Answers

Marks

1 Mr Lengau

(a) Tax payable for the year ended 31 March 2007

	M	Marks
Income from transport hire	400,890	$^1/_2$
Income from construction (see working 1)	168,500	
	569,390	
Less: Operating expenses:		
Wages and salaries	(192,000)	$^1/_2$
Depreciation (see working 2)	(111,900)	
Other business expenses (276,200 – 144,000)	(132,200)	1
Chargeable income	133,290	
Tax payable (8,765 + (98,230 * 35%))	43,146	1
Less: personal tax credit	(3,500)	1
withholding tax	(12,500)	1
Net tax payable	27,146	

Workings

1. Income from building construction (estimated profit)
   Percentage of the contract completed during the year of assessment ended 31 March 2007

$$= \frac{\text{Contract costs}}{\text{Total contract costs}} = \frac{144,000}{230,400} = 62.5\%$$ 2

Estimated profit = 62·5% * (500,000 – 230,400) = 168,500 2

2. Depreciation

	M	Marks
Year ended 31 March 2007		
1 April 2006 ACB	450,000	
+ $^1/_2$ current year acquisition	60,000	1
+ $^1/_2$ previous year acquisition	0	1
– current year disposal (proceeds)	62,400	1
	447,600	
Depreciation allowance at 25%	111,900	1
		13

(b) A carry back of an overall loss on a contract is not allowed:

(i) When the Commissioner of Income Tax is satisfied that the taxpayer is able to carry the loss forward to offset against business income in subsequent years of assessment. 2

(ii) When the Commissioner is satisfied that the taxpayer can obtain the benefit of the loss for tax purposes in another jurisdiction. 2

4

(c) Total tax payable by the employees of Mr Lengau:

	M	Marks
Salaries for permanent employees (M4,500 * 12)	54,000	1
Tax payable (8,765 + (18,940 * 35%) – 3,500)	11,894	$1^1/_2$
Total tax deducted/remittable (11,894 * 3)	35,682	$^1/_2$
The due date is on/before 15 April 2007		1
		4

(d) Section 157 (1) of the Income Tax Act 1993 (as amended) requires that a person who contracts with a resident contractor must withhold tax on payments to the contractor at the rate of 5% on the gross amount of the payments. For this purpose, the Government of Lesotho is 'a person'. 2

		Marks
(e) Any person who carries on any enterprise with an annual turnover of taxable supplies (including zero-rated supplies) in a twelve month period exceeding the registration threshold of M500,000, must register for value added tax (VAT). Thus, Mr Lengau will be treated as a vendor and must register for the purposes of VAT.		2
		25

2 (a) Lesotho Furnitures Limited

(i) Advanced corporation tax (ACT) payable:

	M	
Dividends paid on 1 November 2006 (35,500 * 2)	71,000	1
Deemed dividends (see working)	6,000	2
	77,000	
Related ACT (77,000 * $^{25}/_{75}$)	25,667	1
ACT payable on/before 8 November 2006		1
		5

Working

Deemed dividends		
Redemption price (12,000 * 2)	24,000	
Adjusted cost base (ACB) (12,000 * 1·5)	(18,000)	
Deemed dividends	6,000	

(ii) Corporation tax for the year ended 30 September 2007

Business income:			
Turnover (950,000 * $^{100}/_{114}$)	833,333		1
Less: Operating expenses (718,260 + (25,200 * 25%))	(724,560)		2
Depreciation allowance (40,800 * 20% x $^{3}/_{12}$)	2,040		1
	106,733		
Profit on disposal of assets (34,400 – 27,000)	7,400		1
		114,133	
Property income:			
Interest: Foreign (80,900 * 70%) + 5,000	61,630		1
Local (80,900 * 30%) + 2,697	26,967		1
Gain on disposal of foreign shares (10,500 + 1,167)	11,667		1
Foreign dividends (46,200/0·85)	54,353		1
Lesotho dividends	0	154,617	1
Chargeable income		268,750	
Tax payable at 25%		67,188	1
Less: Foreign tax credit (see working)		(14,320)	3
Withholding tax (local)		(2,697)	1
ACT paid (as in (i) above)		(25,667)	1
Net tax payable on/before 31 December 2007		24,504	1
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Working

Foreign tax credit:

$$\text{Average tax rate} = \frac{\text{Total Lesotho tax}}{\text{Total chargeable income}} = \frac{67,188}{268,750} = 25\%$$

Foreign income		Tax paid	Lesotho tax at 25%	Credit available M
Interest	61,630	5,000	15,408	5,000
Shares	11,667	1,167	2,917	1,167
Dividends	54,353	8,153	13,588	8,153
Total				14,320

		Marks
(iii) Instalments payable by Lesotho Furnitures Limited for the year ended 30 September 2008:		
Each instalment of tax payable ((24,504 + 25,667) * 30%)	M15,051	2
The instalments are payable on:		
31 March 2008;		1
30 June 2008; and		1
30 September 2008.		1
		5

(b) **Wyeburn Wholesalers (Pty) Ltd – Lesotho branch**

	M	
Chargeable income	300,000	
Less: Income tax on the chargeable income at 25%	(75,000)	1
	225,000	
Reinvested profits in Lesotho (225,000 * 65%)	(146,250)	1
	78,750	
Tax payable on repatriated income at 25%	19,688	1
		3
		30

3 **Maluti Enterprise (Pty) Ltd**

(a) (1) With respect to the M3,400, there is no input VAT as the supply was made by a non-vendor. 1
There is input VAT with respect to M850 for repairs. $^1/_2$

For the supply made by Maluti Enterprise (Pty) Ltd, output VAT will be as follows:

	M	
Sale price	6,500	
Less: purchase cost	3,400	
	3,100	2
Output VAT (M3,100 * 14%)	434	$^1/_2$
Input VAT (850 * $^{14}/_{114}$)	104	$^1/_2$

(2) Rental income in respect of a manufacturing process is an exempt supply. 1

Output VAT for the taxable rental is therefore:

	M	
Taxable supply (M5,200 * 40%)	2,080	1
Output VAT (2,080 * 14%)	291	$^1/_2$

(3)

In the case of a hire purchase agreement, the taxable value of the	M	
taxable supply is the fair market value (FMV) at the time of supply.	9,800	1
Output VAT (9,800 * $^{14}/_{114}$)	1,204	$^1/_2$
The cash sales also constitute taxable supplies.	M	
Cash sales (15,680 – (5,120 + 300))	10,260	1
Output VAT (10,260 * $^{14}/_{114}$)	1,260	$^1/_2$

(4)

This is a taxable supply sold at a reduced consideration.	M	
Taxable value is the fair market value (FMV)	520	1
Output VAT (520 * $^{14}/_{114}$)	64	$^1/_2$

(5) M1,520 for water and sewerage is an exempt supply. $^1/_2$

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			Marks
(b) Duties/obligations of a vendor:			
Maluti Enterprise (Pty) Ltd must:			
– Account for VAT on its taxable supplies.			1
– Make regular VAT returns and payments.			1
– Keep proper accounts and records.			1
			3
			15

4 The LHDA and Mr Molao

(a) Fringe benefit tax payable by the LHDA: December 2006	M		
Housing fringe benefit	10,400		1
Car fringe benefit (230,500 * 15% * $^{1}/_{12}$)	2,881		1
Meal fringe benefit (8,000 * $^{1}/_{12}$)	667		1
Utilities fringe benefit (4,300 + 1,300)	5,600		2
Domestic assistance fringe benefit	1,500		1
Total monthly taxable amount	21,048		
Fringe benefit tax (21,048 * $^{35}/_{65}$)	11,334		1
Fringe benefit tax (FBT) is payable quarterly, therefore the due date of payment of the FBT for the month of December 2006 will be on or before 14 January 2007.			1
			8

(b) Tax payable by Mr Molao for the year ended 31 March 2007			
	M	M	
Basic salary	505,200		$^{1}/_{2}$
Mountain allowance (4,500 * 12)	54,000		1
Education allowance (2,500 * 2 * 12)	60,000		1
		619,200	
Terminal benefits:			
Gratuity	600,000		1
Severance pay (80,500 – 1,500)	79,000		2
		679,000	
		1,298,200	
Tax payable (8,765 + (1,263,140 * 35%))		450,864	1
Less: personal tax credit		3,500	$^{1}/_{2}$
		447,364	
			7
			15

			Marks
5	**Mapetla Investments Properties (Pty) Ltd**		
		M	
(a) (i)	Land		
	Sale price (220,300 * 0·5)	110,150	$1\frac{1}{2}$
	Adjusted cost base (ACB) (150,200 * 0·5)	75,100	$1\frac{1}{2}$
	Chargeable gain	35,050	$\frac{1}{2}$
		M	
(ii)	Shares		
	Sale price	30,000	$\frac{1}{2}$
	Less: ACB (2 * 12,000)	24,000	$1\frac{1}{2}$
	Chargeable gain	6,000	$\frac{1}{2}$
		M	
(iii)	Premises		
	Sale price	1,120,100	$\frac{1}{2}$
	Less: ACB		
	Cost price (50,000 * $^{250}/_{140}$)	89,286	$1\frac{1}{2}$
	Reconstruction and extension (250,000 * $^{250}/_{150}$)	416,667	$1\frac{1}{2}$
	Chargeable gain on disposal	614,147	$\frac{1}{2}$
	Chargeable income from rents (16,800 * 9)	151,200	1
			11

(b) No gain or loss is taken into account in the case of:

		Marks
—	a transfer of assets between spouses;	1
—	a transfer of assets between former spouses as part of a divorce settlement; or	1
—	an involuntary conversion of an asset, where the proceeds are reinvested in an asset of a like kind.	2
		4
		15