

**THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of the Council of ICPAU*

**TAXATION – PAPER 13**

*June 2000*

**INSTRUCTIONS OT CANDIDATES**

1. Time allowed : 3 hours.
2. Attempt the question in Section **A**, **two** out of **three** questions from Section **B** and **two** out of **three** questions from Section **C**.
3. Section **A** has **one** compulsory question carrying 40 marks.
4. Section **B** has **three** questions, attempt two each carrying 15 marks.
5. Section **C** has **three** questions, attempt two each carrying 15 marks.
6. Please, read further instructions on the answer book.

**SECTION A:**

**Question 1: Compulsory**

Asio and Bukenya have been trading in partnership sharing profits and losses in the proportion of 3:2.

They have prepared their accounts for the year ended 31 December 1999 as follows:-

	<b>Ushs.million</b>	<b>Ushs.million</b>
Gross profit from trading		1,140,000
Dividends received (net)		51,000
Sub-letting rental income		<u>18,000</u>
		1,209,000
Interest on capital – Asio	60,000	
Interest on capital - Bukenya	30,000	
Goodwill written off	12,000	
Bad Debts	60,000	
Audit, insurance & legal expenses	60,000	
Motor vehicle expenses	90,000	
Depreciation	180,000	
Special expenses	24,000	
Withholding tax on dividends	9,000	
Partnership salaries (Bukenya)	180,000	
Loss on sale of investments	30,000	
Repairs and renewals	18,000	
Salaries and wages	300,000	
Light, water and electricity	<u>60,000</u>	
		<u>1,113,000</u>
Net Profit		<u>96,000</u>

**Notes:**

**(i) Bad Debts**

The bad debts account is as follows:

	Ushs.million	Ushs.million
Bad debt written off		30,000
Reserves carried down:		
General	240,000	
Specific	<u>66,000</u>	
		306,000

**Bad Debts Account**

	Ushs.million		Ushs.million
Bad debts written off	30,000		
Bad debts recovered	6,000	General provision b/f	192,000
		Specific provision b/f	90,000
General provision c/f	240,000	Profit & Loss Account	<u>60,000</u>
Specific provision c/f	<u>66,000</u>		
	<u>342,000</u>		<u>342,000</u>

<b>(iii) Audit, insurance &amp; legal</b>	<b>Ushs.million</b>
Audit expenses	30,000
Partners insurance	6,000
Legal Fees - debt collection	1,500
Legal Fees for making Partnership Deed	<u>22,500</u>
	<u>60,000</u>
<b>(iii) Special expenses</b>	
Penalty for breach of VAT regulations	12,000
Redundancy payment to employees	9,000
Easter gifts to Partners' wives	<u>3,000</u>
	<u>24,000</u>
<b>(iv) Withholding Tax on Dividends</b>	
Dividends were received net of tax	
<b>(v) Loss on Sale of Investments:</b>	
The shares in a quoted company were disposed of by sale during the year. They had cost of Ushs.180,000,000 and were disposed of for Ushs. 150,000,000. There were no other incidental expenses.	
<b>(vi) Repairs and renewals</b>	
Office furniture	6,000
Office carpet	4,500
Replacement of printing calculator	3,000
General repairs	<u>4,500</u>
	<u>18,000</u>

(vii) Wear and tear schedule	Class II	Class III
	Ushs.million	Ushs.million
Tax written down value b/f	270,000	168,000

1/3 of the motor vehicle usage is attributable to private motoring by the partners.

**Required:**

Calculate the adjusted profit for tax purposes for each partner.

**(40 Marks)**

**SECTION B**

**Question 2:**

Arnooti bought a building in June 1997, which was previously used as a shop in Fort Portal, Uganda. He installed Machinery with a view of starting the manufacture of exercise books. Manufacturing commenced on 1/7/97. The following expenditure was incurred prior to the start of manufacturing.

	<b>Ushs</b>
i) Purchase of building (including value of land	3,200,000
ii) Legal fees	480,000
iii) Feasibility study regarding available market opportunity	2,000,000
iv) Municipal Council outstanding rates	400,000
v) Alterations to buildings to accommodate machinery	800,000
vi) Costs of raising finance to purchase the buildings.	800,000
vii) Purchase and installation of processing machinery (all new and fixed to the fabric of the buildings)	8,000,000
viii) Office furniture and fittings	640,000
ix) Delivery Van	8,000,000
x) Tools and equipment	800,000
xi) Saloon car ( Corolla Sprinter)	8,000,000
xii) Extension of buildings	1,600,000

The building has been used as a shop since January 1986 when it was constructed at a cost of Ushs.4,800,000 (including cost of land of Ushs. 800,000)

The cost of extensions in 1997 comprised	Ushs.
of:-	
Raw materials store	800,000
Administration office	800,000

The extensions were completed in June 1997 and brought into use on 1/7/97. During the year of Income ended 30/6/1998 assets were sold as follows:-

One extension desk Ushs.246,000  
This desk had cost Ushs.180,000 at the beginning of the financial year.

**Required:**

Calculate the deductions that the company may claim in arriving at the adjusted profit for the year ended 30/6/98 and show the written down values of the assets and the residual value of the buildings as of 30<sup>th</sup> June 1998.

**(15 Marks)**

**Question 3:**

- a) State the Major tax considerations you would take into account while advising your client regarding doing business either as a partnership or a private limited company.
- b) Mr. Bagyenzi, a contractor prepares his account to 31<sup>st</sup> August each year.

**(5 Marks)**

For the year ended 31/8/98, he submitted the provisional tax return on 31 May 1998 and paid a tax deposit of Ushs.1,400,000 on the due date. He failed to submit the self assessment return and was issued with a notice of estimated assessment on estimated income of Ushs. 70,000,000 on 28/2/1999. He expects his income to be higher than the estimate. The self assessment return and accounts were submitted on 30/5/1999. The tax payable for the year 1997 was Ushs.5,600,000.

- i) Advise Mr. Bagyenzi on the action to take on receipt of estimated assesment. (2 Marks)
- ii) What action will the Commissioner take if the self assessment return and accounts reflect an income of Ushs.8,400,000? (i.e. estimated income) (1 Mark)
- iii) Calculate the tax payable and state the date tax was payable. (5 Marks)
- iv) Assume the tax is not paid by 30/6/99.  
Calculate the late filing return penalty, late payment penalty, and late interest payment by 30/6/99. (5 Marks)
- v) Why does the Commissioner impose penalty and interest? (1 Mark)
- vi) Briefly explain why the Large Tax Payers Department was created in the URA. (1 Mark)

**(Total 15 Marks)**

**Question 4:**

The Tax Returns of Mr. Meniga for the year ended 31 December 1999 show the following details:

	Self	Wife
	Ushs.'000	Ushs.'000
Employment		
Gross Pay	24,000	14,400
Benefits	-	960
Pension from previous employment	33,600	-
Share of Partnership Profit	-	960
Interest on Fixed Deposit Account	4,800	-
Wife deficit of total business income brought forward	-	(28,800)
Rental Income	9,600	
Dividend income (gross)	14,400	
	<u>86,400</u>	<u>(12,480)</u>

**Notes:**

- i) PAYE deducted:
- Wife 4,320,000
- Pension 624,000



- ii) Mr. Meniga is employed as a Chief Executive Officer (CEO) in a Company in which he owned 20% of the shares, the wife is currently employed by the same company as the Human Resource Manager.
- iii) Mr and Mrs. Meniga got married on 28/10/89. Prior to the marriage, Mrs. Meniga was a partner in Uganda Garments Ltd. She is still a partner in this business.
- iv) Withholding Tax
- |                                |           |
|--------------------------------|-----------|
| - On dividends                 | 2,880,000 |
| - On interest on Fixed Deposit | 960,000   |
- v) Mr. Meniga is housed by the Company. The Company also paid the following amounts for him in 1999:
- Life insurance premium of Ushs.4,032,000. The policy is with a Ugandan Insurance Co. and the Capital Sum assured is Ushs.120,000,000.
  - Contributions to Pension Scheme of Ushs.5,760,000. The scheme is registered with the Commissioner General in the prescribed manner.
  - Reimbursement of Medical Expenses of Ushs. 8,640,000.

**Required:**

**Compute:**

- a) i) Total taxable income for Mr. Meniga  
ii) Tax due for the 1999 Year of Income
- b) Mr. Meniga would wish to settle Ushs.12,000,000 of his income on his two children. Advise him on the tax implications of this decision.

**(15 Marks)**

### SECTION C:

#### Question 5:

- a) Explain how branches of foreign companies are taxed in Uganda (4 Marks)
- b) Explain the tax implications for companies
  - i) in Liquidation
  - ii) under re-organisation
  - iii) in groups
  - iv) with losses. (8 Marks)
- c) What is the role of Tax Appeals Tribunal in Uganda? (3 Marks)

(Total 15 Marks)

#### Question 6:

- a) Kaziro and Company Limited is a dealer in general merchandise. According to their statement of account for the period ended on 31 December 1998, the taxable supplies amounted to Ushs. 60 million. The rate of tax is 17%.

The following are copies from the records of the enterprise:

	Oct. 98 Ushs.'000	Nov.98 Ushs.'000	Dec. 98 Ushs.'000
Taxable supplies (sales)	5,000	7,000	6,000
Zerorated supplies (sales)	1,000	2,000	1,000
Exempt supplies (sales)	2,000	1,000	1,000
Taxable supplies (purchases)	3,000	3,000	4,000
Zerorated supplies (purchases)	-	1,000	-
Exempt supplies (purchases)	1,000	-	1,000

The Board of Directors decided to sell off part of the business that was not making profit. This was an independent, though separate shoe shining business. It was sold to Capo Limited, VAT No. 23098 – D for Ushs. 30 million during the month of November 1998.

**Required:**

- a) Calculate the tax payable/refundable by Kaziro & Co. Limited for each of the three tax periods. (12 Marks)
- b) Why would a trader whose turnover is below the required amount for compulsory registration for VAT, voluntarily register? (3 Marks)

**Total (15 Marks)**

**Question 7:**

A Sole Proprietor at the Bigolobi Market sells standard rated, zero rated goods and exempt supplies.

He maintains a record of the sales made on the Cash Register and it is possible to establish that during the month of July 1999, the following sales were made as well as purchases.

	Ushs.
Rice	500,000
Maize Flour	200,000
Soap	180,000
Paraffin	50,000
Bread	120,000
Blue Band	30,000
Candles	40,000
Fresh Vegetables	30,000
Raw Chicken	100,000
Exercise Books	130,000

He has also maintained a record of payments made during the month as follows:

	Ushs.
Rent for the soap (payable 6 months in advance)	1,200,000
Rice	600,000
Electricity Bill for flat No. B4 – 12 (his resident)	20,000
Electricity Bill for the Shop	15,000
Fuel for the Car	100,000
Bread	150,000
Exercise Books	200,000

He fell sick just after the month end and he believes he has been working too hard and will need a rest after he was recovered for at least three weeks. He has asked you to help him with VAT return preparation and submission and make any payment or claim any refund arising from URA.

**Required:**

Establish the tax payable/refundable by the Sole Proprietor for the tax period of July 1999.

**(Total 15 Marks)**