

**THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**  
*A Committee of the Council of ICPAU*

**CPA (U) EXAMINATIONS**

**LEVEL ONE**

**TAXATION – PAPER 6**

**TUESDAY 22 DECEMBER, 2020**

**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

Hook Media Limited (HML) is a National Newspaper operating from Industrial Area Kampala, with publications in multiple languages and an additional business line in electronic media.

Below is an extract of HML Statement of profit, loss and other comprehensive income for the period ended 30 June, 2019:

	Notes	Shs '000'
Revenue		905,900
Cost of Sales		<u>(678,000)</u>
Gross Profit		227,900
Other Income		180,300
Distribution costs	1	(82,400)
Administrative Expenses	2	(141,300)
Other Operating expenses	3	(81,215)
Profit before Tax		103,285

### Notes:

1. Included in the distribution costs is Shs 55 million used to acquire a specialized promotional mobile truck pre-installed with digital display and public address system.
2. Administrative expenses include:
  - (i) Training expenditure of Shs 22 million used for the training of the company's marketing staff.
  - (ii) Equipment depreciation of Shs 18 million.
  - (iii) Maintenance of the Managing Director's farm for Shs 6 million, a benefit which was not included in his employment income.
  - (iv) Income tax penalties of Shs 8.3 million.
  - (v) Shs 13 million spent on staff end of the year party.
3. Other operating expenses include:
  - (i) Shs 45 million carried to the reserve fund.
  - (ii) Shs 620,000 penalty for wrong parking.
  - (iii) Field earpiece sets of Shs 950,000.
4. The company acquired the following depreciable assets during the year:

- (i) 3 distribution mini-vans for Shs 75 million. The vans have a 14 seat capacity.
  - (ii) State-of-the-art printing press for Shs 324 million.
  - (iii) Professional cameras for Shs 42 million.
  - (iv) Office furniture and fitting for Shs 18 million installed in the Mbale regional office.
5. The written down values as at 1 July, 2018 for its depreciable assets were as follows:
- |           | Shs '000' |
|-----------|-----------|
| Class I   | 121,000   |
| Class II  | 327,000   |
| Class III | 181,000   |
| Class IV  | 217,000   |
6. During the year, HML constructed a building worth Shs 630 million near offices in Mbarara which was completed on 30 August 2018 but occupied on 1 January 2019 after an official opening ceremony officiated by the Managing Director.

**Required:**

- (a) Determine HML's chargeable income and tax liability for the year ended 30 June, 2019.

**(14marks)**

- (b) Explain the considerations for determining the residency of a resident company and individual in accordance to the provisions of the Income Tax Act Cap 340.

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

Chris Smith is an American national who was employed by a multiple national cooperation to manage its subsidiary operations in Uganda effective 1 January 2019. The following are his terms of employment:

- 1. Gross monthly salary of Shs 15 million and annual gratuity of 10% payable in the final month of every 12 months period.

2. He was offered a house in Kololo with a monthly rental value of Shs 4 million. Chris did not occupy the house for the first 6 months of his employment. He was staying with his wife in Nakasero.
3. On arrival in Uganda, Chris was offered a brand new Land Cruiser vehicle with a market value of Shs 400 million and a driver whose monthly salary was Shs 1.5 million.
4. Additionally, Chris has 2 housekeepers and a security guard each earning Shs 200,000. The company pays for 1 housekeeper and the security guard while Chris pays for the second housekeeper.
5. The company also pays for Chris an annual return ticket to the United States to visit his family at the end of every year. The value of this air ticket is Shs 5.4 million.
6. Because of the nature of his engagement, the company paid for Chris life insurance of Shs 14.6 million for the year 2019.
7. During the year, Chris was appointed as a non-voting member of the board. The board had 6 sittings and for each sitting, Chris was paid an allowance Shs 1 million.
8. The company offered Chris a credit card which he uses to pay for both private and official expenses. In September and October 2019, Chris used Shs 3.1 million from the credit card for which he is not required to account.

**Required:**

- (a) Determine Chris' employment income and tax liability for the year ended December 2019.
- (b) Explain the tax treatment of part time allowances under the Income Tax Act.

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

Echo Media Ltd (EML) is a community based radio station operating in Western Uganda. For the month of April 2020, EML recorded the following transactions:

Purchases (VAT Inclusive where applicable)

1. Imported an advanced studio equipment from Turkey valued at Shs 56 million.
2. Acquired a new Studio Transmitter Link (STL) from a local vendor valued at Shs 14 million in order to improve the quality of transmission.
3. EML runs its studios using off-the-grid electricity powered by a generator. The company paid Shs 1.8 million for the supply of generator fuel during the month.
4. Hired Kanya Engineers to install a new lighting system on its mast. The company paid Shs 3.2 million for the service.
5. Procured stationary of Shs 800,000 on credit from Ariga suppliers.
6. The company also paid utilities for the month as follows:

	Shs
Electricity	320,000
Water	112,000
Internet service subscription	280,000

7. During the month, EML installed a new studio software for which the company paid Shs 7.3 million.

Sales (VAT Exclusive where applicable)

1. EML received an order to run adverts for a telecom company for a year valued at Shs 54 million.
2. EML's sales agents recorded sales for radio spots worth Shs 22.3 million during the month
3. Received payment of Shs 12 million from the sale of radio talk shows invoiced in March 2020.
4. Additionally, EML sold weekly sports program to Merit Bet – a sports betting company as a sole sponsor. The sponsorship is valued at Shs 6 million per show (EML recorded four shows in the month).
5. EML was hired by a local Non-Government Organisation to conduct sensitization on the outbreak of foot and mouth cattle disease in the region. This campaign is valued at Shs 8 million per month. However, as part of Corporate Social Responsibility (CSR), EML discounted 50% of this cost.

### Required:

- (a) Compute EML's VAT claimable or payable for the month of April 2020.

**(15marks)**

- (b) Explain the meaning of deferment and the conditions for approval of application for deferment, in accordance with the provisions of the VAT Act Cap 349.

**(5 marks)**

**(Total 20 marks)**

### **Question 5**

- (a) Sandmine Enterprise Limited (SEL) is an importer of consumable products into Uganda. The company would like to expand the business to re-export to South Sudan. They have been informed that the vehicles currently used may not be accepted for the re-export business.

**Required:**

- (i) Explain to SEL the conditions for the vehicles to be allowed to re-export any goods out of East Africa.

**(12 marks)**

- (ii) Explain the functions of the directorate of customs in accordance to the East African Customs Management Act.

**(4 marks)**

- (b) Malcolm is a retired civil servant living in Kampala. As part of his retirement plan, Malcolm invested Shs 98 million in treasury bonds for 15 years and earned interest of Shs 13,720,000 for the year 2019. Additionally, Malcolm has multiple mobile money outlets from which his total commission for the year was Shs 23.8 million.

**Required:**

Determine the total withholding tax applicable to Malcolm for the interest and commission earned in the year 2019.

**(4 marks)**

**(Total 20 marks)**

### **Question 6**

- (a) Describe the features of business environment. **(6 marks)**  
(b) Explain the elements of a marketing mix. **(4 marks)**  
(c) Discuss the role played by Small and Medium Enterprises (SMEs) in the development of an economy.

**(10 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**

<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
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 - 35million</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
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
Drug shops	300,000	200,000	100,000
Others	300,000	250,000	100,000