

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

TAXATION - PAPER 6

FRIDAY 25 AUGUST, 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 pages 7 - 8.
7. Write your answer to each question on a fresh page in your answer booklet.
8. Please, read further instructions on answer book before attempting any question.

SECTION B

Attempt four of the five questions in this section

Question 2

Enteb Express Manufacturers Ltd (EEM) produces iron roofing sheets and is located in Namanve industrial area. During the year ended 30 June, 2016 EEM recorded the following transactions:

	Note	Shs
Business income from Uganda	2	656,900,000
Recovered from bad debts	7	<u>314,150,000</u>
Total income		<u>971,050,000</u>
Expenses:		
Capital assets expensed	3	7,060,000
Depreciation		45,000,000
Cash lost	10	30,140,000
Salaries & wages		52,130,000
Employers' NSSF contribution		2,213,000
Management fees	9	150,000,000
Penalties and fines	8	4,324,000
Interest expense		51,112,000
Income tax		3,323,400
Rent & rates		3,215,000
Valuation expenses	4	23,278,000
Marketing expenses		4,487,000
Repairs & maintenance	5	163,134,500
Contribution to retirement fund		4,232,000
Reimbursable expenses	6	<u>6,635,000</u>
Total expenses		<u>550,283,900</u>
Net Profit		<u><u>420,766,100</u></u>

Notes:

1. Tax written down values as at 1 July, 2015:

	Shs '000'
Class I	35,000
Class II	57,000
Class III	122,000
Class IV	441,000

EEM Ltd owns a storied building where the main stores and offices are located. This building cost Shs 2.5 billion to construct and was first put to

use in 2014. During the year ended 30 June, 2016 a lift which cost Shs 500 million was installed in the building to transport senior staff to their offices.

An extension to the factory building was also constructed at a cost of Shs 150 million and put to use on 30 April, 2016.

Additions during the year:

	Shs '000'
Two 10-ton lorries each at	104,000
Computers	50,000
Range Rover car for the managing director	250,000
2. The business income includes Shs 160 million for the managing director which was accidentally deposited on the company account.	
3. The assets expensed were all below Shs 900,000, with the exception of a motor cycle, which was stolen and its full cost of Shs 4,500,000 was expensed through this account.	
4. The valuation expense includes incidental expenses of Shs 20 million relating to the new lorries that were acquired while the balance relates to demarcation of a piece of land in industrial area which the company is planning to purchase.	
5. Repairs and maintenance includes Shs 90 million which was used to construct a new boundary wall around the factory premises in Namanve. The construction of this wall was completed on 15 March, 2016. This account also includes the cost of two generators each at Shs 1.5 million, repair expenses of Shs 30 million and the balance relates to depreciation expense, posted to this account by mistake.	
6. Reimbursable expenses were allowances advanced to the employees in the course of performing their duties.	
7. Bad debts recoverable relate to business.	
8. EEM drivers were fined Shs 4,324,000 for dangerous driving while delivering raw materials to the factory.	
9. Management fees expense relates to a handshake of Shs 150 million given to well behaved and hardworking employees and from which PAYE was not deducted.	
10. Cash Shs 30,140,000 was misappropriated by the accountant.	
11. Profit of Shs 200 million was carried to a reserve fund before the year end.	

Note: Assume the number of days in a year is 365 days.

Required:

Compute the corporation tax payable by EEM for the period ended 30 June, 2016.

(20 marks)**Question 3**

- (a) The East African Community Customs Management Act (EACCMA) prohibits the removal of any goods from the customs area before they have been duly reported and entered.

Required:

Identify any **four** reasons why goods are entered into the customs area.

(4 marks)

- (b) For any imported goods, list any **ten** documents that are required for making a declaration to customs.

(10 marks)

- (c) Describe **three** items that are only imported as duty free items by passengers who have attained the age of eighteen years.

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

Mr. Robert Onyango is the chief football instructor of Uganda AFCOM Entertainments Ltd (UAE) football club, a position he has held since 1 December, 2015. He previously worked for Uganda Soccer Premier Ltd (USP) as a footballer.

Mr. Onyango's previous employer (USP) paid him Shs 180 million on 30 March, 2016 being his package for helping the club win a major Africa champion's title.

Mr. Onyango's current terms of employment with UAE are as follows:

- (i) A monthly salary Shs 24,500,000. His PAYE Shs 3,000,000 per month was paid to URA with effect from the month of his appointment.
- (ii) A Range Rover Sports car provided by the company for full time use which was purchased on 30 November, 2015 at Shs 160 million.
- (iii) The company incurred medical bills of Shs 4,250,000 in February, 2016 for the treatment of Onyango's wife.
- (iv) Accommodation in the company house in Ntinda, a suburb of Kampala city. The annual market rental price of such houses in the area is Shs 14,400,000.

- (v) The company provides him with the following monthly benefits:
- | | |
|----------------|-------------|
| Security guard | Shs 300,000 |
| Driver | Shs 500,000 |
| House girl | Shs 100,000 |
- (vi) UAE pays for him Shs 600,000 for gym and swimming per month to Cabila Club.
- (vii) UAE provided him with a soft loan of Shs 20,000,000 at an interest rate of 10%. Because of his outstanding contribution to the club, the board of directors decided that he should not pay the interest accruing to the loan.
- (viii) The club has a soccer academy and every youth that enrolls into the academy pays Shs 800,000 per month for the training. Among the trainees, is Mr. Onyango's daughter who joined the academy at the same time as her father joined the club and does not pay for training.
- (ix) Mr. Onyango earned the following additional income during the year ended 30 June, 2016:
- Treasury bill interest Shs 100,000,000 from Bank of Uganda.
 - Shs 150,000,000 being income from the supply of football jerseys and soccer boots to various football clubs in Uganda.

Required:

- (a) Compute Mr. Onyango's total tax payable for the year ended on 30 June, 2016. **(19 marks)**
- (b) Advise UAE on when Mr. Onyango's tax liability is due. **(1 mark)**
- (Total 20 marks)**

Question 5

- (a) VAT is administered under three broad categories of supplies: zero rated, exempt and standard rated.

Required:

Distinguish between the three categories basing on rate of tax, claim for input tax and classification.

- (6 marks)**
- (b) Explain the rights of a VAT registered taxpayer. **(4 marks)**

- (c) (i) Define the term 'cash accounting' as a method for VAT accounting. **(1 mark)**
- (ii) Explain the conditions for the use of the method in (c)(i) above when accounting for VAT. **(3 marks)**
- (iii) Identify any **one** benefit to a taxpayer who is granted the right to use the cash accounting method for VAT accounting. **(1 mark)**
- (d) Tump International is a registered construction company in Uganda dealing in the supply of civil works and other general supplies. The company is registered for VAT and it made the following supplies during the month of July, 2016:
- (i) Built a showroom for Katebe Hardware and raised an invoice Shs 30 million. Included in this bill is a supply of bricks Shs 3,000,000 and firewood Shs 5,000,000.
 - (ii) Supply of life jackets to Kabalagala Action Plan members Shs 1,860,000.
 - (iii) Supply of ox-ploughs and fertilizers valued at Shs 35,000,000 and Shs 8,000,000 respectively to the Ministry of Agriculture.
 - (iv) The company hired an expert from India to repair the ox-ploughs before sale and he was paid Shs 5,000,000.
- Note: All invoices are exclusive of VAT where applicable.

Required:

Compute Tump International's output VAT liability for the month of July, 2016.

(5 marks)
(Total 20 marks)

Question 6

- (a) (i) Explain the advantages of public limited companies. **(6 marks)**
- (ii) Explain the disadvantages of high labour turnover to management. **(6 marks)**
- (b) (i) Define the term 'franchising'. **(2 marks)**
- (ii) Explain the disadvantages of franchising. **(6 marks)**
- (Total 20 marks)**

TAX RATES**Resident Individuals Income Tax Rates**

Monthly 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 Income Tax Rates

Monthly chargeable income	Rate of tax
Not exceeding Shs 4,020,000 (Shs 335,000 pm)	10%
Exceeding Shs 4,020,000 (335,000 p m) but not exceeding Shs 4,920,000 (Shs 410,000 p m)	Shs 402,000 (Shs 33,500 p m) plus 20% of the amount by which chargeable income exceeds 4,020,000 (Shs 335,000 p m).
Exceeding Shs 4,920,000 (Shs 410,000 p m)	(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 p m) 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 p m).

Small Business Taxpayers Tax Rates

Gross Turnover	Tax Payable
Where gross turnover of a 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 gross turnover of a taxpayer exceeds Shs 75 million but does not exceed Shs 100 million per annum.	Shs 1,312,500 or 1.5% of gross turnover, whichever is the lower.
Where gross turnover of a taxpayer exceeds Shs 100 million but does not exceed Shs 125 million per annum.	Shs 1,687,500 or 1.5% of gross turnover, whichever is the lower.
Where gross turnover of a taxpayer exceeds Shs 125 million but does not exceed Shs 150 million per annum.	Shs 2,062,500 or 1.5% of 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
Clinics	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 - 35 million	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
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

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
Clinics	350,000	250,000	100,000
Drug shops	300,000	200,000	100,000
Others	300,000	250,000	100,000