

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL THREE

TAXATION – PAPER 13

TUESDAY, 16 DECEMBER 2003

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**

Kapere Manufacturers Ltd is a Ugandan resident company. For the year ended 30 September 2003, the company's profit was Shs 700 million:

	Notes	Shs '000
Income		
Profits from disposal of non-current assets	1	30,000
Realized foreign exchange gains	2	70,000
Gain on revaluation of a non-current asset		50,000
Net dividends from a South African subsidiary		20,000
Gross interest income from Treasury Bills		9,800
Expenses		
Depreciation		310,000
Staff Costs	3	900,000
Contribution to a staff retirement fund		130,000
Bad debts	4	170,000
Leasehold amortization	5	90,000

Notes:

- The company sold its mailo land for Shs 300 million. It had originally cost Shs 110 million and revalued to Shs 270 million on 30 June 2002.
- The realized exchange gain relates to a loan of US \$ 350,000 that was acquired on 30 April 2002 when the exchange rate was US\$ 1 = USShs: 2,200. While preparing the financial statements for the year ended 30 September 2002, the loan was translated at US \$ 1 USShs 2,000. the full amount of the loan was repaid on 1 August 2003 at an exchange rate of US \$ 1 = USShs 1,900.
- Staff costs include the following:

	Shs '000
Staff Pay As You Earn (PAYE)	150,000
NSSF employee contribution	250,000
NSSF employer contribution	50,000
Staff public relations courses	110,000
Social Sciences degree courses fees	14,000

- Bad debts were analyzed as follows:

	Shs '000
Specific provisions at 1.10.2002	90,000
Staff loans previously written off now recovered	24,000
Income statement	<u>170,000</u>
	284,000
Trade debts written off	(84,000)
Advances to subsidiary written off	<u>(130,000)</u>
Specific provisions at 30 September 2003	<u>70,000</u>

5. The company has a ten-year lease on a property it acquired on 1 August 1999 at a cost of Shs 450,000. The management of the company decided to amortize the leasehold asset over a 5-year period.
6. A Tanzanian based company provided the company with management services in the year 2000. The amount billed for the work was Shs 290,000,000 but this amount remained outstanding due to cash flow problems. During the year to 30 September 2003 it was agreed to waive off Shs 50,000,000 of the fees. The balance of Shs 240,000,000 was paid on 5 March 2003.
7. The company had an agreed tax loss brought forward of US\$ 100,000,000 as at 1 March 2002.
8. The company's additions and disposal of plant and machinery for the year were as follows:

Purchases:	US\$ '000
(i) Office Furniture	60,000
(ii) Computers	20,000
(iii) Computer software	8,000
(iv) Motor vehicles – saloon cars	35,000
(v) Pajero for managing Director	40,000

Disposals:	
(v) A 10-ton Fuso Truck	15,000

- (vi) The tax written down values of the company's depreciable assets as at 30 June 2003 was as follows:

	US\$ '000
Class I	120,000
Class II	250,000
Class III	370,000
Class IV	920,000

Required:

- (a) Advise the company on its corporation tax payable for the year ended 30 September 2003. Show detailed workings.
(25 marks)
- (b) The company plans to establish an automated assembly line in the near future and has earmarked to hire two consultants John De Boer and Frank Pande on a retainer basis. The consultants are from South Africa and see a potential for doing business in Uganda. They have approached you for advice:
 - (i) They are undecided on whether to register a limited liability company or trade as a partnership in Uganda. Advise them on the residence status of the two, clearly bringing out the tax implications.
(6 marks)

- (ii) In case they decide neither to register a company nor form a partnership in Uganda, but come in and out to offer consultancy services, advise on how they can legally minimize their tax payments on the intended contract.

(4 marks)

- (iii) They intend to advise Kapere Manufacturers Ltd to acquire the new automated assembly plant through lease financing. Advise them on the tax implications of lease financing from the point of view of the lessee.

(5 marks)

(Total 40 marks)

SECTION B

Question 2

Jane Mukisa is resident for Uganda tax purposes and is employed on a full time basis by Sheraton Kampala Hotel. The hotel is a resident person. Jane receives a monthly salary of Shs 4,000,000.

She was seconded to work in Ethiopia from July 2002 to October 2002. She maintained her salary while in Ethiopia and a monthly tax of equivalent to US\$ 600,000 was paid to the Ethiopia tax authority in respect to her salary earned while in Ethiopia.

For the remainder of the year to 30 June 2003, Jane worked in Uganda and tax of US\$ 6,900,000 in respect to her employment income was remitted to URA.

Jane owns rental properties in Kampala. During the year to 30 June 2003 the net income from the properties was Shs. 13,566,000 after deducting security expenses Shs 1,404,000, maintenance costs Shs 5,200,000 and land rates of Shs 380,000. Jane did not make an election to URA in respect of rental income.

Jane earned dividends equivalent to Shs 4,500,000 from her shares in ICC Ltd. The company is UK based and registered on the London Stock Exchange. Tax equivalent to Shs 450,000 was withheld by the company and remitted to the England tax authorities.

Jane owns a jewellery shop in Kampala City. During the year to 30 June 2003, the shop earned a turnover of Shs 35,000,000 and a taxable profit of Shs 105,000,000.

Jane earned interest income of Shs 3,400,000 from treasury bills during the year to 30 June 2003.

Required:

- (a) Compute the tax payable by Jane for the year to 30 June 2003.

(12 marks)

- (b) Determine the tax returns and the corresponding due dates, Jane Mukasa was supposed to file to URA in respect to the year ended 30 June 2003.

(3 marks)

(Total 15 marks)

Question 3

Tough Ltd is a company dealing in general wholesale trade with its accounting date as 30 September. During the year to 30 September 2002, the company's taxable profit was US\$ 120,000,000.

- (a) State the date when the company's provisional corporation tax returns and final corporation tax returns were due for filing to Uganda Revenue Authority (URA).

(2 marks)

- (b) The company filed the 2002 final corporation tax returns to URA on 1 July 2003. Compute the penal tax payable (if any) by the company for late submission of the tax returns.

(3 marks)

- (c) Assuming that the company made a provisional return with estimated tax profits of US\$ 50,000,000 for the year ending 30 September 2002, compute the additional tax payable by the company in respect to understating provisional tax.

(4 marks)

- (d) The company filed its September 2002 VAT return to URA on 30 October 2002. The VAT payable on the return was US\$ 75,000,000. Compute the penal tax payable by the company for filing the return late.

(3 marks)

- (e) The company withheld tax of US\$ 34,000,000 from staff salaries in November 2002 and remitted it to URA on 16 June 2003. Compute the interest payable by the company for late remittance of tax to URA.

(3 marks)

(Total 15 marks)

Question 4

Joke Certified Public Accountants has two partners namely Joy and Lee. They share profits and losses in the ratio of 3:2 respectively. Both partners are resident for tax purposes.

Below is the firm's income statement for the year ended 30 June 2003:

	Shs million	Shs million
Audit fees		400
Consultancy fees		350
Rental properties management commission		<u>10</u>
		760
Less: Expenses		
Partners' salaries: Joy	130	
Lee	120	
Staff salaries	200	
PAYE on staff salaries	50	
Loan interest (Note 1)	12	
NSSF firm's contribution	20	
Entertainment	11	
Bank charges	2	
Other expenses (tax deductible)	33	
Depreciation	<u>15</u>	<u>593</u>
Net profit		167

Notes:

1. The interest paid to DFCU Bank in respect of a loan advanced to the firm to construct its on office block. It is estimated that the office block will be completed by 31 December 2003.
2. Allowable depreciation allowances for the year were computed at Shs 13.5 million.

Required:

Compute each partner's tax liability for the year ended 30 June 2003.

(15 marks)

SECTION C

Question 5

You are a tax manager with KKK Certified Public Accountants and you have been requested by one of your clients, Musa Ltd, to advise them on how Value Added Tax operates in Uganda in respect to the following:

- (i) The disposal of capital items.
- (ii) Management fees charged to a Uganda company by a foreign company.
- (iii) Bad debts written off.
- (iv) Import of electronic goods like Television sets and radios.
- (v) Unrealized gains from foreign exchange transactions.
- (vi) Realized losses on foreign exchange transactions.
- (vii) The time when VAT on sales becomes due i.e. the VAT tax point.

Required:

Write a letter to the Managing Director of Musa Ltd responding to their request.

(15 marks)

Question 6

The Managing Director of Faith Ltd has approached you for advice on the VAT implications of the following transactions for which the company did not consider for VAT purposes for the year ended 31 October 2003.

- (i) Sold at land on which the company's warehouse was located at Shs. 500 million.
(3 marks)
- (ii) Sold an undeveloped piece of land near Namanve Industrial Area at Shs 150 million.
(3 marks)
- (iii) Amahoro Consultants Ltd of Rwanda waived management fees of Shs 25 million due from Faith Ltd because the company was experiencing cash flow problems. The amount now due to Amahoro is Shs 97 million for consultancy services rendered in 1999.
(3 marks)
- (iv) The company wrote off trade debts of Shs 14 million.
(3 marks)
- (v) It also wrote off advances of Shs19.5 million to a sister company.
(3 marks)

(Total 15 marks)

Question 7

- (a) NTT International, a UK based multinational company would like to set up a branch in Uganda. Discuss how the branch will be treated for Uganda income tax purposes. Include in your discussion the nature of tax returns to be filed to URA and the corresponding due dates.
(5 marks)
- (b) Under what circumstances can an individual be exempted from income tax under the income tax laws of Uganda?
(5 marks)
- (a) Discuss the objections and appeals procedures under the VAT laws of Uganda.
(5 marks)
- (Total 15 marks)**

TAX RATES
RESIDENT INDIVIDUAL INCOME TAX RATES

Chargeable Income	Tax Rate
Not exceeding US\$ 1,560,000	Nil
Exceeding US\$ 1,560,000 but not exceeding US\$ 2,820,000	10% of the amount by which chargeable income exceeds US\$ 1,560,000
Exceeding US\$ 2,820,000 but not exceeding US\$ 4,920,000	US\$ 126,000 plus 20% of the amount by which chargeable income exceeds US\$ 2,820,000.
Exceeding US\$ 4,920,000	US\$ 546,000 plus 30% of the amount by which chargeable income exceeds US\$ 4,920,000.

NON-RESIDENT INDIVIDUAL INCOME TAX RATES

Chargeable Income	Tax Rate
Not exceeding US\$ 2,820,000	10%
Exceeding US\$ 2,820,000 but not exceeding US\$ 4,920,000	US\$ 282,000 plus 20% of the amount by which chargeable income exceeds US\$ 2,820,000
Exceeding US\$ 4,920,000	US\$ 702,000 plus 30% of the amount by which chargeable income exceeds US\$ 4,920,000.

SMALL BUSINESS TAXPAYERS TAX RATE

Gross Turn Over	Tax Payable
Where gross turnover of a taxpayer does not exceed US\$ 5,000,000 a year.	Nil.
Where gross turnover of a taxpayer exceeds US\$ 5,000,000 but does not exceed US\$ 20,000,000 a year.	US\$ 100,000.
Where gross turnover of a taxpayer exceeds US\$ 20,000,000 but does not exceed US\$ 30,000,000 a year.	US\$ 250,000 or 1% of gross turnover, whichever is the lower.
Where gross turnover of a taxpayer exceeds US\$ 30,000,000 but does not exceed US\$ 40,000,000 a year.	US\$ 350,000 or 1% of gross turnover, whichever is the lower.
Where gross turnover of a taxpayer exceeds US\$ 40,000,000 but does not exceed US\$ 50,000,000 per annum.	US\$ 450,000 or 1% of gross turnover, whichever is the lower.