Fundamentals Level – Skills Module

# Taxation (Lesotho)

Tuesday 6 December 2011

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 3–4.

**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**

**This is a blank page.**
**The question paper begins on page 3.**

## 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 tax 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% |
| 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% |
| 4. Commercial farming income | 10% |

Fourth Schedule
(Sections 109, and 116)
**Tax rate for trustees, 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% |
| Electricity, telephone, water and sewerage rate | 5% |
| Basic foods and agricultural inputs | 0% |

**ALL FIVE questions are compulsory and MUST be attempted**

1 **(a) State the factors which are used to determine whether an individual is a resident of Lesotho.** (4 marks)

**(b) Explain the basis on which a non-resident is taxed in Lesotho.** (2 marks)

**(c)** Orma Motor Clinic is a resident partnership owned by Orbed and Maher. Orbed is a Lesotho citizen. He resides in Butha-Buthe, Lesotho. Maher is a South African citizen. He resides in Fourisburg in South Africa. He commutes everyday to and from Butha-Buthe, where their business is located. Three years ago, the partners opened another branch in Fourisburg. The partners share profits and losses of the business equally.

The following summarises the trading results of the partnership for the year end 31 March 2011.

| | Note | M |
|---|---|---|
| Trading income: | | |
| Butha-Buthe | | 1,200,000 |
| Fourisburg branch | | 550,000 |
| Foreign source interest (net) | | 46,500 |
| Related withholding tax | | 23,900 |
| Partners' commission | 1 | 87,500 |
| Other operating expenses | | |
| Butha-Buthe | | 700,000 |
| Fourisburg | 2 | 400,000 |

Notes:

1. Partners earn a commission of 5% of the trading income.
2. The business in Fourisburg has been experiencing recurring losses since its inception. Included in other operating expenses is a loss of M75,500 brought forward from the year of assessment ended 31 March 2010.

Additional information:

Each partner contributes 5% of his Lesotho-source commission to a resident complying superannuation fund. The partnership contributes an amount equivalent to 17% of their commission on their behalf. The contributions are not included in the information stated above.

**Required:**

**(i) Calculate the notional chargeable income of Orma Motor Clinic for the year ended 31 March 2011;** (6 marks)

**(ii) Calculate the Lesotho tax payable by each of the partners for the year ended 31 March 2011.** (13 marks)

**(25 marks)**

**2** Caledon Breweries Ltd is a Lesotho resident company which has been trading for the last five years. The company has been engaged in production of a wide range of beverages for the local market.

The following information relates to the trading results for Caledon Beverages Ltd for the year ended 30 September 2011.

| | Notes | M | M |
|---|---|---|---|
| Trading income | | | 7,532,900 |
| Cost of sales | | | (6,000,600) |
| Gross profit | | | 1,532,300 |
| Other income | 1 | | 211,820 |
| *Less:* operating expenses | | | |
| Staff costs | 2 | 420,700 | |
| Research and development | 3 | 70,600 | |
| Entertainment | | 25,500 | |
| Depreciation | 4 | 347,655 | |
| Other expenses (all deductible) | | 94,470 | |
| | | | (958,925) |
| Operating profit | | | 785,195 |

**Notes:**

1. Other income comprises the following:

   (i) Profit of M84,420 on the sale of a company motor vehicle.

   On 31 March 2011, the company sold one of its motor vehicles for M80,500. The motor vehicle cost M140,700 when it was acquired on 1 June 2010.

   (ii) Dividends received:

   These relate to Lesotho-source and foreign-source dividends. Lesotho-source dividends amounted to M35,600. Foreign-source dividends, including foreign tax paid of M16,400, amounted to M60,900.

   (iii) Interest received:

   Interest of M30,900 was earned from local financial institutions. It includes relevant withholding tax which was withheld at source.

2. Staff costs:

   These include approved training costs with regard to two supervisors from the company's production section. One supervisor was a resident employee while the other one was a resident non-resident employee. The company incurred costs of M3,500 per person. The training program was conducted by one of the local training institutions.

3. Research and development includes the following:

   (i) M17,650 incurred in the process of re-designing the production operations with a view to enhance efficiency.

   (ii) New plant purchased at a cost of M35,600 on 30 April 2011.

   (iii) M17,350 donated to the local research institutions.

4. Depreciation:

   It is the policy of the company to calculate depreciation on the straight-line basis on all assets of the company which are not sold by the year end.

**Other relevant information:**

(i) The following is the company's summarised fixed asset register for the year ended 30 September 2011:

| | Acquisition date | Cost | Rate | Depreciation |
|---|---|---|---|---|
| Industrial buildings | 1 April 2010 | 180,000 | 10% | 18,000 |
| Office buildings | 1 April 2009 | 450,000 | 15% | 67,500 |
| Motor vehicles | 1 February 2010 | 920,100 | 20% | 184,020 |
| Plant and equipment | 1 June 2010 | 520,900 | 15% | 78,135 |
| | | | | 347,655 |

(ii) For the year ended 30 September 2010, the company's tax payable amounted to M70,400. This amount excludes M5,400 and M2,700 for foreign tax and withholding taxes, respectively. There was no advance corporation tax (ACT) paid.

(iii) The taxable values of fringe benefits provided by the company during the year amounted to M40,200. However, there is no record of the fringe benefits in the company's books.

(iv) Operating expenses are all attributable to production activities.

**Required:**

**(a) Calculate the income tax instalments paid by Caledon Breweries Ltd for the year ended 30 September 2011 and state the dates on which each instalment was due.** (3 marks)

**(b) Calculate the depreciation allowance claimable by Caledon Breweries for the year ended 30 September 2011.** (10 marks)

**(c) Calculate the chargeable income of Caledon Breweries for the year ended 30 September 2011.**

Note: your calculations should start with the figure for the operating profit. (10 marks)

**(d) Calculate the tax payable by Caledon Breweries for the year ended 30 September 2011.**

Note: your calculations should start with the chargeable income calculated in (c) above. (7 marks)

**(30 marks)**

**3** Lehakoe Hardware commenced its business in September 2010. The company is situated in Maputsoe, Lesotho, where it supplies the local community, together with people from Ficksburg in South Africa, with building materials. Since its inception, the company has not yet registered for value added tax (VAT).

The following sales figures were extracted from the company's general ledger:

| | | M |
|---|---|---|
| September | 2010 | 37,000 |
| October | 2010 | 35,200 |
| November | 2010 | 40,000 |
| December | 2010 | 42,000 |
| January | 2011 | 45,600 |
| February | 2011 | 32,000 |
| March | 2011 | 46,700 |
| April | 2011 | 45,500 |
| May | 2011 | 54,700 |
| June | 2011 | 51,200 |
| July | 2011 | 52,400 |
| August | 2011 | 50,100 |
| September | 2011 | 56,300 |
| October | 2011 | 53,800 |
| November | 2011 | 51,600 |

**Additional information:**

(i) All figures are inclusive of VAT where appropriate.

(ii) 10% of the monthly sales above constitutes export sales to Ficksburg.

(iii) In November 2011, the company's cost of sales was made up of the following:

| | M |
|---|---|
| Opening stock | 5,700 |
| Purchases | 16,500 |
| | 22,200 |
| Closing stock | (4,300) |
| | 17,900 |

The opening stock of M5,700 relates to purchases for August, September and October 2011 amounting to M1,140, M2,565 and M1,995, respectively.

(iv) General operating expenses for November 2011 (all taxable at 14%) amounted to M22,500.

**Required:**

**(a)** **Explain, with supporting calculations, why Lehakoe Hardware is obliged to register for value added tax (VAT).** (3 marks)

**(b)** **State the due date on which Lehakoe Hardware should have registered for VAT.** (1 mark)

**(c)** **Explain how the additional tax for failure to apply for VAT registration is calculated.** (3 marks)

**(d)** Assume that Lehakoe Hardware registered for VAT in November 2011, and that Lehakoe Hardware met all the necessary conditions to qualify for any allowable pre-registration input VAT.

**Required:**

**Calculate the VAT that would be payable by/refundable to Lehakoe Hardware for the month of November 2011 and state the due date on which the VAT return for the month of November 2011 should be filed.**

Note: your answer should clearly show the VAT for each taxable supply, and the total input or output VAT. (8 marks)

**(15 marks)**

**4** On 1 November 2010, Lesotho Communications Authority (LCA) appointed Mr Mafa to be its new CEO. LCA is a Lesotho resident. In addition to a monthly basic salary of M35,400, Mr Mafa received the following benefits and payments which were provided to him with effect from 1 November 2010:

(1) A housing allowance of 10% of the basic salary, which is paid in the form of cash to Mr Mafa.

(2) A company car valued at M340,200 when it was first provided to Mr Mafa. LCA pays him M3,200 per month for the running costs.

(3) Monthly payment of M300 to a non-contributory medical aid scheme. The same amount is paid for each employee on monthly basis.

(4) M1,600 and M500 per month for domestic servants and a security guard, respectively.

**Required:**

**(a) State THREE types of income or benefits that are excluded from the calculation of chargeable employment income and give ONE example of each type.** (3 marks)

**(b) Explain the tax treatment in respect of each of the transactions listed above for Mr Mafa and for Lesotho Communications Authority (LCA). Treat each transaction independently and support your explanation with relevant calculations in relation to the year ended 31 March 2011.** (8 marks)

**(c) Calculate the income tax payable by Mr Mafa, which should be remitted to Lesotho Revenue Authority by LCA.** (4 marks)

**(15 marks)**

**5** Dr Akolu, a Nigerian national, has been in Lesotho for the past 15 years working as a medical practitioner. Dr Akolu is married to a Lesotho National, and in December 2010 he went back to Nigeria with his entire family. Dr Akolu owned various assets which were disposed of before his departure. The assets were disposed of as follows:

1. In May 2010, land was sold for M90,500. The land was purchased for M35,000 in September 2004.
2. In July, 2010, Dr Akolu sold his shares held in one of the local companies for M75,000. The shares were purchased in November 2009. The market value of the shares at the time of purchase amounted to M55,000.
3. In September 2010, Dr Akolu sold his building premises which were used as his surgery for M382,000. The premises were acquired in January 2002 for M130,000. In May 2010 Dr Akolu spent in aggregate M50,000 for renovation of the premises. This comprised M40,000 for extension of a waiting room, and M10,000 for minor repairs of the entire premises.
4. On 1 October 2010, Dr Akolu sold his equipment for M450,000. The adjusted cost base of the equipment on 1 April 2010 amounted to M210,000. On 1 May 2010, new equipment amounting to M12,000 was purchased.

The relevant indexation numbers are given as follows:

| | |
|---|---|
| January 2002 | 150 |
| September 2004 | 170 |
| November 2009 | 190 |
| May 2010 | 200 |
| July 2010 | 210 |
| September 2010 | 210 |

Additional information

For the year ended 31 March 2011, Dr Akolu declared a chargeable business income of M25,000. This is after deducting a capital loss of M1,200 brought forward from the previous year of assessment 31 March 2010.

**Required:**

**(a) Calculate the chargeable income for Dr Akolu for the year ended 31 March 2011.** (11 marks)

**(b) State the circumstances in which neither a gain nor a loss on disposal of assets is recognised for tax purposes.** (4 marks)

**(15 marks)**

**End of Question Paper**