
Answers

	M	M	<i>Marks</i>
1 (a) (i) Sam Khaue's chargeable income for the year ended 31 March 2007			
Business income:			
Accounting fees	75,000		1/2
Audit fees	60,000		1/2
Rental collection commission	20,500		1/2
Consultancy fees	<u>2,000</u>		1/2
		157,500	
Less allowable deductions:			
Salaries	45,000		1
Rent, rates and taxes	0		1/2
Depreciation	0		1/2
Depreciation allowance:			
Furniture & equipment (9,500 + 17,090) * 20%	5,318		1 1/2
Motor vehicles (25,500 + 65,000) * 25%	22,625		1 1/2
Repairs & maintenance	560		1
Entertainment (3,450 * 50%)	1,725		1
Loan interest	0		1
Other expenses	<u>19,000</u>		1
		<u>94,228</u>	
		63,272	
Property income:			
Bank deposit interest (gross)	2,500		1/2
Savings account interest	0		1/2
Dividends	<u>0</u>		1/2
		<u>2,500</u>	
Chargeable income		<u>65,772</u>	1 1/2

Or

If the assumption is that the salary shown above is Khaue's salary, it will be included in the chargeable income as follows:

Chargeable income (65,772 + 45,000)	110,772	1 1/2
(ii) – Rent and rates are an allowable deduction against rental income to the principal (i.e. owner of the building) for whom Khaue Accountants and Auditors collect rental.		1 1/2
– The income tax of M4,500 paid by Mr Khaue is a tax credit to him. It can be utilised to reduce his tax liability for the year ended 31 March 2007 and for subsequent years.		1
– The loan interest incurred during construction of the office block for the practice is a capital cost. It is not an allowable deduction. It forms part of the cost base of the office block.		1 1/2

(b) Sam Khaue's tax payable for the year ended 31 March 2007

	Chargeable income M	Rate %	Tax M	
First	33,075	25	8,269	1
Balance	<u>32,697</u>	35	<u>11,444</u>	1
	<u>65,772</u>		19,713	1
Less: Personal tax credit			2,911	1
Tax instalments paid			<u>4,500</u>	3
Net tax payable			<u>12,302</u>	3

Or

If the assumption is that the salary of M45,000 was for Khauoe, then tax payable will be calculated as follows:

	Chargeable income M	Rate %	Tax M	
First	33,075	25	8,269	1
Balance	<u>77,697</u>	35	<u>27,194</u>	1
	110,772		35,463	1
Less: Personal tax credit			2,911	1
Income tax paid			4,500	2
Tax instalments paid			<u>4,500</u>	2
Net tax payable			<u>23,552</u>	2

- (c) Payment date for the balance of tax payable
- The net tax calculated in (b) above should be paid on/or before 30 June 2007. 1
 - Failure by Mr Khauoe to pay the tax on the due date may result in additional tax being imposed on him by the Commissioner of Income Tax for the period the tax is unpaid. The applicable rate is the one published from time to time by the Commissioner based on normal commercial lending rates in Lesotho. 2
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2 Serakoe (Pty) Ltd's chargeable income and corporation tax payable for the year ended 31 March 2007 (assuming that the directors are non-executive and that payment to them or on their behalf is excessive)

(i) Chargeable income:

	M	
Net loss per accounts	(115,600)	1/2
Sales	0	1/2
Dividends from Lesotho companies	(20,000)	1/2
Commission received	0	1/2
Interest on fixed deposit with Lesotho Bank ($5,400 \times 0.1/0.9$)	600	1
Bad debts recovered	0	1/2
Scholarship for tertiary education	80,000	1
Cost of sales	0	1/2
Salaries and wages	0	1/2
Training expenses	0	1
Advertising	0	1/2
Electricity (company director)	12,000	1
Repairs (2,000 + 2,600)	4,600	2
Subscriptions	0	1/2
Telephone and fax (company directors)	60,000	1
Printing and stationery	0	1/2
Rent (company directors) ($60,000 \times 25\%$)	15,000	1 1/2
Annuities paid to former employees	11,400	1
Transfer to reserves	120,000	1
Depreciation of assets	0	1/2
Penalties	14,000	1
Insurance premiums to non-resident insurers	27,000	1
Corporation tax paid	<u>69,400</u>	1
Chargeable income	<u>278,400</u>	1

- (ii) Tax payable ($278,400 \times 35\%$) 97,440 1
- Advanced corporation tax on deemed dividend – excessive payments to/on behalf of non-executive directors ($87,000 \times 35/65$) 46,846 2
- 144,286
- Less: Withholding tax 600 1
- tax already paid 69,400 1
- 74,286
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Or

Chargeable income and tax payable (assuming that the directors are executive)

(iii) Chargeable income:

	M	
Net loss per accounts	(115,600)	1/2
Sales	0	1/2
Dividends from Lesotho companies	(20,000)	1/2
Commission received	0	1/2
Interest on fixed deposit with Lesotho Bank (5,400 * 0 ¹ / _{0.9})	600	1
Bad debts recovered	0	1/2
Scholarship for tertiary education	80,000	1
Cost of sales	0	1/2
Salaries and wages	0	1/2
Training expenses	0	1
Advertising	0	1/2
Electricity	0	1/2
Electricity – fringe benefit tax (12,000 * 35/65)	6,462	1
Repairs (2,000 + 2,600)	4,600	2
Subscriptions	0	1/2
Telephone and fax	0	1/2
Telephone – fringe benefit tax (60,000 * 35/65)	32,308	1
Printing and stationery	0	1/2
Rent	0	1/2
Rent – fringe benefit tax (60,000 * 25% * 35/65)	8,077	1 1/2
Annuities paid to former employees	11,400	1
Transfer to reserves	120,000	1
Depreciation of assets	0	1/2
Penalties	14,000	1
Insurance premiums to non-resident insurers	27,000	1
Corporation tax paid	69,400	1
Chargeable income	<u>238,247</u>	1 1/2
(iv) Tax payable (238,247 * 35%)	83,386	1
Less: Withholding tax	600	1
tax already paid	<u>69,400</u>	1
Net tax payable	<u>13,386</u>	1

N.B. In all cases, the depreciation of assets is assumed to be all deductible. Where one assumes it to be non-deductible, it will be added back, thus increasing the chargeable income and tax payable accordingly.

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3 ABC Delight Limited

(a) Depreciation allowances (Workings 1)		
Computers, furniture & fittings and equipment (2,000 + 5,833 + 3,000 + 0 + 96,000)	103,833	9
Motor vehicles (2,488 + 25,000 + 190,000)	217,480	5 1/2
Office block	0	1/2
	<u>321,313</u>	1
(b) Taxable gain/allowable loss (Workings 1)		
Gain on disposal of motor vehicle	33,688	1/2
Allowable loss on disposal of furniture	(2,000)	1/2
(c) Adjusted cost base at 1 April 2007 (Workings 1)		
Computers, furniture & fittings and equipment (8,000 + 44,167 + 60,000 + 384,000)	496,167	1
Motor vehicles (375,000 + 570,000)	945,000	1
Office block	200,000	1/2
	<u>1,641,167</u>	1/2
		<u>20</u>

Workings 1:

Date	Details	M	
(1)			
1 April 2006	New computer	10,000	1/2
31 March 2007	Depreciation	<u>2,000</u>	1/2
1 April 2007	Adjusted cost base (ACB)	<u>8,000</u>	1
(2)			
1 April 2006	New office block	200,000	1/2
31 March 2007	Depreciation	<u>0</u>	1/2
1 April 2007	ACB	<u>200,000</u>	1/2
(3)			
1 April 2006	Old motor vehicle	39,800	1/2
30 June 2006	Depreciation	<u>2,488</u>	1/2
30 June 2006	ABC	37,312	1
30 June 2006	Sale proceeds	<u>71,000</u>	1/2
	Taxable gain	<u>33,688</u>	1/2
(4)			
1 September 2006	New furniture	50,000	1/2
31 March 2007	Depreciation	<u>5,833</u>	1/2
1 April 2007	ACB	<u>44,167</u>	1
(5)			
1 April 2006	Old furniture	20,000	1/2
31 December 2006	Depreciation	<u>3,000</u>	1/2
31 December 2006	ACB	17,000	1/2
31 December 2006	Sales proceeds	<u>5,000</u>	1/2
	Allowable loss	<u>(12,000)</u>	1/2
(6)			
1 January 2007	New motor vehicle	400,000	1/2
31 March 2007	Depreciation	<u>25,000</u>	1/2
1 April 2007	ACB	<u>375,000</u>	1
(7)			
31 March 2007	New equipment	60,000	1/2
31 March 2007	Depreciation	<u>0</u>	1/2
1 April 2007	ACB	<u>60,000</u>	1/2
(8)			
(i) 1 April 2006	Furniture & fittings (100,000 – 20,000)	80,000	1/2
	Equipment	<u>400,000</u>	1/2
		480,000	
31 March 2007	Depreciation	<u>96,000</u>	1/2
1 April 2007	ACB	<u>384,000</u>	1
(ii) 1 April 2006	Old motor vehicles (800,000 – 39,800)	760,000	1/2
31 March 2007	Depreciation	<u>190,000</u>	1/2
1 April 2007	ACB	<u>570,000</u>	1
			<u>19</u>

		Marks
4 (a) Fringe benefit tax		
(i) Domestic assistance fringe benefit		
The domestic assistance fringe benefit arises where an employer provides an employee with domestic workers and pays the domestic workers on behalf of the employee. Security guard provided by employer is however an exempt fringe benefit.		1
The taxable value of the domestic assistance fringe benefit is the payment made by the employer to the domestic workers of the employee less any payment made to the domestic workers by the employee himself/herself.		2
(ii) Debt waiver fringe benefit		
The debt waiver fringe benefit arises where and when an employer waives payment of an employee's indebtedness to the employer or where and when the employer pays debts of the employee to third parties.		1
The taxable value of the debt waiver fringe benefit is the amount waived by the employer or the amount repaid to the third parties by the employer on behalf of the employee.		2
(b) (i) Farming income		
– Income received by a resident individual from primary farming, which is subsistence in nature, carried on in Lesotho is exempt from income tax.		2
– Income from commercial farming is subject to income tax.		1
(ii) Lump sum received by a resident from a resident superannuation fund		
– Lump sum receipt from a complying superannuation fund is subject to tax at 25%.		1
– However, if the lump sum receipt from the complying superannuation fund is re-invested into another complying superannuation fund or it is invested into an annuity within 90 days of being received, it is exempt from income tax.		2 ¹ / ₂
– Lump sum receipt from a non-complying superannuation fund is included in gross income and it is taxable at normal marginal rates.		1 ¹ / ₂
(iii) Distributive share of a partnership income by a non-resident partner		
– Distributive share of only a Lesotho-source partnership income by a non-resident partner is included in the non-resident's gross income. The non-resident partner's distributive share is taxed at 25% unless the non-resident has elected to be taxed at normal marginal rates.		2 ¹ / ₂
– Non-resident partner's distributive share of a partnership loss is allowed as a deduction to the non-resident partner only to the extent that, had it not occurred, it would have been a Lesotho-source income.		2 ¹ / ₂
(iv) Property income payable to a non-resident		
– 25% withholding tax is payable on the gross amount of Lesotho-source dividend, royalty, interest and natural resource payments.		1
– 15% withholding tax is payable on the gross amount of Lesotho-source royalty payment made in respect of technology used in production of manufacturing income, and on the gross amount of Lesotho-source interest payment made in respect of a loan used in production of manufacturing income.		2 ¹ / ₂
– There is no withholding tax on Lesotho-source dividend paid out of manufacturing income.		1/2
		<u>23</u>
Total marks		<u>100</u>