

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

TAXATION - PAPER 6

THURSDAY 7 OCTOBER, 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** out of the **five** questions in Section **B**. Each question carries 20 marks.
6. Tax rates are provided on page 7.
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

Jenny & Clyde Construction Company (JCC) is a Ugandan construction company with its headquarters in Kampala specialising in electrical power line construction. Below is an extract of JCC's statement of profit, loss, and other comprehensive income for the period ended 31 December, 2020:

	Notes	Shs '000'	Shs '000'
Contract revenue			1,039,240
Contract costs:			
Labour costs	1	139,840	
Sub-contractor's costs	2	115,400	
Materials		352,800	
Equipment	3	191,000	
Total contract costs			(799,040)
Gross profit			240,200
Other incomes			
Interest income	4	16,500	
Miscellaneous income		3,400	19,900
Administrative expenses	5		(65,000)
Operational expenses			(45,000)
Profit before tax			150,100

Additional Information:

1. Labour costs include:
 - (a) Shs 18.24 million paid to the National Social Security Fund (NSSF) includes both employer and employee contributions.
 - (b) Gross salaries of all staff Shs 121.6 million.
 - (c) Shs 10.8 million paid to domestic employees of the managing director. The amount had not been included in the benefits for Pay as you earn (PAYE) purposes.
2. The cost of sub-contractors includes an advance payment for works yet to be started of Shs 63 million.
3. Equipment costs include:
 - (a) Forklifts of Shs 49 million.
 - (b) 62 pole climbing boots of Shs 215,000 each.
4. Interest income relates to income earned on treasury bills.
5. Administrative Expenses include:
 - (a) Utility bills of Shs 3.4 million paid for staff quarters.
 - (b) Subscription to the engineering association Shs 2.4 million.

- (c) Directors benefits not included in employment income of Shs 5.6 million.
- (d) Depreciation of Shs 12.1 million.
- 6. The company has 34 permanent staff of which 3 network designers are disabled.
- 7. During the year, the company acquired the following depreciable assets:
 - (a) Computer servers Shs 19 million.
 - (b) 15 ton truck for ferrying electric poles Shs 62 million.
 - (c) 2 diesel generators for running off-the-grid sites placed at the Sub-stations in Amuru district. Each generator costs Shs 32 million.
 - (d) 6 computers for running a new project in Soroti each costing Shs 3.4 million.
- 8. The tax written down values at the beginning of the year were as follows:

	Shs '000'
Class I	76,000
Class II	211,000
Class III	181,000
Class IV	45,000
- 9. The company acquired a new building for its head office in Kampala at Shs 634 million and constructed a new office building in Soroti Shs 213 million. Both buildings were occupied by the company at the start of the financial year.

Required:

- (a) Determine JCC's chargeable income and compute the tax liability for the year ended 31 December 2020.
- (b) According to the provisions of the Income Tax Act Cap. 340, explain the implications of withholding tax being a final tax.

(16 marks)**(4 marks)****(Total 20 marks)****Question 3**

Kalyesubula Mariam is a Technical Director for the Locusts Control Initiative (LCI) a donor funded project located in Kotido district for the past 12 years. LCI has branches in other parts of the country. Mariam is entitled to the following:

- 1. Gross monthly salary Shs 11.4 million.
 - 2. Hardship allowance Shs 750,000 per month. Kotido district is considered a hard-to-reach area.
 - 3. Monthly airtime Shs 145,000.
 - 4. Monthly digital satellite television subscription Shs 285,000.
 - 5. Meals worthy Shs 15,000 per day including weekends and public holidays.
- The rest of the staff in other districts are not entitled to this benefit.

6. A house valued at a market value Shs 600,000.

Additional information:

1. LCI pays 15% of gross salary per month into a retirement scheme managed by Sage Insurance Company.
2. In September 2021, Mariam was informed by her employer that due to funding limitations, her contract will be terminated at the end of the month. The letter indicated that she would be entitled to Shs 136.8 million as her terminal benefit.
3. In September 2021, Mariam was appointed by the Ministry of Farmers to support government officials with planning preventive actions in the event of locust invasion. The ministry paid her Shs 3.2 million for her services in the month.

Required:

- (a) Determine Mariam's employment income for the month of September 2021 and compute her tax liability of the month.

(15 marks)

- (b) Explain any five employee and employer offences under the Income Tax Act Cap 340.

(5 marks)

(Total 20 marks)

Question 4

Sukali Enterprise Limited (SEL) is a general merchandise trader located in Kamwokya a suburb of Kampala district. The following information relates to SEL for the month of August 2021.

Purchases:

1. Purchased mosquito nets for export at Shs 35 million.
2. Imported animal premix from China at Shs 132 million.
3. Bought leather handbags from a local dealer at Shs 22.8 million.
4. Purchased for resale 15 metric tons of imported cereal at Shs 1.1 million per metric ton.
5. Purchased 100 dozens of exercise books from a local manufacturer at Shs 5,000 per dozen.
6. Paid the following Administrative Expenses:
 - (a) Rent Shs 15 million.
 - (b) Utilities of Shs 1.4 million inclusive of Shs 420,000 for phone bills.
 - (c) Paid staff salaries of Shs 11.2 million.

Sales:

1. Exported cereals to South Sudan worth Shs 24.7 million. As part of this export, SEL provided transport to Juba in South Sudan and charged the buyer Shs 2.8 million for the service.
2. 5 leather handbags valued Shs 750,000 were given to the wife of the Managing Director as her wedding anniversary gift.
3. Sold handbags to Musota traders of Shs 18.6 million.
4. Sold processed grain for Shs 33 million which remained unpaid by the end of the month.
5. On the last day of the month, SEL received an order to supply body lotion of Shs 28 million but deliveries were made two weeks after.

Additional Information:

1. During the month, fire gutted one of SEL's stores and goods on which input tax had been paid valued at Shs 45 million were destroyed beyond recovery.
2. All sales are VAT inclusive and all purchases are VAT exclusive where applicable.

Required:

- (a) Compute SEL's Value Added Tax (VAT) payable/claimable for the month of August 2021.
- (b) Explain the requirements for transactions to qualify for export rating according to provisions of the VAT Act Cap 349.

(14 marks)

(6 marks)

(Total 20 marks)

Question 5

- (a) In June 2021, Mike imported the following items:
 - (i) Subaru Forester (car) model 2008 from Nagoya, Japan through an auction and incurred the following costs:

Item	USD ¹
Purchase price	1,800
Pre-shipment inspection fee	800
Freight fees from Nagoya to Yokohama port	420
Bought car accessories	620

The shipping company charged Mike USD 850 and USD 132 for freight and insurance respectively. Uganda Revenue Authority's pre-determined customs value of a similar car is USD 4,100.

- (ii) A soap making machine from the People's Republic of China at USD 16,757 and received a trade discount of 10% on the value of the

¹ USD is United States dollar

machine. Mike also paid the manufacturer USD 3,140 as cost of training on how to operate the equipment and USD 1,680 for transportation of the equipment inclusive of insurance to the port of Mombasa.

The applicable rates of tax are provided as follows:

Item	%
Import duty	25
Value added tax	18
Withholding tax	6
Environmental levy	10
Infrastructure levy	1.5

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

Required:

- (a) Determine customs value and import tax payable for each of the two items imported by Mike.

(15 marks)

- (b) In accordance with the Income Tax Act Cap 340, explain the meaning of the "cost base" of an asset.

(5 marks)

(Total 20 marks)

Question 6

- (a) Describe the different forms of growth of business ventures.

(6 marks)

- (b) Explain the strategic reasons of business combinations.

(6 marks)

- (c) Describe the characteristics of a good personnel policy.

(8 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	With records	Without records
Not exceeding Shs 10 million	NIL	NIL
Exceeding Shs 10 million but does not exceed Shs 30 million per annum.	0.4% of annual turnover in excess of Shs 10 million.	Shs 80,000
Exceeding Shs 30 million but does not exceed Shs 50 million per annum.	Shs 80,000 plus 0.5% of annual turnover in excess of Shs 30 million.	Shs 200,000
Exceeding Shs 50 million but does not exceed Shs 80 million per annum.	Shs 180,000 plus 0.6% of annual turnover in excess of Shs 50 million.	Shs 400,000
Exceeding Shs 80 million but does not exceed Shs 150 million per annum.	Shs 360,000 plus 0.7% of annual turnover in excess of Shs 80 million.	Shs 900,000