

Fundamentals Level – Skills Module

Taxation (Lesotho)

Monday 7 December 2009

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 and 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

ACCA



Paper F6 (LSO)

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 M37,378	22%
Over M37,378	35%
Commercial farming income	15%
Personal tax credit	M4,500

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 rates for trustees, minors, 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

ALL FIVE questions are compulsory and MUST be attempted

- 1** Mr Mosala is a resident individual employed by Khanya News Agency Limited (Khanya) as a Marketing Director. In addition, he operates a taxi business, which is managed by his younger brother, Mojela. Mr Mosala only works at the business after hours and during weekends. He also owns rental buildings, which have been sub-let to Naleli Business Consultants (Pty) Ltd.

The following information was extracted from Mr Mosala's self assessment return for the year ended 31 March 2009:

(A) Employment income:

His gross salary for the year was M102,000. The relevant amount of tax was withheld at source each month by his employer and remitted to the Lesotho Revenue Authority (LRA).

Additional information:

- (i) Mr Mosala received free meals and refreshments from Khanya costing M300 per month. The meals are provided to only the senior employees of Khanya.
- (ii) Khanya also provided Mr Mosala with medical aid and airtime. During the year, the company contributed M2,200 per month to Mr Mosala's medical fund, and bought airtime amounting to M1,800 per month for Mr Mosala's cell-phone. Mr Mosala used the airtime for both business and private matters.
- (iii) Khanya provided him with personal security services which cost M2,000 per month.
- (iv) He received an award of M1,500 for best performance for the year from his employer.

(B) Income from taxi business:

	Notes	M
Revenue		150,200
Expenses:		
Wages and salaries	1	42,000
Fuel		33,600
Repairs and maintenance		22,000
Permits		200
Interest	2	23,600
Insurance	3	15,500
Depreciation allowance		24,900
Road fines		4,200

Notes:

- 1. Wages and salaries include M1,500 paid to Mr Mosala on a monthly basis.
- 2. M6,500 of the interest related to a bank loan for Mr Mosala's private car. The remaining interest was paid to Standard Lesotho Bank in relation to a loan obtained to purchase one of the taxis.
- 3. M5,500 of the insurance premiums was paid to Old Mutual Pty, a South African company.

(C)

	M
Rental Income	
Revenue received	54,000
Repairs and maintenance	36,600

Note: Repairs and maintenance include M24,100 for building an extension to the premises to accommodate two more tenants in future.

Required:

- (a) Compute Mr Mosala's chargeable income for the year ended 31 March 2009, clearly showing the different classes of income. Where relevant, your answer should give brief explanations of any exemptions, exclusions and disallowances. (13 marks)
- (b) Calculate the tax payable by Mr Mosala for the year of assessment ended 31 March 2009 and state the due date of payment. (5 marks)
- (c) In respect of free meals and refreshments, and medical aid referred to in Notes (A)(i) and (A)(ii) above, state what the tax treatment would be if they were provided to all employees on an equal basis. (3 marks)
- (d) Recompute Mr Mosala's chargeable income for the year ended 31 March 2009 on the assumption that his employer is a tax exempt Public International Organisation (PIO). Your answer should show exemptions and exclusions where relevant. (4 marks)

(25 marks)

- 2 Father and Sons Contractors (Pty) Ltd (FSC) is a Lesotho resident company. The core business of FSC is to carry out building construction throughout the country.

The following information relates to FSC's trading results for the year ended 30 September 2009.

	Notes	M
Business income:		
Construction	1	1,200,000
Other income:		
Net interest from local banks		45,000
Net interest from Standard Bank (South Africa)		64,900
Related South African withholding tax		9,735
Dividends from Lesotho subsidiary		14,400
Net dividends from Zambian subsidiary		22,300
Related Zambian withholding tax		9,557
Proceeds from disposal of asset	2	120,500
Operating expenses:		
Depreciation	3	207,112
Subcontracting fees		35,000
Other operating expenses (all tax deductible)		540,000

Notes:

1. Construction income
45% of the income was derived from the Government projects and includes 5% withholding tax.
2. Proceeds from disposal of asset
One of FSC's delivery vans was involved in an accident on 1 September 2009 and was damaged beyond repair. Its adjusted cost base at that date was M85,200 and its market value was M98,000. FSC received insurance proceeds in respect thereof from Lesotho National Insurance Corporation amounting to M120,500. A new replacement van was purchased for M110,600 on 30 September 2009.
3. Depreciation
The whole of the depreciation charge relates to FSC's vehicles which were all acquired on 1 December 2007 for a total cost of M920,500. It is FSC's policy to depreciate vehicles on reducing balance basis at the rate of 30%.

Additional information

- (i) FSC paid dividends totalling M25,000 on 8 September 2009.
- (ii) The income tax instalments of M24,150 each for the year of assessment ended 30 September 2009 were duly paid by FSC.

Required:

- (a) Calculate the advance corporation tax (ACT) paid/payable, if any, in respect of the dividends paid on 8 September 2009 by FSC. (3 marks)
- (b) Calculate FSC's chargeable income for the year ended 30 September 2009, clearly showing exemptions, exclusions and disallowances where relevant. (13 marks)
- (c) Calculate the corporation tax (CT) payable by FSC for the year ended 30 September 2009 and state the due date of payment. (11 marks)
- (d) Calculate the income tax instalments payable by FSC for the year ending 30 September 2010 and state the due dates of payment. (3 marks)

(30 marks)

- 3** Rantekoa and Associates is a Lesotho resident partnership and a locally registered vendor for value added tax (VAT). The partnership operates as an accounting and audit firm in Maseru. It uses the cash method of accounting for VAT. Its trading records for the month of September 2009 disclosed total income of M32,500 and costs amounting to M22,500.

Additional information relating to the records is as set out below:

- (i) The income comprises fees charged to the clients for provision of services.
- (ii) The costs relate to taxable supplies from other local vendors.
- (iii) 70% of the total income constitutes cash received from clients during September 2009. The remaining 30% pertains to clients who were also provided with accounting and auditing services during the month, but who had not yet paid. They promised to pay in October 2009.
- (iv) The costs include rent of M18,000 which has not yet been paid to the partnership's landlord. The landlord is a vendor. The rent will be paid on 1 November 2009 when the partnership's cash resources have normalised.
- (v) All the amounts are inclusive of VAT.

Required:

- (a) Explain the main differences between the cash and the invoice methods of accounting for VAT.** (4 marks)
- (b) Calculate VAT payable by or refundable to Rantekoa and Associates for the month of September 2009. Your answer should clearly show amounts for input and output VAT.** (7 marks)
- (c) State the conditions which should be met for a vendor to use the cash method of accounting for VAT.** (4 marks)

(15 marks)

- 4 Shaluza Computers is a resident partnership owned by two partners, namely, Lerato, a resident, and Shaluza, a resident non-resident. The partners share profits and losses equally. The partnership owns two shops. One operates in Maseru and another in Ficksburg, South Africa. The following are the income and expenses of the partnership for the year ended 31 March 2009:

	M
Income from Maseru shop	600,000
Income from Ficksburg shop	420,900
Gross interest from ABSA, South Africa	60,533
Related withholding tax – South Africa	21,187
Partners' salaries	156,000
Other operating expenses (all deductible):	
Maseru shop	88,510
Ficksburg shop	62,090

Additional information:

- (i) The partners earn equal salaries. Lerato's salary is paid out of income from the Maseru shop while Shaluza's salary is paid from income of the shop in Ficksburg.
- (ii) The partners contribute 7% of their basic gross salaries to a complying superannuation fund. The partnership contributes an amount equivalent to 18% of their basic gross salaries on their behalf.
- (iii) The partnership incurred allowable trading losses during the past two years in respect of the shop in Ficksburg. M32,400 was brought forward from the year of assessment ended 31 March 2008.

Required:

- (a) Calculate the notional chargeable income of Shaluza Computers for the year ended 31 March 2009.**

(8 marks)

- (b) Calculate each partner's chargeable income for the year ended 31 March 2009.**

(7 marks)

(15 marks)

- 5 Mr Khau, a Lesotho resident individual, has just been appointed a Country Director under a one-year contract at the Lesotho office of the Institute of Development Management (IDM). He is expected to assume his duties at the beginning of January 2010. In addition to an annual salary of M546,000, he has been offered the following package:
- (1) Provision of a brand new car valued at M420,500. The car will be available for use by Mr Khau for both private and business purposes. With regard to running costs, IDM will either pay costs directly to a maximum of M25,500 per annum, or pay Mr Khau M25,500 as a car allowance.
 - (2) Provision of rent-free fully furnished company accommodation. The fair market rent for the house is M102,000 per annum. Alternatively, IDM could pay Mr Khau the same amount as a housing allowance.
 - (3) Payment of M3,500 per month to the local utility companies for utilities.
 - (4) Payment of M4,200 per month on behalf of Mr Khau for domestic servants. The amount includes M1,200 payable for a security guard.
 - (5) Payment of M24,000 per annum to Mr Khau as an entertainment allowance.
 - (6) IDM will contribute M117,200 per annum to an approved superannuation fund on behalf of Mr Khau, while Mr Khau will contribute M50,010.
 - (7) Gratuity of 25% of the basic annual salary on expiry of the contract.

Required:

- (a) Calculate what Mr Khau's net pay would be under the two different packages, as follows:
- (i) taking the cash car and housing allowance; (6 marks)
 - (ii) IDM paying the car costs directly and providing the accommodation. (5 marks)
- (b) Advise Mr Khau if there are any other factors which he would need to consider before making a decision on which package was more beneficial to him. (4 marks)
- (15 marks)**

End of Question Paper