

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL THREE

#### TAXATION – PAPER 13

**WEDNESDAY, 20 JUNE 2007**

#### **INSTRUCTIONS TO CANDIDATES:**

1. Time allowed: **3 hours**.
2. Section **A** has one compulsory question carrying 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. **Tax rates** are provided on page 8.
6. Please read further instructions on the answer book.

**SECTION A****Question 1**

Rusuku Ltd is a foreign controlled company registered in Uganda, which deals in general merchandise and exports in Kampala's Central Business District. In the year ended 30 June 2006, the company's merchandise profit was Shs 400,000,000. The company has a new accountant and upon review by the Chief Accountant, it was established that operating profit included the following items:

	Notes	Ushs '000'
<b>Income</b>		
Profits from disposal of land at Namanve & Company trucks	1	130,000
Unrealized exchange gains	2	20,000
Additions to revaluation reserve		25,000
<b>Expenses</b>		
Legal costs on land disposal		5,000
Boundary wall around company warehouse		15,000
Insurance costs		12,000
Staff costs	3	300,000
Contribution to a staff retirement fund		90,000
Bad debts	4	25,000
Depreciation	5	40,000
Interest cost		50,000

The company's 100% owned branch in Rwanda made a profit of Ushs 100,000,000 on which Rwandese tax of Ushs 40,000,000 was charged. This had not been captured by the new accountant in the books.

**Notes:**

1. The company sold land at its revalued amount of Ushs 120 million. It had acquired the land in 2004 for Ushs 10,000,000.
2. The unrealized exchange gain relates to a loan from a related entity which has now made foreign debt to equity ratio of 3: 1.
3. Staff costs include the following:

	Ushs '000'
• Directors' PAYE	20,000
• Staff Education assistance (Masters Degrees)	40,600
• Penalties on PAYE for Expatriates	30,000
• Staff feeding (Company Canteen)	6,000
• Staff bonus provision	10,000
• Compensation to terminated staff	22,000

4. The bad debts include a staff bad debt written off of Ushs 1,000,000 and a bad debt provision of Ushs 5,000,000.

5. Included in depreciation was leasehold amortization for ten years' on a straight line basis on a property that cost Ushs 100,000,000 in 1998. The lease period for this property is 50 years.
6. The company had an agreed prior year tax loss of Ushs 70,000,000 as at 1 July 2005.
7. The company's additions and disposals of plant and machinery for the year were as follows:

**Ushs '000'****Purchases:**

(i) Office Furniture	40,000
(ii) Computer	25,000
(iii) Computer software	15,000
(iv) Motor vehicles – 1 Pajero	45,000

**Disposal proceeds:**

One 10-ton Toyota Truck	7,500
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8. The tax written down values of the company's depreciable assets as at 1 July 2005 were as follows:

**Ushs '000'**

Class I	45,000
Class II	100,000
Class III	110,000
Class IV	200,000

**Required:**

- (a) Calculate the corporation tax payable by Rusuku Ltd for the year ended 30 June 2006.  
(25 marks)
- (b) Advise the company on the VAT implications of the following transactions on the basis that the company did not consider the transactions for VAT purposes:
  - (i) Trade bad debts written off of Ushs 20 million for the last 3 years.  
(3 marks)
  - (ii) Provision for technical fees. This was unsupported but based on management estimates.  
(3 marks)
  - (iii) Lease rental invoice received of Ushs 100 million and VAT of Ushs 18 million.  
(3 marks)
  - (iv) VAT charged on the purchase of a private passenger motor vehicle and the related repairs.  
(3 marks)

- (v) Disallowed input VAT of Ushs 270 million following a Uganda Revenue Authority Tax Audit that has just been completed. The Company is yet to analyze the URA workings.

**(3 marks)**

**(Total 40 marks)**

## SECTION B

### Question 2

ABM Associates is a firm that deals in providing accounting and taxation services. Its partners Alex Niwe, Bernard Kungu and Carol Bageya share profits in the ratio of 2:3:4 respectively. The three have spent over 183 days in Uganda.

The firm's income statement for the year ended 30 June 2006 was as follows:

	<b>Ushs'000</b>
Accounting advisory fees	400,000
Tax advisory fees	300,000
Rental and property income	150,000
<b>Less</b>	
Staff salaries	120,000
Staff PAYE	12,000
Partners' salaries:	
• Alex	20,000
• Bernard	35,000
Partners' PAYE	20,000
Other deductible expenses	67,000
Personal partner expenses	15,000
Net royalties paid to a US firm	25,000
Commission to government officials to be given contract ( sunk cost)	16,000
Partners' professional insurance	10,000
Partners' personal insurance policies	5,000

The accountant omitted expensing the accounting depreciation of Ushs 30 million. Tax depreciation allowances on the firm's assets were Ushs 25 million. Commercial building tax allowance was Ushs 46 million. In the previous tax audit, it was agreed with URA that the non-qualifying use of the partnership assets was 10%.

### **Required:**

Compute the tax liability of the partners for the year ended 30 June 2006.

**(15 marks)**

**Question 3**

Dunstan Kilima is resident in Uganda for tax purposes and is employed on a full time basis by Camila Consulting Ltd (CCL) located in Kampala with offices in Rwanda, Kenya and Tanzania. CCL is tax resident in Uganda and is registered with Uganda Revenue Authority (URA).

Dunstan is paid a monthly salary of Ushs 7,500,000. He was assigned work in Kenya from July 2006 to December 2006. In addition to the salary in Uganda which was maintained, he was paid Kshs 300,000 (equivalent to Ushs 6,000,000) on which PAYE was deducted in Kenya and remitted to Kenya Revenue Authority.

Dunstan owns a car rental business on Luwum Street from which monthly net profit was Ushs 500,000 per month and rental houses which yield Ushs 600,000 per month. Rental related expenses for the 12 months ended 31 December 2006 were as follows:

	<b>Ushs</b>
KCC rates	450,000
Depreciation	400,000
Security (Home duty services)	350,000
Property rates	900,000
Stamp duty on transfer of buildings	800,000

Dunstan earned dividends equivalent to Ushs 4,500,000 from his shares in KenGen, a Kenyan based company and Ushs 5,000,000 from Uganda Clays Ltd (Both dividends were net of 10% withholding tax).

Dunstan also owns an MTN kiosk on Dewinton Road whose 2006 turnover was Ushs 87,000,000 and a taxable profit of Ushs 18,000,000.

**Required:**

- (a) Compute the tax payable by Dunstan for the year to 31 December 2006.
- (12 marks)**
- (b) Determine the tax returns and the corresponding due dates Dunstan was supposed to file to URA in respect to the year ended 31 December 2006.

**(3 marks)**

**(Total 15 marks)**

**Question 4**

Africa Tax International Ltd is a company dealing in consultancy with its accounting date as 30 September.

- (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 final self-assessment corporation tax returns to URA on time for the 2001 Year of Income. Uganda Revenue Authority has recently issued a tax assessment to the company dated 30 May 2007. Based on these facts, advise the company on how to respond to the URA assessment.  
**(3 marks)**
- (c) Assuming that the company made a provisional return with estimated tax profits of Ushs 60,000,000 for the year ending 30 September 2006 compute the additional tax payable if the final tax adjusted profits were assessed at Ushs 200 million.  
**(4 marks)**
- (d) The company has not filed PAYE returns for the Year of Income 2006. The tax that should have been withheld per month was supposed to be Ushs 12 million. Advise the company on its PAYE obligations and the implications of non-submission of returns as at 31 October 2006.

**(6 marks)****(Total 15 marks)****SECTION C****Question 5**

You are a tax advisor of Ekombe Estates Limited which owns real estates as well as a construction business. Ekombe Estates Limited has written to you requesting for your tax advice on the tax impact of the following transactions:

- (a) The disposal of company owned land in Entebbe.
- (b) Technical fees charged by their Kenyan holding company.
- (c) Rental income from furnished apartments.
- (d) A debt forgiven that was owed by Enkombe Estates Limited to a company in Southern Sudan.
- (e) VAT on entertainment expenses.

**Required:**

Provide the requested advice in response to each of the above concerns.

**(15 marks)**

**Question 6**

- (a) Give tax criteria under the Income Tax Act that differentiates resident company from non-resident company. Highlight the impact in taxation of considering a company as resident as opposed to non-resident.

**(5 marks)**

- (b) Joan Lelia, a female UK resident, has so far spent three months in Uganda.

**Required:**

Advise Joan Lelia on the tax implications if marries a Ugandan and attains Ugandan citizenship.

**(5 marks)**

- (c) Uganda has double-taxation agreements with United Kingdom and Mauritius. John Wayte, a United Kingdom resident, has an option to set up a company in any of the three countries.

**Required:**

Define a double taxation agreement and advise John on the tax factors he should consider when determining the location of his company.

**(5 marks)**

**(Total 15 marks)**

**Question 7**

- (a) Differentiate a finance lease from an operating lease for income tax purposes. Include in your discussion the resulting tax implications.

**(5 marks)**

- (b) Under what circumstances can an individual be exempted from income tax under the Income Tax Act?

**(5 marks)**

- (c) Discuss the objections and appeals procedures under the Income Tax Act.

**5 marks**

**(Total 15 marks)**

**TAX RATES****Resident Individual Income Tax Rates**

<b>Annual chargeable Income</b>	<b>Rate of Tax</b>
Not Exceeding Shs 1,560,000.	Nil
Exceeding Shs 1,560,000 but not exceeding Shs 2,820,000.	10% of the amount by which chargeable income exceeds Shs 1,560,000.
Exceeding Shs 2,820,000 but not exceeding Shs 4,920,000.	Shs 126,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000.
Exceeding Shs 4,920,000.	Shs 546,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000.

***Non – resident Individual Income Tax Rates***

<b>Annual chargeable Income</b>	<b>Rate of Tax</b>
Not exceeding Shs 2,820,000.	10%.
Exceeding Shs 2,820,000 but not exceeding Shs 4,920,000.	Shs 282,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000.
Exceeding Shs 4,920,000.	Shs 702,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000.

**Small Business Taxpayers Tax Rates**

<b>Gross Turnover</b>	<b>Tax Payable</b>
Where gross turnover of a taxpayer does not exceed Shs 5,000,000 a year.	Nil
Where gross turnover of a taxpayer exceeds Shs 5,000,000 but does not exceed Shs 20,000,000 a year.	Shs 100,000.
Where gross turnover of a taxpayer exceeds Shs 20,000,000 but does not exceed Shs 30,000,000 a year.	Shs 250,000 plus 1% of gross turnover, whichever is the lower.
Where gross turnover of a taxpayer exceeds Shs 30,000,000 but does not exceed Shs 40,000,000 a year.	Shs 350,000 plus 1% of gross turnover, whichever is the lower.
Where gross turnover of a taxpayer exceeds Shs 40,000,000 but does not exceed Shs 50,000,000 a year.	Shs 450,000 plus 1% of gross turnover, whichever is the lower.