

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL TWO

TAXATION - PAPER 11

TUESDAY, 07 DECEMBER 2010

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes.**

The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.

2. Section **A** has **one** compulsory question carrying 30 marks.
3. Section **B** has **three** questions and only **two** questions are to be attempted. Each question carries 20 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 10.
6. Please read further instructions on the answer book, before attempting any question.

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SECTION A

Question 1

Mufuruki Uganda Ltd is a company registered in Uganda and has been in business since 1 July 1989. Its main business is the growing of sugarcane and the processing of sugar. The company is located in Masindi district in western Uganda.

During the year ended 30 June 2010, the company also embarked on the business of growing flowers specialising in roses and carnations.

The statement of comprehensive income for the year ended 30 June 2010 indicated the following:

Revenue:	Shs million	Shs million
Sugar sales	80,000	
Molasses sales	6,000	
Flower sales (note 1)	<u>4,000</u>	
		90,000
Other income (note 2)		<u>2,000</u>
Total income		<u>92,000</u>
Expenses:		
Cost of cane from out growers	10,000	
Salaries and wages	12,000	
Management fees (note 3)	8,000	
Maintenance costs (note 4)	15,000	
Professional fees	2,000	
Foreign exchange loss (note 5)	7,000	
Other expenses (note 6)	6,000	
		<u>(60,000)</u>
Profit before finance costs and depreciation		32,000
Depreciation	8,000	
Finance costs	<u>125</u>	
		<u>(8,125)</u>
Profit before tax		<u>23,875</u>

Notes to the financial statements:

1. The company constructed a new green house specifically for the flower growing business. The total cost for the structure was Shs 500 million and it was put to use on 1 July 2009.
2. Other income includes bank interest earned on fixed deposit accounts in Stanbic Bank and Barclays Bank. Withholding tax of Shs 300 million was deducted at source.

3. The management fees were paid to Agro Management International which is located in the United Kingdom.

**Shs
million**

- 4 Maintenance costs include the following:

· Machine and vehicle repairs	3,000
Fuel and lubricants	5,640
A new crushing machine to replace one that was worn out	560
Painting of all the premises	800
New store/shade for freshly cut cane (first used 1 January 2010)	<u>5,000</u>
	<u>15,000</u>
	<u>0</u>

- 5 Exchange losses include the following:

· Realised exchange losses	3,800
Unrealised exchange losses	<u>3,200</u>
	<u>7,000</u>

- 6 Included in other expenses are the following amounts:

· Contributions to Bunyoro Kingdom for Empango cerebrations	150
Funeral expenses/contributions to staff	20
Donations to Bunyoro Women's group	10
Billboards for advertising	2,000
Other business related costs	<u>3,820</u>
	<u>6,000</u>

- 7 Additions to depreciable assets during the year were:

· Factory machinery	260
Tractors	140
Computer equipment	50
Motor vehicle (Toyota Prado)	120
Furniture	<u>50</u>
	<u>620</u>

Apart from the construction of the store mentioned in note 4 above, no new building was constructed.

8. The company sold scrap machines that had been used in the factory for Shs 60 million. The net book value for the machines was Shs 100 million.
9. The tax written down values of the company's assets as at 1 July 2009 were:

	Shs million
Class I	38
Class II	380
Class III	10,790
Class IV	1,800
Industrial building allowance	4,300

The annual allowance on the existing factory buildings is Shs 300 million.

10. The provisional tax paid for the year ended 30 June 2010 was Shs 9 billion. The company had a loss brought forward from the year ended 30 June 2009 of Shs 5,480 million.

Required:

- (i) Compute the tax payable by Mufuruki Uganda Ltd for the year ended 30 June 2010.
- (26 marks)**
- (ii) Advise Mufuruki Uganda Ltd as to when they should file their provisional tax and final tax returns.

(4 marks)

(Total 30 marks)

SECTION B

Question 2

Chesang is an employee of Musop Publishers Ltd (a taxable employer) working as a finance manager. The following are the entitlements due to Chesang as per her employment contract for the year of income ended 31 December 2009:

- Basic salary Shs 4 million per month.
- Travel allowance Shs 500,000 per month.
- Housing allowance Shs 650,000 per month.
- Entertainment allowance Shs 1,050,000 per annum.
- Medical allowance Shs 5 million per annum.

Additional information:

1. Chesang is availed a company car, a Land Cruiser Prado for use on both private and official duties. Chesang makes no contribution in respect of the private use of the car. The cost of the car when first availed to Chesang in 2007 was Shs 57 million.
2. On 24 September, 2010, the car was taken to the garage for repairs and Chesang incurred repair expenses amounting to Shs 250,000. The company reimbursed this expenditure to Chesang later on.
3. The company pays life insurance premium for Chesang of Shs 6 million per annum.
4. The company pays school fees for Chesang's children amounting to Shs 3 million per annum.
5. Chesang is provided with a shamba boy and a watchman who are on the company's payroll and receive Shs 130,000 and 200,000 respectively per month.
6. Electricity and water bills of Shs 145,000 per month are paid for by the company. The company deducts Shs 60,000 from her monthly salary in respect of these utilities.
7. The company operates a loan scheme for staff. Chesang took a loan of Shs 21 million on 1 January 2009 at a rate of interest of 11% per annum. The rate of interest ruling in the market was 19% per annum and the statutory rate was 9% per annum for the year ended 31 December 2009.

Required:

- (a) Compute Chesang's chargeable employment income and the taxes payable for the year ended 31 December 2009.

(15 marks)

- (b) Explain circumstances under which income earned may be excluded from somebody's chargeable employment income.

(5 marks)

(Total 20 marks)

Question 3

- (a) Sulel has a permanent home in Bukwo district. She has a commercial building on the main street of Bukwo Town. The commercial building is occupied by various tenants. The transactions relating to the property for the year ended 31 December 2009 were as follows:

Income:

- Rental income from KLM Ltd Shs 6.5 million.
- Rental income from Sky Saloon Shs 1,290,000.

- Rent arrears for the period ended 31 December 2009 due from Pinky Ltd Shs 5.2 million.
- Rental income from Zank Consult Shs 4.9 million.

Expenses:

- Water, electricity and telephone Shs 4 million.
- Building repairs Shs 4,120,000.
- Legal fees to acquire the title of the land on which the building was constructed Shs 2.5 million.
- Security Shs 3,910,000.

Required:

Compute the rental tax payable for the year ended 31 December 2009.

(7 marks)

- (b) Sulel also operates a retail shop with an annual turnover of Shs 48.5 million. Her expenses for the year ended 31 December 2009 include:

- assistant's salary Shs 500,000 per annum.
- personal drawings Shs 400,000.
- hire of transport Shs 350,000 per annum.

Required:

Compute the tax payable by Sulel on the income from her retail shop.

(4 marks)

- (c) Yeyi Co. Ltd is a foreign company incorporated in South Sudan. It is carrying on business in Uganda through a branch called Yeyi Uganda Branch. The comparative results for the branch for the year ended 31 December 2009 were as follows:

Statement of Comprehensive
Income

	Shs million
Revenue	450
Other income	<u>20</u>
	470
Operating expenses	<u>(220)</u>
Profit before tax	<u>250</u>

Statement of Financial Position

2009

2008

	Shs million	Shs million
Non-current assets	950	780
Investments on government securities	70	48
Current assets	<u>210</u>	<u>190</u>
	<u>1,230</u>	<u>1,018</u>
Non-current liabilities	520	460
Current liabilities	120	96
Head office account	<u>590</u>	<u>462</u>
	<u>1,230</u>	<u>1,018</u>

The tax payable for the year ended 31 December 2009 was Shs 52 million.

Required:

Compute the tax on the repatriated income for the branch for the year ended 31 December 2009.

(9 marks)

(Total 20 marks)

Question 4

- (a) Tick Enterprises Ltd commenced business in January 2009. The company deals in mixed supplies and its results for the month of June 2009 were as follows:

Purchases:

Date Transaction

- 1: Bought a passenger car for business use Shs 15 million cash from Lonhro Motors Ltd, VAT inclusive.
- 3 Imported a delivery van for business use at an import value of Shs 30 million.
- 6 Bought 100 bunches of matooke for sale Shs 400,000 cash.
- 11 Received telephone bill for the month April 2009 Shs 289,000, VAT inclusive.
- 15 Paid May 2009 salaries for staff Shs 4.5 million.
- 17 Bought 100 bags of sugar Shs 3.8 million cash, VAT inclusive.
- 19 Bought 2 computers on credit.
- 20 Received invoices for electricity for the month of May 2009 of Shs 217,000, VAT inclusive.

- 30 Paid rent for the shop Shs 2 million, VAT exclusive. The director's rent of Shs 1.5 million was also paid for the month of April.

Sales (VAT exclusive):

- 7 Sold 50 bunches of matooke to Makerere University Shs 390,000 cash.
9 Exported 50 bunches of matooke to Rwanda Shs 540,000.
11 Sold 30 bags of sugar on credit to Kawempe traders Shs 3.5 million.
17 Sold 100 bags of dry beans to Makerere University Shs 8 million on credit.
19 Exported 80 bags of rice to Rwanda Shs 2.9 million.
22 Exported 100 bags of sugar to Burundi Shs 4.4 million.

Required:

Calculate the VAT payable/refundable for Tick Enterprises Ltd for the month of June 2009.

(10 marks)

- (b) Explain the following in accordance with the VAT Act:
- (i) Who is eligible to register for VAT and when.
 - (ii) The difference between exempt supplies and zero rated supplies.
 - (iii) The treatment of stolen goods while accounting for output VAT.
 - (iv) **Four** characteristics of a proper tax invoice.
 - (v) Where the supply of goods takes place.

(10 marks)

(Total 20 marks)

SECTION C

Question 5

- (a) Briefly explain what you understand by the term 'tax planning'.
(2 marks)
- (b) Partel wishes to invest in the manufacturing industry in Uganda. Briefly explain to Partel any **seven** tax attributes/areas that he should consider in order to minimize his tax liabilities.
(7 marks)
- (c) Briefly explain any **six** circumstances under which a taxpayer is treated as having disposed of an asset under the Income Tax Act.

(6 marks)

(Total 15 marks)

Question 6

In the recent past a number of countries have teamed up to form the East African Common Market.

- (a) Briefly explain what you understand by the term East African Common Market.
(2 marks)
- (b) Outline the operational principles that guide the East African Common Market.
(4 marks)
- (c) What challenges are likely to be faced by the member countries under the East African Common Market umbrella?
(6 marks)
- (d) Describe what you understand by the term 'duty draw back' under the East African Community Customs Management Act (EACCMA).

(3 marks)

(Total 15 marks)

Question 7

- (a) Under the indirect tax system, describe what you understand by the difference between ad-valorem tax and specific tax. **(2 marks)**
- (b) Explain what you understand by a resident company under the Income Tax Act. **(3 marks)**
- (c) Describe the circumstances where withholding tax is not a final tax under the Income Tax Act. **(3 marks)**
- (d) Mukasa is a registered taxpayer for all taxes operating a retail shop down town Kampala. He is dissatisfied with the tax assessment on his business and has approached you to advise him on the procedures on how to object to the assessment under the VAT Act. Assume Mukasa is within the country and is in good health.

Required:

Outline the procedures:

- (i) of the objection to the VAT assessment. **(4 marks)**
- (ii) on how to appeal to the Tax Appeals Tribunal, in case he has to do so. **(3 marks)**

(Total 15 marks)

TAX RATES

Resident Individual Income Tax Rates

Annual chargeable Income	Rate of Tax
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

Annual chargeable Income	Rate of Tax
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

Gross Turnover	Tax Payable
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 or 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 or 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 or 1% of gross turnover, whichever is the lower.

