Lesotho

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A. At a glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	25 (b)(c)
Interest	25 (b)(d)(e)
Royalties	25 (b)(d)
Management Charges	25 (b)(d)
Payments for Services	10 (b)
Payments to Resident Contractors	5
Branch Remittance Tax	25 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) For manufacturing companies, the rate is 10%. For companies that manufacture and export outside the Southern African Customs Union, the rate is 0%.
(b) These withholding taxes apply to payments to nonresidents only.
(c) Dividends paid by manufacturing companies subject to a concessionary corporate tax rate are exempt from withholding tax.
(d) For interest, royalties and management charges paid by manufacturing companies subject to a concessional corporate tax rate, the rate is 15%.
(e) A 10% withholding tax is imposed on interest paid to residents.
(f) This tax is imposed on repatriated income. Repatriated income is the chargeable income of the branch less Lesotho income tax paid on the chargeable income and any profits reinvested in the branch.

B. Taxes on corporate income and gains

Company tax. Company tax is imposed on income from all sources located in and outside Lesotho.

Rates of company tax. The standard tax rate is 25%.

The rate is reduced to 10% for income from manufacturing operations and to 0% for companies that manufacture and export to countries outside the Southern African Customs Union. The special rate for manufacturing income does not apply to a Lesotho branch of a nonresident company.

Capital gains. Capital gains are treated as ordinary income and subject to tax at the regular corporate income tax rate.

Administration. The year of assessment runs from 1 April to 31 March. However, a company may select a year of assessment other than 1 April to 31 March, subject to the approval of the Commissioner of Income Tax.

Returns must be filed by the last day of the third month following the end of the year of assessment. If a return is not filed, the Commissioner may issue an estimated assessment.

Tax is payable in three installments, which are due on 30 September, 31 December and 31 March of each year of assessment. The fourth and final payment is due on submission of the return. For companies whose year-end is other than 31 March, the installments of tax are due on the last day of the sixth, ninth, and twelfth months of the year of assessment.

Withholding taxes are payable when the payee becomes legally entitled to the payment.

If tax levied under the Income Tax Act is not paid by the due date, additional tax of 3% compounded monthly is payable.

Dividends. Resident companies are exempt from tax on dividends received, but they may not deduct related expenses or dividends declared. A resident company is a company that satisfies one of the following conditions:

- It is incorporated and formed under the laws of Lesotho.
- Its management and control is located in Lesotho.
- It undertakes the majority of its operations in Lesotho.

Dividends paid to nonresidents are subject to a final withholding tax at a rate of 25%. Dividends paid by manufacturing companies subject to a concessionary corporate tax rate are exempt from withholding tax.

Resident companies that pay dividends are liable for advance corporation tax (ACT).

The following is the calculation for ACT:

$$\frac{A}{100 - A} \text{ x } 100$$

In the above calculation, A is the corporate tax rate for income other than manufacturing income.

Installment tax is set off against ACT; that is, installment tax paid settles the ACT due.

Foreign tax relief. In the absence of treaty relief provisions, unilateral relief is granted through a credit for foreign taxes paid on income earned abroad. The amount of the credit is the lesser of the foreign tax paid and the Lesotho tax on the foreign-source income.

C. Determination of trading income

General. Taxable income is financial statement income, adjusted as required by the Income Tax Act. To be eligible for deduction, expenses must be incurred in the production of income, and they must not be of a capital nature.

Inventories. Inventories are valued at the lower of cost or realizable value. Cost is determined using the first-in, first-out (FIFO) method or the average-cost method.

Provisions. Specific provisions are allowable for tax purposes. General provisions are not allowed.

Depreciation. Depreciation is computed using the declining-balance method at the following rates.

Asset	Rate (%)
Motor vehicles	25
Furniture, fixtures and office machines	20
Plant and machinery	20
Industrial buildings and public utility plant	5
Mining	100
Other assets	10

Relief for losses. Assessed losses may be carried forward for an unlimited period. A carryback of losses is not allowed.

Groups of companies. Companies in a group may not share their tax losses with profitable companies in the group.

D. Value-added tax

Value-added tax is levied at the following rates:
- Specified basic commodities: 0%
- Electricity and telecommunications: 5%
- Liquor: 15%
- Other commodities: 14%

E. Tax treaties

Lesotho has entered into tax treaties with Mauritius, South Africa and the United Kingdom. The following are the withholding tax rates for dividends, interest and royalties under these treaties.

	Dividends %	Interest %	Royalties %	Management and technical fees %
Mauritius	10	10	10	0
South Africa	15	10	10	10
United Kingdom	10	10	10	10
Non-treaty countries*	25	25	25	25

* See applicable footnotes in Section A.