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Instructions for Individual Income Tax Return (Form S128-I) – Year Ended 31 March 2018

General Instructions

Who Must File an Income Tax Return

Residents of Lesotho. Generally, you are required by law to file a return of your total income from all sources (except income exempt from tax in Lesotho or subject to a final withholding tax in Lesotho) and calculate the tax due for the assessment year ended 31 March 2018. However, you do not need to file a return if either of the following applies:

- The income tax payable (before reduction by the personal credit) for the assessment year is less than the amount of the personal credit (the amount of which is M6, 960.00. if engaged in an income-earning activity for the entire year), or
- Your only income (other than income exempt from tax in Lesotho or subject to a final withholding tax in Lesotho) was (a) employment income of less than M 50 000.00 from a single employer from which tax was withheld or (b) a pension from which tax was withheld.

Even if you are not required to file a return, you should file if you are due a refund and want to receive that refund.

Non-residents of Lesotho. You are required by law to file a return of your total Lesotho-source income and calculate the tax due for the assessment year ended 31 March 2018. Foreign-source income and income exempt from tax in Lesotho is excluded. Also, income subject to a final withholding tax in Lesotho is excluded unless you make an election under section 109(1) of the Income Tax Act 1993. See the instructions for Part C, columns (a) and (c) for the definition of Lesotho-source and foreign-source income.

New Resident Individual Income Tax Return for Employment and Pension Income (Form S128-EP) Available

You are eligible to file the new return (Form S128-EP) if you meet **all** of the following requirements:

- You were a Lesotho resident for the entire assessment year.
- Your only income was employment income or from a pension. But if you also had income exempt from tax in Lesotho or subject to a final withholding tax in Lesotho (such as interest), you are still eligible to file this form.
- You were at least 18 years of age.
- You did not pay a person to prepare your tax return.

If you are required to file a tax return, but you do not meet the above requirements, you must file Form S128-I, Individual Income Tax Return.

When To File and Pay

Your return must be filed and the tax due must be paid no later than 30 June 2018. If you are unable to file by the due date, you may apply in writing to the Commissioner Domestic Taxes for an extension of time to file. An extension to file does not affect the due date for payment. You also may apply in writing to the TaxpayerCommissioner Domestic Taxes for an extension of time to pay if you can show good cause for not paying on time.

Penalties and Interest

There are penalties if you fail to file the return on time or pay the tax when due, including the possibility of imprisonment. Interest is also charged if you do not pay the tax on time.

How To Complete the Return

Complete only those parts of the return that apply to you. Express all figures in Maloti. After you have completed Parts A through F, transfer the income amounts and credit for foreign tax paid to Part G. Be sure to read the line instructions, if any, that apply to the line you are completing. If there are no instructions for a line, that line is considered self-explanatory. Finally, do not forget to sign the **Declaration of Taxpayer or Representative** on page 7. Also, if you paid a person to prepare your tax return, be sure he or she signs the **Declaration of Paid Preparer** on page 7.

Specific Instructions

Part A – Employment Income & Expenses

Part A, Line 1

Employment information. Employment income means any payment, benefit, or gift arising from employment. This includes all gains (regardless of their nature) arising from the employment relationship. Examples of employment income include:

- Wages.
- Salary.
- Overtime pay.
- Leave pay or payment in lieu of leave.
- Sick pay.
- Strike pay.
- Return to work payments.
- Commissions.
- Bonuses.
- Gratuities (but see discussion of terminal benefits below).
- Allowances (including responsibility, recruitment, and retention allowances).
- Stipends.
- Payments in return for a restrictive covenant given by a former employee.
- Non-exempt fringe benefits not taxable to your employer (such as school fees, personal travel expenses, and other personal expenditures).

This list is not all-inclusive.

When reporting employment income on this form, **do not** include in Part A:

- Pension income, including periodic payments made to you from a retirement annuity or superannuation fund. Report these amounts in Part B.
- Repayment of expenses you incurred for your employer if your employer would have received a deduction for those expenses if incurred directly. Such amounts are exempt from income tax.
- Employment income earned and taxed in a foreign country. This income is exempt from income tax.
- Terminal benefits that do not exceed 25% of your basic salary earned during the period of employment. This portion of your terminal benefits is exempt from income tax and should not have been included in employment income on your Form P.16. Terminal benefits are the total of the following amounts:
    a. Contract gratuity payments. These payments are gratuities, expressed as a percentage of salary earned during the contract period, and paid to you upon expiry, termination, or renewal of a written contract of employment.
    b. Severance payments. These are payments required upon termination of an employee's services under section 79 of the Labour Code Order 1992.
    c. Lump-sum payments from a complying superannuation fund. The taxable excess portion of such payments is included in gross income if you elected not to be taxed at the standard rate of 25% on the taxable excess. If you did not

make this election, such payments are not reported on this return.

   d. Lump-sum payments from a non-complying superannuation fund. The taxable excess portion of such payments is included in gross income.

- Fringe benefits you received but your employer has paid tax on. These include fringe benefits for use of a motor vehicle for private purposes, employer-provided housing, employer-paid utilities, employer-provided domestic assistance, non-exempt employer-provided meals, non-exempt medical benefits, loans at below-market interest rates, waiver of debts owed to an employer or owed to someone else and paid by your employer, and excessive superannuation contributions made by a tax-exempt employer.
- Exempt fringe benefits (such as exempt meals and refreshments provided to all non-casual employees on equal terms and exempt medical fringe benefits available to all non-casual employees on equal terms). This income is exempt from tax.

On line 1a, show the name and TIN of your main employer where you worked during the assessment year. On lines 1b and 1c, show the names and TINs of any previous or secondary employers where you worked during the assessment year. If you had more than three employers during the assessment year, attach a list with the additional information.

Enter your gross employment income for each employer in the space in the right-hand column on line 1a, 1b, or 1c. This amount should be shown in the taxable income box at the bottom right corner of Form P.16, Certificate of Total Emoluments and Tax Deducted Year End 31 March 2017. You should have received this form from your employer either by 28 April 2017 or within 7 days of the date your employment ended (if it ended during the assessment year). Ask your employer for this form, if you did not receive it. Attach the second copy of Form P.16 to your tax return. Keep the first copy for your records. On line 1d, add the amounts shown on lines 1a, 1b, and 1c, plus the amounts shown on the attached list if you had more than 3 employers.

Part A, Lines 2a through 2e

Unreimbursed employment-related expenses. These are employment-related expenses that you paid out of pocket that your employer did not pay back to you. Do not include on these lines any amounts for which you were paid back or received a subsistence allowance from your employer.

Part A, Line 2a

Travel expenses incurred for work. "Travel expenses" means fares; registration fees for any conference, seminar, or convention; and meals, accommodation, and other expenses incidental to travel. Travel expenses **do not** include entertainment expenses or an expense or portion of an expense attributable to a relative accompanying the Taxpayer.

Travel expenses you incurred in the course of your employment are deductible, subject to the following rules:

- If the expense was incurred by more than one person, the expenses must be divided equally among the individuals to whom the expense was attributable.
- If you were not primarily engaged in employment activities on every day of a particular trip, the deductible amount is determined by multiplying the deduction by a fraction equal to the number of days you were primarily engaged in employment activities during the trip divided by the total number of days you were traveling. You are treated as engaged in an employment activity while in transit and on any day that is a weekend or public holiday where you engaged in business on the days both before and after the weekend or public holiday.

Substantiation required. To claim this deduction, you must keep in your records for at least 4 years:

- A travel diary that you filled in at the time of each trip showing:
  a. The dates of departure and return for a trip,
  b. The destination or locality of travel,
  c. For each day of travel, the activities you undertook while at the travel destination, and
  d. The amount of any expense you incurred on each day of travel for which a receipt is not required.
- Receipts for fares, registration fees, or accommodation, regardless of amount.
- Receipts for any other expense greater than M 50.

Do not attach the diary or receipts to your tax return.

Minimum deductible amount of overall unreimbursed employment-related expenses. The sum of the deductions on lines 2a, 2c, 2d, and 2e must **exceed** both M 2,500 and 5% of your gross income (Part A, line 1d + Part B, line 2c + Part C, line 1 minus line 2a + lines 4 and 5 + Part D, line 1 minus line 2a + lines 4 and 5 + Part E, lines 2, 5d, 8, and 9 + Part F, line 1). Otherwise, no deduction is allowed on lines 2a, 2c, 2d, or 2e.

Part A, Line 2b

Education expenses to improve work knowledge or skills. If you incurred expenses in order to maintain or improve skills and knowledge required in your current employment, such expenses are deductible, subject to the following rules:

- The sum of such expenses incurred by you during the year of assessment exceeds M 1,000.
- The expenses are for enrolment and tuition fees; examination fees; or books, stationery, and other materials you purchased to undertake your study.
- The expenses incurred will not lead to a degree or diploma (that is, a formal qualification).

Part A, Line 2c

Expenses for technical and trade books and journals and association subscriptions. The following expenses you incurred that are related to your employment are deductible:

- Books, journals, and other publications.
- Subscriptions to any trade or professional association, including a trade union.

Minimum deductible amount of overall unreimbursed employment-related expenses. The sum of the deductions on lines 2a, 2c, 2d, and 2e must exceed both M 2,500 and 5% of your gross income (Part A, line 1d + Part B, line 2c + Part C, line 1 minus line 2a + lines 4 and 5 + Part D, line 1 minus line 2a + lines 4 and 5 + Part E, lines 2, 5d, 8, and 9 + Part F, line 1). Otherwise, no deduction is allowed on lines 2a, 2c, 2d, or 2e.

Part A, Line 2d

Motor vehicle expenses incurred for work. “Motor vehicle expenses” means expenses or losses you incurred:

- For the operation, maintenance, and repair of a motor vehicle,
- To borrow money for the purpose of acquiring a motor vehicle, including interest on the money borrowed,
- To lease a motor vehicle, including rental payments under the lease,
- For depreciation of a motor vehicle you own. Calculate your depreciation deduction following the instructions for Part C, line 2e.

If you incurred expenses for the use of your motor vehicle in the course of your employment, you may deduct either the actual expenses incurred or M 1 per km travelled by the vehicle on employment-related travel. The cost of commuting between your residence and work is not considered to be in the course of your employment and is not deductible.

If you did not use your vehicle exclusively for employment-related travel, the deductible amount for actual expenses is determined by multiplying the deduction by a fraction equal to the distance travelled on employment-related travel divided by the total distance travelled by the vehicle during the year of assessment.

Substantiation required. To claim this deduction, you must keep in your records for at least 4 years, a daily log book that you filled in at the time of each trip showing:

- The total distance traveled by the vehicle each day,
- The distance travelled by the vehicle on employment-related travel,
- The destination,
- The object in making the trip, and
- If you are claiming actual motor vehicle expenses, the vehicle expenses you incurred.

Minimum deductible amount of overall unreimbursed employment-related expenses. The sum of the deductions on lines 2a, 2c, 2d, and 2e must exceed both M 2,500 and 5% of your gross income (Part A, line 1d + Part B, line 2c + Part C, line 1 minus line 2a + lines 4 and 5 + Part D, line 1 minus line 2a + lines 4 and 5 + Part E, lines 2, 5d, 8, and 9 + Part F, line 1). Otherwise, no deduction is allowed on lines 2a, 2c, 2d, or 2e.

Part A, Line 2e

Home office expenses. A "home office" is the portion of your principal residence that you use:

- Exclusively and on a regular basis as your principal place of work, and
- For the convenience and at the request of your employer.

A "residence" includes a house, apartment, or similar property and all structures or other property connected to the residence (but not any portion you exclusively rented out to others as a hotel, motel, inn, or similar establishment).

A "home office expense" is an expenditure you incurred:

- To borrow money for the purpose of acquiring a principal residence, including interest on the money borrowed,
- To lease a principal residence, including rental payments under the lease,
- To insure your principal residence and its contents,
- For heating and lighting of your principal residence,
- For maintaining your home office, or
- For depreciation and repair of the furniture and equipment used in the home office. Calculate your depreciation deduction following the instructions for Part C, line 2e.

If a home office expense is not wholly attributable to the home office, the deductible amount for that expense is determined by multiplying the expense by a fraction equal to the floor area of your home office divided by the total floor area of your principal residence.

Minimum deductible amount of overall unreimbursed employment-related expenses. The sum of the deductions on lines 2a, 2c, 2d, and 2e must exceed both M 2,500 and 5% of your gross income (Part A, line 1d + Part B, line 2c + Part C, line 1 minus line 2a + lines 4 and 5 + Part D, line 1 minus line 2a + lines 4 and 5 + Part E, lines 2, 5d, 8, and 9 + Part F, line 1). Otherwise, no deduction is allowed on lines 2a, 2c, 2d, or 2e.

Part A, Line 2f

Contributions you made to a complying superannuation fund. Enter the amount of the:

- Contributions you paid to a complying employer superannuation fund, but not more than 20% of the employment income paid to you by the employer sponsoring the fund, plus
- Contributions you paid to a complying self-provided superannuation fund, but not more than:
    a. 20% of your gross income (Part A, line 1d + Part B, line 2c + Part C, line 1 minus line 2a + lines 4 and 5 + Part D, line 1 minus line 2a + lines 4 and 5 + Part E, lines 2, 5d, 8, and 9 + Part F, line 1), minus
    b. The total contributions you and your employers paid to complying employer superannuation funds.

If you had business income, commercial farming income, property income, or other income, you must allocate any contributions to a complying self-provided superannuation fund in a reasonable manner (such as in proportion to the gross income from each activity) and include the allocated amounts on Part A, line 2f; Part C, line 2g; Part D, line 2g; Part E, line 3h or line 6; and Part F, line 2.

Part A, Line 2g

Donations paid to the Lesotho Sports and Recreation Commission. You may deduct a charitable deduction of M 1,000 or more in cash or the value of goods and services to:

- Support sport and recreation development through the provision of sports equipment and facilities, and
- Provide sponsorship of different sports codes and sport competitions and tournaments at different levels of the sports development continuum.

The donation must be paid to the Lesotho Sports and Recreation Commission for distribution to the beneficiary sporting association body, team, or individual athlete as stipulated by the donor in a letter of donation. The donation may be disallowed if it was indirectly meant to benefit you, members of your family, or your associates. Include the amount paid from your employment income on this line; the amount paid from your pension income on Part B, line 2; the amount paid from your business income on Part C, line g; the amount paid from your commercial farming income on Part D, line 2g; the amount paid from your property income on Part E, line 3h or line 6; and the amount paid from your other income on Part F, line 2.

Part B – Pension Income

Part B, Line 1

Pension information. A pension is a contract for an amount to be paid regularly to a person, usually following retirement from service. A pension includes periodic payments made to you from a superannuation fund or a retirement annuity. **Do not** include the following amounts on this return:

- A pension related to employment carried on in a foreign country if the pension income was taxed in the foreign country.
- War pensions and gratuities paid by the Lesotho Government on behalf of persons who retired before 11 March 1993.

On line 1a, show the name and TIN of your main pension payer during the assessment year. On line 1b , show the name and TIN of any previous or secondary pension payer during the assessment year. If you had more than two pension payers during the assessment year, attach a list with the additional information.

Enter your taxable pension income for each pension payer in the space in the right-hand column on line 1a or 1b. This amount should be shown in the taxable income box at the bottom right corner of Form P.16, Certificate of Total Emoluments and Tax Deducted Year End 31 March 2018. You should have received this form from the pension payer by 28 April 2018. Ask the payer for this form, if you did not receive it. Attach the second copy of Form P.16 to your tax return. Keep the first copy for your records. On line 1c, add the amounts shown on lines 1a and1b, plus the amounts shown on the attached list if you had more than 2 pension payers.

Part B, Line 2

Donations paid to the Lesotho Sports and Recreation Commission. See the instructions for Part A, line 2g.

Part C – Business Income & Expenses

Accounting method. Generally, you may use either the cash or accrual method of accounting**.** Under the cash method, income is taken into account when received or made available to you and expenses are taken into account when paid. Under the accrual method, income is taken into account when earned and expenses are taken into account when incurred.

Exceptions:

- You **must** use the accrual method to account for your business income in all years after the first year your gross business income exceeds M 150,000.
- You **must** use the percentage-of-completion method to account for long-term contracts (relating to manufacturing, installation, or construction). See section 55 of the Income Tax Act 1993.

Lesotho-source income and foreign-source income. Be sure you enter all income and deductions in the correct columns. Income is Lesotho-source income if it is:

- Derived from an activity that occurs in Lesotho; or
- Derived from services performed under a contract entered into with the Lesotho Government; or
- Derived by a resident of Lesotho from services performed as a driver of a vehicle, or an officer or member of the crew of any vehicle or aircraft, where the services are performed both in and out of Lesotho; or
- Derived from immovable property located in Lesotho, including gains from the disposal of an interest in such immovable property and from the disposal of shares in a company the property of which consists directly or indirectly principally of interests in immovable property located in Lesotho; or
- Derived by a resident of Lesotho from the disposal of movable property, other than business income derived from a business conducted outside of Lesotho; or
- Derived from the disposal of a membership interest in a resident company; or
- Derived from the rental of movable property used in Lesotho; or
- Derived from the sale or license of industrial or intellectual property used in Lesotho; or
- Interest where the debt is secured by immovable property located in Lesotho, where the borrower is a resident of Lesotho, or where the borrowing relates to a business carried on in Lesotho; or
- A dividend, management fee, or director's fee paid by a resident company; or
- A pension or annuity where the pension or annuity is paid by the Lesotho Government or a resident of Lesotho; or the services or employment in respect of which the pension or annuity was granted were rendered or exercised in Lesotho; or
- A natural resource payment for a natural resource taken from Lesotho; or
- Derived by a resident of Lesotho in carrying on a business as owner or charterer of a vehicle, vessel, or aircraft.

This definition applies to all sources of income, including income that is not business income. Any income that is not Lesotho-source income is foreign-source income.

Part C, Line 1

Business income. Business income means the profits or gains arising from a business. Such income includes:

- Gains on the disposal of business assets or on the satisfaction of business debts, whether or not the asset or debt was on capital or revenue account; and
- A payment received as consideration for accepting a restriction on the capacity to carry on business.
- Income from cancellation of business debts you incurred.

Attach a schedule detailing each type of income and gain included on this line.

The gain on the disposal of an asset is the excess of the consideration received over the adjusted cost base of the asset.

Cost base. The cost base of an asset is the asset's tax cost, which is determined as follows:

- The tax cost of an asset purchased, produced, or constructed by the Taxpayer is the amount paid or incurred by the Taxpayer and the market value of any consideration in kind given for the asset.
- The tax cost of an asset acquired in a non-arm's length transaction (other than by gift) is the fair market value

of the asset at the date of acquisition.
- The tax cost of an asset acquired by gift is the greater of the adjusted cost base of the transferor or the fair market value of the asset at the date of acquisition.
- The tax cost of an asset acquired in a transaction in which a gain is not taken into account is the adjusted cost base of the asset given in exchange, or the adjusted cost base of the transferor, as the case may be.
- Where a part of an asset is disposed of, the adjusted cost base of the asset is apportioned between the part of the asset retained and the part disposed of in accordance with their market values at the time of acquisition.

Consideration. Consideration is the cash plus the market value of any property received on the disposal. If the asset was disposed of in a non-arm's length transaction (other than by gift), the disposer is treated as having received consideration equal to the fair market value of the asset at the date of disposal. If the asset was disposed of by gift, the disposer is treated as having received consideration equal to the greater of the adjusted cost base of the disposer or the fair market value of the asset at the date of disposal.

Part C, Lines 2a through 2g

Expenses. Generally, a deduction is allowed for any business expense or loss (including a depreciation or amortisation expense), but only to the extent paid or incurred by you during the year of assessment in the production of income subject to tax.

However, no deduction is allowed for:

- Any expense or loss to the extent it is of a personal nature; or
- Income tax; or
- Expenses of acquiring, producing, or improving property or for other expenses chargeable to capital account, including indirect expenses such as depreciation, interest, or taxes incurred during the construction period; or
- The cost of a gift made directly or indirectly to an individual if the gift is excludable from the individual's gross income; or
- A fine or similar penalty paid to a government for breach of any law; or
- An insurance premium paid to a non-resident insurer for an asset or risk located in Lesotho.

Special rules apply to:

- Depreciable assets that cost less than M 50 each. You are allowed to deduct the full cost of these assets instead of depreciating them.
- Compensation. Compensation is not deductible to the extent it exceeds a reasonable amount.
- Contributions to a complying employer superannuation fund you made on behalf of an employee. The total amount allowed as an annual deduction is limited to the employment income you paid to the employee multiplied by 20% minus the employee’s own contributions to the same fund.
- Donations paid to the Lesotho Sports and Recreation Commission. See the instructions for Part A, line 2g.
- Meals and entertainment. Only 50% of otherwise allowable deductions for entertainment or meals is allowed (unless the cost of providing the entertainment or meal is subject to the fringe benefits tax or is an exempt fringe benefit).
- Bad debts. A deduction is allowed when the debt is written off in your accounts.
- Approved training expenses. If you are carrying on a business in Lesotho, you are allowed to deduct 125% of the expenses approved by the Commissioner Domestic Taxes and incurred for training or tertiary education of a citizen of Lesotho you employed in a business the income from which is subject to tax in Lesotho.
- Prepaid expenses, Expenses not of a capital nature that relate to a service or other benefit extending beyond 3 months after the end of the year of assessment are allowed proportionately over the years of assessment to which the service or other benefit relates.

Part C, Line 2a

Cost of sales or operations. If you maintain stocks of goods in process or of finished goods, you must establish and maintain inventories of such stocks. Enter on this line your deduction for cost of goods sold.

The deduction for the cost of goods sold is determined by adding to the opening trading stock the cost of goods acquired during the year, and subtracting the closing trading stock.

If you are a cash-basis Taxpayer, you may calculate the cost base of trading stock on the prime-cost or absorption-cost method. If you are an accrual-basis Taxpayer, you must calculate the cost base of trading stock on the absorption-cost method.

The value of trading stock on hand at the end of the year of assessment is the lower of its cost base or market value at that date. Where particular items of trading stock are not readily identifiable, you may account for the trading stock on the first-in-first-out method or the average-cost method.

Part C, Line 2e

Depreciation. A deduction is allowed for depreciation of your depreciable assets, other than an asset with a cost of less than M 50, for which the cost is treated as an expense. The rules for calculating depreciation are as follows:

1. Depreciable assets are classified into five groups with depreciation rates shown below in the **Declining Balance Depreciation Rates Table**.

Declining Balance Depreciation Rates Table		
Group	**Assets Included**	**Depreciation Rate**
1	Automobiles; Taxis; Light General Purpose Trucks; Tractors for Use Over-the-Road; Special Tools and Devices	25%
2	Office Furniture, Fixtures, and Equipment; Computers and Peripheral Equipment and Data Handling Equipment; Buses; Heavy General Purpose Trucks; Trailers and Trailer Mounted Containers; Construction Equipment	20%
3	Any depreciable asset not included in another group	10%
4	Railroad Cars and Locomotives and Railroad Equipment; Vessels, Barges, Tugs, and Similar Water Transportation Equipment; Industrial Buildings; Engines and Turbines; Public Utility Plant	5%
5	Mining	100%

2. Where an election under (4) below is not made, the depreciation allowed for each asset is –
   A x B x C/D where –
   A is the relevant depreciation rate specified above; and
   B is the adjusted cost base of the asset; and
   C is the number of days in the year of assessment during which the asset was used in
   the production of income subject to tax; and
   D is the number of days in the year of assessment.

3. Where a depreciable asset to which (2) above applies is only partly used for the purpose of producing income subject to tax, only so much of the deduction allowed under (2) above as relates to that use is allowed as a deduction.

4. If the Taxpayer so elects, the assets in groups 1, 2, and 3 are placed into separate pools for each group, and the depreciation deduction for each pool is determined under (5) through (10) below.

5. An election under (4) above -
   a. Applies only to assets wholly used in the production of income subject to tax; and
      applies to all such assets acquired during the year of assessment for which the

election is made and subsequently; and
b. Must be made by the due date for the return of income for such year; and
c. Is irrevocable.

6. The depreciation deduction for each pool is calculated by applying the rate of depreciation specified above against the balance of the pool at the end of the year of assessment.

7. The balance of the pool at the end of the year of assessment is the total of -
   a. The balance of the pool at the end of the preceding year of assessment after allowing for the deduction under (6) above for the preceding year of assessment; and
   b. Half the cost of assets added to the pool in the preceding year of assessment; and
   c. Half the cost of assets added to the pool in the current year of assessment,

   Reduced, but not below zero, by the consideration received from the disposal of assets in the pool during the year of assessment.

8. Where the consideration received from the disposal during a year of assessment of assets in a pool exceeds the balance of the pool at the end of the year of assessment (disregarding those amounts), the excess is included in gross income.

9. If the balance of the pool at the end of the year of assessment, after allowing for the deduction under (6) above, is less than M 500; and no assets have been added to the pool in the current year of assessment, a deduction is allowed for the amount of the balance.

10. Where all the assets in a pool are disposed of, a deduction is allowed for the balance of the pool at the end of the year of assessment.

11. Where a Taxpayer has incurred costs in more than one year of assessment for a depreciable asset, depreciation is calculated as if the costs incurred in different years of assessment were for different assets.

12. Where an industrial building is bought or sold together with land, you must apportion the total consideration reasonably to arrive at a separate value of the building.

Amortisation. Intangible assets, other than business start-up costs, having an ascertainable useful life and used for the production of income subject to tax, are amortised on a straight-line basis over the life of the asset. Costs to start up a business to produce income subject to tax are amortised as if the costs were incurred for a depreciable asset subject to a 20% declining balance depreciation rate.

Mineral extraction expenditures. Such expenditures incurred in the production of income subject to tax, in the nature of exploration, drilling, development, or the acquisition of rights, are recovered as if the costs were incurred for a depreciable asset subject to a 10% declining balance depreciation rate.

Part C, Line 2f

Foreign exchange losses. Losses of an accrual-basis Taxpayer must be taken into account on the last day of each year of assessment.

Part C, Line 2g

Other expenses and losses from business assets. Attach a schedule detailing each expense or loss included on this line.

Business losses. Except as otherwise stated below, the loss on the disposal of a business asset is allowed in determining chargeable income and is the excess of the adjusted cost base over the consideration received. See the instructions for Part C, line 1, for the definitions of cost base and consideration.

No loss is allowed on the:

- Disposal of an asset directly or indirectly to an associate of the Taxpayer, or

- Disposal of a depreciable asset for which an election under rule (4) in the instructions for Part C, line 2e, has been made (other than as provided in the election rules), or
- Transfer of assets between spouses, or
- Transfer of assets between former spouses as part of a divorce settlement, or
- Involuntary conversion of an asset, where the proceeds are reinvested in an asset of like kind.

Include on this line the business portion of:

- Contributions to a complying self-provided superannuation fund (see the instructions for Part A, line 2f), and
- Donations paid to the Lesotho Sports and Recreation Commission (see the instructions for Part A, line 2g).

Part C, Line 4

Business income or loss from partnerships. A partnership is required to make a separate return of partnership income. Enter on this line your share of partnership business income or loss. Attach a schedule detailing the name, address, TIN, and amounts allocated to you for each partnership. If you are claiming a loss, you must also calculate your adjusted cost base in the partnership and show the amount of any loss carried forward from a prior year.

Your distributive share of partnership loss is allowed only to the extent of the adjusted cost base of your partnership interest at the end of the assessment year in which the loss occurred, and any excess of such loss over such base may be carried forward. At the end of each assessment year, your adjusted cost base is increased by the sum of your distributive share of both taxable and tax-exempt income and decreased (but not below zero) by your distributive share of distributions, losses, and non-deductible expenses.

Part C, Line 5

Business income from trusts and estates. A trust or estate is required to make a separate income tax return. Enter on this line your share of the trust or estate business income. No beneficiary is allowed a deduction for a loss from a trust or estate. Attach a schedule detailing the name, address, TIN, and amounts allocated to you for each trust or estate.

Part C, Line 7

Losses brought forward from prior years. A net business loss is allowed only against business income and any amount not allowed in the current assessment year is carried forward to the next assessment year. If you had a net business loss carried forward from the previous assessment year, enter that amount on line 7.

Part D – Commercial Farming Income & Expenses

Commercial farming does not include subsistence farming carried on in Lesotho by a resident individual. “Subsistence farming” means primary farming operations, whether pastoral or agricultural, where the output of the operations is principally used for the Taxpayer’s own consumption.

See the instructions for Part C for additional instructions that also apply to Part D. The instructions that apply to business income and expenses also apply to commercial farming income and expenses.

Part E – Property Income & Expenses

Accounting method. You may use either the cash or accrual method of accounting.
Under the cash method, income is taken into account when received or made available to you and expenses are taken into account when paid. Under the accrual method, income is taken into account when earned and expenses are taken into account when incurred.

Lesotho-source income and foreign-source income. See the instructions for Part C.

Part E, Lines 3a through 3h

Expenses. See the instructions for Part C, lines 2a through 2g, for additional instructions that also apply to Part E. The instructions that apply to business income and expenses also apply to rental income and expenses. Do not include losses on investment assets on line 3h; instead, include such losses on line 6.

Part E, Line 5a

Interest, dividends, and royalties. Include taxable interest income, dividends, and royalties on this line, but only if it is from a non-business investment. If the income was earned in the course of your business or commercial farming activity, include it in Part C or D, whichever applies. **Do not** include on this line:

- The first M 500 of interest derived from one savings account that bears your TIN and is with a Lesotho resident financial institution. You must be a Lesotho resident who is at least 18 years of age and have nominated that account as the one to which the M 500 exemption applies.
- Interest for which Lesotho tax was deducted at the source.
- Dividends paid by a Lesotho resident company if you are a Lesotho resident.

If you are a non-resident, tax is withheld at 25% on the gross amount of a Lesotho-source dividend, interest, or royalty, and the tax is considered a final tax not reportable on this return. But you must report this income if you file an income tax return and elect to be taxed at 40% on such income (less any deductible expenses that constitute Lesotho-source income to the person you paid).

Part E, Line 5b

Gains on the disposal of investment assets. Attach a schedule detailing each gain included on this line.

The gain on the disposal of an asset is the excess of the consideration received over the adjusted cost base of the asset. See the instructions for Part C, line 1, for the definitions of consideration and adjusted cost base.

However, if an investment asset is an interest in immovable property held for more than 12 months, the adjusted cost base is indexed for inflation using the following formula:

$$CB \times \frac{CPI\text{-}D}{CPI\text{-}A}$$

Where:

CB = *Cost or expense of each item included in the cost base of the asset;
CPI-D = Consumer price index number (CPI) published for the quarter that ended immediately prior to the asset's disposal date;
CPI-A = CPI published for the quarter that ended immediately prior to the date the cost or expense of the item was incurred.

*Note: If you owned the item on 1 April 1993, substitute the market value of the asset on that date.

The CPI is published by the Bureau of Statistics (BOS). You can contact BOS at:

Bureau of Statistics
PO Box 455, Maseru 100, Lesotho
Tel: +266 22 323 852 Fax: +266 310177
E-mail: itpd@bos.gov.ls

Indexing for inflation does not apply if the asset was disposed of at a loss.

Part E, Line 5c

Other property income (except from partnerships, trusts, or estates). Include taxable natural resource payments and any other taxable investment income not reportable on another line. If the income was earned in the course of your business or commercial farming activity, include it in Part C or D, whichever applies.

Part E, Line 6

Expenses and losses from investment assets and donations paid to the Lesotho Sports and Recreation Commission. Attach a schedule detailing each expense or loss included on this line.

Investment losses. Except as otherwise stated below, the loss on the disposal of an investment asset is allowed in determining chargeable income and is the excess of the adjusted cost base over the consideration received. An investment asset is an asset that is neither a business asset nor an asset held primarily for personal use. See the instructions for Part C, line 1, for the definitions of cost base and consideration.

The losses you include on this line cannot be more than the gains you enter on Part E, line 5b. If the losses exceed the gains, the excess is treated as incurred in the following year.

No loss is allowed on the:

- Disposal of an asset directly or indirectly to an associate of the Taxpayer, or
- Transfer of assets between spouses, or
- Transfer of assets between former spouses as part of a divorce settlement, or
- Involuntary conversion of an asset, where the proceeds are reinvested in an asset of like kind.

Include on this line the investment portion of:

- Contributions to a complying self-provided superannuation fund (see the instructions for Part A, line 2f), and
- Donations paid to the Lesotho Sports and Recreation Commission (see the instructions for Part A, line 2g).

Part E, Line 8

Property income or loss from partnerships. A partnership is required to make a separate return of partnership income. Enter on this line your share of partnership property income or loss. Attach a schedule detailing the name, address, TIN, and amounts allocated to you for each partnership. If you are claiming a loss, you must also calculate your adjusted cost base in the partnership and show the amount of any loss carried forward from a prior year.

Your distributive share of partnership loss is allowed only to the extent of the adjusted cost base of your partnership interest at the end of the assessment year in which the loss occurred, and any excess of such loss over such base may be carried forward. At the end of each assessment year, your adjusted cost base is increased by the sum of your distributive share of both taxable and tax-exempt income and decreased (but not below zero) by your distributive share of distributions, losses, and non-deductible expenses.

Part E, Line 9

Property income from trusts and estates. A trust or estate is required to make a separate income tax return. Enter on this line your share of the trust or estate property income. No beneficiary is allowed a deduction for a loss from a trust or estate. Attach a schedule detailing the name, address, TIN, and amounts allocated to you for each trust or estate.

Part E, Line 11

Losses brought forward from prior years. A net property loss is allowed only against property income and any amount not allowed in the current assessment year is carried forward to the next assessment year. If you had a net property loss carried forward from the previous assessment year, enter that amount on line 11.

Part F – Other Income & Expenses

Accounting method. You may use either the cash or accrual method of accounting.
Under the cash method, income is taken into account when received or made available to you and expenses are taken into account when paid. Under the accrual method, income is taken into account when earned and expenses are taken into account when incurred.

Lesotho-source income and foreign-source income. See the instructions for Part C.

Part F, Line 1

Other income. Attach a schedule listing all income subject to Lesotho income tax that is not reportable in Parts A through D. Other income includes such items as prizes, awards, and gambling winnings. Also include net other income allocated to you from partnerships, trusts, and estates.

Part F, Line 2

Expenses. Attach a schedule listing the expenses you paid or incurred to produce the income on line 1. Also include on this line and list on the schedule the portion of the following deductions allocable to other income:

- Contributions to a complying self-provided superannuation fund (see the instructions for Part A, line 2f), and
- Donations paid to the Lesotho Sports and Recreation Commission (see the instructions for Part A, line 2g).

Part G – Credit for Foreign Tax Paid

A Lesotho resident is entitled to a foreign tax credit against Lesotho income tax for any foreign income tax imposed directly or indirectly on that resident on foreign-source income taxed in Lesotho.

Part G, Column (b)

Foreign tax paid on the amount in column (a). Enter the amount of foreign tax paid on the income shown in column (a). You must keep in your records for 4 years evidence of any foreign tax paid, such as dividend warrant counterfoils, certificate of tax deducted, or statement from your partnership. Do not attach it to your tax return.

Part G, Column (c)

Lesotho tax on the amount in column (a). To calculate the amount in column (c), you must use the average rate of Lesotho tax imposed on the income shown in column (a). The average rate of tax is the percentage that your Lesotho income tax calculated after allowance of the personal credit (but before the foreign tax credit) is of your chargeable income using the following fomula:

Tax liability(less tax credit)/Total chargeable Income * Gross foreign Income.

The Taxpayer will only be allowed foreign tax credit to the amount from the above formula.

In the case where the Taxpayer made a loss, tax is calculated on the foreign income as if such income was sourced in Lesotho and then the Taxpayer is allowed foreign tax credit to the maximum of the resultant tax.

Please note that the tax must be calculated separately for business income (including commercial farming income) and for all other income. Alternatively, to make this calculation, first complete Part H, line 1a through 5a. Then complete the **Lesotho Tax Computation Worksheet for Part G, Column (c), Lines 1c and 1f** below.

Lesotho Tax Computation Worksheet for Part G, Column (c), Lines 1c and 1f	
1. Divide Part H, line 1c by Part H, line 2	
2. Add Part H, lines 3b, 3c, and 3d in column (c)	
3. Multiply line 1 above by line 2 above	
4. Add line 3 above and Part H, line 3a in column (c)	
5. Divide line 4 above by Part H, line 4	
6. Multiply line 5 above by Part H, line 5a	
7. Line 4 above minus line 6 above	
8. Add Part H, lines 1c and 1d	
9. Divide line 7 above by line 8 above.	
10. Multiply Part G, line 1c, column (a) by line 9. Enter the result here and on Part G, line 1c, column (c)	
11. Part H, line 4, minus Part H, line 5a	
12. Line 11 above minus line 7 above	
13. Part H, line 2 minus line 8 above	
14. Divide line 12 above by line 13 above	
15. Multiply Part G, line 1f, column (a) by line 14. Enter the result here and on Part G, line 1f, column (c)	

Part H – Tax Computation

Part H, Line 3b

Threshold apportionment

If you were a part-year resident or not engaged in an income-earning activity for the entire year, your chargeable income must be apportioned i.e. spread over a year. For example, if your only income was M50, 000.00 which you earned over five months period, then the apportionment is calculated as follows;

- 50,000 /12 = 10,000.00 income per month. (i.e. income which would be earned per month if the 50,000 was earned over a year)

We know that the first M58 680.00 is taxed at 20% per annum meaning that 58 680/12 =4, 890.00 per month is taxed at 20%. Any amount above this is taxed at 30%.

Thus tax payable per month would be;

- Tax on the first 4,890.of 10,000= (4, 890.*20%) =978.
- Tax on the excess = (10,000.-4,890)*30%.=5,110.*30%=1, 533.
- Total tax=2, 511.
- Less tax credit= (6, 960./12)=580.
- Tax payable=1, 931.

Therefore the tax payable for the 5 months should be 1, 931.*5=9, 655.

Part H, Line 5a

Personal tax credit. Enter M6, 960. if you were a full-year Lesotho resident, at least 18 years of age, and engaged in an income-earning activity for the entire year.

If you were a part-year resident or not engaged in an income-earning activity for the entire year, you must apportion the credit based on the number of months you were both a resident and engaged in an income-earning activity. When determining the number of months, count the number of months you were a resident and were either employed or held an income-earning investment (such as a savings account or shares in a company). For example, if you had no income-earning investments, but you were a full-year resident and employed for 8 months during the year; multiply M6, 960.00 by 8/12. The result is M4, 890.00, so you would enter 4, 890.00 on line 5a.

If you were under 18 years of age or a non-resident, see the instructions on the form to figure the credit and, if required, apportion the credit as explained above.

Part H, Line 8b

Tax withheld on payments to Lesotho resident contractors. If you were a Lesotho resident in the construction business, Lesotho income tax may have been withheld at a rate of 5% from the payments you received. Enter the amount of such tax withheld and attach the tax withholding certificate you received from the payer.

Part F, Line 8c

Tax withheld on interest income paid to Lesotho resident partnerships. For a Lesotho resident partnership, Lesotho income tax may have been withheld at a rate of 10% from the interest income received by the partnership. Enter your distributive share of the amount of such tax withheld. Also attach a statement from the partnership that shows your distributive share.

> ***Caution:*** A Lesotho resident cannot claim a credit for Lesotho income tax withheld on interest income paid directly to that resident because the withheld tax is a final tax and the interest income is excluded from gross income.

Part H, Line 8d

Tax withheld on service income payments to non-residents. If you were a non-resident who received payments under a Lesotho-source services contract, Lesotho income tax may have been withheld at a rate of 10% from the payments you received. Enter the amount of such tax withheld and attach the tax withholding certificate if you are filing this return because you have elected to be taxed by assessment at a rate of 40% on your net income. If you do not elect to be taxed by assessment, the withheld tax is a final tax.

Part H, Line 8e

Tax withheld on dividends, interest, royalties, management charges, and other income paid to non-residents. If you were a non-resident who received Lesotho-source dividends, interest, royalties, or natural resource payments, or you received provided management or administrative services used solely in the production of manufacturing income subject to a reduced tax rate, Lesotho income tax may have been withheld at a rate of 15% or 25% from the payments you received. Enter the amount of such tax withheld and attach the tax withholding certificate if you are filing this return because you have elected to be taxed by assessment at a rate of 40% on your net income. If you do not elect to be taxed by assessment, the withheld tax is a final tax.

Part H, Lines 8f through 8h

Income tax paid in advance installments. Enter on the applicable line each installment of Lesotho income tax paid in advance for the assessment year. If you were required to pay your tax in installments, the installments should have been paid no later than 30 September 2017, 31 December 2017, and 31 March 2018.

Part H, Line 10

Tax due. The amount on line 10 is the amount you must pay when your file your return. You may file your return at any of the following locations:

- First National Bank (FNB), Nedbank, or Standard Lesotho Bank, or
- Tax Advice Centre, Finance House, Maseru, or
- Regional Tax Advice Centre, Leribe, or
- Regional Tax Advice Centre, Mohale's Hoek.

You may also send your return by post to the Commissioner Domestic Taxes, Lesotho Revenue Authority, PO Box 1085, Maseru 100.

You may pay by cash, cheque, or banker's draft if you bring your return to a bank or advice centre. If you send your return by post, you may pay by cheque or banker's draft made payable to the "Commissioner Domestic Taxes." **Do not send cash.**

Part H, Line 11

Tax overpaid. The amount on line 11 is the amount that will be refunded to you if you have ticked the box on line 11, have no outstanding tax liabilities, and have made no errors in completing your return. See the Part H, line 10 instructions to find out how to file your return.

Normally, your refund will be sent to you within 46 calendar days of filing your return.

Part I – Reconciliation of Book Income (Loss) to Chargeable Income

Complete this part only if **Part C, D, or E** applies to you. On line 1, enter the income shown in your accounting books and records. Do not enter your chargeable income. Include employment and pension income in addition to business, commercial farming, property income, and other income. Attach a copy of any explanatory notes to your financial statements, but you do not have to attach a complete copy of the financial statements.

Declaration of Paid Preparer

Before you file your return, you must be sure that if you paid a person to prepare your tax return, that person signed the declaration at the top of page 7.

Declaration of Taxpayer or Representative

Before you file your return, you must sign the declaration at the end of page 7. If you give false information or conceal any part of your income, you can be prosecuted. If the Taxpayer is legally incapacitated, the return must be signed on behalf of the Taxpayer by the Taxpayer's representative.