

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

CPA (U) EXAMINATIONS
LEVEL ONE

TAXATION – PAPER 6

FRIDAY 24 AUGUST, 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 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

Putin Mugabe, a Kenyan national, is the Finance Manager of Savage Uganda Ltd (SUL) with effect from 1 December, 2017. He was offered a 3-year contract with an annual basic salary of Shs 84 million in addition to other benefits and payments as follows.

- 1 Overtime allowance Shs 50,000 per extra hour worked. He worked for 20 hours beyond his normal working hours during the month of December 2017.
- 2 Health club annual membership fees Shs 2 million paid by the company for staff at his level of management. The subscription was made as soon as he commenced work on 1 December, 2017.
- 3 School fees for 2 children below the age of 18 years up to a maximum of Shs 2 million per child per annum. In December 2017, the company contributed Shs 800,000 towards the booking of a place for Putin's daughter at Kampala Highlife Secondary School.
- 4 Entertainment allowance Shs 1 million per month. Putin spent his monthly allowance entertaining fellow professionals at his home.
- 5 2 security guards at a combined annual cost Shs 15.6 million.
- 6 Lunch for management staff paid for by the company at a nearby restaurant Shs 600,000 per month.
- 7 Medical insurance cover Shs 1 million per annum for self and immediate family members. While on a business travel in Masaka, Putin fell sick and there was no medical facility covered by the insurance in the area. He was treated at a private clinic and was charged medical fees of Shs 450,000. This amount was refunded to Putin on return after lodging in an expense claim with supporting documentation.
- 8 SUL contributes 10% of Putin's monthly salary to NSSF.
- 9 Monthly rental allowance of Shs 3 million. The company rented a house for Putin in Kololo. He is not required to contribute anything towards rent.
10. SUL provides personal loans to staff at reduced interest rates. Putin acquired a loan Shs 930,000 from the company on 15 December, 2017 payable in four months at 5% annual interest charge. The prevailing Bank of Uganda discount rate was 12% per annum.

During the month of December, 2017 Putin received the following benefits and payments from the company that were not specifically provided for in his contract.

- (i) Training allowance Shs 300,000 for training company staff in customer care
- (ii) Relocation allowance from former employment in Kenya to Uganda Shs 3 million.
- (iii) Christmas gift in form of a brand new Laptop valued at Shs 2 million. Putin later donated this laptop to her daughters' school in support of their computer laboratory fundraising project.
- (iv) Shs 700,000 for his driving lessons at Kigezi Driving School as soon as he commenced work. A driving license was a prerequisite of the company providing him with a company car.
- (v) Christmas holiday in Dubai with family Shs 2.5 million.
- (vi) Kenya Ports Authority (KPA), former of Putin, recently won a suit against him and he was ordered to pay KShs 228,580 to the authority. SUL paid the penalty to KPA in appreciation of Putin's decision to accept the job offer in Uganda.
- (vii) Shs 300,000 for his monthly subscription fees at Sheraton Swimming Club. This is in addition to the club membership fees paid for all senior staff.

Note: Assume that the exchange rate of the Kenya shilling (KShs) to the Uganda shilling was KShs 1 = US\$ 35.

Required:

- (a) Based on the Income Tax Act provisions, define the term 'employment'.
(2 marks)
- (b) Distinguish between the chargeable income of a resident and that of a non-resident taxpayer.
(2 marks)
- (c) Compute Putin's chargeable income and tax liability for the month of December 2017.

(16 marks)
(Total 20 marks)

Question 3

- (a) Explain any **three** major categories of supplies upon which a charge of value added tax (VAT) is applied.
(3 marks)
- (b) (i) Define the term 'VAT registration'.
(1 mark)
- (ii) Explain any **two** categories of persons that are required to register for VAT under the VAT Act.
(2 marks)

(iii) Outline any **four** general requirements for VAT registration.

(4 marks)

- (c) Bu-Zuena Interiors Ltd deals in domestic and office furniture and interior décor. During the month of June 2018, they made the following purchases from VAT registered suppliers and have proper tax invoices.

Purchases/Payments:

- (i) New motor vehicle (Pajero) for the Managing Director Shs 185 million.
- (ii) 4 computers on credit at a total cost of Shs 20.5 million.
- (iii) Paid telephone bills Shs 10 million during the month.
- (iv) 4 Tata trucks, one for cash and the other 3 on credit. Each truck cost Shs 120 million.
- (v) Received invoices for electricity amounting to Shs 14.5 million.
- (vi) Received 2 rental invoices during the month. One invoice Shs 8.5 million was in respect of office space and the other Shs 2.5 million was in respect to the rent for the managing director's residential house.
- (vii) Paid insurance premium to cover the company assets Shs 12 million.
- (viii) Fuel from Byangwa Petrol station Shs 20 million.

Sales/ receipts:

Made sales Shs 662 million for the month of June 2018.

Included in the sales was a sale of curtains amounting to Shs 100 million that were sold to a company in Kigali, Rwanda.

Note:

All purchases/ payments are VAT inclusive, while sales are VAT exclusive, where applicable.

Required:

Calculate the amount of VAT payable or claimable by Bu-Zuena Interiors Ltd for the month of June 2018.

(10 marks)

(Total 20 marks)

Question 4

Kakajjo Ltd is in the business of buying and selling produce. The company mainly deals in beans and maize which they buy from local farmers and sell to middlemen and agents. The company's office and area of operation is located in Kiryandongo district.

The company provides transport for all customers who purchase 10 tons or more of the produce.

Their summary of the statement of profit or loss and other comprehensive income for the year ended 30 June, 2018 is as provided below:

Particulars	Note	Shs 'million'	Shs 'million'
Revenue			2,200
Less cost of sales	1		(950)
Gross profit			1,250
Less expenses			
Staff costs		200	
Distribution expenses		190	
Commissions paid		100	
Depreciation of property		250	
Other expenses	2	120	
			(860)
Net profit			390

Notes:

1	Cost of sales is made up of the following:		
	Particulars	Shs 'million'	
	Purchase of maize and beans	550	
	Cleaning and packaging costs	85	
	Packaging materials	29	
	Storage costs (hire of warehouses)	66	
	Purchase of 1 10-ton truck	150	
	Transport costs	46	
	Fumigation expenses	24	
	Total	950	

- 2 Other expenses are made up of the following:
- | Particulars | Shs 'million' |
|---------------------------------------|---------------|
| Donation to local church | 20 |
| Construction of customer waiting room | 50 |
| Repairs and maintenance costs | 26 |
| Other office expenses | <u>24</u> |
| Total | <u>120</u> |
- 3 during the year the company purchased a Toyota Land Cruiser for the managing director's use at Shs 100 million and 2 desktop computers at Shs 2 million each
- 4 The tax written down values for the company assets as at 1 July, 2017 were as follows:
- | Class I | Class II | Class III | Class IV |
|-----------|-----------|-----------|-----------|
| Shs '000' | Shs '000' | Shs '000' | Shs '000' |
| 1,500 | 45,050 | 175,300 | 28,600 |
- 5 The customer waiting room was first put to use on 2 January, 2018.

Required:

- (a) Explain the term 'item of eligible property' as described in accordance with the provisions of the Income Tax Act, clearly indicating what items are excluded.
- (3 marks)**
- (b) Explain the items that are not included in 'capital expenditure' in determining the qualifying cost of an industrial building.
- (2 marks)**
- (c) Compute Kakajjo Ltd.'s chargeable income and tax payable for the year ended 30 June, 2018.

(15 marks)
(Total 20 marks)

Question 5

- (a) With reference to the Tax procedures Code Act, explain the following tax terms:
- (i) Return of income. (2 marks)
 - (ii) Provisional return. (2 marks)
 - (iii) Assessment. (2 marks)
- (b) Explain any **two** types of tax assessments. (2 marks)
- (c) Describe, under the Income Tax Act CAP 340, a taxpayer who is:
- (i) eligible to file a return of income. (2 marks)
 - (ii) not required to file a return of income. (2 marks)
- (d) With examples, define the following types of taxes:
- (i) Direct. (2 marks)
 - (ii) Indirect. (2 marks)
 - (iii) Progressive. (2 marks)
 - (iv) Regressive. (2 marks)
- (Total 20 marks)**

Question 6

- (a) Explain the advantages of a takeover to the acquirer. (5 marks)
- (b) Describe the circumstances under which a partnership business can be dissolved. (7 marks)
- (c) Explain the contribution of small and medium-size entities (SMEs) to the development of Uganda. (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