and non-qualifying income, at appropriate rates.^[2]
- b) Explain and compute the tax credit available for foreign tax paid on foreign income.^[2]
- c) Advance corporation tax (ACT)
- i) Recognise the transactions with members that will give rise to a deemed dividend ^[2]
 - ii) Compute the ACT payable in respect of both actual and deemed dividend ^[2]
 - iii) Explain how ACT paid can be utilised.^[2]
- d) Understand the obligation to withhold tax at source when making payments to both residents (including contractors) and non residents.^[2]
- e) Branches
- i) Explain the term 'repatriated profits' in relation to a Lesotho branch of a non-resident company ^[2]

ii) Compute the repatriated profits and the additional tax liability payable on those profits of a Lesotho branch of a non-resident company.^[2]

f) Explain and recognise how exemptions and reliefs can defer or minimise corporation tax liabilities.^[2]

4. The use of exemptions and reliefs in deferring corporation tax liabilities

The use of such exemptions and reliefs is implicit within all of the above sections 1 to 3 of part C of the syllabus, concerning corporation tax.

D CHARGEABLE GAINS

1. The scope of the taxation of chargeable gains

- a) Describe the scope of the taxation of chargeable gains.^[2]
- b) Recognise those assets that are exempt.^[2]
- c) Understand how the cost base of different types of assets is determined.^[2]
- d) Explain the circumstances in which market value will be used as either the transfer value or the cost of an asset.^[2]

Excluded topics

- *Assets situated outside Lesotho*

2. The computation of gains and losses.

- a) Compute chargeable gains for both individuals and companies.^[2]
- b) Distinguish between the treatment of investment assets, business assets and other assets.^[2]
- c) Understand how and when indexation will be applied to the adjusted cost base of an asset.^[2]

d) Explain the conditions under which neither a gain nor a loss is recognised in determining chargeable income.^[2]

e) Compute the chargeable gain where there is a disposal of only part of an asset.^[2]

f) Explain the treatment where an asset is damaged, lost or destroyed, and the implications of receiving insurance proceeds and reinvesting such proceeds.^[2]

g) Understand the treatment of losses on the disposal of investment assets.^[2]

h) Understand the treatment of losses on the disposal of assets other than investment assets.^[2]

i) Recognise the treatment of losses on the disposal of an asset directly or indirectly to an associate taxpayer.^[2]

j) Understand the implications of carrying forward losses on the disposal of investment assets and other asset.^[2]

Excluded topics

- *The disposal of leases and the creation of sub-leases*
- *Assets held before 1 April 1993.*

3. The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of assets

a) Explain and apply rollover relief available to companies.^[2]

b) Explain and apply the incorporation relief available on the transfer of an asset to a company in exchange for membership interest.^[2]

c) Explain and apply the relief available to an individual on the transfer of an asset to a partnership in exchange for a partnership share.^[2]

E FRINGE BENEFITS TAX

1. The scope of fringe benefits tax (FBT)

- a) Describe the scope of FBT.^[2]

2. The computation of FBT liabilities

- a) Compute the taxable value of the different categories of fringe benefit.^[2]
- b) Compute the FBT liability.^[2]
- c) Explain how FBT is accounted for and administered.^[1]

F VALUE ADDED TAX

1. The scope of value added tax (VAT)

- a) Describe the scope of VAT.^[2]
- b) List the principal zero-rated and exempt supplies.^[1]
- c) List the principal non-standard rated supplies.^[1]

2. The VAT registration requirements

- a) Recognise the circumstances in which a person must register for VAT.^[2]
- b) Explain the advantages of voluntary VAT registration.^[2]
- c) Explain the circumstances in which pre-registration input VAT can be recovered.^[2]
- d) Explain how and when a person can deregister for VAT.^[1]

Excluded topics

- *Group registration.*

3. The computation of VAT liabilities

- a) Recognise the tax point when goods or services are supplied.^[2]
- b) Explain and apply the principles regarding the valuation of supplies.^[2]

- c) Compute the input tax, output tax and net VAT payable for a given return period.^[2]

- d) Recognise the circumstances in which input VAT is non-deductible.^[2]

- e) Compute the relief that is available for impairment losses on trade debts.^[2]

Excluded topics

- *Partial exemption*

4 The administration of VAT

- a) Explain how VAT is accounted for and administered.^[2]
- b) List the information that must be given on a VAT invoice.^[1]
- c) Describe the cash accounting scheme, and recognise when it will be advantageous to use the scheme.^[2]
- d) Describe the invoice accounting scheme, and recognise when it will be advantageous to use the scheme.^[2]
- e) Explain the circumstances in which penalties, and interest will be applied.^[1]

G THE OBLIGATIONS OF TAX PAYERS AND/OR THEIR AGENTS

1. The systems for self-assessment and the making of returns

- a) Explain and apply the features of the self-assessment system as it applies to individuals.^[2]
- b) Explain and apply the features of the self-assessment system as it applies to companies.^[2]

2. The time limits for the submission of information, claims and payment of tax, including payments on account

- a) Recognise the time limits that apply to the filing of returns and the making of claims.^[2]

- b) Recognise the due dates for the payment of tax under the self-assessment system.^[2]
- c) Compute payments on account and balancing payments/repayments for individuals.^[2]
- d) Compute instalment payments and final payment for companies.^[2]
- e) Explain the system and recognise the time limits that apply to the payment of tax withheld at source.^[2]
- f) List the information and records that taxpayers need to retain for tax purposes.^[1]

3. The procedures relating to enquiries, objections, appeals and disputes

- a) Describe the procedures relating to assessments, including deemed assessments, default and special assessments and amended assessments.^[2]
- b) Explain the circumstances in which the Lesotho Revenue Authority can enquire into a self-assessment tax return.^[2]
- c) Explain the procedures for dealing with objections, appeals and disputes.^[1]

4. Penalties for non-compliance

- a) Explain and calculate the additional tax (interest) payable in the case of a failure to pay or withhold tax.^[2]
- b) State the other administrative penalties that can be charged.^[2]

READING LIST

Income Tax Act, 1993 (as amended) Lesotho

Income Tax Act, 1993 Explanatory Memorandum Lesotho

Income Tax Regulations Lesotho

Value Added Tax Act, 2001 Lesotho

The Lesotho-South Africa Double Taxation Agreement

The study of relevant articles in ACCA's *student accountant* magazine is also recommended.