

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

TAXATION - PAPER 6

FRIDAY 30 NOVEMBER, 2018

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

- (a) Biffekeera General Enterprises Limited (BGEL) located in Mbararamunicipalitydeals in the sale of shoes. BGEL has not been maintaining proper books of account over the years. However in a bid to improve taxpayer compliance, Uganda Revenue Authority (URA) set up a two days tax clinic in Mbarara municipality to sensitised traderson the importance of getting a Tax Identification Number (TIN) and maintaining proper records.

After the seminar BGEL acquired a TIN and they also appointed Coopers House Consultants to prepare their books of accountfor the year ended 30June, 2018.

The following information relates to BGEL for the year ended 30 June, 2018:

	Note	Shs '000'	Shs '000'
Sales/ turnover			800,000
Other income	1		150,000
Cost of sales	2		<u>(350,000)</u>
Gross profit			600,000
Less expenses:			
Depreciation		100,000	
Rent		70,000	
Unrealised foreign exchange loss		3,000	
Penalties (failure to maintain proper records)		10,000	
Water and electricity	3	15,000	
Heavy duty printer		30,000	
Salaries and wages		133,000	
10% social security contribution for staff		8,000	
School fees for director's children		5,000	
Pay as you earn (PAYE)		11,000	
Donations	4	15,000	
Value added tax	5	100,000	<u>(500,000)</u>
Net profit			<u>100,000</u>

Notes:

1. The company imports shoes and as a result, it had an unrealised foreign exchange gain of Shs 50 million included in other incomes.

2. Cost of sales includes a purchase of shoes worth Shs 20 million from a local trader.
3. The expense for water and electricity includes Shs 3 million for electricity consumed at the director's residence.
4. Donations include Shs 6millionmade to a home for orphaned children in Gayaza and Shs9milliontoFPP a political party in Uganda.
5. The company registered for VAT in August 2016 and has been accounting for VAT on its sales and also claiming all the VAT incurred on its transactions.
6. The Tax written down values of the assets as at 1 July, 2017 was as follows:

Class	Shs '000'
I	40,000
II	150,000
III	15,000
IV	30,000

7. On 1 August, 2017, the company bought the following assets:
 - (i) 5 new computers Shs 7.5 million.
 - (ii) 10 tonne delivery van Shs70million.
 - (iii) 7 tonne truck Shs 80 million for delivering shoes to its clients located upcountry.
 - (iv) Furniture from Furniture World Limited Shs8 million.
 - (v) second-hand shoe repairing machine Shs 15 million for repairing shoes for clients as an after sale service.
 - (vi) Brandnew Toyota V8 Land Cruiser Shs 120 million.

Required:

Compute BGEL's chargeable income and tax liabilityfor the year ended 30 June, 2018.

(15 marks)

- (b) The Ministry of Finance has been increasing URA's annual tax collection target over the years in order to finance the government budget. For URA to be able to achieve its target, it has to ensure that its tax system is effective.

Required:

Discuss at least **five** characteristics of a good tax system.

(5 marks)

(Total 20 marks)

Question 3

- (a) Jamal Agrotech Limited (JAL) is a company incorporated in Uganda and registered for value added tax (VAT). JAL is engaged in farming and sale of wine. The company grows cotton, fruits and vegetables and all the produce is exported to Singapore. Wine is imported from India and sold locally. During the period of February 2018, the company had the following transactions.

Purchases and expenses:

- (i) Imported a container of wine Shs 520 million.
- (ii) Bought 2 Massey Ferguson tractors Shs 800 million for use on its farm in Luwero district.
- (iii) Bought cotton and vegetable seeds from Container Village in Kampala Shs 8 million.
- (iv) The company replaced tyres and shock absorbers Shs 2 million VAT exclusive for its saloon car which is used for transporting staff to the field while executing company activities.
- (v) Bought fuel for its tractors Shs 9 million.
- (vi) Paid telephone expenses Shs 4 million VAT exclusive.
- (vii) Bought an Isuzu lorry truck Shs 50 million VAT inclusive for transporting wine and farm produce.

Sales:

- (i) Exported 2 containers of cotton, fruits and vegetables to Singapore and was paid Shs 300 million.
- (ii) Sold 70 cartons of wine for Shs 70 million VAT inclusive to customers across the country.

Required:

Compute JAL's VAT payable/claimable to be included in its VAT return for the month of February 2018.

(10 marks)

- (b) JAL supplied wine to a hotel worth Shs 10 million on 3 March, 2018 and raised a tax invoice on 2 April, 2018. Due to financial constraints faced by the hotel they were paid on the 14 May, 2018.

Required:

Explain the following to JAL:

- (i) Meaning of the term 'time of supply' as provided for in the VAT Act Cap 349.

(3 marks)

- (ii) The VAT period they are supposed to account for VAT on the transaction in (b) above in their monthly VAT return.

(1 mark)

- (iii) Advantages of using cash accounting over invoice accounting when accounting for VAT.

(6 marks)

(Total 20 marks)

Question 4

- (a) Mr. Mpungu has been the head of IT department of Maxwell Telecom Uganda Limited with effect from 1 July, 2016 and his appointment letter included the following terms.

1. Basic salary Shs 11 million per month.
2. Medical insurance Shs 2 million per annum for him and his family.
3. Shs 300,000 per month for a security guard at his residence.
4. School fees for his children equivalent to Shs 3 million per year.
5. Water and electricity Shs 150,000 per month.
6. A 10% monthly contribution to National Social Security Fund (NSSF) by the company Shs 1,100,000.
7. Entitlement to a company car to be used for both official and private purposes. The car was bought on 1 July, 2015 at a cost of Shs 200 million. It was provided to him on 1 January, 2017 when its market value was Shs 170 million. The car is available to him for use throughout the year and he makes a contribution of Shs 800,000 towards replacement of the worn-out tyres per year.

Additional information:

- (i) Mr. Mpungu visited the northern region branch offices to assess IT competences of the staff following the rollout of new application software. He was given a subsistence allowance of Shs 2 million and the company driver was given Shs 1 million.
- (ii) He was engaged in a part time employment with Mega solutions Limited for an upgrade of their accounting system and was paid Shs 5 million.

Required:

Compute Mr. Mpungu's chargeable employment income and tax liability for the year ended 30 June 2018.

(15 marks)

- (b) After a year in employment, Mr. Mpugu is thinking of quitting his job as head of IT at Maxwell Telecom Uganda Limited because he wants to open up his own company and become an independent contractor.

Required:

Explain to him the differences between an employee and an independent contractor.

(5 marks)

(Total 20 marks)

Question 5

- (a) A taxpayer in Kasese town owned a building with a cost base of Shs 4.5billion. The building was washed away by floods and his insurance company compensated him Shs 3.8 billion. The taxpayer bought a replacement building for Shs 4.9billion.

Required:

- (i) Compute the cost base of the replacement building. **(2 marks)**
 - (ii) Given that one year after replacing the building, the taxpayer sold it for Shs 5.2 billion; compute the gain or loss on the disposal of the building. **(2 marks)**
- (b) Describe the following as per the Income Tax Act Cap 340:
- (i) Business asset. **(1 mark)**
 - (ii) Gain on disposal of assets. **(1 mark)**
 - (iii) Special rules for consideration received where an asset is disposed of to an associate. **(2 marks)**
- (c) Explain any **eight** examples of non-tax revenues in Uganda. **(8 marks)**
- (d) Explain any **four** implications of withholding tax being a final tax under the income tax Act. **(4 marks)**

(4 marks)
(Total 20 marks)

Question 6

- (a) Explain the socio-cultural factors that affect business activities. **(7 marks)**
- (b) Describe the documents that small and medium-sized entities use when purchasing goods. **(7 marks)**
- (c) Explain the disadvantages of buying an existing business. **(6 marks)**
- (Total 20marks)**

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