

PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

TAXATION - PAPER 11

TUESDAY, 14 JUNE 2011

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 9.
6. Please read further instructions on the answer book, before attempting any question.

SECTION A

Question 1

Mr. Bintu Gilbert, who has been running a small financial consultancy business for 10 years as an individual, decided to venture into employment in 2010. This was because of the rising cost of living and slow business that he could no longer make ends meet. He has, however, decided to maintain the consultancy business as a part-time job with the help of an assistant.

On 1 January 2010, Gilbert commenced employment with Classic Uganda Limited as a finance manager, for a three year contract. His monthly entitlements were as follows:

	Shs
Salary	3,000,000
Medical allowance	200,000
House servant allowance	50,000
Life insurance premium	100,000
Entertainment allowance	300,000

The following information may also be relevant:

- (i) The company provided Gilbert with a motor vehicle which cost Shs 30 million. He started using the car on the first day that he reported for work. There were no restrictions to the car and therefore Gilbert used the vehicle even during weekends. He receives fuel worth Shs 200,000 per month from a petrol station authorized by the company.
- (ii) Gilbert is provided with a fully furnished house. The market rental for similar houses is Shs 5 million per month.
- (iii) During the month of June 2010, Gilbert worked for 10 days at the company's branch in Juba, South Sudan. He was paid a daily allowance of Shs 300,000 to cover accommodation and meals.
- (iv) Gilbert was involved in an accident, while on his way to supervise the company's projects in Mbarara, in October 2010. The company incurred Shs 2 million towards his medical expenses.
- (v) During the year ended 31 December 2010, the results of the part-time consultancy business were as below:

	Shs '000'
Gross income	50,000
Expenses:	
Assistant's salary	6,000
Telephone expenses	300
Electricity	400
Rent	2,000
Stationery and printing	200
Sundry expenses	500
School fees for children at Kampala Parents	3,000
Personal expenses (drawings)	3,000
(vi) Gilbert owns ordinary shares in a listed company in Uganda from which he earned dividends of Shs 1 million.	
(vii) Gilbert had taken a loan of Shs 20 million from Tropicana Bank in 2009 to purchase a plot of land on which he intends to construct a residential house in future. He pays interest of Shs 1 million annually to the Bank. The loan is to be repaid in a period of 10 years.	
(viii) Classic Uganda Limited is not tax exempt and usually pays all their tax obligations to the revenue authority in time.	

Required:

- (a) Compute Gilbert's taxable income for the year ended 31 December 2010, clearly giving reasons why some items have been omitted.
(20 marks)
- (b) Calculate Gilbert's tax liability for the year ended 31 December 2010 and state the due date for the payment of the tax.
(5 marks)
- (c) What are the penalties for:
- (i) Failure to furnish a return of income tax on time
 - (ii) Late payment of tax

(5 marks)
(Total 30 marks)

SECTION B

Question 2

Gillane Industries Limited, a manufacturer of leather products, was established in Kampala Industrial Area in 2007. Its accounting date is 30 June and their first year of operation ended 30 June 2008.

The following information relates to the company since its establishment in 2007:

- (a) A factory building (A), was constructed at Shs 100 million to house the machinery in July 2007. Manufacturing started on 15 September 2007. Part of the building was used as a marketing division and was estimated at a cost of Shs 12.8 million. Another building (B) was put up in October 2007 to be used for storage of raw materials. This building cost Shs 60 million and was put to first use on 1 December 2007.

In July 2008, an additional building (C) was set up at the cost of Shs 98 million in which machinery worth Shs 70 million for the manufacture of leather bags was installed. Manufacturing activities in this building commenced on 16 October 2008.

- (b) As at 30 June 2008, Gillane Industries Limited had the following tax written down values of their depreciable assets:

Class	Shs '000'
I	20,000
II	25,000
III	145,000
IV	50,000

- (c) During the year to 30 June 2009, the following additions were made:
- (i) An 8 tonne Mitsubishi truck was acquired for the distribution department at Shs 25 million.
 - (ii) Furniture worth Shs 4.5 million was purchased for the front office on 1 January 2009 and on the same date; three computers were purchased for the marketing division each at Shs 1.5 million.
- (d) On 1 July 2009, the company bought a Range Rover (with a sitting capacity of four persons) for the managing director at Shs 130 million.
- (e) Old furniture was sold to staff at Shs 2 million on 31 August 2009.

- (f) The Range Rover was involved in an accident and was sold off as scrap at Shs 25 million on 31 March 2010.

Required:

- (a) Briefly explain what you understand by the term 'depreciable asset'.
(1 mark)
- (b) Compute the industrial building deduction due to Gillane Industries Limited for the two years ended 30 June 2008 and 30 June 2009.
(8 marks)
- (c) Compute any other applicable capital allowances due to Gillane Industries Limited for the three years ended 30 June 2008, 2009 and 2010.
(11 marks)
- (Total 20 marks)**

Question 3

- (a) Kyuma Steel Industries Ltd (KSIL) is incorporated in Uganda and deals in the production of various steel products and its accounting year is 30 June. For the year ended 30 June 2010, the following happened:
- (i) The company filled a provisional return based on estimated accounting profits of Shs 180 million. The depreciation expense charged for the period was Shs 52 million while the capital allowances due to the company amounted to Shs 66 million. At the end of the accounting period, the final tax adjusted profits were assessed at Shs 320 million.

Required:

Compute the additional tax payable including the penal tax for the year ended 30 June 2010.

(6 marks)

- (ii) The company did not file PAYE returns for the six month from January 2010. The tax that should have been withheld per month was Shs 32 million.

Required:

Advise KSIL on its PAYE obligations due and the implications of non-submission of returns as at 30 June 2010.

(7 marks)

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

(7 marks)**(Total 20 marks)****Question 4**

- (a) Who is required to register under the VAT Act?

(3 marks)

- (b) You have just been appointed as a tax consultant by Mwebaze Tours and Travel Limited. The company's major business is transportation of persons, although it also deals in other related supplies. A review of the company's records reveals that the company has been operating for the last ten months without VAT registration. Its sales were as follows:

	Shs '000'
December 2009	4,500
January 2010	3,550
February 2010	4,000
March 2010	5,000
April 2010	2,500
May 2010	6,000
June 2010	4,000
July 2010	3,500
August 2010	6,000
September 2010	7,000

Additional information:

- (i) Sales for January 2010 included a charge of 50,000 for flowers to one of the clients.
- (ii) Sales for May 2010 included sales of Shs 1.5 million of tropical fruits to American tourists
- (iii) Sales for August 2010 included Shs 500,000 of sanitary towels to their female clients.

Required:

- (i) Advise the company as to whether it should be registered for VAT purposes and the appropriate time for the company to apply for registration under historical test.

(15 marks)

- (ii) What is the effective date of registration?

(1 mark)

- (iii) When should the first return be submitted?

(1 mark)

Note: Show all your workings.

(Total 20 marks)

SECTION C

Question 5

In accordance to the World Trade Organisation (WTO) Valuation Agreement:

Required:

- (a) What do you understand by the transaction value of imported goods?

(3 marks)

- (b) Enumerate the evidences of a sale under the WTO Valuation Agreement

(5 marks)

- (c) What are the conditions for the use of transaction value under Article 1 of the WTO Valuation Agreement?

(7 marks)

(Total 15 marks)

Question 6

- (a) Briefly explain the following terms under the Income Tax Act, Cap 340:

- (i) resident company

(3 marks)

- (ii) resident trust.

(3 marks)

- (iii) resident retirement fund.

(3 marks)

- (b) State the circumstances under which an individual is exempted from income tax under the Income Tax Laws of Uganda.

(3 marks)

- (c) Under the anti-avoidance measures, explain the circumstances under which the Commissioner may recharacterise income and deductions in determining tax liability to extinguish tax avoidance schemes undertaken by taxpayers.

(3 marks)

(Total 15 marks)

Question 7

Inefficiencies in the tax administration system in Uganda are a major contributor to revenue shortfalls that deprive Government of resources with which to provide public goods and services. In the recent past, Uganda Revenue Authority (URA) has moved to embrace ways of addressing the tax administration inefficiencies.

Required:

Discuss the extent to which URA is addressing the inefficiencies in tax administration and state any challenges URA may face.

(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.