Answers

Marks

1 (a) An individual is a Lesotho resident when he/she:

– Has a normal place of abode in Lesotho and is present in Lesotho for any part of the year of assessment. 1

– Is present in Lesotho on more than 182 days in any consecutive period of 12 months which includes all or part of the year of assessment. 1

– Is an official of Lesotho Government posted overseas during the year of assessment. ½

– Is otherwise a resident. A number of factors are taken into consideration and in this case no single factor is decisive. ½

These include:

– physical presence in Lesotho during the year of assessment;
– frequency, regularity and duration of visits;
– maintenance of place of abode within Lesotho during the period of absence;
– family and business ties;
– life style; and nationality. ½ mark each, maximum 1

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(b) A non-resident is taxed on Lesotho source income only. 1

He/she is taxed at a standard rate of 25%, and no personal tax credit is applicable. 1

2

(c) Orma Motor Clinic

(i) Notional chargeable income

	Business income		**Property**	
	Lesotho source	**Foreign source**	**income**	
	M	**M**	**M**	
Trading income	1,200,000	550,000		1
Interest			70,400	1
Gross income	1,200,000	550,000	70,400	
Less: deductions:				
Partners' commission	60,000	27,500	–	2
Pension (60,000*15%)	9,000	–	–	1
Other expenses	700,000	324,500	–	1
	769,000	352,000	–	6
Notional chargeable income	431,000	198,000	70,400	

(ii) Tax Payable

	Orbed M	Maher M	*Marks*
Distributive share:			
Lesotho source (431,000/2)	215,500	215,500	2
Foreign source (268,400/2)	134,200	–	1
Commission	43,750	30,000	2
Gross income	393,450	245,500	
Less: Pension (30,000*5%)	1,500	–	1
50% of loss bfwd	37,750	–	1
Chargeable income	354,200	245,500	
40,368 at 22%	8,881	8,881	1
Balance at 35%	109,841	71,796	1
	118,722	80,677	
Less: personal tax credit	5,000	5,000	1
	113,722	75,677	
Less: foreign tax credit (W)	11,264	0	
Net tax payable	102,458	75,677	

Workings:

Average tax credit 113,722/354,200	32%	1
Lesotho average tax (70,400*32%)	22,528	
Foreign tax paid	23,900	
Foreign tax credit available	22,528	1
Foreign tax credit to Orbed (22,528/2)	11,264	1
		13
		25

2 Caledon Breweries Ltd

(a) Income tax instalments

Each instalment	(70,400*30%)	21,120	1
Due dates for each instalment			
First instalment	31 March 2011		1
Second instalment	30 June 2011		½
Third instalment	30 September 2011		½
			3

(b) Depreciation allowance

Workings:

Depreciation allowance:

	M	
Sold vehicle:		
1 June 2010 cost	140,700	
Depreciation (25%) (4/12)	11,725	1
30 September 2010 ACB	128,975	
Year ended 30 September 2011:		
Depreciation to 31 March 2011 (25%) (6/12)	16,122	1
ACB	112,853	
Proceeds	80,500	
Loss	(32,353)	1

			Marks
Other company motor vehicles:			
1 February 2010 cost		920,100	
Depreciation (25%) (8/12)		153,350	1
30 September 2010 ACB		766,750	
Year ended 30 September 2011:			
Depreciation (25%)		191,688	1
30 September 2011 ACB		575,062	
Industrial buildings:			
1 April 2010 cost		180,000	
Depreciation (5%) (6/12)		4,500	1
30 September 2010 ACB		175,500	
Year ended 30 September 2011:			
Depreciation (5%)		8,775	1
30 September 2011 ACB		166,725	
Plant and equipment – old:			
1 June 2010 cost		520,900	
Depreciation (20%) (4/12)		34,727	1
30 September 2010 ACB		486,173	
Year ended 30 September 2011:			
Depreciation (20%)		97,235	1
30 September 2011 ACB		388,938	
Plant and equipment – new:			
1 May 2011 cost		35,600	
Depreciation (20%) (5/12)		2,967	1
30 September 2011 ACB		32,633	
Total depreciation (16,122 + 191,688 + 8,775 + 97,235 + 2,967) = 316,787			10

(c) Chargeable income for the year ended 30 September 2011

	M	M	
Operating profit		785,195	
Add: Disallowed expenses			
Depreciation on straight-line basis	347,655		1
50% entertainment expenses	12,750		1
Training for resident non-resident	3,500		1
R&D (35,600 + 17,350)	52,950		2
		416,855	
Less: accounting profit on sale of motor vehicle	84,420		1
Loss on sale of vehicle (see (b))	32,353		½
Exempt dividends	35,600		1
		(152,373)	
Tax deductible expenses			
Depreciation allowance (as in (b) above)		(316,787)	½
Fringe benefit tax (40,200/0·65*35%)		(21,646)	2
Chargeable income		711,244	10

(d) Tax payable for the year ended 30 September 2011

Chargeable income		711,244	
Manufacturing income:			
(711,244 – (60,900 + 30,900)	619,444 at 10%	61,944	1
Non-manufacturing income	91,800 at 25%	22,950	2
		84,894	
Less: foreign tax credit (see working)		(7,308)	
Withholding tax (30,900*10/100)		(3,090)	1
Instalments (3*21,120 as in (a) above)		(63,360)	1
Net tax payable		11,136	

			Marks
Working:			
Average tax rate: 84,894/711,244	12%		1
Foreign tax credit for foreign dividends:			
Tax paid abroad	16,400		
Lesotho tax (60,900*12%)	7,308		
Foreign tax credit available	7,308		1
			7
			30

3 (a) The taxable supplies (including zero-rated supplies) for Lehakoe Hardware for the 12 month period from September 2010 to August 2011 amount to M532,400 which is in excess of the registration threshold of M500,000. 3

(b) Lehakoe Hardware should have registered on or before 14 September 2011. 1

(c) Additional tax for failure to apply for registration is double the amount of VAT payable during the period, commencing on the day by which the person was required to register and lasting until either the person files an application for registration with the Commissioner or the Commissioner registers the person. 3

(d) **VAT payable/refundable**

Input VAT	M	
Opening stock (2,565 + 1,995)*14/114	560	2
Purchases (16,500*14/114)	2,026	1
General expenses (22,500*14/114)	2,763	1
	5,349	
Output VAT		
Sales: Local (51,600*90%)*14/114	5,703	1½
Exports (zero rated)	0	1
	5,703	
VAT payable (5,703 – 5,349)	354	½
The due date of payment is on or before 20 December 2011		1
		8
		15

Tutorial note: *Input VAT allowable for opening stock relates to stock acquired in two months prior to registration, which is stock for September and October in this case.*

4 (a) Employment income does not include the following:

(1) Benefits included in the taxable fringe benefit taxable amount subject to fringe benefit tax.
- Car or housing fringe benefits

(2) Exempt fringe benefits
- Meal or refreshments, or medical expenditure fringe benefits available to non casual employees on equal terms.

(3) Reimbursement of expenditure incurred by an employee on behalf of an employer for which the employer would be entitled to a deduction.
- Travel expenses incurred by an employee while onduty on behalf of the employer

(4) Passage granted to an employee at commencement or termination of employment contract.
- Food or housing or any form of allowance which does not form part of employment income given by employer to employee to meet day to day expenses.

½ mark for each type and ½ mark for each example, maximum 3

		Marks
(b)	**Tax treatment of the benefits and payments to Mr Mafa.**	
(1)	Benefits paid in cash are subject to tax as if they were payments of cash salary.	½
	This will apply to the housing allowance and the motor car running costs.	1
	The cost of the benefits paid in cash will be an allowable deduction to Lesotho Communications Authority (LCA).	½
(2)	Provision of a motor car fringe benefit is a taxable fringe benefit.	½
	Fringe benefit tax (FBT) payable by LCA is M11,449	1½
	(340,200*15%*5/12)*35/65	
	FBT of M11,449 is an allowable deduction to LCA.	½
(3)	A medical aid scheme provided to every employee on equal terms is an exempt fringe benefit.	½
	The cost of the contribution (300*5) per person is an allowable deduction to LCA.	½
(4)	Provision of domestic servants is a taxable fringe benefit.	½
	FBT payable by LCA is M4,308	1
	(1,600*5)*35/65	
	Provision of security guard is an exempt fringe benefit.	½
	The cost of the provision (500*5) is an allowable deduction to LCA.	½
		8

(c) M63,497 should be remitted to the Lesotho Revenue Authority by LCA as income tax payable by Mr Mafa for the year ended 31 March 2011. ½

Workings:

	M	
Basic salary (35,400*5)	177,000	½
Housing allowance (3,540*5)	17,700	½
Motor car running cost (3,200*5)	16,000	½
Chargeable income	210,700	
Tax payable:		
First M40,368 at 22%	8,881	½
M170,332 at 35%	59,616	1
Personal tax credit	(5,000)	½
	63,497	4
		15

5 Dr Akolu

(a) Chargeable income

	M	M		Marks
Land				
Sale price		90,500		½
ACB (35,000*200/170)		(41,176)		1½
Chargeable gain			49,324	
Shares				
Sale price		75,000		½
ACB		(55,000)		1
Chargeable gain			20,000	
Building premises				
Sale price		382,000		½
ACB (130,000*210/150)	(182,000)			1½
(50,000 – 10,000)	(40,000)	(222,000)		1
Chargeable gain			160,000	
Equipment				
Sale price		450,000		½
ACB	(210,000)			½
(12,000 – (12,000*20%*5/12))	(11,000)	(221,000)		1½
Chargeable gain			229,000	
			458,324	
Less capital loss brought forward			(1,200)	1
Chargeable gain			457,124	
Business income			26,200	1
Chargeable income			483,324	11

Tutorial note: *capital loss of M1,200 brought forward from previous year of assessment cannot be set off against any other income but will be carried forward and set off against chargeable gain in the following year of assessment.*

(b) A gain or loss is not recognised in the case of

– a transfer of assets between spouses 1
– a transfer of assets between former spouses as part of divorce settlement, or 1
– an involuntary conversion of an asset, where the proceeds are reinvested in an asset of a like kind 2

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