
Answers

			Marks
1 (a) TAXABLE INCOME LIRA MAFURA FOR THE YEAR ENDED 31 MARCH 2006	M	M	
Gross income:			
Employment income			
Salary	80,000		1/2
Bonus	30,000		1/2
Leave pay	5,500	115,500	1/2
Business income			
Consultancy fees – Lesotho Government ($860,000 \times \frac{100}{90}$)	955,556		1
Consultancy fees – World Bank	520,000		1/2
Consultancy fees – Other donors ($90,000 \times \frac{100}{90}$)	100,000		1
Consultancy fees – Lesotho State Contractors ($500,000 \times \frac{100}{90}$)	555,556		1
Bad debts recovered	3,000	2,134,112	1
Property income			
Dividends from resident company	0		1
Interest from savings	0	0	1
Gross income		2,249,612	
Less allowable expenses			
Income tax paid	0		1
Fuel, repairs and maintenance	60,000		1/2
Office rent	72,000		1/2
Advertising	5,000		1/2
Office expenses	18,000		1/2
Car purchase	0		1
Staff salaries	120,000		1/2
Training courses for staff (12.5%)	50,000		2
Bank interest ($25,600 - 21,368$)	4,232		1
Mortgage interest	0		1
Telephone, light and heat	14,800		1/2
Bad debts	8,000		1
Annuity to wife of late employee	16,000		1
Entertainment expenses (50%)	35,000		2
Membership – Trade association	4,000		1
Membership – Golf club	0		1
Provision for bad debts	0		1
Depreciation	0	407,032	1
Taxable income		1,842,580	<u>25</u>

- (b) Treatment of interest from savings held in a nominated account:
- The first M500 of interest derived from a single savings account by a resident individual is exempt from income tax. 2
 - The exemption is only available in respect of savings accounts with a registered financial institution resident in Lesotho or the Lesotho resident branch of a non-resident financial institution. 2
 - The exemption is only available in respect of a single savings account (the nominated account). It is not possible to aggregate the interest earned on several accounts to reach the M500 limit. 1
 - Interest in excess of M500 is subject to withholding tax at the rate of 10%, as the final tax. 1
- 6
- 31

2

IOU Manufacturing Company Ltd
Corporation tax payable for the year ended 31 March 2006

Marks

	M	M	
Net profit as per accounts		197,000	
Add back disallowed expenses:			
Insurance claim	3,000		2
Erection of fire escape	1,300		1
New doorway	620		1
Membership of golf club	4,000		1
Donation	1,000		1
Customer entertainment (50%)	1,100		2
Rent of directors' houses	10,000		1
Legal charges (safety requirements)	2,000		2
Corporation tax appeal	1,000		1
Transfer to capital reserve	20,000		2
Depreciation of assets	16,000	60,020	1
Adjusted taxable income		257,020	
Corporation tax payable:			
M257,020 x 15%		38,553	1

No adjustment for the following items (to be included as zero (0) by candidates in computation) at $\frac{1}{2}$ mark each:

Machinery repairs			
Painting of premises			
Association of Manufacturing Companies subscription			
Advertising			
Trade journals			
Staff travel			
Motor expenses			
Rent of office premises			
Royalties			
Legal charges (debt collection) (6 x $\frac{1}{2}$)			5
			21

3 (a)

Mafeteng (Pty) Limited

	M		
Industrial buildings (5%)			
1 April 2001 Cost	190,000		
Depreciation allowance	(9,500)		1
1 April 2002 Tax written down value	180,500		
Depreciation allowance	(9,025)		1
	171,475		
31 March 2003 Additions	42,000		1
1 April 2003 Tax written down value	213,475		
Depreciation allowance	(10,674)		1
1 April 2004 Tax written down value	202,801		
Depreciation allowance	(10,140)		1
1 April 2005 Tax written down value	192,661		
31 March 2006 Disposal proceeds	290,000		
Gain on disposal	97,339		6

		Marks
(b) Equipment (20%)		
1 April 2001 Cost	80,000	
Depreciation allowance	<u>(16,000)</u>	1
1 April 2002 Tax written down value	64,000	
Depreciation allowance	<u>(12,800)</u>	1
1 April 2003 Tax written down value	51,200	
Addition	<u>56,000</u>	1
	107,200	
Depreciation allowance	<u>(21,440)</u>	1
1 April 2004 Tax written down value	85,760	
Depreciation allowance	<u>(17,152)</u>	1
	68,608	
1 July 2004 Addition	12,000	1
Depreciation allowance on addition (9 months)	<u>(1,800)</u>	2
1 April 2005 Tax written down value	78,808	
31 March 2006 Disposal proceeds	<u>(20,000)</u>	
Loss on disposal	<u>(58,808)</u>	1
		<u>9</u>
 (c) Motor vehicles (25%)		
1 April 2001 Cost	65,500	
Depreciation allowance	<u>(16,375)</u>	1
1 April 2002 Tax written down value	49,125	
Depreciation allowance	<u>(12,281)</u>	1
1 April 2003 Tax written down value	36,844	
Depreciation allowance	<u>(9,211)</u>	1
	27,633	
1 October 2003 Addition	16,000	1
Depreciation allowance on addition (6 months)	<u>(2,000)</u>	2
1 April 2004 Tax written down value	41,633	
Depreciation allowance	<u>(10,408)</u>	1
1 April 2005 Tax written down value	31,225	
31 March 2006 Disposal proceeds	<u>49,000</u>	
Gain on disposal	<u>17,775</u>	1
		<u>8</u>
		<u>23</u>

		Marks
4	(a) A deduction is allowed for any expense or loss but only to the extent incurred by the taxpayer during the year of assessment in the production of income subject to tax.	<u>3</u>
	(b) The following are the specifically disallowed expenses:	
	1. Expenses of a personal nature.	1
	2. Income tax.	1
	3. Cost of acquiring, producing, or improving property or for other expenses chargeable to capital account.	2
	4. The cost of a gift to an individual if the gift is not included in the gross income of the recipient.	2
	5. A fine or other similar penalty paid to a government for breach of any law.	2
	6. An insurance premium paid to a non-resident insurer in respect of an asset or risk located in Lesotho.	<u>2</u>
		10
	(c)	
	(i) Scholarship payable for tuition or fees for full-time instruction at an educational institution is exempt from income tax. The exemption is confined to scholarships payable in respect of tuition or fees, and does not include scholarships or a part of a scholarship for living expenses.	<u>2</u>
	(ii) Maintenance and child support payments are exempt from income tax. The income represented by the payment is taxed on the payer only, as the payer is not allowed a deduction for tax purposes.	<u>3</u>
	(d)	
	(i) Every vendor being a partnership, trust, company or an individual whose principal place of business is outside Lesotho or who is outside Lesotho for more than one tax period shall have a nominated person for value added tax purposes who is an individual who resides in Lesotho. The nominated person is responsible for any obligation imposed on the partnership, trust, company, or individual under the Act.	4 <u>1</u> 5
	(ii) The name of such a person shall be notified to the Commissioner in the first period in which the partnership, trust, company, or individual becomes a vendor, or in the case of an individual who is outside Lesotho, in the first tax period in which the individual is outside Lesotho.	<u>2</u>
		25