

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL THREE

TAXATION – PAPER 13

TUESDAY, 17 DECEMBER 2002

INSTRUCTIONS 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

Stratford Trading Company Limited, a Uganda Resident manufacturing company has always prepared its financial statements to 31 December. The Company's results for the year ended 31 December 2001 are as follows:

	Shs '000	Shs '000
Gross trading profit		873,000
Dividends receivable from other Ugandan companies		4,000
Interest from Treasury Bills (Note 1)		6,000
Bank Interest receivable (Note 2)		12,600
Income from Property (Note 3)		4,800
Profit on sale of Investments (Note 4)		<u>22,000</u>
		922,400
Less		
Distribution costs	97,500	
Administrative expenses	101,000	
Directors' fees	50,000	
Interest on Bank overdraft	23,700	
Depreciation	108,300	
Charitable Donation (Note 5)	7,000	
Debenture interest payable (Note 6)	80,000	<u>467,500</u>
Net Profit for the year		<u>454,900</u>

Notes:

1. Interest from Treasury Bills was all earned (accrued) in the period before 30 June 2001.
2. Bank interest receivable of Shs 6,000,000 is shown gross although it was received net of withholding tax.
3. The property was let on 1 January 2001 at a rent of Shs 400,000 per month payable quarterly in advance.
4. The agreed capital gain on the sale of investments has been computed as Shs 16,000,000.
5. The charitable donation was made to a tax exempt non-governmental organisation.
6. The company purchased a new factory, which qualified, for industrial buildings allowance on 1 January 2001 for Shs 130,000,000. The company made a claim for both initial allowance and industrial buildings allowance on the factory for the 2001 year of income.
7. The company's additions and disposals of plant and machinery for the year were as follows:

Purchases:**Shs '000**

(i) Computer Equipment	10,000
(ii) Office furniture	14,500
(iii) Staff transport - van of a sitting capacity of 14 people	18,000
(iv) Managing director's Toyota Land Cruiser	80,000
(v) Plant and Machinery used in manufacturing	92,000
(vi) Motor vehicle	12,000

Disposals:

(i) Used motor vehicle	8,000
(ii) Scrap metal from the factory	3,500
(iii) Obsolete computer equipment	800

You are required to:

- (a) To compute Stratford Trading Company Limited's adjusted chargeable income before capital allowances.
(10 marks)
 - (b) To compute the maximum industrial buildings allowance which the company can claim on the new factory.
(5 marks)
 - (c) To calculate the maximum initial allowances and wear and tear allowances that the company can claim in respect of its plant and machinery for the year ended 31 December 2001.
(10 marks)
 - (d) From your answers in (a), (b) and (c) above, calculate the corporation tax payable by Stratford Trading Company Ltd for the year ended 31 December 2001.
(5 marks)
 - (e) Explain why Stratford Trading Company Ltd is required to make provisional payments on account in respect of its corporation tax liability for the year ended 31 December 2001.
(2 marks)
 - (f) State the relevant due dates for payment of the corporation tax liability.
(2 marks)
 - (g) State the penalties for a company understating its estimate of the chargeable income, for the provisional tax payments.
(3 marks)
 - (h) State under what circumstances may the penalty in (g) above be remitted or waived.
(3 marks)
- (Total 40 marks)**

SECTION B**Question 2**

James Okello is a lawyer. Until 30 June 2001, he was employed by Dayne and Co as an advocate, but since July 2001 he has been working independently from his home as a self employed professional legal consultant and advisor.

James' income for the year ended 30 June 2002 was Shs 48,000,000. His expenditure for the year was as follows:

- (i) Costs for electricity and telephone at home Shs 2,500,000, of which 70% is for business use.
- (ii) He purchased computer equipment for Shs 4,000,000 during the year.
- (iii) Motor expenses for the year amount to Shs 7,200,000 of which 40% relate to James' private travelling.
- (iv) Rent for his home is Shs 3,600,000 of which 50% has been agreed with the tax authorities as his business rent cost.

Required:

- (a) State James Okello's tax obligation as a self employed professional in respect to the following:

- (i) Payment of income tax. **(2 marks)**
- (ii) Filing of personal income tax returns. **(2 marks)**
- (iii) Payment of withholding tax. **(2 marks)**
- (iv) Requirement to keep records and preparation of accounts. **(2 marks)**

- (b) Calculate James Okello's chargeable income for the year, and his personal tax payable for the year ended 30 June 2002.

(7 marks)**(Total 15 marks)****Question 3**

Bernard Mugisha is in the business of selling office furniture in his Bwaise workshop. He received an order of furniture from Speke Bank worth Shs 25,000,000 (excluding VAT) during the month of March 2002.

On 25 March 2002, the Bank paid Shs 20,000,000 on account and the goods were delivered on 28 April 2002. He issued a tax invoice for the full amount to the Bank on 4 May 2002.

You are required to:

- (a) Advise Bernard of the VAT rules that determine the tax point in respect of a supply of goods.
(3 marks)
 - (b) State the date when Bernard is required to account for VAT on the sale of the furniture, giving reasons for your answer.
(4 marks)
 - (c) Explain under what circumstances Bernard will be allowed to recover input VAT incurred on purchases.
(3 marks)
 - (d) State the additional information that Bernard will have to show on his sales invoices in order that these are valid for VAT purposes.
(3 marks)
 - (e) During the month of June 2002, Bernard made purchases of inventory worth Shs 48,000,000 (including VAT). He did not make any sales during that month.
Advise Bernard on how much input tax credit he can claim from the tax authorities for the month of June 2002.
(2 marks)
- (Total 15 marks)**

Question 4

Kalongo Ltd sold its business premises on 15 June 2002 for Shs 480 million. The building was purchased in April 1986 at a cost of Shs 84 million. During July 1989 the roof of the factory was replaced at a cost of Shs 3 million following a fire. Kalongo Ltd incurred Shs 8 million in connection with valuation and legal fees at the time of disposal of the building. The market value of the building as at 31 March 1998 has been computed as Shs 360 million.

Required:

- (a) Compute the capital gain arising on the disposal of the building.
(3 marks)
- (b) Give three examples of transfer of a non-depreciable business asset in which neither a gain nor a loss arises, for capital gains tax.
(3 marks)
- (c) Explain three circumstances that a taxpayer is treated as having disposed of an asset for capital gains tax purposes.
(3 marks)
- (d) Explain the rules relating to the determination of the cost base of an asset for capital gains purposes, in each of the following cases:

- (i) the cost base of an immovable property acquired before 31 March 1998.
(2 marks)
 - (ii) the cost base of an asset purchased after 31 March 1998.
(2 marks)
 - (iii) the cost base of an asset constructed by the taxpayer.
(2 marks)
- (Total 15 marks)**

SECTION C

Question 5

With the view to taking advantage of the bigger market arising out of the re-establishment of the East African Community, Harambee Supermarket Kenya Ltd, decided to send their Marketing Manager, Mr Njoroge to Kampala to set up a new subsidiary company for their operations in Uganda. The Ugandan, Harambee Supermarket Uganda Limited was incorporated in January 2001, and started trading on 1 July 2001.

During the year ended 30 June 2002, Harambee Supermarket Uganda Ltd made the following payments to, and on behalf of Mr Njoroge:

- (i) A salary of Shs 3,500,000 per month paid into Mr Njoroge's account with Kenya Commercial Bank Nairobi branch of which he repatriated Shs 1,500,000 per month to Kampala for his basic needs. The payment was made without deduction of tax.
- (ii) The company paid school fees for his children of Shs 800,000 during the year.
- (iii) The company gave him a monthly allowance of Shs 500,000 which Mr Njoroge used for his monthly travel and accommodation to Nairobi to attend the group companies' monthly management meetings.
- (iv) The company gave him an interest free car loan of Shs 18,000,000 payable in equal instalments over a period of three years.
- (v) The company pays his local rent of Shs 400,000 per month for his private accommodation in Kampala.
- (vi) In addition, the company paid him Shs 4,000,000 at the end of the year as a performance bonus, and this bonus was paid gross with no tax deducted.

[Assume the Bank of Uganda base rate for 2001/2002 is 8%]

Required:

- (a) Advise Mr Njoroge on the tax implications of his residence status in Uganda.
(4 marks)
 - (b) Compute Mr Njoroge's chargeable income for the year ended 30 June 2002 and the tax payable for the year.
(8 marks)
 - (c) Comment on the tax obligations of the company in respect of withholding tax on payments to Mr Njoroge, and the potential penalties for non-compliance.
(3 marks)
- (Total 15 marks)**

Question 6

You are a Tax Consultant in a firm of Certified Public Accountants. Recently one of your clients contacted you seeking your advise on an impending Uganda Revenue Authority (URA) comprehensive audit of their tax affairs. The URA has requested copies of your client's various records as well as access to their computer records to enable then accurately determine the company's tax position.

Required:

Prepare brief notes for your meeting with the client, covering the following as per the Income Tax Act 1997.

- (a) Obligations of the company to keep records for tax purposes.
- (b) Powers of the officers of the URA to have access to the company's records.
- (c) The company's rights in respect of their books and records taken from their premises by officers of the URA.
- (d) Due care and duty of confidentiality owed to the company by the URA officers in respect of the company's tax affairs.
- (e) Duty of an officer of the URA to disclose information relating to the tax affairs of the company, if this is necessary to enforce any fiscal law in Uganda.

(15 marks)

Question 7

Terrain Slabs Limited, a Ugandan resident company manufactures building slabs. During the year ended 30 June 2002, the company had the following transactions:

- (a) They made a provision for future rental payments in respect of their warehouse for Shs 32,000,000.

(3 marks)

- (b) Paid lease rentals and interest on the lease of a concrete mixer totalling Shs 35,100,000 (VAT inclusive) for the year.

(3 marks)

- (c) The company uses a patent devised by Slab Company Limited, a Swiss resident company and in return they make annual royalty payments based on the number of units that the company sells. During the year ended 30 June 2002, the company paid US\$ 35,000 (equivalent Shs 63,000,000) in respect of royalties to Slab Company Limited.

(3 marks)

- (d) The company provides staff transport in a form of a van to enable employees to get to and from work on time.

(3 marks)

- (e) The company receives a fixed amount of overnight parking fees per month from a neighbouring company for using its parking yard. The amount received in the year of income was Shs 42,000,000.

(3 marks)

State briefly how each of the transactions will be treated for tax purposes.

(Total 15 marks)