

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

TAXATION – PAPER 6

FRIDAY 1 JUNE, 2018

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

- (a) Explain the following principles of taxation:
- (i) simplicity. **(1 mark)**
- (ii) convenience. **(1 mark)**
- (b) Tukolebukozi (U) Ltd is located in Iganga town. Its statement of profit or loss and other comprehensive income for the year ended 31 December, 2017 is as follows:

	Shs '000'
Sales	1,400,000
Less cost of sales	1,220,000
Gross profit	180,000
Other income	
Bad debt recovered	2,000
Profit on sales of furniture	200
	182,200
Less: Operating expenses	
Salaries	11,900
Staff meals (canteen equal terms)	3,100
Telephone (10% is for private use)	3,000
Loss on sale of motor vehicle	204
Water and electricity	2,900
Office expenses	2,800
Trading license	500
Generator expenses	1,100
Stationery and printing	2,300
Director's remuneration	20,000
Bad debts written off	2,000
Rent	3,200
Maintenance	3,600
Subscriptions and donations	1,800
Depreciation	6,000
Legal and accountancy fees	3,000
Net Profit	114,796

Notes:

	Shs '000'
1 Office expenses include the following:	
Staff travelling expenses (van)	2,300
Entertaining expenses	500
2 Maintenance	
Beatifying the existing premises	600
Renovations of premises to the usable state	3,000
3 Legal and accountancy fees	
Company debt collection services	400
Staff contract agreements	450
50 year lease agreement fees on new premises	650
Accountancy fees	700
Tax consultancy for the director's wife project	800
Total	3,000
4 Subscriptions and donations include:	
Donation to political party	900
Subscription to Uganda Manufacturers Association	500
Trade fair fees	400
Total	1,800
5 On 1 January, 2017 the tax written down values of plant and machinery were as follows:	
Class 1	3,400
Class II	14,600
Class IV	52,000
6 The company purchased the following assets in the year:	
Photocopier 1 August, 2017.	22,500
Furniture 1 December, 2017	14,400

Required:

Compute the tax obligation for the period ended 31 December, 2017.

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

- (a) Explain the VAT terms below as required by the VAT Act Cap 349:
- (i) Input VAT. **(2 marks)**
 - (ii) Output VAT **(2 marks)**
 - (iii) Identify the rates used when registered persons make supplies of goods or services. **(3 marks)**

- (b) For VAT to be levied on a local supply there are four fundamental principles that must be satisfied.

Required:

Identify the four fundamental principles that must be satisfied.

(4 marks)

- (c) Bonga Ltd is VAT registered company that deals in standard rated goods. During the month of April 2018, the following transactions took place:

April

- 2 Sold goods worth Shs 20,000,000 inclusive of VAT.
- 10 Purchased goods of Shs 70,000,000 inclusive of VAT.
- 10 Sold goods of Shs 15,000,000 exclusive of VAT.
- 12 Donated goods to Sayuni Babies Home of Shs 25,000,000 inclusive of VAT.
- 15 Purchased goods worth Shs 7,000,000 exclusive of VAT.
- 16 Sold goods worth Shs 17,000,000 inclusive of VAT.
- 19 Received a telephone invoice from Pax Communications Ltd for Shs 725,000 VAT exclusive for the month March. The company had made a prepayment of Shs 600,000 in the month of March.
- 20 Was contracted and transported goods to Juba in Southern Sudan for shs 60,000,000.
- 20 Sold medical equipment worth shs 40,000,000 to Arus Referral Hospital.
- 21 Sold goods of Shs 35,000,000 exclusive of VAT.
- 22 Purchased goods worth Shs 45,000,000 exclusive of VAT. Shs 10,000,000 worth of goods were damaged before sales were made.
- 27 Paid for water Shs 50,000 inclusive of VAT.
- 29 Sold goods for Shs 17,000,000 exclusive of VAT.
- 30 Paid rent of Shs 900,000 inclusive of VAT to Property Masters Ltd.

Required:

Compute VAT payable or claimable for the month of April 2018.

(9 marks)

(Total 20 marks)

Question 4

- (a) Explain what industrial building deductions are as per the income tax Act Cap 340.

(2 marks)

- (b) Kampala Arcade Ltd constructed a commercial building on Kampala Road at a cost of Shs 2.5 billion. The building was completed and put to use on 1 October, 2017.

Required:

Compute the industrial building deductions (IBD) Kampala Arcade Ltd will be entitled to claim for the year ended 31 December, 2017.

(4 marks)

- (c) MadiOpei Ltd constructed a three-storied commercial building at a cost of Shs 1.7 billion in Arua Town. The building was put to use on 1 November, 2017. The company uses part of the third floor for personal work and its construction is valued at Shs 120 million.

Note: Assume the year has 365 days.

Required:

Compute the industrial building deductions (IBD) MadiOpei Ltd will be entitled to claim for the year ended 31 December, 2017.

(5 marks)

- (d) Towa Bus Yako Ltd commenced business in December 2017. Before commencement, it incurred the following expenses:

	Shs '000'
Land registration Stamp duty	16,000
Registration of land	12,000
Registration of company	4,000
Feasibility	20,000
Surveying	14,000
Bribe for quick registration	6,000

Required:

Compute the allowable startup costs which Towa Bus Yako Ltd should claim in its tax computation for the year ended 31 December, 2017.

(5 marks)

- (e) Name and explain any **three** categories of deductions allowed on capital expenditure.

(4 marks)**(Total 20 mark)**

Question 5

- (a) (i) Define the term 'bonded warehouse'.
(2 marks)
- (ii) Briefly explain the procedures of licensing of bonded warehouses before approval by the Commissioner.
(8 marks)
- (b) (i) Define the term re-exportation.
(2 marks)
- (ii) Identify goods for re-export which qualify for exemption from import duties as per Section 115 of East African Community Customs Management Act 2004.
(2 marks)
- (c) Mention the issues which are looked into during the examination of parcels imported by post.
(6 marks)

(Total 20 marks)

Question 6

- (a) Explain the role of small and medium - size business to the development of an economy.
(7 marks)
- (b) Explain the disadvantages of a partnership form of business ownership.
(7 marks)
- (c) (i) Define the term franchising.
(1 mark)
- (ii) Explain the advantages of franchising to the franchisee.
(5 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
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 - 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
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