

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

TAXATION – PAPER 6

FRIDAY 19 MARCH, 2021

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. This examination contains Sections **A** and **B**.
3. Section **A** is bound separately from Section **B**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt **four** of the **five** questions in Section **B**. Each question carries 20 marks.
6. Tax rates are provided on page 7 – 8.
7. Write your answer to each question on a fresh page in your answer booklet.
8. Please, read further instructions on the answer booklet, before attempting any question.

SECTION B

Attempt **four** of the **five** questions in this section

Question 2

Donkey Company Limited (DCL) is an outdoor advertising company registered in Uganda. DCL has billboards at Entebbe airport, in Kampala, and throughout the major towns of Uganda with its head office in Kampala. Below is an extract of DCL's statement of profit or loss and other comprehensive income for the period ended 31 December, 2020:

	Notes	Shs '000'	Shs '000'
Revenue	1		404,290
Cost of sales			<u>(33,372)</u>
Gross profit			370,918
Other income:			
Bad debt recovered	2	16,500	
Promotional materials		21,300	
Gala		68,000	<u>105,800</u>
Total income			476,718
Operating expenses	3	(85,630)	
Administrative expenses	4	(233,574)	
Distribution expenses		<u>(25,000)</u>	
Total expenses			(344,204)
Operating profit			132,514
Net finance cost	5		<u>(16,250)</u>
Profit before tax			<u>116,264</u>

Notes:

1. Included in DCL's income is advance payment of Shs 33 million for a contract which DCL has only executed 50% of the value, and Shs 11.5 million received as interest on a government bond.
2. Bad debt recovered is for an amount written off in the previous year but was not considered in the computation of chargeable income for the year.
3. Operating expenses include:
 - (a) Cost of installing a new electronic billboard software of Shs 7.8 million with an estimated useful life of 5 years.
 - (b) Shs 6 million paid to a local artisan without a tax identification number (TIN) for the fabrication of billboard stands in Masaka.
 - (c) Shs 9 million for branded staff shirts specifically designed as corporate-wear.

4. Administrative costs include:
 - (a) The cost of meals provided to all staff at the head office in Kampala of Shs 18 million.
 - (b) Replacement of furniture in the production studio of Shs 11.7 million.
 - (c) Depreciation of Shs 26 million.
5. Net finance cost relate to interest paid on a bank loan used for the acquisition of artificial intelligence advertising software.
6. During the year, DCL acquired the following depreciable assets:
 - (a) 5 billboards each at Shs 9 million; 2 in Entebbe, 1 in Kampala, and 2 in Masaka.
 - (b) 6 new high powered computers for advert production placed in Kampala each at Shs 12 million and a heavy duty offset colored printer for Shs 21 million.
 - (c) 1 self-loader crane truck of Shs 72 million.
7. The opening written down values on 1 January, 2020 were as follows:

	Shs '000'
Class I	101,000
Class II	154,000
Class III	115,000
Class IV	216,000

Required:

- (a) Determine DCL's chargeable income and tax liability for the period ended 31 December, 2020.

(14 marks)
- (b) In accordance with the Income Tax Act Cap 340 explain the following terms:
 - (i) a person **(2 marks)**
 - (ii) year of income **(2 marks)**
 - (iii) chargeable income **(2 marks)**

(Total 20 marks)

Question 3

Najib Bashar has been working with Pesa Commercial Bank (PCB) for the past 15 years. On 1 January, 2021, he was promoted to the position of regional branch manager and posted to Arua City. The following were his terms of promotion:

1. A 15% increment to his previous gross annual salary of Shs 96 million and Shs 500,000 monthly lunch allowance provided for all managers.
2. Subscription to a club of his choice. He chose Semyekozo Social Club of bankers for which the bank paid his annual subscription of Shs 1.2 million.
3. In Arua, he was offered a bank house with a monthly market rental value of Shs 800,000 and boys' quarters valued at Shs 150,000 per month.
4. As part of this promotion, Najib was given a double-cabin pickup which was procured by the bank in 2017 at Shs 80 million. On 1 January, 2021, the vehicle had a market value of Shs 35 million.
5. During his transfer, Najib received Shs 5 million to cater for his transport and disturbance allowance.
6. Najib received an interest free salary advance of Shs 6 million in January, 2021 to pay for his children's school fees. The statutory interest rate at the time was 15% per annum.
7. The bank offers group medical insurance for staff and their immediate family members, Najib is entitled to Shs 9 million per year.

Required:

- (a) Compute Najib's chargeable income and tax liability for the month of January, 2021.

(16 marks)

- (b) In accordance with the Income Tax Act Cap 340 explain the obligations and rights of an employee.

(4 marks)**(Total 20 marks)**

Question 4

Akard Commercial Enterprise (ACE) is a Ugandan company dealing in the importation, distribution, and exportation of textiles, specialised chemicals, and provision of computing services. In the month of February 2021, records from the accounting books of ACE indicated the following transactions.

Purchases:

1. Imported 3 specialised agricultural boom sprayers as part of its trading stock and paid Shs 23 million for each sprayer.
2. Imported high-end suits from Italy for its garment shop valued at Shs 15.3 million.
3. Acquired an industrial grade flat knitting machine for customising suits for Shs 33.8 million.
4. Acquired a staff van for Shs 35 million for transportation of staff to and from work.
5. Imported graduation gowns from China worth Shs 105 million for supply to a public university.
6. For its computing business, acquired 15 licenses to sell customisable accounting software. For each license, the company paid Shs 1.6 million.

Sales:

1. Supplied specialised chemicals for spraying locusts to farmers in Eastern Uganda for Shs 18.7 million.
2. Made additional standard rated sales of Shs 16.5 million to Aga Khan Education Service Uganda.
3. Exported 8 computers to South Sudan and invoiced the South Sudanese company Shs 4.8 million for each computer.
4. Supplied an Enterprise Resource Planning (ERP) software for a manufacturing company and charged Shs 7 million for the supply.
5. Made additional deliveries of high grade printers for Shs 26 million. By the end of the month, the client was yet to be invoiced.
6. Designed a customised supply chain management software for a commercial farm in Mbarara and charged Shs 74 million for the service.

Note: All amounts are Value Added tax (VAT) exclusive, where applicable.

Required:

- (a) Compute VAT payable/claimable by ACE for the month of February 2021.
(11 marks)
- (b) Under the VAT Act Cap 349 explain:
 - (i) any **five** contents of a simplified tax invoice

(5 marks)

- (ii) the conditions under which input tax credit may be allowed without a tax invoice.

(4 marks)

(Total 20 marks)

Question 5

Bosico Electronics Limited (BEL) is an authorised dealer for Samsung electronics in Uganda. In the Month of January 2021, BEL imported a consignment of Light emitting diode (LED) television sets, fridges, and hi-fi music systems from South Korea. The cost of the consignment was USD 32,162 however, BEL paid USD 28,946 for the consignment because of BEL's obligation to run advertisements on behalf of the manufacturer in Uganda.

Additionally, BEL paid:

1. USD 634 for transportation to the port of export.
2. USD 1,910 as cost of freight to the port of Mombasa.
3. Insurance cost of 5% of the value of the consignment.
4. USD 950 for inland transportation from Mombasa to Kampala.

The applicable rates of tax are provided as follows:

	%
Import duty	25
Value added tax	18
Withholding tax	6
Infrastructure levy	1.5

The exchange rate ruling at the time of importation was 1 USD: Shs 3,700

Required:

- (a) Determine the customs value and import duty payable for the consignment.

(11 marks)

- (b) Explain the advantages of and challenges faced by a customs union

(9 marks)

(Total 20 marks)

Question 6

- (a) Describe the characteristics of sole proprietorship business.

(8 marks)

- (b) Explain the aspects of retail shop design.

(6 marks)

- (c) Explain the components of a joint venture agreement.

(6 marks)

(Total 20 marks)

RATES OF TAX

Resident Individuals

Chargeable income	Rate of tax
Not exceeding Shs 2,820,000 (Shs 235,000 pm)	Nil
Exceeding Shs 2,820,000 (Shs 235,000 pm) but not exceeding Shs 4,020,000 (Shs 335,000 pm)	10% of the amount by which chargeable income exceeds Shs 2,820,000 (Shs 235,000 pm)
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds Shs 4,020,000 (Shs 335,000 pm).
Exceeding Shs 4,920,000 (Shs 410,000 pm)	(a) Shs 300,000 (Shs 25,000 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and (b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).

Non-resident Individuals

Chargeable income	Rate of tax
Not exceeding Shs 4,020,000 (Shs 335,000 pm)	10%
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 402,000 (Shs 33,500 pm) plus 20% of the amount by which chargeable income exceeds 4,020,000 (Shs 335,000 pm).
Exceeding Shs 4,920,000 (Shs 410,000 pm)	(a) Shs 582,000 (Shs 48,500 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and (b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).

Small Business Taxpayers

Gross Turnover	Tax Payable
Where the gross turnover of the taxpayer exceeds Shs 50 million but does not exceed Shs 75 million per annum.	Shs 937,500 or 1.5% of the gross turnover, whichever is lower.
Where the gross turnover of the taxpayer exceeds Shs 75 million but does not exceed Shs 100 million per annum.	Shs 1,312,500 or 1.5% of the gross turnover, whichever is the lower.
Where the gross turnover of the taxpayer exceeds Shs 100 million but does not exceed Shs 125 million per annum.	Shs 1,687,500 or 1.5% of the gross turnover, whichever is the lower.
Where the gross the turnover of the taxpayer exceeds Shs 125 million but does not exceed Shs 150 million per annum.	Shs 2,062,500 or 1.5% of the gross turnover, whichever is the lower.

Small Business Taxpayers Tax Rates where the gross turnover is below Shs 50 million**(i) Kampala City and Divisions of Kampala**

Business Trade	Turnover		
	Between Shs 35 – 50 million	Between Shs 20 – 35 million	Between Shs 10 – 20 million
General trade	500,000	400,000	250,000
Carpentry/metal workshops	500,000	400,000	250,000
Garages (motor vehicle repair)	550,000	450,000	300,000
Hair and beauty salons	550,000	400,000	300,000
Restaurants or bars	550,000	450,000	300,000
Drug shops	500,000	350,000	100,000
Others	450,000	300,000	200,000

(ii) Municipalities

Business Trade	Turnover		
	Between Shs 35 – 50 million	Between Shs 20 - 35million	Between Shs 10 - 20 million
General trade	400,000	300,000	150,000
Carpentry/metal workshops	400,000	300,000	150,000
Garages (motor vehicle repair)	450,000	350,000	200,000
Hair and beauty salons	450,000	350,000	200,000
Restaurants or bars	450,000	350,000	200,000
Drug shops	400,000	300,000	150,000
Others	400,000	350,000	150,000

(iii) Towns and Trading Centres

Business Trade	Turnover		
	Between Shs 35 - 50 million	Between Shs 20 - 35 million	Between Shs 10 - 20 million
General trade	300,000	200,000	100,000
Carpentry / metal workshops	300,000	200,000	100,000
Garages (motor vehicle repair)	350,000	250,000	100,000
Hair and beauty salons	350,000	250,000	100,000
Restaurants or bars	350,000	250,000	100,000
Drug shops	300,000	200,000	100,000
Others	300,000	250,000	100,000