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# Answers

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*Marks*

**1 Mr Mosala**

**(a) Chargeable income for the year ended 31 March 2009**

	<b>M</b>	
Employment income:		
Basic salary	102,000	1/2
Award	1,500	1
Income from taxi business	18,000	1
	<u>121,500</u>	
Business income:		
Revenue	150,200	1/2
Less: Expenses:		
Wages and salaries	42,000	1/2
Fuel	33,600	1/2
Repairs and maintenance	22,000	1/2
Permits	200	1/2
Interest (23,600 – 6,500) (Note 2)	17,100	1
Insurance (15,500 – 5,500) (Note 3)	10,000	1
Road fines (disallowed) (Note 4)	–	1
Depreciation allowance	24,900	1/2
	<u>400</u>	
Rental	54,000	1/2
Less repairs and maintenance (36,600 – 24,100) (Note 5)	12,500	1
	<u>41,500</u>	
Chargeable income (121,500 + 400 + 41,500)	<u>163,400</u>	
Note 1: the employer may be liable to fringe benefits tax on the cost of the meals, medical aid and airtime but there is no personal liability for the employee		1
Note 2: the interest on the private car is not a business expense		1/2
Note 3: insurance premiums paid to a non-resident insurer are not deductible		1/2
Note 4: Fines in respect of a breach of law are not deductible		1/2
Note 5: the cost of the extension is capital expenditure		1/2
		<u>13</u>

**(b) Mr Mosala's tax payable for the year ended 31 March 2009**

	<b>M</b>	
37,378 at 22%	8,223	
Balance at 35%	44,108	
	<u>52,331</u>	1
Less withholding tax on salary (Working 1)	(26,341)	1
Net tax	<u>25,990</u>	
Payable on or before 30 June 2009		1
Working 1;		
Salary	102,000	
37,378 at 22%	8,223	1/2
64,622 at 35%	22,618	1/2
Less personal tax credit	(4,500)	1
Tax paid on salary	<u>26,341</u>	5

**Marks**

- (c) If the meals and refreshments, and medical aid were provided to all employees on equal basis, they would constitute exempt fringe benefits and an allowable deduction to Khanya. However, as matters stand, Khanya is liable to fringe benefits tax on them.

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- (d) Tax payable by Mr Mosala for the year ended 31 March 2009 if employed by a tax exempt Public International Organisation (PIO)

	M	
Chargeable income (as above)	163,400	
Add fringe benefits:		
Meals and refreshments	3,600	1
Medical aid	26,400	1
Cell-phone allowance	21,600	1
Security (exempt)	–	1
Chargeable income	<u>215,000</u>	<u>4</u>
		<b><u>25</u></b>

**2 Father and Sons Contractors (FSC)**

- (a) Advance corporation tax (ACT)

	M	
ACT (25,000 * 25/75)	8,333	1
Less part of instalment paid for October 2008–March 2009	<u>8,333</u>	<u>1½</u>
ACT paid/payable	<u>–</u>	<u>½</u>
		<u>3</u>

- (b) Chargeable income for the year ended 30 September 2009

	M	
Business income:		
Construction income	1,200,000	½
Gain on disposal of van (120,500 – 110,600)	<u>9,900</u>	<u>2</u>
	<u>1,209,900</u>	
Less operating expenses:		
Depreciation allowance (Working)	182,182	½
Subcontracting fees	35,000	½
Other operating expenses	<u>540,000</u>	<u>½</u>
	<u>757,182</u>	
	<u>452,718</u>	<u>½</u>
Property income:		
Interest from local banks (45,000 * 100/90)	50,000	1
Interest from Standard Bank (South Africa)	74,635	1½
Dividends from Lesotho subsidiary (exempt)	–	1
Dividends from Zambian subsidiary	<u>31,857</u>	<u>1½</u>
	<u>156,492</u>	
Chargeable income	<u>609,210</u>	<u>1</u>
Working:		
Depreciation allowance:		
	M	
Vehicles		
1 December 2007 cost	920,500	
2007/08 depreciation (920,500 * 25% * 10/12)	<u>(191,771)</u>	<u>1½</u>
1 October 2008	728,729	
2008/09 depreciation	<u>(182,182)</u>	<u>1</u>
		<u>13</u>

**(c) Tax payable for the year ended 30 September 2009**

				M	
Tax payable (609,210 * 25%)				152,303	1
Less foreign tax credit (Working)				(17,699)	1/2
Withholding taxes on:					
Interest (50,000 – 45,000)	5,000				1
Construction income (1,200,000 * 45% * 5%)	<u>27,000</u>			(32,000)	1
				<u>102,604</u>	
Less Instalments of tax (24,150 * 3)				(72,450)	1
ACT				–	1/2
Net tax payable				<u>30,154</u>	
Due date on or before 31 December 2009					1
Working:					
Average Lesotho tax rate = 152,303/609,210 = 25%					1
Foreign tax credit					
<b>Foreign income</b>	<b>Amount</b>	<b>Tax paid</b>	<b>Lesotho tax</b>	<b>Credit available</b>	
Interest	<u>74,635</u>	<u>9,735</u>	<u>18,659</u>	<u>9,735</u>	2
Dividends	<u>31,857</u>	<u>9,557</u>	<u>7,964</u>	<u>7,964</u>	2
				<u>17,699</u>	<u>11</u>

**(d) Income tax instalments for the year ending 30 September 2010**

Each tax instalment (102,604 * 30%)		30,781	1 1/2
Due dates for instalments:			
First instalment	31 March 2010		1/2
Second instalment	30 June 2010		1/2
Third instalment	30 September 2010		1/2
			<u>3</u>
			<b><u>30</u></b>

**3 Rantekoa and Associates****(a) The differences between cash and invoice methods of accounting for value added tax (VAT) are as follows:**

(i) The cash method allows a vendor to account for VAT on the basis of income received in cash form rather than income earned but not yet received in cash during an assessment period.	1
(ii) The cash method only allows a vendor to account for costs paid rather than costs incurred but not yet paid during an assessment period.	1
(iii) The invoice method allows a vendor to account for all income earned, whether or not cash has been received in respect thereof.	1
(iv) The invoice method also allows a vendor to account for all costs incurred, whether or not they have been paid.	1
	<u>4</u>

## (b) VAT payable or refundable for the month of September 2009

	M	
Output VAT:		
Total income	32,500	$\frac{1}{2}$
Less amounts not yet received ( $32,500 \times 30\%$ )	(9,750)	1
Taxable receipts	<u>22,750</u>	$\frac{1}{2}$
Output VAT ( $22,750 \times \frac{14}{114}$ )	<u>2,794</u>	1
Input VAT:		
Total costs	22,500	$\frac{1}{2}$
Less rent owing	(18,000)	1
Taxable costs	<u>4,500</u>	$\frac{1}{2}$
Input VAT ( $4,500 \times \frac{14}{114}$ )	<u>553</u>	1
VAT payable ( $2,794 - 553$ )	<u>2,241</u>	1
		<u>7</u>

## (c) Conditions to be met for a vendor to use the cash method are as follows:

(i) Vendor must apply in writing to the Commissioner of VAT, requesting use of the method.	1
(ii) Approval from the Commissioner of VAT to use the method must also be in writing.	1
(iii) 90% or more of total value of the supplies made by the vendor should consist of supply of services.	2
	<u>4</u>
	<b>15</b>

## 4 Shaluza Computers Partnership

## (a) Notional chargeable income for the year ended 31 March 2009

	Business income		Property	
	Lesotho source	Foreign source	M	
	M	M		
Trading income	600,000	420,900		1
Interest – ABSA			60,533	1
Gross income	<u>600,000</u>	<u>420,900</u>	<u>60,533</u>	
Less: expenses:				
Partners' salaries	78,000	78,000	–	1
Pension ( $13\% \times 156,000$ )/2	10,140	10,140	–	2
Other expenses	88,510	62,090	–	1
	<u>(176,650)</u>	<u>(150,230)</u>	<u>–</u>	
Notional chargeable income	<u>423,350</u>	<u>270,670</u>	<u>60,533</u>	2
				<u>8</u>

## (b) Chargeable income of each partner for the year ended 31 March 2009

	Resident Lerato	Resident non resident Shaluza	
	M	M	
Distributive share:			
Lesotho source ( $423,350/2$ )	211,675	211,675	2
Foreign source ( $331,203/2$ )	165,602	–	1
Salaries	78,000	–	1
Gross income	<u>455,277</u>	<u>–</u>	
Less Pension			
( $78,000 \times 7\%$ )	(5,460)	–	2
50% of loss brought forward	<u>(16,200)</u>	<u>–</u>	1
Chargeable income	<u>433,617</u>	<u>211,675</u>	7
			<b>15</b>

## 5 Mr Khau

## (a) (i) Package with a choice to be paid cash car and housing allowances

	M	
Basic salary	546,000	1/2
Car allowance	25,500	1/2
Housing allowance	102,000	1
Entertainment allowance	24,000	1/2
Less superannuation fund contribution	(50,010)	1/2
Add gratuity	136,500	1/2
Chargeable income (no marks)	783,990	
Less tax payable (Working 1)	(265,037)	1/2
Net pay	518,953	1/2
Working 1:		
37,378 at 22%	8,223	1/2
746,612 at 35%	261,314	1/2
Less personal tax credit	(4,500)	1/2
	265,037	6

## (ii) Package without a choice to be paid cash car and housing allowances

	M	
Basic salary	546,000	1/2
Entertainment allowance	24,000	1
Less superannuation fund contribution	(50,010)	1/2
Add gratuity	136,500	1/2
Chargeable income (no marks)	656,490	
Less tax payable (Working 2)	(220,412)	1/2
Net pay	436,078	1/2
Working 2:		
37,378 at 22%	8,223	1/2
619,112 at 35%	216,689	1/2
Less personal tax credit	(4,500)	1/2
	220,412	5

- (iii) Mr Khau would be better off in cash terms if he chose to be paid the cash allowances of M25,500 as car allowance and M102,000 as housing allowance, as his net pay will be M518,953 with the cash allowances compared to M436,078.

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However, he will only have the net-of-tax allowance available to spend on car costs and provision of accommodation, whereas IDM would be prepared to spend the full amount.

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