Answers

Marks

1 (a) (i) Interest income is subject to withholding tax of 10%, however, the amount withheld will take into account the exemption of the first M500 of interest income under s.27. — 3

(ii) Computation of tax payable by Mr Tom Mosala for the year ended 31 March 2006

	M	Marks
Income:		
Net rental profit:		
Republic of South Africa propertt	18,550	2
Lesotho property	48,950	1
Net transport income (net)	12,500	1
Dividends received	35,000	2
Salary	42,000	1
Cash allowance	4,200	1
Car benefit (FBT only)	0	1
Total income	161,200	
Tax payable: M31,500 at 25%	7,875	1
M129,700 at 35%	45,395	1
	53,270	
Less personal tax credit	(2,772)	1
Tax payable	50,498	

(iii) (a) Employment income will be withheld at source and paid over to Lesotho Revenue Authority by the employer on monthly basis. — 2

(b) Non-employment income is paid directly by Tom Mosala on submission of tax return and no later than 30 June 2006. — 3

(b) Tax payable for the year ended 31 March 2006

		M	Marks
Net profit		28,050	
Add back disallowed expenses:			
Annuities	0		½
Donations	4,000		1
Insurance (Private homes)	1,000		1
Salary	0		½
Income tax	13,000	18,000	1
Chargeable income		46,050	

Partners' share of profit:
Moji 50% x 46,050 = M23,025
Maja 50% x 46,050 = M23,025

Tax payable by partners

	Moji	Maja	Marks
Share of profit	M23,025	23,025	2
Salary	7,000	12,000	1
Taxable income	30,025	35,025	
Tax			
First M31,500 at 25%	7,506	7,875	1
Balance at 35%	–	1,234	1
	7,506	9,109	
Less Personal tax credit	(2,772)	(2,772)	1
	4,734	6,337	
Less tax paid	(2,000)	(3,500)	1
Tax due	2,734	2,837	

Marks

2 Corporation tax payable by Lesotho Bank Limited for the year ended 31 March 2006

	M	M	Marks
Net profit		3,101,000	
Add back disallowed expenses:			
Depreciation	550,00		1
Repairs and maintenance	20,800		1
Subscription	2,000		1
Legal fees	13,000		1
Entertainment expenses	9,500		1
Advertising and publicity	80,000		1
Specific loss provision	850,000		1
General loss provision	150,000		1
		1,675,300	
		4,776,300	
Less allowable deductions:			
Training expenses (25%)	23,750		1
Depreciation allowances	176,880		1
		(200,630)	
Taxable profit		4,575,670	
Tax payable:			
M4,575,670 at 35%		M1,601,485	1

Workings:

Depreciation allowance:

	Group 1 25%	Group 2 20%	Group 3 10%	Group 4 5%	Marks
1/4/05 TWDV	500,000	45,000	150,000	160,000	1
$^{1}/_{2}$ cost of last year's acquisition	50,000	14,000	25,000	–	3
$^{1}/_{2}$ cost of current year's acquisition	0	10,400	0	0	1
	550,000	69,400	175,000	160,000	
Depreciation allowance	(137,500)	(13,880)	(17,500)	(8,000)	2
TWDV	412,500	55,520	157,500	152,000	

Explanations:

1. Depreciation:
   The business is allowed depreciation allowance based on rates given by Lesotho Revenue Authority only. 1
2. Repairs and maintenance:
   The furniture expensed is of capital nature and therefore not allowed as a deduction. 1
3. Subscriptions:
   Membership to a golf club is not an expense that produces a taxable income. 1
4. Legal fees:
   This is a provision for next year's impending legal suit and provisions are specifically disallowed by the Income Tax Act 1993. 1
5. Entertainment expenses:
   Only 50% of entertainment or meals is allowed. 1
6. Advertising and publicity:
   Installation of bill boards is a capital expense. 1
7. Specific and general loss provisions are not allowed and only bad debts incurred on revenue account in a business giving rise to income subject to tax are allowed. 1
8. Training expenses
   A taxpayer carrying on business in Lesotho is allowed to deduct 125% of expenditure incurred for training or tertiary education of a citizen of Lesotho. 1

					Marks
3	**(a)**	**(i)**	Car fringe benefit:		
			Taxable value: 15% x 200,000	= 30,000	1
			Taxable amount: 30,000/0·65	= 46,154	1
			Fringe benefit tax: 46,154 x 35%	= M16,154	1
		(ii)	Housing fringe benefit:		
			Taxable value: 900,000 – 12,000 = 888,000		2
			But should not exceed 20% of the employee's total remuneration		
			Total employee's remuneration: 60,000 + 4,200 = 64,200		1
			20% x 64,200	= 12,840	1
			Therefore taxable value	= 12,840	1
			Taxable amount: 12,840/0·65	= M19,754	1
			Fringe benefit tax: 19,754 x 35%	= M6,954	1
			Note: Both the medical aid benefit and the provident fund benefit are exempt.		2

(b) **(i)** A lease of property is a finance lease if

1. the lease term exceeds 75% of the effective life of the property; or — 2
2. the lessee has an option to purchase the property for a fixed or determinable price at the expiration of the lease; or — 2
3. the estimated residual value of the property to lessor at the expiration of the lease term is less than 20% of its fair market value at the commencement of the lease. — 2

(ii)

	M	
Cost 1 January 2005	420,000	1
Depreciation allowance – January to March 2005 (420,000 x 20% x $^3/_{12}$)	21,000	2
Tax written down value 1 April 2005	399,000	
Depreciation allowance 2006 at 20%	79,800	2
Tax written down value 1 April 2006	319,200	

4 **(a)**

1. Under cash-basis accounting, income is taken into account when received or made available and deductions are taken into account when paid. — 2
2. Under accrual-basis accounting, income and expenses must be taken into account when payable. — 2
3. The phrase 'when payable' means that the amount is payable to the taxpayer when the taxpayer becomes entitled to receive it, even if the time for discharge of the entitlement is postponed or the entitlement is payable by instalments. — 3

(b) **(i)** A deduction is allowed for a bad debt incurred on revenue account in a business giving rise to income subject to tax when the debt is written off in the taxpayer's accounts. Therefore M6,000 of debts is allowable. — 1

Bad debts taken over are disallowed as they were not incurred on revenue account giving rise to income subject to tax. — 2

(ii) A deduction is allowed for expenditure incurred on repairs to assets used in the production of income subject to tax. This should not be an expenditure of a capital nature – improving the asset to look new. — 3

M8,000 will be allowable deductions as M10,000 covered by the insurance proceeds will not be deductible. The taxpayer will not be taxed on the receipt of M10,000 from the insurance company. — 1

(c) Taxable supply means any supply other than an exempt supply, made by a vendor for consideration in the course of business. — 3

Vendor is a person who is required to apply to be registered because his taxable supplies exceed or are expected to exceed the annual registration threshhold. — 3