Commissioner Domestic Taxes
Physical Address Finance House High Court Road
Lesotho Revenue Authority P.O. Box 1085 Maseru 100 Lesotho, Southern Africa
Tel: +266 22325931 Fax: +266 22310357 Website: www.lra.org.ls
Serving You, Serving the Nation
Re Sebeletsa Uena, Re Sebeletsa Sechaba

Instructions for Partnership Return of Income (Form S128-P) For Year Ended 31 March 2018

General Instructions

Which Partnerships Must File a Return of Income

What is a partnership? A partnership is an unincorporated legal entity formed by a voluntary agreement or joint venture between two or more persons to place their capital, labor, or skills in business with the understanding that there will be a sharing of profits and losses between or among the partners.

Lesotho resident partnership. A Lesotho resident partnership is a partnership that had at least one partner who was a Lesotho resident at any time during the assessment year. A Lesotho resident partnership is required by law to file a return of its total income from all sources (except income exempt from tax) for the assessment year ended 31 March 2018. In addition, the partners are responsible for filing their own income tax returns and paying any tax due, including the tax due on their shares of the chargeable income of the partnership.

Non-resident partnership. A non-resident partnership is any partnership that is not a Lesotho resident partnership. A non-resident partnership is not required to file a Lesotho partnership return of income. Instead, the partners are responsible for filing their own income tax returns and paying any tax due, including the tax due on their shares of the chargeable income of the partnership.

When To File

The partnership's return must be filed no later than 30 June 2018. If the partnership is unable to file by the due date, it 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. The partnership also may apply in writing to the Commissioner Domestic Taxes for an extension of time to pay if it can show good cause for not paying on time.

Where To File

You may file the partnership return at any of the following locations:

- Tax Advice Centre, Finance House, Maseru, or
- Regional Tax Advice Centre, Leribe, or
- Regional Tax Advice Centre, Mohale's Hoek.

You may also send the partnership return by post to the Commissioner Domestic Taxes, PO Box 1085, Maseru 100.

Penalties and Interest

There are penalties if the partnership fails to file the return on time or pay the tax when due, including the possibility of imprisonment of the nominated officer. Interest is also charged if the partnership does not pay the tax on time.

How To Complete the Return

Complete only those parts of the return that apply to the partnership. Express all figures in Maloti. 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, be sure the nominated officer of the partnership signs the declaration at the bottom of page 6. Also, be sure that the person the partnership paid to prepare the tax return signs the declaration of paid preparer on page 6.

Specific Instructions

Part A – Lesotho-Source Business Income and Expenses

Accounting method. Generally, the partnership 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 the partnership 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:

- The partnership **must** use the accrual method in all years after the first year its gross income exceeds M 150,000.
- The partnership **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 (as amended).
- Chargeable income derived from carrying on an insurance business must be calculated in accordance with Part IV of Legal Notice No. 23 of 1994 (Income Tax Regulations, 1994).

Lesotho-source income and foreign-source income. Be sure you enter all income and deductions in the correct part of this form (Part A for Lesotho-Source Business Income, Part B for Foreign-Source Business Income, and Part C for Property Income). 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 partnership 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 partnership; 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 partnership; 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 A, Line 1

Enter Lesotho-source business income, commercial farming income, and manufacturing income in the proper column. The manufacturing income columns apply only to partnerships that have resident companies as partners. See the definitions below.

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

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 (see below);
- Business income or loss from other partnerships (see below);
- Business income from trusts and estates (see below);
- A payment received as consideration for accepting a restriction on the capacity to carry on business; and
- Income from cancellation of business debts incurred by the partnership.

Manufacturing income. Manufacturing means the substantial transformation of tangible movable property, but it does not include construction, installation, assembly, transportation, power generation, or the provision of public utility services. Partners that are resident companies (not including Lesotho branches of non-resident companies) are taxed on Lesotho-source manufacturing income at 10%.

Foreign-source manufacturing income and Lesotho-source manufacturing income of residents other than companies and non-resident companies (including Lesotho branches of non-resident companies) is taxed at the same rate as non-manufacturing business income.

Commercial farming income includes all farming operations, including pastoral or agricultural.

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 partnership is the amount paid or incurred by the partnership 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.

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

The partnership's distributive share of other partnership losses is allowed only to the extent of the adjusted cost base of the partnership's interest in the other partnership 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, the partnership's adjusted cost base in the other partnership is increased by the sum of the partnership's distributive share of both taxable and tax-exempt income and decreased (but not below zero) by the partnership's distributive share of distributions, losses, and non-deductible expenses.

Business income from trusts and estates. A trust or estate is required to make a separate income tax return. Enter on this line the partnership's 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 the partnership for each trust or estate.

Part A, 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 the partnership 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
- 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. The partnership is 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 made by the partnership on behalf of an employee. The total amount allowed to the partnership as an annual deduction is limited to the employment income paid to the employee by the partnership 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 the partnership's accounts.
- Approved training expenses. If the partnership is carrying on a business in Lesotho, it is 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 it 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 A, Line 2a

Cost of sales or operations. If the partnership maintains stocks of goods in process or of finished goods, it must establish and maintain inventories of such stocks. Enter on this line the 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 the partnership is a cash-basis Taxpayer, it may calculate the cost base of trading stock on the prime-cost or absorption-cost method. If it is an accrual-basis Taxpayer, it 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, the partnership may account for the trading stock on the first-in-first-out method or the average-cost method.

Part A, Line 2d

Interest expense. Interest incurred on a loan used by the partnership in the production of income subject to tax is deductible.

However, a resident company partner that is not principally engaged in the money-lending business may not deduct interest paid on the part of its total debt (including its share of the partnership debt) in excess of a 3 to 1 debt-to-equity ratio. The partnership must provide as an item of information to its resident company partners their shares of total interest expense and debt in each income category as part of the information furnished to each partner from Part I on page 5 of the partnership return.

Part A, Line 2e

Depreciation. A deduction is allowed for depreciation of the partnership 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 partnership 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 partnership 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, the partnership 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 A, 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 A, 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 A, 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 partnership, or
- Disposal of a depreciable asset for which an election under rule (4) in the instructions for Part A, line 2e, has been made (other than as provided in the election rules), 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 donations paid to the Lesotho Sports and Recreation Commission. The partnership 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 the partnership, the partners or partnership's employees, members of their families, or the partnership's associates. Include the amount paid from business income on Part A or B, line 2g; the amount paid from commercial farming income on Part A or B, line 2g; and the amount paid from property income on Part C, line 3h or line 6.

Part B – Foreign-Source Business Income and Expenses

See the instructions for Part A. Enter all foreign-source business (including manufacturing) income in this part. Do not enter foreign-source rental and investment income and expenses reportable in Part C or other income and expenses reportable in Part D.

Part C – Property Income & Expenses

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

Part C, Lines 2a through 2h

Expenses. See the instructions for Part A, lines 2a through 2g, for additional instructions that also apply to Part C. 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 C, 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 the partnership's business or commercial farming activity, include it in Part A or B, whichever applies. **Do not** include on this line dividends paid to the partnership by a Lesotho resident company.

Part C, 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 A, 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 the partnership 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 C, Line 5c

Other property income. 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 the partnership's business or commercial farming activity, include it in Part A or B, whichever applies.

Net investment income or loss from other partnerships. Include on this line the partnership's share of investment income or loss from other partnerships. Attach a schedule detailing the name, address, TIN, and amounts allocated to the partnership from each of the other partnerships. If the partnership is claiming a loss, you must also calculate the partnership's adjusted cost base in the other partnerships and show the amount of any loss carried forward from a prior year.

The partnership's distributive share of other partnership losses is allowed only to the extent of the adjusted cost base of the partnership's interest in the other partnership 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, the partnership's adjusted cost base in the other partnership is increased by the sum of the partnership's distributive share of both taxable and tax-exempt income and decreased (but not below zero) by the partnership's distributive share of distributions, losses, and non-deductible expenses.

Net investment income from trusts and estates. A trust or estate is required to make a separate income tax return. Include on this line the partnership's share of the trust or estate net investment 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 the partnership for each trust or estate.

Part C, 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 A, 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 partnership, 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 certain donations paid to the Lesotho Sports and

Recreation Commission (see the instructions for Part A, line 2g).

Part D – Other Income & Expenses

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

Part D, Line 1

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

Part D, Line 2

Expenses. Attach a schedule listing the expenses the partnership paid or incurred to produce the income on line 1.

Include on this line the other income portion of certain donations paid to the Lesotho Sports and Recreation Commission (see the instructions for Part A, line 2g).

Part E – Foreign Tax Paid

Part E, 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). The partnership must keep in its records for 4 years evidence of any foreign tax paid, such as dividend warrant counterfoils, certificate of tax deducted, or statement from the partnership's partnership. Do not attach it to the partnership's tax return.

Part F – Lesotho Income Tax Withheld

Part F, line 1

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

Part F, line 2

Tax withheld on Lesotho-source interest income. 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 the amount of such tax withheld and attach the tax withholding certificate the partnership received from the payer.

Also include the partnership's share of the tax withheld on interest income received by another partnership. Attach a statement from the other partnership that shows the partnership's distributive share of the tax withheld.

Part G – Statement of Financial Position

Enter the amounts as shown on the partnership's accounting books and records for the years ended 31 March 2017 and 31 March 2018. Attach a copy of any explanatory notes to the partnership's financial statements, but you do not have to attach a complete copy of the financial statements.

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

On line 1, enter the income or loss shown in the partnership's accounting books and records. Do not enter the partnership's chargeable income. Include both business and property income or loss. Attach a copy of any explanatory notes to the partnership's financial statements, but you do not have to attach a complete copy of the financial statements.

Part I – Allocation to Partners of Income or Loss and Tax Paid or Withheld

To allocate the amounts in the "Total" column among partners, multiply each total amount by the applicable partner's percentage interest in the partnership. If the partnership has non-resident partners, enter nil (-0-) on lines 5, 6, 8, and 10 through 14 (for those partners only).

Declaration of Paid Preparer

Before you file the partnership's return, you must be sure the person the partnership paid to prepare its tax return signed the declaration at the top of page 7.

Declaration of Nominated Officer

Before you file the partnership's return, the nominated officer must sign the declaration at the end of page 7. If the partnership gave false information or concealed any part of its income, the nominated officer can be prosecuted.