Fundamentals Level – Skills Module

Taxation (Lesotho)

Monday 7 June 2010

Paper F6 (LSO)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

SUPPLEMENTARY INSTRUCTIONS

1 Calculations and workings need only be made to the nearest M.
2 All apportionments should be made to the nearest month.
3 All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions:

Second Schedule
(Section 9(1))
Resident individual income tax rates

Chargeable income	Rate of tax
First M40,368	22%
Over M40,368	35%
Commercial farming income	15%
Personal tax credit	M5,000

Third Schedule
(Section 10)
Resident company income tax rates

Nature of income	Rate of tax
1. Manufacturing income derived from a manufacturing activity of an industrial, scientific or educational nature which promotes industrial, scientific, educational or other development within Lesotho.	10%
2. Other manufacturing income	10%
3. Other income	25%

Fourth Schedule
(Sections 109, and 116)
Tax rate for trusteees, fringe benefits and electing non-residents

The applicable rate is 35%

Sixth Schedule
(Section 41)
Declining balance depreciation rates

Group	Depreciation rate	Assets included
1	25%	Automobiles, taxis, light general purpose trucks, tractors for use over-the-road, special tools and devices.
2	20%	Office furniture, fixtures and equipment, computers and peripheral equipment and handling equipment, buses, heavy general purpose trucks, trailers and trailer mounted containers, construction equipment.
3	10%	Any depreciable asset not included in another group.
4	5%	Railroad cars and locomotives and railroad equipment, vessels, barges, tugs and similar water transportation equipment, industrial buildings, engines and turbines, public utility plant.
5	100%	Mining

Value added tax (VAT)

Standard rate	14%
Reduced rate	5%

ALL FIVE questions are compulsory and MUST be attempted

1 Mr Williams, an expatriate taxpayer, was awarded a two-year employment contract by Lesotho Surveyors and Engineers (LSE), a resident company, with effect from 1 April 2008 to 31 March 2010. He was employed as a technical adviser.

In the year ended 31 March 2010, he received the following benefits and payments from LSE:

Benefits and payments relating to employment by LSE:

(1) Basic gross salary of M 420,000.

(2) Company car valued at M345,000 at 1 April 2009. The cost of the car was M390,000 when it was first provided to Mr Williams in April 2008. LSE paid a monthly car allowance of M3,600 to Mr Williams for the car maintenance and running costs.

(3) Housing allowance of 10% of the basic salary, paid to Mr Williams.

(4) Cellphone allowance of M1,000 per month, payable to a resident utility company.

(5) Entertainment allowance of M1,800 per month, paid to Mr Williams.

(6) Holiday travel allowance of M6,200 per annum, paid to Mr Williams.

(7) Reimbursement of M3,200 per month to Mr Williams in respect of electricity and water consumption. The amount includes M800 for a night watchman.

(8) Mr Williams contributed M2,200 on a monthly basis to an approved employer provided superannuation fund. LSE contributed M4,400 per month on his behalf into the fund. On termination of his employment contract, LSE paid him a lump sum of M60,000. In addition, Mr Williams had a two-year self provided complying superannuation fund into which he contributed M3,500 per month out of his employment income. On maturity of the fund, he received M96,600. He elected not to have the lumpsum payments included in his gross income.

(9) On termination of his employment contract, he received M630,000 from LSE, comprising gratuity and severance payments amounting to M535,500 and M94,500, respectively.

In the year ended 31 March 2010 Mr Williams also received the following payments relating to other sources:

		M
–	Foreign source dividends	21,300
–	Lesotho source interest (gross)	12,500
–	Foreign source gain from disposal of shares	16,400

Required:

(a) Calculate the income tax payable by Mr Williams for the year of assessment ended 31 March 2010. In arriving at the taxable amounts, your answer should include all payments received by Mr Williams, indicating by the use of a zero those on which Mr Williams is not taxable. (13 marks)

(b) Calculate the income tax withheld by superannuation funds and payable by Mr Williams on the lumpsum payments. (2 marks)

(c) Calculate the fringe benefits tax payable by LSE in respect of the benefits and payments provided to Mr Williams in the year of assessment ended 31 March 2010. (6 marks)

(d) Briefly explain how Mr Williams could have avoided the income tax paid on his lumpsum payments. (4 marks)

(25 marks)

2 PPH (Pty) Ltd is a Lesotho resident company and a wholly owned subsidiary of a South African company. PPH has recently opened its operation in Lesotho. Its core business is general retail trade.

PPH's financial statements for the year ended 31 December 2009 included the following information. Those are the first statements since its inception in December 2008:

	Note	M
Trading income (inclusive of 14% VAT)		950,200
Net interest from Std Lesotho bank (Lesotho resident)		32,500
Net interest from First National Bank (South Africa)		46,600
Related withholding tax		11,650
Dividends from Lesotho subsidiary (gross)		7,500
Net dividends from South African subsidiary		11,400
Related withholding tax		4,100
Proceeds from disposal of shares	1	21,750
Operating expenses	2	530,150

Notes:

1. Proceeds from disposal of shares
   Those relate to disposal of 1,500 shares, which were bought in 2005 from one of the South African companies at M7·00 per share. The market value of the shares at that time was M8·50 per share.

2. Operating expenses
   Those include the following:
   (i) Advertising and other preliminary expenses of M35,500, which were incurred by PPH prior to commencement, as part of start-up costs.
   (ii) Cost of a five-year franchise agreement, amounting to M40,000 paid to the head office at the commencement date.
   (iii) Management fees amounting to M25,700 payable to the head office during the year.
   (iv) Approved training expenses of M9,600 in relation to training which was provided to three departmental supervisors, namely, Martha and Peter, who are Lesotho citizens, and Susan, who is a South African citizen. The company incurred M3,200 per person.

Additional information:
– The company paid dividends amounting to M25,000 on 1 November 2009. They were not paid out of qualified income.

Required:

(a) Calculate advance corporation tax (ACT) payable by PPH (Pty) Ltd in respect of the dividends paid on 1 November 2009 and state the due date of payment. (2 marks)

(b) Explain alternative ways in which ACT can be utilised (set off). (4 marks)

(c) Calculate corporation tax payable by PPH (Pty) Ltd for the year ended 31 December 2009 and state the due date of payment, clearly identifying any items which are not taxable or not deductible. (18 marks)

(d) Calculate withholding tax payable by PPH (Pty) Ltd in respect of the cost of trade marks and management fees in note 2(ii) and (iii) above. (2 marks)

(e) (i) Explain the tax treatment of profits repatriated by a Lesotho branch of a foreign company. (2 marks)

(ii) Assume that PPH (Pty) Ltd was a Lesotho branch of a South African company and 20% of annual profits were to be repatriated to its head office in South Africa, and for the year ended 31 December 2009 the branch had a chargeable income of M320,600. Calculate the tax payable by PPH (Pty) Ltd on repatriated profits.

(2 marks)

(30 marks)

3 2 Sisters Boutique (Pty) Ltd, a resident company and a value added tax (VAT) vendor, operates a boutique in Maputsoe. The company has voluntarily registered for VAT as it does not meet the minimum VAT registration threshold.

The following information relates to 2 Sisters Boutique (Pty) Ltd's transactions (inclusive of VAT where appropriate) for the month of April 2010:

Receipts:	Note	M
Local sales		22,900
Export sales		11,430
Payments:		
Purchases of goods for resale	1	15,200
Rent	2	1,600
Transport		700
Water consumption		70
Electricity		160
Telephone charges		230
Accounting fees	3	350
Sundry expenses	4	420
Furniture and equipment	5	7,500

Notes:

1. Purchases are all subject to VAT at the rate of 14%. They include a pair of sandals which was given to Mary, one of the employees as a gift for best performer of the year. The cost of the sandals to 2 Sisters Boutique (Pty) Ltd, was M180. The selling price would be M250.
2. Rent is payable on monthly basis to Makhetha Estates, a local vendor.
3. Accounting fees were paid to Senatsi Business Consultants, Lesotho residents, who have not yet registered for VAT.
4. Sundry expenses are all inclusive of tax at the rate of 14%.
5. Furniture and equipment were supplied by a vendor. They include installation costs amounting to M300 paid to Bakoena Carpenters Pty, a local vendor.

Required:

(a) Briefly explain the circumstances in which a person is obliged to register for value added tax (VAT) (i.e. compulsory VAT registration) (2 marks)

(b) State any ONE benefit to be enjoyed by the 2 Sisters Boutique (Pty) Ltd from voluntary registration. (1 mark)

(c) Calculate the following for 2 Sisters Boutique (Pty) Ltd for the month of April 2010:

(i) Input VAT; (8 marks)

(ii) Output VAT; (3 marks)

(iii) VAT payable to/refundable from the Lesotho Revenue Authority. (1 mark)

Note: Your calculations should clearly indicate any zero rated, exclusions and exemptions where appropriate.

(15 marks)

4 Lithebe Contractors Pty is a Lesotho resident company which has been in the construction business since 2001. In February 2007, the company won a tender from the Government of Lesotho to build five primary schools in the Mafeteng District over a period of three years. The work was scheduled to start in April 2007 and be completed on 31 March 2010. The contract price amounted to M1,500,000, payable in equal instalments over the three years.

The following information relates to the total income received and costs incurred by Lithebe Contractors Pty over the period of three years of assessment:

Years	Income	Costs
	M	M
2007/08	500,000	550,000
2008/09	500,000	500,000
2009/10	500,000	100,000

Required:

(a) Calculate the chargeable income of Lithebe Contractors Pty for each of the three years of assessment. (9 marks)

(b) Explain the alternative ways in which a contract overall loss may be utilised for tax purposes, including any limitations or conditions which must be met. (6 marks)

(15 marks)

5 In October 2007, Mrs Nkune, a Lesotho resident and a well established business woman, was involved in a car accident and died instantly. She was a divorcee, and was survived by one child, Paul, who was aged 12 years at the time.

Following Mrs Nkune's untimely death, the family agreed that her brother, Temba, should be an administrator of her estates until Paul turns 25 years, which will be in 2020.

The following information relates to the chargeable income of Mrs Nkune's estates for the years of assessment ended 31 March 2008 to 2010:

Assessment Years	2007/08	2008/09	2009/10
	M	M	M
Chargeable income	120,000	99,500	82,620

Required:

(a) Outline the tax treatment of the estates of the deceased persons. (10 marks)

(b) Calculate the tax payable in respect of Mrs Nkune's estates for the three years of assessment shown above. (5 marks)

(15 marks)

End of Question Paper