

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

TAXATION - PAPER 6

FRIDAY 23 AUGUST, 2019

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 8 – 9.
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

Pal Cosmetics Limited (PCL) is a manufacturing company based in Kampala industrial area. The company manufactures a variety of body care products and has selling outlets in South Sudan. The following transactions relate to the year ended 30 June, 2018:

	Note	Shs
Income:		
Business income from Uganda	2	800,900,000
Business income from South Sudan		<u>700,000,000</u>
		1,500,900,000
Expenditure:		
Capital assets expensed	3	45,000,000
Depreciation		50,000,000
Bad debts provision		55,216,000
Salaries & wages		125,530,000
Employers' contribution to National Social Security Fund (NSSF)		2,213,000
Interest expense		51,000,000
Income tax		150,323,400
Rent & rates		144,150,000
Valuation expenses	5	90,000,000
Marketing expenses		264,487,000
Repairs & maintenance	6	180,000,000
Employers' contribution to PLC's Staff Retirement Fund		124,232,000
Reimbursable expenses		226,635,000
Penalties and fines	7	40,000,000
Token of appreciation to best employees	8	200,000,000
Cash lost	9	300,000,000
Management fee expense	10	150,000,000
Loss due to goods destroyed	11	500,000,000
Total expenses		<u>2,698,786,400</u>
Net loss before tax		<u>(1,197,886,400)</u>

- 1 The opening tax written down values as at 1 July, 2017 was as follows:

Class	Shs '000'
I	55,000
II	52,000
III	92,000
IV	251,000

PCL owns a storied factory building which cost Shs 5.2 billion and was put to use on 1 July, 2017. The building contains an elevator which cost Shs 300 million.

An extension to the factory building was constructed at a cost of Shs 400 million and put to use on 31 May, 2018.

- 2 On 1 September, 2017, PCL purchased the following assets:

	Shs 'million'
Two 10-ton Tata lorries	84
Bus (50 passenger carrying capacity)	120
HP heavy duty printing machine	80

- 3 Included in business income is Shs 500 million from a major customer which was sent on account for future business transactions.
- 4 The assets expensed were all above Shs 1 million.
- 5 The valuation expense includes incidental expenses of Shs 40 million and Shs 50 million relating to the new Tata lorry and bus respectively.
- 6 Repair and maintenance includes Shs 120 million relating to building a new perimeter wall around the factory premises. This was completed and first put to use on 15 February, 2018. It also includes Shs 20 million spent on acquiring a standby generator and repair expenses of Shs 40 million.
- 7 This relates to Police Express Penalty fees Shs 40 million issued to the company drivers for illegally using Entebbe Express Highway.
- 8 Shs 200 million was given to the best marketing employees as a token of appreciation. This money was not considered for pay as you earn (PAYE) purposes for the period.
- 9 Shs 300 million was misappropriated by the Accountant; PCL was able to recover Shs 200 million after apprehending him. He has since been taken to prison for embezzlement.
- 10 Income of Shs 120 million was transferred to the US dollar account of the Managing Director but he did not provide any related services.
- 11 Goods worth Shs 500 million were destroyed in South Sudan due to war there. The Government of Uganda has promised to compensate the company for the loss before 30 June, 2018.

Required:

- (a) Compute the chargeable income and corporation tax payable by PCL for the year of ended 30 June, 2018. **(16 marks)**
- (b) Due to the war in South Sudan, the company has been advised by their representative in Juba that some customers who had bought goods on credit amounting to Shs 10 million had run bankrupt and therefore the amount owing from these customers would have to be written off as non-recoverable bad debt.

Required:

Explain the circumstances under which PCL will be allowed a deduction for bad debts written off under the Income Tax Act Cap 340.

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

Square Suppliers Ltd (SSL) deals in a variety of goods, both taxable and exempt. SSL is value added tax (VAT) registered. The following transaction took place in the month of June 2019:

Sales: (all VAT inclusive where applicable.)

- 1 Sold medical operating equipment (beds) for Shs 200 million.
- 2 Sold a fridge to a hospital Shs 50 million.
- 3 Supplied maternity (maama) kits to NGO International an internationally registered Non-Government Organisation for Shs 150 million.
- 4 Supplied sugar and soap to MK Enterprises for Shs 120 million.
- 5 Supplied transport services to Racross Limited to transport goods to various parts of Uganda for Shs 180 million.

Purchases and costs: (all exclusive of VAT, where applicable.)

- 1 Purchased 1,000 bags of sugar at Shs 100,000 per bag.
- 2 Rent for the month was Shs 40 million.
- 3 Purchased soap and small bed sheets for making maternity (maama) kits for Shs 90 million.
- 4 Bought a fridge from Capital Shoppers market for Shs 20 million.
- 5 Paid telephone services bill for the month Shs 3 million.
- 6 Paid electricity bill for the month Shs 5,000,000.

Required:

- (a) Compute the VAT payable for SSL for the month of June. **(13 marks)**
 (b) Explain the taxpayer's obligations and rights under the VAT Act Cap 349. **(7 marks)**
(Total 20 marks)

Question 4

- (a) Mr. Brown White a resident individual is a procurement officer of Tailo Oil & Gas Company Ltd. The following was his remuneration for the month of July 2019:

Item	Shs '000'	Note
Basic salary	13,000	
Transport allowance	1,300	
Medical allowance	8,00	
Company house	1,600	Contributes Shs 500,000 per month
Gardener	150	Contributes Shs 20,000 per month
Security guard	300	

Additional information:

- The company provides meals for 26 days in a month, each meal costs Shs 3,000 for officers and Shs 7,000 for directors. Mr. White does not contribute anything to lunch.
- The company gave him a school fees loan Shs 1.2 million at 10% interest per annum. The statutory rate was 15% at the time.
- In the month of July 2019, Mr. Brown White owed a bank Shs 300,000. His employer decided to pay the loan for him on 31 July, 2019 but opted not to recover that amount from him.
- The company transferred a car valued at Shs 25 million to Mr. White in July 2019. He was asked to contribute only Shs 1 million for it.
- The company provided him with a car whose cost and market value was Shs 40 million and Shs 30 million respectively for 183 days in a year for private use. Assume the year of income has 365 days.
- The company contributes 10% of his basic salary towards the National Retirement Fund every month.

Required:

Compute Mr. White's chargeable income and tax liability for the month of July 2019.

(15 marks)

- (b) With the help of examples, explain any **five** employee's relief (Exempt Income).

(5 marks)
(Total 20 marks)

Question 5

Mahogany Furniture Limited (MFL) is one of the leading furniture manufacturers in Kampala. It has 3 branches around Kampala. Given the increasing demand for its furniture, the company's board of directors (the Board) decided to start importing furniture from Malaysia. During the first import consignment, they incurred the following:

Particulars	US \$
Furniture (free on board (FOB))	50,000
Freight to Mombasa	6,000
Transport to Kampala	1,000
Insurance	5,000

The applicable rates of tax are provided as follows:

Import duty	25%
Value added tax	18%
Excise duty	20%
Withholding tax	6%
Infrastructure levy	1.5%

The prevailing US\$ exchange rate for Uganda shillings was 3,700 at the time of importation.

Required:

- (a) (i) Determine customs value and customs taxes applicable to MFL's first consignment.
(10 marks)
- (ii) Explain to the Board of MFL the meaning of the term 'customs warehouse' and the procedure for disposal of warehoused goods.
(6 marks)
- (b) MFL is considering diversifying its operations into real estate business and is seeking your advice about rental tax.

Required:

According to the Income Tax Act Cap 340 explain to the management of MFL the:

- (i) meaning of 'rental income' and 'rental tax'. **(2 marks)**
 - (ii) tax treatment of rental income for individuals and companies. **(2 marks)**
- (Total 20 marks)**

Question 6

- (a) Explain the advantages of internal recruitment of manpower to small and medium-size enterprises (SMEs). **(4 marks)**
 - (b) Describe the features of a partnership business. **(8 marks)**
 - (c) Explain the advantages of buying an existing business. **(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	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