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Lesotho Tax Survey

A. Income Tax

1. What types of organizations or entities are partially or wholly exempt from the income tax? Religious or charitable organizations are exempt from tax under Section 25 of the Income Tax Order, 1993. An organization is exempt only if none of its income or assets confers or may confer a private benefit on any person. The Ex. Mem. explains what private benefit means.
2. What types of income are wholly or partially exempt (e.g., membership dues, passive (investment) income)? Property income and unrelated business income are not exempt.
3. Must an organization receive an advance ruling from an agency of the government in order to enjoy tax benefits? Yes, the procedure is referred to in the law and the Explanatory Memorandum (the Commissioner must issue a ruling confirming an organization's exempt status), but it is not explicitly set out in the procedural rules.
4. Is investment income subject to taxation? No, what is referred to as "property income" is not exempt. How is investment income defined? Section 20 of the law states that "Property income includes dividends, interest, natural resource payments, rent, royalties, and gains from the disposal of investment assets...." The Ex. Mem. for Section 25 states that interest income from which the tax has already been withheld is not included in the income of an exempt organization.
5. May an organization engage in economic or business activities? An organization may engage in trade or business activities, but they are subject to tax. If the distinction is drawn between related and unrelated income, how is the line between them determined in practice? The distinction is drawn between related and unrelated business income by taxing income "not related to an organization's function." The Ex. Mem. describes what this means by reference to the sale of religious literature as being ancillary to the exempt function of a church. However, income from a general bookshop or printing press would not be considered ancillary.
6. Are there minimum distribution rules? No.
7. Are tax benefits for charitable contributions allowed? No.

B. Customs Duties

1. Are certain items exempt from customs duty on import? (E.g., humanitarian relief.) Does the law specify categories of exemption or are they specified in a schedule, regulations, or rules? N.a. Probably in schedules or rules, but they were not available.

C. VAT (or GST, or other similar tax)

1. Are there exemptions from VAT for specific kinds of persons (based on type of activities, not on amount of turnover)? Lesotho has a Sales Tax, enacted in 1995, which is the equivalent of a VAT. Section 6 provides for exemptions, which apply not to persons but to goods and services.
2. May persons not defined as taxable persons elect to be in the sales tax system? Yes, section 16 (4) permits a vendor who is not required to register to register in the discretion of the Commissioner.
3. Are there exemptions from Sales Tax for specific outputs (good and services)? If so, what categories of goods and services are exempt? Section 6 of the Sales Tax Act of 1995 exempts imported goods described in Schedule II, including goods imported for the relief of distressed persons in cases of famine or national disasters and those imported under any international agreement to which Lesotho is a party. Section 6 also exempts education, medical and dental services.
4. Are certain good and services zero-rated or given lower rates? No.
5. What are the applicable Sales Tax rates? Varies.

D.