

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

CPA (U) EXAMINATIONS

LEVEL ONE

TAXATION – PAPER 6

FRIDAY 29 NOVEMBER, 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** 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

Green Foam Limited (GFL) is a family owned business, located in Jinja District, manufacturing foam mattresses for the local and export markets. The company was incorporated on 1 March, 2018 and commenced operations on 1 July, 2018. Below is an extract of the statement of profit or loss and other comprehensive income for the year ended 30 June 2019:

	Notes	Shs'000'
Sales		366,300
Cost of sales	1	(255,700)
Gross profit		110,600
Other income	2	1,000
Operating expenses	3	(32,800)
Administrative expenses	4	(55,400)
Selling and distribution expenses	5	(24,300)
Operating profit/(loss)		(900)

Notes:

- 1 Cost of sales includes the following:
 - (i) Factory equipment depreciation of Shs 54.3 million.
 - (ii) Manufacturing related expenses of Shs 65.6 million.
 - (iii) Over time paid to factory staff but not included in their employment income Shs 6,589,000.
- 2 Other income relates to interest earned by GFL from investing in Bank of Uganda (BOU) treasury bills and bonds.
- 3 On 1 April, 2019 GFL suffered a catastrophe when one of the company vehicles, a Toyota Kullger with a net book value of Shs 34 million was gutted by a fire. This vehicle was not insured but the shell that remained was sold for Shs 5.2 million. The vehicle had cost Shs 40 million on 1 July 2018.
- 4 Administrative expenses include:
 - (i) Expenses incurred in the initial formation of the company:

	Shs '000'
Company legal incorporation costs	8,900
Accounting system set up	5,100
 - (ii) Tuition fees of Shs 4.5 million for the general manager pursuing a post graduate diploma at Uganda Management Institute. The general manager is a Kenyan citizen and was recruited outside Uganda in April 2019.

- 5 Selling and distribution expenses include Shs 12,340,000 that was donated towards the 2019 Kyabazinga birthday celebrations.
- 6 GFL acquired the following depreciable assets during the year ended 30 June 2019:
 - (i) Foam mattress making and trimming machines at Shs 128.7 million.
 - (ii) Toyota Kullger Shs 40 million which later got burnt before the year end.
 - (iii) Replaced the burnt Toyota Kullger vehicle with a Toyota Jeep of Shs 80 million.
 - (iv) Furniture for Shs 23.5 million.
 - (v) A folk lift for Shs 39 million.
 - (vi) Computers for Shs 34.2 million.
- 7 GFL incurred capital expenditure of Shs 250.6 million to construct the factory building which was put to use on 1 October, 2018.
- 8 GFL disposed of used furniture for Shs 7.9 million.

Required:

- (a) Determine the GFL's chargeable income and tax payable (if any) for the year ended 30 June 2019.
- (b) Under the Income Tax Act Cap 340, explain five circumstances under which a taxpayer is treated as having disposed of an asset.

(15 marks)**(5 marks)****(Total 20 marks)****Question 3**

Target Wood Limited (TWL) has been operating in the Albert Graben in Uganda exploring oil and gas since 2005. Following the approval of the final investment decision (FID) by the Government of Uganda (GOU), TWL is now recruiting for specialized manpower for the oil production phase. TWL recently recruited Mr. Donnelly Hugh, a Canadian citizen that has vast experience in oil and gas production to head the oil and gas production department at TWL.

Donnelly is employed on a 2 year contract effective 1 January 2019, renewable subject to satisfactory performance. In August 2019, TWL incurred the following expenses for the benefit of Donnelly;

- 1 TWL incurred travel costs associated with transporting Donnelly from Canada to Uganda. The one way air ticket cost Shs 4,440,000.
- 2 Donnelly earned a gross salary of Shs 35,953,000 in August 2019.
- 3 TWL engaged services of a lawyer to process Donnelly's work permit. Shs 549,000 was paid to the Ministry of Internal Affairs as work permit fees while Shs 3,450,000 was paid to the lawyer as legal fees.

- 4 Donnelly was provided with a housekeeper and security guard on full time basis. TWL pays an annual salary of Shs 3.6 million to the housekeeper and Shs 2.4 million to security guard.
- 5 As company policy Donnelly is given a mobile phone plus airtime and staff are not required to return the phone to TWL on termination of employment. The cost of the mobile phone was Shs 5,224,000 and the airtime loaded in August 2019 was Shs 150,000.
- 6 TWL runs a staff medical scheme where staffs are given medical cards to access health care from various service providers or can be reimbursed medical expenses. Donnelly opted for the later and was reimbursed Shs 569,000 in August 2019.
- 7 Donnelly is a member of the Canadian Bikers Association and in June 2019, Donnelly was crowned champion of the Canadian Bikers league but his meritorious award of Uganda shilling equivalent Shs 65,845,000 was deposited on his account in Canada in August 2019.
- 8 Senior management staffs are entitled to social and professional club memberships. Donnelly is a member of Uganda Geology Fraternity and also a member of Kampala Rotary Club. In August 2019, TWL paid Shs 1,230,000 to Uganda Geology Fraternity and Shs 2,280,000 to Kampala Rotary Club.

Required:

- (a) Determine Donnelly's employment income for the month of August 2019 and his tax liability.
(15 marks)
 - (b) (i) Explain any **three** circumstances where an amount or benefit is considered to be derived in respect of employment.
(3 marks)
 - (ii) Explain the tax treatment of provision of accommodation or housing benefit to an employee.
(2 marks)
- (Total 20 marks)**

Question 4

- (a) With reference to the Value added Tax Act Cap 349, explain any **four**:
- (i) features of a proper tax invoice. **(4 marks)**
 - (ii) records that should be kept by a registered person. **(4 marks)**
- (b) Joti Uganda Limited (JUL) is a service company with its parent Joti Holding Limited (JHL), located in South Africa. JUL provides accounting, auditing and tax consultancy services to clients located in and outside Uganda.

For the month of October 2019, JUL had the following purchases and sales transactions. Sales are VAT inclusive while purchases/expenses are VAT exclusive and there from VAT registered suppliers.

The following information relates to the month of October 2019:

- 3 Invoiced Kigali Textiles Limited, a company tax resident in Rwanda Shs 24.5 million for accounting services rendered.
- 6 Paid rent Shs 2 million.
- 8 Kampala Stationers Limited supplied reams of paper worth Shs 5.8 million.
- 10 JUL received an invoice from Uber Ltd, a transportation services company relating to travel costs of JUL staff Shs 6,320,000.
- 12 JUL recovered a bad debt of Shs 64.6 million that had been written off in 2018. JUL had obtained a refund from URA of the tax paid on the amount written off.
- 13 JHL staff travelled from South Africa to Uganda to conduct training to JUL staff on the SAP accounting package being rolled out. JHL invoiced JUL Shs 78,650,000.
- 18 JUL issued an invoice of Shs 80.2 million to Uzama Sudan Limited (USL), a company resident in South Sudan for consultancy services provided.
- 29 Paid water bills for the month Shs 200,000
- 30 Paid staff salaries Shs 83 million.
- 30 Paid health insurance premium to Apex Insurance Company Shs 25 million.

Required:

Compute the VAT payable or claimable by JUL for the month of October 2019

(12 marks)
(Total 20 marks)

Question 5

Bobby is a businessman dealing in the real estate sector. Of late he has diversified his investment portfolio to comprise investments in Government treasury bills and bonds, cosmetics and occasionally in his free time engages in betting and gaming activities.

For the year ended 30 June 2019, Bobby had the following streams of income:

- 1 Bobby earned rental income of Shs 259.7 million from all his real estate properties. He incurred operational expenses of Shs 56,458,000 and property management charges of 34.5 million. One of Bobby's tenants is a withholding tax agent and deducted withholding tax of Shs 3.5 million from the rent payments.
- 2 Bobby invested in Bank of Uganda (BOU) treasury bills and bonds worth Shs 119.4 million earning interest of Shs 8.9 million. The BOU deducted Shs 1,780,000 as withholding tax.
- 3 The cosmetics shop located in Kikuubo, Kampala city, recorded gross turnover of Shs 120,342,000, cost of sales of Shs 52.8 million, operating expenses of Shs 31.3 million and finance costs of Shs 8.5 million.
- 4 Bobby is an ardent supporter of Manchester United Football Club (Man U) and normally wins bets staked on Man U games. For the year ended 30 June 2019, Bobby had total wins of Shs 500,000.

Required:

- (a) Determine Bobby's total tax liability for the year ended 30 June 2019.
(15 marks)
 - (b) According to the Income tax Act Cap 340, explain any:
 - (i) two payment transactions where tax withheld is considered a final tax.
(2 marks)
 - (ii) three implications of subjecting income earned by a taxpayer to withholding tax as a final tax.
(3 marks)
- (Total 20 marks)**

Question 6

- (a) Explain the reasons why small and medium businesses fail.
(8 marks)
 - (b) Describe the ways of ending a business venture.
(4 marks)
 - (c) Explain the:
 - (i) advantages
(4 marks)
 - (ii) disadvantages of liquidation of a business
(4 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)	<p>(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</p> <p>(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).</p>

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)	<p>(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</p> <p>(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).</p>

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