

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## TAXATION – PAPER 13

**DECEMBER 2000**

### INSTRUCTION TO CANDIDATES

1. Time Allowed: **3 hours**
2. Attempt question one in Section **A**. It is compulsory and carries 40 marks.
3. **Section B** has **three** questions and only **two** questions are to be attempted.  
Each question carries 15 marks.
4. **Section C** has **three** questions and only **two** questions are to be attempted.  
Each question carries 15 marks.
5. Please read further instructions on the answer book.

## SECTION A

**Question 1: Compulsory**

Ambition Trading Company Limited was incorporated on 1 June 1997, and commenced business on 1 January 1998. The accounts for the year ended 31 December 1999 are as follows:

	Shs '000		Shs '000
Wages and salaries	178,400	Gross trading profit	2,280,000
Directors' remuneration	82,000	Rental income	8,000
Rent, rates and insurance	49,200	Interest on Treasury bills	6,400
Motor expenses	38,000	Dividends from a resident	
Bad debts	82,000	company	1,000
General administrative expenses	148,000	Profit on sale of shares	64,000
Legal and professional fees	16,000		
Overdraft interest	6,000		
Loan interest	5,500		
Audit and accountancy	16,000		
Depreciation of fixed assets	96,000		
Loss on sale of fixed assets	6,000		
Net profit	<u>1,636,300</u>		
	<u>2,359,400</u>		<u>2,359,400</u>

The following further information is available:

1.	Capital allowances for the year are:	Shs '000
	Initial allowances on computers and other eligible property	48,000
	Wear and Tear allowances on plant and machinery	24,000
2.	Bad debts consist of the following:	
	Trade debts written off as irrecoverable	61,000
	Bad debt reserves created - General provisions	8,000
	- Specific Provisions	<u>13,000</u>
		<u>82,000</u>
3.	General administrative expenses include:	
	Entertaining:	
	Local customers	3,500
	Overseas customers	14,200
	Staff Christmas party	7,000
	Value of meals and refreshments provided to staff	16,800

	Shs '000
Subscriptions:	
Local Chamber of Commerce	5,000
Trade journals and publications	3,200
Subscriptions to ICPAU for the Finance Director	1,000
Membership fee to a local health club for the senior executive	2,500
Gifts and donations:	
Brochures and products catalogues for the general public	4,800
Donations to political parties	10,000
Donations to local hospice for cancer research	2,000
Interest on underpaid tax	12,700
Rehabilitation costs for new premises	6,500
Commission and fees paid to stockbroker on the sale of shares	2,900
Penalty for late filing of VAT return	8,500
4. Legal and professional fees include the following:	
- company secretariat fees	3,200
- fees for raising loan finance	4,100
- legal fees in relation to trade debts collection	6,100
- recruitment fees for new staff	1,100
- preparation of new staff service agreement	1,500
	<u>16,000</u>
5. The loan interest is payable on a mortgage obtained from Portland Building Society for the purchase of the company's office block. The loan is repayable over a period of five years.	
6. The dividends were received from a local company in which Ambition Trading Company has a 10% shareholding. The amount included in the accounts is gross.	
7. Profit of Shs 64,000,000 was realised on the sale of Ambition's 15% shareholding in Recruitment Ltd., a publicly quoted trading company.	
8. The company had tax losses determined by the Commissioner of Shs 360,000,000 for the year ended 31 December 1998.	

**Required:**

- (a) Compute the company's taxable profit for the year ended 31 December 1999 stating any assumptions made. **(25 marks)**
- (b) Compute the tax payable by the company for the year ended 31 December 1999 stating the date the tax is due for payment **(6 marks)**

(c) The company filed its self- assessment tax return on 31 July 2000 showing chargeable income of Shs 1,350,000,000. The Commissioner was not satisfied with the company's accounts and chargeable income declared, and he raised an additional assessment for Shs 650,000,000. The company's Financial Accountant Miss Bako has requested you for advise on how to deal with the additional assessment. In her opinion it is very excessive and the company is not ready to pay the tax assessed.

- (i) Advise Miss Bako on the action she should take on receipt of this additional assessment. **(3 marks)**
- (ii) When is the Commissioner deemed to have made an objective decision in relation to an objection to the assessment by the company? **(3 marks)**
- (iii) What course of action is available to the company if Miss Bako is not satisfied with the Commissioner's objection decision in (ii) above? **(3 marks)**

**Total 40 marks)**

## SECTION B

## Question 2:

Kabonge & Co. Enterprises Limited has been trading for many years. The company has a 31 March year-end. During the year ended 31 March 2000, the following transactions relating to Capital assets were made:

1. A new computer was bought for Shs 2,500,000.
2. Proceeds from the sale of an old printer Shs 800,000.
3. Purchased a new van (14 seater) for the transportation of its staff for Shs 14,000,000.
4. Bought a new Mitsubishi Pajero for the sales manager Shs 46,000,000 (private use of the vehicle is estimated to be 30%)
4. Bought new office furniture and fittings costing Shs 14,000,000.
5. Bought a new generator for the Managing Director's private residence for Shs 2,500,000.

The tax written down values of the qualifying assets at 1 April 1999 were as follows:

Class	Shs
I	17,500,000
II	7,580,000
III	13,200,000

## Required:

- (a) Compute the capital allowances claimable by the company for the year ended 31 March 2000. (10 marks)
- (b) A person who places an item of "eligible property" into service for the first time during the year of income is allowed a deduction for initial allowances in respect of that property.  
  
Name three kinds of property specifically excluded from the definition of "item of eligible property" under Section 29 of the Income Tax Act 1997. (3 marks)
- (c) Differentiate between a balancing allowance and a balancing charge. (2 marks)

**Total 15 marks)**

**Question 3:**

Mr. Gonza is the Managing Director of Newham Trading Company Limited. He gets a salary of Shs 78,000,000 a year (before tax). In addition to the above salary, the company provides him and his family with the following benefits.

1. A company car for his private use. All motor expenses are borne by the company. The market value of the vehicle when it was first provided for his private use was Shs 38,000,000. The vehicle was available for his private use throughout the year.
2. Provision of a housekeeper, chef and gardener costing the company Shs 25,000,000 for the year.
3. Provision of accommodation at an annual rental cost of Shs 36,000,000. Mr. Gonza pays the company a monthly rent of Shs 500,000 as his contribution towards the rent for the house.
4. The company also waived a loan of Shs 12,000,000 owed by Mr. Gonza during the year.
5. Reimbursement of medical expenses of Shs 120,000 per annum.
6. Reimbursement of costs incurred during his travelling on the company's business of Shs 500,000.
7. Contribution to a private pension plan on behalf of Mr. Gonza and his family of Shs 240,000.

**Required:**

- (a) Calculate Mr. Gonza's taxable income for the financial year 1999/2000.

Section 20 of the Income Tax Act 1997 defines employment income as "any income derived by an employee from any employment". This implies that employment income comprises all employment earnings in their various forms as well as their various sources.

**(10 marks)**

- (b) Name five categories of income or benefits that are excluded from taxable employment income.

**(5 marks)**

**(Total 15 marks)**

**Question 4:**

Dot-com Cyber café is an Internet and Telecommunications Center located in the city center. Its owner Mr. Dot-Com has never registered for VAT as his turnover has consistently been below the VAT registration threshold. However, he now feels that he should register and seeks your advice.

**Required:**

- (a) Advise Mr. Dot-Com on the implications of registering for VAT. **(5 marks)**
- (b) The following information relates to the Center's transactions for the first month of registration:

<b>Sales Invoices</b>		<b>Value excluding VAT</b>
		<b>Shs.</b>
1.	Standard rated services	1,750,000
2.	Zero rated services	420,000
3.	Exempt services	190,000
<b>Purchase Invoices</b>		
1.	Office furniture	390,000
2.	Printing & stationery	125,000
3.	Canteen food	350,000
4.	Fuel for the car	200,000
5.	Rent for Mr. Dot Com's private residence	400,000
6.	Transport and delivery costs	750,000

**Required:**

Calculate the VAT payable by or repayable to Dot-Com Cyber Café for their first month of registration.

**(10 marks)****(Total 15 marks)**

### SECTION C

#### Question 5:

- (a) With reference to the Income Tax Act 1997, briefly explain what is meant by the term "tax planning, or tax evasion" **(3 marks)**
- (b) Differentiate between "tax evasion" and "tax avoidance" **(4 marks)**
- (c) Miss Wally, a resident of Uganda is the 100% owner of Wally Trading Company (Uganda) Limited. Miss Wally is undecided whether she should pay herself a salary in the form of a Director's remuneration, or pay herself in the form of dividends for the year ending 30 June 2001.

She would like to have available cash of Shs 8,000,000 by June 2001, and she has approached you as her tax consultant for advice as to the best way of obtaining this sum from the company.

#### Required:

Advise Miss Wally.

Your answer should cover the following:

- (i) Taxation of the income on Miss Wally. **(3 marks)**
- (ii) Compare and contrast the PAYE, Income tax and withholding tax implications to, and obligations of the company for both forms of payment. **(5 marks)**

**(Total 15 marks)**

#### Question 6:

The Income Tax Act 1997 introduced capital gains tax on capital gains arising from the disposal of business assets by companies.

Write short notes on the following in relation to the disposal of business assets for capital gains purposes in Uganda.

- (a) When is a company said to have disposed of an asset for capital gains tax purposes? **(3 marks)**



- (b) Determination of the cost base of an immovable property for capital gains tax purposes (2 marks)
- (c) The consideration received on disposal of an asset includes the market value of any consideration received in kind. In addition to this, there are special rules used to determine consideration where the asset is disposed of to an associate or in a non-arms length transaction.

**Required:**

- (i) Explain the meaning of associate for tax purposes, giving examples where applicable. (2 marks)
  - (ii) Give two examples of "non-arms length" transactions. (2 marks)
  - (iii) Explain the special rules used to determine the consideration for the disposal of an asset to an associate or under an arm's length transaction. (4 marks)
  - (iv) Give two examples of transactions that would result in a non-recognition of a gain or loss for capital gains purposes (i.e. no gain no loss transaction). (2 marks)
- (Total 15 marks)

**Question 7:**

The tax partner in your firm of Certified Public Accountants of Uganda, where you work as a tax consultant has requested you to attend a meeting with him and one of your major clients Kalongo Enterprises Limited, to discuss various tax issues with the company's officials. Among the various tax heads to be discussed is VAT. The company is not yet registered for VAT, but they are considering registration as they believe their turnover for the current year of income will exceed the statutory VAT registration threshold.

**Required:**

Prepare notes for the meeting in a bullet point form covering the following with reference to the VAT Statute 1996.

- (i) The company's obligation to register for VAT. (3 marks)

Turn Over

- (ii) The three broad classes of goods and services for VAT purposes, giving one example for each class. **(3 marks)**
- (iii) Difference between Input tax and Output tax. **(3 marks)**
- (iv) Explain what is meant by "place of supply" and "time of supply" of goods and services for VAT purposes. **(3 marks)**
- (v) The essential contents of a Tax Invoice for VAT purposes? **(3 marks)**

**(Total 15 marks)**