

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL ONE

#### TAXATION – PAPER 6

**FRIDAY 1 DECEMBER, 2017**

#### 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

Kisombe Ltd a software company was registered in May, 2016 to supply software and related maintenance services. The following information relates to the activities of the company for the period to 31 December, 2016.

- (a) Paid Shs 1,500,000 as legal fees to the lawyer who prepared the documents for registration and Shs 1,000,000 as registration fees in April, 2016.
- (b) Bought a building Shs 150,000,000 for use as business offices in May, 2016 and rented a workshop for 2 years effective September, 2016 at a cost of Shs 24,000,000. The building was put to use on 1 May, 2016.
- (c) Paid insurance Shs 2,000,000 for the building and Shs 5,000,000 for the company's motor vehicle covering the period May to December, 2016.
- (d) Acquired 3-year loan in September, 2016 of Shs 100,000,000 at an interest rate of 20% per annum.
- (e) Received Shs 250,000,000 from the directors as payment for shares allotted to them.
- (f) Fire destroyed a section of the workshop on 2 January, 2017 software worth Shs 35,000,000 was destroyed.
- (g) One of their debtors was declared bankrupt by court in October, 2016 and the debtor has no intentions to appeal. The due date for payment of his debt amounting to Shs 15,000,000 was November, 2016.
- (h) Made a contribution Shs 20,000,000 towards the construction of the director's residential house and this has not been considered as a benefit to the director.
- (i) Was charged penalty Shs 2,000,000 for VAT under declaration in August, 2016.
- (j) Paid Shs 11,000,000 to a freelance carpenter to fix its workshop and no tax deduction was made because he had no tax identification number and therefore not liable for tax according to the management of Kisombe Ltd.
- (k) Held the following depreciable assets at year end:

Asset	Shs '000'
Computers	50,000
Seven-ton truck	105,000
Fixture and fittings	16,400

The company depreciates all assets at 25% per annum.

- (l) Gross profit for the period ended 31 December, 2016 Shs 270,000,000.

**Required:**

- (a) Calculate Kisombe Ltd's corporation tax liability for the period ended 31 December, 2016.

**(15 marks)**

- (b) The management of Kisombe Ltd would wish to file returns based on their accounting period.

**Required:**

Advise management on the application of a normal, substituted and transitional year of assessment.

**(3 marks)**

- (c) Explain the conditions under which Kisombe Ltd can be allowed a deduction for the amount of a bad debt written off.

**(2 marks)****(Total 20 marks)****Question 3**

KTC Ltd is a registered VAT taxpayer dealing in repair and supply of computer equipment. The company imports computer equipment from China and sells them at a mark-up. The company imported computer equipment worth Shs 250,000,000 in January, 2017 and it was charged Import VAT of Shs 56,250,000.

The company made the following sales during the month of January, 2017:

	Shs '000'
Computer equipment	138,500
Computer equipment exported to Kenya	30,000
Software maintenance	21,000
Software installation	14,000

It incurred the following administrative expenses in January, 2017:

	Shs '000'
Electricity	5,900
Internet services	3,750
Telephone expenses	1,180
Labour	25,000

Note:

All administrative expenses are inclusive of VAT where applicable and the sales are exclusive of VAT.

**Required:**

- (a) Compute KTC Ltd's VAT liability/claim for the month of January, 2017. **(8 marks)**
- (b) The VAT Act Cap 349 provides for a refund of VAT.

**Required:**

Explain the circumstances under which the Commissioner General may approve a refund of VAT.

**(4 marks)**

- (c) Describe the powers and duties of the Commissioner General under the VAT Act.

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

- (a) Mr. Suda Repeela is the Managing Director of Crunela Commercial Bank Ltd (CCBL). He is an Indian citizen who has been living in Uganda since 2010. The Board of Directors of CCBL set his remuneration as follows:
- (i) Monthly salary:  
Shs 12,000,000 paid in Uganda shillings.  
USD 10,000 payable directly to his account in India.
  - (ii) Accommodation USD 1,500 per month.
  - (iii) Brand new Benz ML 320 at a cost of USD 80,000 for full time use.
  - (iv) 2% commission on gross revenue if revenue exceeds Shs 65 billion per month.
  - (v) Bonus of 0.2% of gross revenue if the bank makes an annual turnover of Shs 580 billion.
  - (vi) Medical insurance Shs 21,000,000 per year to cover Mr. Suda and his family.
  - (vii) Air ticket Shs 24,500,000 for his annual holiday to his home country India.
  - (viii) ICPAU course training fees of Shs 22,500,000 for Mr. Suda's children at Multhechal Accountancy College.
  - (xi) Other benefits:  
Security expenses Shs 550,000 per month.  
Electricity and water bill Shs 820,000 per month.  
House servants Shs 350,000 per month of which Mr. Suda contributes Shs 100,000 per month.

Other information:

The average exchange rate for the period was USD 1 to Shs 3,500.

Mr. Suda was on leave in the month of December and his official car was parked at the bank premises.

Assume a year has 365 days.

Turnover for July, 2016 – June, 2017 in billion shillings, was as follows:

Month	Amount
July, 2016	50
August, 2016	20
September, 2016	62
October, 2016	52
November, 2016	20
December, 2016	40
January, 2017	52
February, 2017	64
March, 2017	58
April, 2017	55
May, 2017	63
June, 2017	38

**Required:**

Compute Mr. Suda's tax liability for the period ended 30 June, 2017.

**(17 marks)**

- (b) Employment is regarded to exist where there is a contractual relationship between master and a servant for a pay.

**Required:**

Mention any **three** ways an individual is considered to be in employment.

**(3 marks)**

**(Total 20 marks)**

### Question 5

- (a) Explain the following as used in the Income Tax Act CAP 340:
- (i) Capital gains. (2 marks)
  - (ii) Cost base of an asset. (2 marks)
  - (iii) When is a taxpayer treated as having disposed of a business an asset. (3 marks)
  - (iv) Circumstances under which no gain or loss is taken into account in determining chargeable income. (3 marks)
- (b) (i) Explain the term 'non-tax revenue'. (2 marks)
- (ii) List any **four** non-tax revenues, Uganda Revenue Authority collects on behalf of ministries and government departments. (2 marks)
- (c) Describe the different types of driving permits under the Traffic and Road Safety Act. (6 marks)
- (Total 20 marks)**

### Question 6

- (a) Explain the different sources of personnel for an organisation. (6 marks)
- (b) (i) Define the term 'statement of financial position'. (2 marks)
- (ii) Explain how an entrepreneur can manage the financial resources of the business as it grows. (5 marks)
- (c) Discuss the disadvantages of a partnership business. (7 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)	<p>(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</p> <p>(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).</p>

**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)	<p>(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</p> <p>(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).</p>

**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**

<b>Business Trade</b>	<b>Turnover</b>		
	<b>Between Shs 35 - 50 million</b>	<b>Between Shs 20 - 35 million</b>	<b>Between Shs 10 - 20 million</b>
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
Clinics	550,000	450,000	300,000
Drug shops	500,000	350,000	100,000
Others	450,000	300,000	200,000

**(ii) Municipalities**

<b>Business Trade</b>	<b>Turnover</b>		
	<b>Between Shs 35 - 50 million</b>	<b>Between Shs 20 - 35 million</b>	<b>Between Shs 10 - 20 million</b>
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
Clinics	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**

<b>Business Trade</b>	<b>Turnover</b>		
	<b>Between Shs 35 - 50 million</b>	<b>Between Shs 20 - 35 million</b>	<b>Between Shs 10 - 20 million</b>
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
Clinics	350,000	250,000	100,000
Drug shops	300,000	200,000	100,000
Others	300,000	250,000	100,000