TOPIC 10: TAXATION

BASIC TERMS USED IN TAXATION

BASIC COMPUTATION OF TAXES

1. **VALUE ADDED TAX.VAT)**

2. This is a tax levied on consumption of goods and services. It is levied on the value added at very stage in a chain of production or distribution of goods and services.

Main Features of VAT

- Is abroad – based tax charged and collected at all stages in the chain of distribution. I.e. its multi stage
- Is an indirect form of tax i.e. the one paying is the one who incurs the tax burden
- It charged on expenditure (consumption) and not income
- Is charged on valued added
- It is ultimately borne by the final consumer
- The VAT rate is 18%
- Credit mechanism (VAT on inputs credited against taxes on output)

EXAMPLE. 1

Assuming that three are levels in the chain of production as follows (a) Stage 1. Importation of goods with a taxable value of 10,000 shillings (b) Stage II. Sale of goods by the importer to a retailer at shs 15,000

(c) Stage III. Sale of goods to a final consumer by the retailer at shs 25,000

Calculate the total VAT payable

Stage I. VAT will be charged on importation price
VAT Rate = 18%
VAT Payable = VAT Rate X initial cost

$$\frac{18}{100} \times 10{,}000 = \text{shs } 1{,}800$$

Stage II.
VAT payable = Valued added X VAT rate
Valued added = 15,000 – 10,000 = 5,000
Vat payable = 18/100x5,000
= shs 900

Stage III
VAT payable= Value Added X VAT Rate
Value added = 25,000 – 15,000
Vat payable = 10,000 X18/100

= shs 1,800

N.B total VAT payable from the 3 stages is 4,500 shillings

From the above, it is clear that though VAT is collected from the three stages, the one who bears the burden is the final consumer

EXAMPLE 2

Tracy a business trader imported goods worth 10,000shs.shs later sold them to the wholesaler at shs.120,000 who later sold them to retailer at shs 15,000.however a retailer finally sold them to the final shs 20,000 with VAT exclusive.

Required; a) Compute VAT paid at each stage of distribution

b)Determine the a mount of price at which the consumer bought the goods with VAT inclusive.

c) Compute VAT paid to URA.

VAT= VAT rate x value added.

Stage i) import stage = 18/100x10,000

=18,000shillings.

Stage ii Wholesale stage = 18/100x2000

=360shillings

Stage iv Retailer = 18/100 x3000

= 540shillings.

Stage v Consumer = 18/100x 5000

= 900 shillings

b) 20,000 +3600 shillings

= 23600shillings.

Therefore the Consumer bought the product at shs.23600 with VAT inclusive.

EXAMPLE THREE

Stage	Activity	Purchase price	Selling price
1	Imported at customs	20,000,000	20,000,000
2	Importer/Local distributor	20,000,000	24,000,000
3	Wholesaler	24,000,000	30,000,000
4	Retailer	30,000,000	40,000,000
5	Consumer	40,000,000	

Given the VAT rate as 18%. Calculate the VAT payable at each stage in the above table.

Stage 1: Valued added = shs 20,000,000

VAT payable = $\frac{18}{100}$ x 20,000,000

= 3,600,000 shillings

Stage 2: Value added = 24,000,000 – 20,000,000

= shs 4,000,000

VAT payable = $\frac{18}{100}$ x 4,000,000

Stage 3: Value added = 6,000,000 shillings

VAT payable = $\frac{18}{100}$ x 6,000,000

= 1,080,000 shillings

Stage 4: Value added = 10,000,000 shillings

VAT payable = $\frac{18}{100}$ x 10,000,000

= shs 1,800,000

Stage 5: VAT added = shs 40,000,000

VAT liability = $\frac{18}{100}$ x 40,000,000

= shs 7,200,000

EXAMPLE FOUR

K.K the producer sold goods to the wholesaler at shs 50m. The wholesale sold them to the retailer at shs 60,000,000. The retailer sold them to the final consumer at 70m, VAT exclusive.

i) Calculate the VAT chargeable at each stage.

ii) How much would the retailer have charged VAT inclusive?

Stage I: Producer

Value added = 50,000,000

VAT payable = $\frac{18}{100} \times 50{,}000{,}000$

= shs 9,000,000

Stage 2: Wholesaler

Value added = shs 10,000,000

VAT payable = $\frac{18}{100} \times 10{,}000{,}000$

= 1,800,000 shillings

Stage 3: Retailer

Value added = shs 10,000,000

VAT payable = 1,800,000shillings

Stage 4: Consumer

Value added = shs 70,000,000

VAT payable = $\frac{18}{100} \times 70{,}000{,}000$

= shs 12,600,000

ii) Retailer = shs 1,800,000 x $\frac{18}{118} \times 1{,}800{,}000 + 70{,}000{,}000$

= 71,800,000shs.

EXAMPLE FIVE

The following VAT exclusive transactions were availed to you by VAT registered business in your town for the month of December 2016

I. Rachael bought goods worth shs 80,000,000
II. Rachael sold the same goods to Penrose for shs 90,000,000
III. Penrose sold the same goods to Deborah a retailer for shs 100,000,000
IV. Deborah sold the same goods to the final consumer for shs 120,000,000

Required
Using the VAT Rate of 18%

I. Compute for the entrepreneurs the VAT chargeable for the value added at each stage
II. Advise Deborah on the gross value for her goods to the final consumer

Solution

Stage 1

VAT Payable = initial cost X VAT Rate

$$80{,}000{,}000 \text{ X } \frac{18}{100} = 14{,}400{,}000 \text{ shillings}$$

Stage 2

VAT Payable = Value Added X VAT Rate

Value added = (90,000,000 – 80,000,000) = 10,000,000 shillings

VAT Payable = 10,000,000 X $\frac{18}{100}$ = shillings 1,800,000

Stage 3

VAT Payable = Value Added X VAT Rate

Value Added = (100,000,000 – 90,000,000) = 10,000,000 shillings

VAT Payable = 10,000,000 X $\frac{18}{100}$ = 1,800,000 shillings

Stage 4

VAT Payable = value Added X VAT Rate

Value Added = (120,000,000 – 100,000,000) = 20,000,000

VAT Payable = 20,000,000 X $\frac{18}{100}$ = 3,600,000 shillings

(ii) Gross sales Value = selling price X VAT chargeable

$$\text{Shs } 120{,}000{,}000 + \frac{18}{100} \text{ X } 120{,}000{,}000$$

Gross value = 120,000,000 + 21,600,000 = shs 141,600,000

Deborah would be advised on the gross value as follows

- Deborah should include VAT chargeable in her selling price / determining her selling price
- Deborah should have sold her goods to the final consumer at shs 141,600,000 inclusive of VAT

EXAMPLE SIX.

a). The following VAT exclusive transactions were availed to you by VAT registered businesses in your community for the month of January 2016.

(i) Kagezi bought goods worth shs 60,000,000
(ii) Kagezi sold the same goods to Kadoma for shs 79,000,000
(iii) Kadoma sold the same goods to Murefu the retailer for shs 90,000,000
(iv) Murefu sold goods to the final consumer for shs 120,000,000.

Required;

(i) Compute for the entrepreneurs the VAT chargeable for the value added at each stage.
(ii) Explain five reasons for the low tax compliance in your country.

Solution.

a) VAT chargeable = VAT rate × value added

Stage 1: VAT chargeable $= \frac{18}{100} \times 60{,}000{,}000$
$=$ shs 10,800,000

Stage II: VAT chargeable $= \frac{18}{100} (79{,}000{,}000 - 60{,}000{,}000)$
$= \frac{18}{100} \times 19{,}000{,}000$
$=$ shs 3,420,000

Stage III: VAT chargeable $= \frac{18}{100} (90{,}000{,}000 - 79{,}000{,}000)$
$= \frac{18}{100} \times 11{,}000{,}000$
$=$ shs 1,980,000

Stage IV VAT chargeable $= \frac{18}{100} \times (120{,}000{,}000 - 90{,}000{,}000)$
$= \frac{18}{100} \times 30{,}000{,}000$
$=$ shs 5,400,000

ASSIGNMENT ONE.

You are an entrepreneur employing five workers who are entitled to allowances. List four examples of taxable employment allowances for your employees

b) In the month of July 2014, Joseph Mali had VAT exclusive transactions with VAT registered enterprises as follows:

Purchases	shs 1,800,000
Sales	shs 2,400,000

Calculate:

i) VAT paid to Uganda Revenue Authority by Joseph Mali (use 18% as VAT rate)
ii) Total purchase price (VAT inclusive) paid by Joseph Mali

ASSIGNMENT TWO

The following VAT exclusive transactions were availed to you by VAT registered businesses in your town for the month of May 2015,
(i) Masanso bought goods worth shs 60,000,000
(ii) Masanso sold the same goods to Kibooko for shs 88,000,000
(iii) Kibooko sold the same goods to Onzita a retailer for shs 96,000,000
(iv) Onzita sold goods to the final consumer for shs 120,000,000
Required
Assuming the VAT rate is 18%

(a) Compute for the entrepreneur VAT chargeable for value added at each stage and advice Onzita on the gross sales value for his goods to the final consume

ASSIGNMENT THREE.

KAMWESIGYE is a trader in Ntinda. His business is VAT registered. The following transactions appeared in her books for the Months of January 2016.

No.	PRODUCTS	PURCHASES (Shs)VAT Exclusive	SALES (Shs) VAT
1	Apples	4,000,000	9,000,000
2	Pineapples	4,500,000	6,500,000
3	Pawpaw	9,000,000	14,000,000
4	Mangoes	8,000,000	12,000,000
5	Oranges	12,000,000	18,000,000
		37,500,000	**59,500,000**

a) Use 18% as VAT rate. Calculate
   i. VAT paid by KAMWESIGYE on each type of product.
   ii. Compute VAT paid to URA.

b) The following VAT exclusive transactions were availed to you by VAT registered businesses in your community for the month of July 2014

- ✓ Musa bought goods worth shs 40,000,000
- ✓ Musa sold the same goods to Suba shs 58,000,000
- ✓ Suba sold the same goods to Mweso the retailer for shs 70,000,000
- ✓ Mweso sold the goods to the final consumer for shs 84,000,000

Required:

Using the VAT rate of 18%

(i) Compute for the entrepreneurs the VAT chargeable for the value added at each stage

(ii) Advise Mweso on the gross sales value for his goods to the consumer

VAT MECHANISM

Output Tax

This is the VAT a taxable person charges upon making taxable supplies i.e. tax charged upon selling taxable goods and services.

Input Tax

This is the VAT a taxable person is charged on taxable purchases and expenses incurred for business purposes. The purchases could be from local sources or imported.

This involves three items ie

i. VAT on purchase and expenses which is called input Tax
ii) VAT on sale which is called output Tax
iii) VAT liability which is output Tax – input Tax
iv) VAT refund which is input tax – output tax

NB. Where output Tax exceeds input Tax the tax payer pays the difference as VAT to URA, but where the input tax exceeds the output tax, the tax payer claims the difference as VAT Refund from URA

EXAMPLE

Ms. Nabuuma Oliver is a reknown retailer in Kikubo; she mainly deals in trading sugar from Kakira Sugar Uganda Ltd. In the month of February 2016 she bought 100 bags at shs 5,000,000 and resold all of them at shs 7,500,000

Calculate her input tax, output tax and VAT liability

(i) Input tax = $\frac{18}{100}$ X 5,000,000 = shs 900,000

(ii) Output tax = $\frac{18}{100}$ X 7,500,000 = shs 1,350,000

(iii) Tax liability = Output Tax – Input Tax

1,350,000 – 900,000

Tax liability = shs 450,000

VAT REFUND.

VAT REFUND. This means that the total sales made are less than the total purchases.In simple terms it means you sold less compared to was purchased

EXAMPLE.1

In January Mzee Ssenkubuge bought the same quantity of sugar, at the same price, but due to credit crunch, he only sold 50 bags at a total of shs 3,750,000. Calculate his estimated VAT refund payable as at January 2016

Solution

Input Tax = $\frac{18}{100}$ X 5,000,000 = shs 900,000

Output Tax = $\frac{18}{100}$ X 3,750,000 = shs 675,000

VAT Refund = input Tax – Output Tax

Shs 900,000 – shs. 675,000

VAT Refund = shs 225,000

EXAMPLE 2

In the month of July 2004. John Maria had VAT exclusive transactions with VAT registered enterprises as follow

i. Purchase 28,000,000

ii) Sales 3,400,000

Calculate his Vat paid to URA

i. Input Tax = Taxable value on purchases X VAT rate

= 28,000,000 X ??

Input tax = shs 5,040,000

ii) Output Tax = Taxable value on sales X VAT rate

= 3,400,000 X ??

Output Tax = shs 612,000

VAT refund = input Tax – Output Tax
5,040,000 – 612,000
VAT refund = shs 4,428,000

Circumstances under which VAT is refundable

- When input is greater than output tax. For instance if for a given period the input tax is shs 10,000,000 and the output tax is shs 4,000,000, then the difference of shs 6,000,000 would be refunded to the tax payer.
- When a taxpayer pays more than what was supposed to be paid, the excess is refunded. For example if one is supposed to pay shs 5,000,000 and it is discovered that the true tax was supposed to be shs 3,000,000, then the excess of shs 2,000,000 is refunded.
- When there is a proven bad debt. A bad debt for VAT refund considers the following
    - Should have been outstanding for a period of at-least two years
    - There should be proof that all necessary steps were taken to recover the money but no avail.
- When one loses the stock through fire, burglary and any other proven methods.

NOTE; WHEN THE VAT IS EXCLUSIVE

This means that the items given in the question they don't carry VAT.
Example

VAT INCLUSIVE. This means that the items given already carry VAT.

EXAMPLE ONE

Allan a wholesaler trader in Nakasero market made his purchases and sales during the month of September 2009 and it is as follows

No.	Items	Purchases (VAT exclusive)	Sales (VAT exclusive)
1.	150 bags of sugar	7,500,000	9,000,000
2.	10 boxes of soap	500,000	6,000,000
3.	300 carton of cooking oil	40,000,000	50,000,000
4.	100 bags of salt	2,000,0000	3,000,000
Total		**54,500,000**	**68,000,000**

Required
Calculate Allan's VAT liability
VAT liability = Output – Input Tax
Output Tax = Taxable Value on sale X VAT Rate
$68,000,000 \times \frac{18}{100}$
Output Tax = shs 12,240,000
Input Tax = Taxable value of purchases X VAT Rate
$54,500,000 \times \frac{18}{100}$
Input Tax = shs 9,810,000

VAT liability = Output Tax – Input Tax
= 9,810,000 – 12,240,000
VAT liability = shs 2,430,000

b) **When VAT Inclusive given by the formula:**

$$\frac{r}{r + 100}$$

Where **r** is the VAT rate.

Illustration

If the rate of tax (r) = 18% then the tax fraction = $\frac{18}{18+100} = \frac{18}{118}$. For example if the consideration (VAT inclusive) is Shs. 20,000, then VAT = 20,000 × 18/118 = Shs. 3,051.

EXAMPLE TWO

Buikwe Investments Ltd, a dealer in electronics made the following transactions during the month of December, 2017.

Goods	Purchases shs VAT inclusive	Sales shs VAT inclusive
Refrigerators	**30,000,000**	**50,000,000**
Water pumps	**25,000,000**	**29,500,000**
Hot plates	**20,000,000**	**26,300,000**
Photocopiers	**40,700,000**	**45,500,000**

i) Using VAT output and VAT input approach, calculate Buikwe Investment's VAT liability for each good.
ii) Calculate the total VAT liability.

i) VAT liability for each good

VAT liability = (Output – Input VAT) x $\frac{18}{118}$

Refrigerators = (50,000,000 – 30,000,000) x $\frac{18}{118}$ = shs 3,050,848

Water pumps = (29,500,000 - 25,000,000) x $\frac{18}{118}$ = shs. 686,441

Hot plates = (26,300,000 – 20,000,000) x $\frac{18}{118}$ = shs. 961,017

Photocopies = (45,500,000 – 40,700,000) x $\frac{18}{118}$ = shs. 732,203

ii) Total VAT Liability

= 3,050,848 + 686,441 + 961,017 + 732,203

= Shs. 5, 430,509

EXAMPLE THREE Given the following table

Item	Purchases VAT inclusive	Sales VAT exclusive
Sugar	7,850,000	9,000,000
Soap	5,900,000	6,000,000
Oil	47,200,000	50,000,000
Salt	2,300,000	3,000,000
Total	64,310,000	68,000,000

VAT payable = Output – Input VAT

Output VAT = $\frac{18}{100}$ x 68,000,000

Input VAT = $\frac{18}{118}$ x 64,310,000

= shs 9,810,000

VAT payable = 12,240,000 – 9,810,000

= shs 2,430,000

EXAMPLE FOUR

TONNY who deals in steel and hard ware his transaction during the month of August 2009

No	Items	Purchases (VAT inclusive)	Sales (VAT inclusive)
1	Ms plate	50,000,000	70,000,000
2	Iron bar	70,000,000	130,000,000
3	Angle bar	30,000,000	50,000,000
4	Hollow Section	80,000,000	150,000,000
Total		230,000,000	400,000,000

Calculate the Vat liability

VAT inclusive = $\frac{VAT\ RATE}{VAT+100}\ x\ VAT\ inclusive\ value$

Inputs = $\frac{18}{118}\ X\ 230{,}000{,}000$ = shs 35,084,746

Output = $\frac{18}{118}\ X\ 400{,}000{,}000$ = shs 61,016,949

VAT liability = output – input

61,016,949 – 35,084,746

Shs 25,932,203

ILLUSTRATION

Stage	Activity	Purchase price	Selling price
1	Imported at customs	20,000,000	20,000,000
2	Importer/Local distributor	20,000,000	24,000,000
3	Wholesaler	24,000,000	30,000,000
4	Retailer	30,000,000	40,000,000
5	Consumer	40,000,000	

Given the VAT rate as 18%. Calculate the VAT payable at each stage in the above table.

Stage 1: Valued added = shs 20,000,000

VAT payable = $\frac{18}{100}$ x 20,000,000

= 3,600,000 shillings

Stage 2: Value added = 24,000,000 – 20,000,000

= shs 4,000,000

VAT payable = $\frac{18}{100}$ x 4,000,000

Stage 3: Value added = 6,000,000 shillings

VAT payable = $\frac{18}{100}$ x 6,000,000

= 1,080,000 shillings

Stage 4: Value added = 10,000,000 shillings

VAT payable = $\frac{18}{100}$ x 10,000,000

= shs 1,800,000

Stage 5: VAT added = shs 40,000,000

VAT liability = $\frac{18}{100}$ x 40,000,000

= shs 7,200,000

ILLUSTRATION.

Study the table below and answer questions that follow.

Tax Payer	Taxable income (shs)	Tax liability (shs)
Okello Joseph	**25,000,000**	**3,500,000**
Akena Moses	**30,000,000**	**6,300,000**
Odong Charles	**25,500,000**	**5,250,000**

a) Calculate the tax rate for each payer.

Tax rate for each payer.

Akello Joseph

Tax rate = <u>Tax Liability</u> x 100

$$= \frac{3{,}500{,}000}{25{,}000{,}000} \times 100$$

$$= \underline{\underline{14\%}}$$

Akena Moses

$$\text{Tax rate} = \frac{\text{Tax Liability}}{\text{Taxable income}} \times 100$$

$$= \frac{6{,}300{,}000}{30{,}000{,}000} \times 100$$

$$= \underline{\underline{21\%}}$$

Odongo Charles

$$\text{Tax rate} = \frac{\text{Tax Liability}}{\text{Taxable income}} \times 100$$

$$= \frac{5{,}250{,}000}{25{,}500{,}000} \times 100$$

$$= \underline{\underline{20.6\%}}$$

INDIVIDUAL INCOME TAX

Individual income tax. This tax is imposed on the chargeable income of an individual. Chargeable income is derived from gross income

Gross income: there are three sources of income under the Income Tax Act.

i. Business income
ii) Employment income
iii) Property income

Business income . Is any income derived by a person from carrying on a business and also includes a gain on disposal of a business asset.

Employment income is income earned by an employee from any employment and includes wages, salary, leave pay, payment in lieu of leave, overtime pay, commission, gratuity, bonus or the amount of any travelling, entertainment, utilities, cost of living, housing, medical or other allowance and the value of benefits granted.

Property income includes any dividends, interests, annuity, and natural resources payments, rents, royalties and any other payments derived by a person from the provision, use, or exploitation of property.

The sum of the income from all the three sources above is referred to as gross income. This excludes income that is exempt from tax.

INCOME TAX

Is direct tax imposed on a person's income at specific rates for a given period of time. It is charged on every person who has chargeable income for each year of income.

Chargeable income of a person for a year of income is the gross income of the person for the year of income less total allowable deductions.

Computation of chargeable income

Employment income	Shs
Basic salary	xxx
Add other allowance	
Bonus pay	xxx
Loan benefit	xxx
Transport allowance	xxx
Medical allowance	xxx
Chargeable employment income	xxx

Example 1

IVAN is a resident individual. He earned the following income during the year ended 2015.
Property income shs 120,000,000
Employment income shs 80,000,000
Business income from his whole sale shop in Kawanda shs. 250,000,000

quired Compute Ivan's **gross income**

Solution

Property income	120,000,000
Employment income	80,000,000
Business income	250,000,000
Gross income	**450,000,000**

EXAMPLE2

Ms Kirabo Susan a resident of Lungala earned income from different sources in the year 2008 as indicated below.

Business income shs 1,000,000, employment income shs 2,400,000, property income shs 500,000, In addition, he incurred expenses totaling to 1,200,000 shs to earn the income, shs 150,000 is exempted from tax. Determine Ms Kirabo's gross income and her chargeable income

Solution

(i) Gross Income = Total Income – Tax exempted income
But Total income = Business income + employment income + property income
1,000,000 + 2,400,000 + 500,000

Gross income = 3,900,000 – 150,000 = **shs 3,750,000**

(ii) Chargeable income = Gross Income – Expense

3,750,000 - 1,200,000

Chargeable income **= shs 2,550,000**

EXAMPLE 3

Marvin earned income from different sources for the year 2013
Business income shs 2,000,000
Employment income shs 4,800,000
Property income shs 100,000
In addition, he incurred expenses and losses amounting to shs 2,400,000. A total of shs 300,000 out of the income is tax exempt
Required: determine Marvin's Gross Income and Chargeable income (i)
Gross Income = Total Income – Tax exempted income

But Total income = Business income + employment income + property income
Shs 2,000,000 + shs 4,800,000 + shs 100,000
Total income = shs 6,900,000
Gross Income = shs 6,900,000 – shs 300,000
Gross income = **shs 6,600,000**

(ii) Chargeable income = Gross Income – Expense
Shs 6,600,000 – shs 2,400,000
Chargeable income = **shs 4,200,000**

EXAMPLE 4

1. SID earned income from the following sources for the year 2015.

   Business income shs 1,000,000

Employment income shs 2,400,000

Property income shs 500,000

In addition he incurred shs 1,200,000 as expenses and loss.

Tax exempt amounted to shs 150,000

Calculate

(i) SID's gross income

(ii) SID's chargeable income

(iii) SID's tax liability

i) Gross income = Total income – Tax exempt income

Business income + Employment income + Property income

Total income = 1,000,000 + 2,400,000 + 500,000

= Shs 3,900,00

Gross income = 3,900,000 – 150,000

= shs 3,750,000

ii) Chargeable income = Gross income – Expenses & Losses

= 3,750,000 – 1,200,000

= shs 2,550,000

Monthly chargeable income = $\frac{2,550,000}{12}$

= 212,500 shillings

iii) Tax liability = Nil

EMPLOYEES RELIEF / EXEMPT EMPLOYMENT INCOME

This refers to gains or income that is not included in chargeable income and therefore not taxable. Such income include;

- Pension; pension is tax exempt
- Medical expenses or discharge
- Life insurance
- Meals and refreshment (if provided in equal terms to all employees)
- NSSF contributions
- Services of security guards
- Allowances paid to a member of parliament except salary

- Terminal benefit for a worker who has provided services for a period of ten years
- Non cash benefit whose value is below 10,000

Taxable benefits for a tax payer

These are benefits that are subjected to taxation. They include the following;

- Housing / accommodation allowance
- Transport allowance
- Medical allowance
- Holiday allowance / leave allowance
- Entertainment allowance
- Training allowance
- Bonus pay
- Interest benefit
- Motor vehicle benefit
- Loan benefit
- House keeper allowance
- ? Etc (make more research)

Computation of chargeable income

Employment income	Shs	Tax Treatment
Basic salary	xxx	Taxable
Add other allowance		
Bonus pay	xxx	Taxable
Loan benefit	xxx	Taxable
Transport allowance	xxx	Taxable
Medical allowance	xxx	Taxable
Chargeable employment income	xxx	

ASSIGNMENT 1

TONNY earned income from different sources for the year 2017 as shown below.

Business income	shs.2000,000
Employment income	Shs.4800,000
Property income	Shs.1000,000

In addition, he incurred expenses and losses amounting to shs.2400,000
Atotal of shs.300,000 out of gross income was tax exempt.

Required; Calculate his

i) Gross income
ii) Chargeable income
iii) Tax liability.

ASSIGNMENT 2.

TRINNA earned income from different sources for the year 2018.

- Business income 100,000

-Property income 500,000

In addition she incurred expenses and losses amounting to shs 12,000 .shs.150,000 out of that income is tax exempt.

Required

i)Gross income of the year

ii)Chargeable income.

PAY AS YOU EARN-PAYE AS AN INDIVIDUAL TAX.

This is a form of direct tax charged from individuals monthly income such as salary.

There are prescribed rates set by U.R.A depending on the amount of money earned monthly.

THE TABLE BELOW SHOWS PAYE TAX RATES AS PRESCRIBED BY U .R.A.

	Chargeable monthly Income	**Tax rate**
1	Not exceeding shs 235,000	Nil
2	Exceeding shs 235,000 but not exceeding shs 410,000	10% of the amount by which chargeable income exceeds shs 235,000
3	Exceeding shs 335,000 but not exceeding shs 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000
4	Exceeding shs 410,000	Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000

Required:

EXAMPLE 1

MK earns shs 335,000 per month as gross pay. Calculate

i) Chargeable income

ii) Income tax liability

i) Chargeable income = shs 335,000

Taxable income = Chargeable income– Threshold

= 335,000 – 235,000

= 100,000 shillings

ii) Income tax liability = $\frac{10}{100}$ x 100,000

= 10,000 shillings

EXAMPLE2

Alex is employed as a security guard and earns shs 419,000

Tax payable = Tax rate x Taxable income

= 25,000 + $\frac{30}{100}$ (419,000 – 410,000)

= 25,000 + $\frac{20}{100}$ (65,000)

= 100 + 13,000

= shs 23,000

EXAMPLE 3

2. SARAH has an annual income of shs 9,600,000 Calculate the total income remittance by the employer to URA on behalf of the employee.

Tax payable for SARAH= Tax rate x Taxable income

Total income = $\frac{9,600,000}{12}$

= shs 800,000

Tax payable = 25,000 + $\frac{30}{100}$ (800,000 – 410,000)

= 25,000 + $\frac{30}{100}$ (390,000)

$= 25,000 + 117,000$

$= \text{shs } 142,000$

$\therefore$ Total remittance = 142,000

2. a) The table below shows the monthly PAYE tax rates in Uganda.

Monthly income	Tax rate/liability
Not exceeding shs 235,000	Nil (zero)
Exceeding shs 235,000 but not exceeding shs 335,000	10% of the amount by which chargeable income exceeds shs 235,000
Exceeding shs 335,000 but not exceeding shs 410,000	Shs 10,000 + 20% of the amount by which chargeable income exceeds shs 335,000.
Exceeding shs 410,000	a) Shs 25,000 + 30% of the amount by which chargeable income exceeds shs 410,000. b) Where chargeable income exceeds shs 10,000,000, an additional 10% is charged on incomes exceeding shs 10,000,000.

Calculate the monthly PAYE payable by the following employees who earned the following incomes in the month of March 2017.

(i)	Malaika	shs 235,000
(ii)	Madaraka	shs 400,000
(iii)	Mkubwa	shs 600,000
(iv)	Mkuu	shs 11,000,000

Solution.

b) Monthly PAYE payable

(i) Malaika = NIL. This is because his salary does not exceed the threshold.

(ii) Madraka $= 10,000 + \frac{20}{100}(400,000 - 335,000)$

$= 10,000 + \frac{20}{100} \times 65,000$

$= 10,000 + 13,000$

$= \text{shs } 23,000$

(iii) Mkubwa $= 25,000 + \frac{30}{100}(600,000 - 410,000)$

$= \quad 25{,}000 + \frac{30}{100} \times 190{,}000$

$= \quad 25{,}000 + 57{,}000$

$= \quad$ shs 82,000

(iv) Mkuu $= \quad 25{,}000 + \frac{30}{100}(11{,}000{,}000 - 410{,}000) + \frac{10}{100} \times 1{,}000{,}000$

$= \quad 25{,}000 + 3{,}177{,}000 + 100{,}000$

$= \quad$ shs 3,302,000

EXAMPLE FOUR.

a) Equity Holding Limited employs Martha, Eric, Francis and Dianah earning on annual salary of shs 2,400,000, shs 2,820,000, shs 3,360,000 and shs 4,800,000 respectively. In addition, the company pays each employee shs 60,000 and shs 40,000 per month as transport and medical allowance respectively.

Given the income (PAYE) tax rates as follows

	Chargeable monthly Income	**Tax rate**
1	Not exceeding shs 235,000	Nil
2	Exceeding shs 235,000 but not exceeding shs 410,000	10% of the amount by which chargeable income exceeds shs 235,000
3	Exceeding shs 335,000 but not exceeding shs 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000
4	Exceeding shs 410,000	Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000

Required; calculate the PAYE tax liability for;

(i) Martha

Gross income = Total income – Tax exempt income

Total income = $\frac{2,400,000}{12} + 60,000 + 40,000$

= 200,000 + 60,000 + 40,000

= shs 300,000

Chargeable income = Gross income – Expenses and losses

= shs 300,000

Taxable income = Chargeable income – Threshold

= 200,000 – 235,000

= shs 6,500

(ii) Eric

Gross income = Total income - tax exempt income

Total income = $\frac{2,8200,000}{12} + 60,000 + 40,000$

= 200,000 + 60,000 + 40,000

= shs 235,000

Chargeable income = Gross income – Expenses and losses

= shs 235,000

Taxable income = Chargeable income – Threshold

= 235,000 – 100,000

= shs 235,000

Tax liability = $\frac{10}{100} + 235,000$

= shs 23,500

(iii) Francis

Gross income = Total income - tax exempt income

Total income = $\frac{3,360,000}{12} + 100,000$

= 280,000 + 100,000

= shs 380,000

Taxable income = Chargeable income – Threshold

= 380,000 – 335,000

= shs 45,000

Tax liability = $\frac{20}{100} + 45{,}000$

= shs 19,500

(iv) Dianah

Gross income = Total income - tax exempt income

Total income = $\frac{4{,}800{,}000}{12} + 100{,}000$

= shs 500,000

Taxable income = Chargeable income – Threshold

= 500,000 – 410,000

= shs 90,000

Tax liability = $\frac{30}{100} + 90{,}000 + 25{,}000$

= shs 52,000

= shs 71,100,000

b) JB wholesalers bought goods worth shs 680,000 inclusive VAT and sold them at shs 1,500,000 exclusive VAT. Given VAT exclusive as 18% and VAT inclusive as $\frac{18}{118}$

i) Calculate VAT payable by JB wholesalers

VAT payable = $\frac{18}{118}$ x $680{,}000$

= shs 103,728.8136

ii) Calculate the value of sales, VAT inclusive

VAT = $\frac{18}{118}$ x $1{,}500{,}000$

= shs 270,000

Value of sales = VAT + 1,500,000

= 270,000 + 1,500,000

= 1,770,000 shillings

EXAMPLE FIVE.

a) The following VAT exclusive transactions were availed to you from the records of VAT registered business dealing in electrical appliances.

(i) Bob electrical bought goods at shs 10,000,000

(ii) Bob electrical sold the same goods to MK electrical, a wholesaler at shs 11,500,000

(iii) MK electrical sold the goods to mercy electronics a retailer at shs 13,300,000

(iv) Mercy electronics sold the same goods to Kafuko a final consumer at shs 14,500,000

Required;

(i) Compute the VAT at each stage

Stage (i) 18% of 10,000,000

$=\frac{18}{100}$ x 10,000,000

= shs 1,800,000

Stage (ii) 18% of (11,500,000 – 10,000,000)

$= \frac{18}{100}$ x 1,500,000

= shs 270,0000

Stage (iii) 18% of (13,300,000 – 11,500,000)

$= \frac{18}{100}$ x 1,800,000

= shs 324,000

Stage (iv) 18% of (14,500,000 – 13,300,000)

$= \frac{18}{100}$ x 1,200,000

= shs 216,000

(ii) Assuming a business VAT on sales shs 2,600,000 and VAT on purchase shs. 3,000,000. Calculate and comment on the VAT liability

VAT liabilities = Output – Input VAT

= 2,600,000 – 3,000,000

= (shs 400,000)

$\therefore$ URA paid back shs 400,000 to the business.

b) Chargeable income

Chargeable income = Annual income – expenses

But expenses = $\frac{20}{100} + 92{,}400{,}000$

= shs 18,480,000

Chargeable income = 92,400,000 – 18,400,000

= shs 73,920,000

c) Rental tax liability

Rental tax liability = $\frac{20}{100}$ (Chargeable income – Threshold)

$= \frac{20}{100} + (73{,}920{,}000 - 2{,}829{,}000)$

ASSIGNMENT.ONE

The following are employees of **Mukwano Group of Companies** with their respective salaries

Employee Name	Salary
Sharon	150,000
Stella	280,000
Sandra	380,000
Shiba	600, 000

a)Compute the a mount of monthly P.A.Y.E Paid by the a bove employees.

b)Determine Shiiba's Annual P.A.Y.E

ASSIGNMENT TWO.

MELISA is an employee of SMILE TRADERS where she earns total gross salary of shs.8400,000 per year.This means that MELISA earnings fall under the 4th income bracket as indicated below.

4th income tax bracket	Rate Per month.
Shs.410,000 per month and a bove	Shs.25000+30%0f the a mount that exceed 410,000

Required.

Calculate the amount of PAYE paid by MELISA for the year

ASSIGNMENT

Qn NAMUSOKE is an employee of an NGO and she earns Shs 8,000,000 per year. The company uses monthly pay tax rates below to calculate PAYE deductions.

MONTHLY CHARGEABLE INCOME (Shs)	RATE OF TAX
0 – 235,000	NIL
235,000 – 335,000	10% of the amount by which chargeable income exceeds Shs 235,000
335,000 – 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds Shs 335,000
410,000 – 10,000,000	i. Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000 ii. Above Shs 10,000,000, charge additional 10%

Calculate NAMUSOKE's monthly PAYE deductions.

TAXATION OF PROPERTY INCOME

RENTAL TAX This is a form of direct tax charged on immovable property like land,buildings e.t.c

Rental income is defined as income earned by a person from letting out property on commercial terms.

Rent means payment including a premium or like amount, made as consideration for use or occupation of, or the right to use or occupy, land or buildings

Sources of rental income

- Commercial buildings
- Land (plots, gardens or swamps
- Royalties (murram, minerals, stones, rocks, etc)

Treatment of rental income tax of an individual and a company

The difference in tax treatment of rental income earned by an individual and company as follows

- An individual enjoys a threshold of shs 2,820,000 whereas a company enjoy no threshold
- Rental income earned by individual is subjected to 20% tax rate whereas for a company it is subjected to 30% tax rate.
- An individual is granted 20% of gross rental income as allowable deductions whereas a company is entitled to deductions on actual basis, that is allowable expenses incurred.

COMPUTATION OF RENTAL TAX

NOTE THE FOLLOWING WHEN COMPUTING RENTAL TAXES.

- Rental tax is only charged on immoveable property i.e. land and buildings.
- Rental tax is charged on property within Uganda.
- 20% of annual rental income is subtracted representing expenses and losses incurred to earn the rental income.

All other expenses and losses incurred are ignored.

- Rental tax is calculated on an annual basis.
- The threshold for rental tax is 2,820,000
- The tax rate for rental tax is 20% of chargeable rental income in excess of the threshold.
    - Rental income = $\frac{20}{100}$ (Chargeable rental income – Threshold)
    - Chargeable annual = Annual Gross Rental Income – Expenses & losses
    - Expenses & losses = $\frac{20}{100}$ (Annual Gross Rent income)

EXAMPLE ONE

i. Peter earned shs 2,500,000 as annual rent income from his house. Calculate his rental tax

Rent tax = $\frac{20}{100}$ (Chargeable rental income – Threshold)

But chargeable rental income = Annual Gross rent income – expenses

But expenses & losses = $\frac{20}{100}$ (Annual Gross Rent income)

= $\frac{20}{100}$ (2,500,000)

= 500,000

Chargeable income = 2,500,000 – 500,000

= shs 2,000,000

Rental tax = Nil.

ii. A land lord earned shs 6 million from his buildings shs. 2 million from his taxis and he spent shs 500,000 to paint the buildings during the year. Calculate the rental tax payable.

Rent tax payable = $\frac{20}{100}$ (Chargeable income - Threshold)

But chargeable income Annual gross rental income – expenses & losses

But expenses & losses = 6,000,000 x $\frac{20}{100}$

= shs 1,200,000

Chargeable income = 6,000,000 – 1,200,000

= shs 4,800,000

Rental tax payable = $\frac{20}{100}$ (4,800,000 – 2,820,000)

= $\frac{20}{100}$ (1,980,000)

= shs 396,000

EXAMPLE TWO

iii. Francis is land lord with study tenants and earned rental incomes from his house below for the year ended 31st December 2015.

Location	Monthly rent (shs)	Monthly expenses (shs)

Banda	8,300,000	250,000
Mutungo	9,400,000	360,000
Kireka	7,200,000	630,000

Annual gross income = 83,000,000 + 112,800,000 + 84,400,000

= shs 282,200,000

Expenses = 282,200,000 x $\frac{20}{100}$

= 56,440,000 shillings

Total chargeable income = Annual gross income – expenses

= 282,200,000 – 56,440,000

= shs 225,760,000

Rental tax payable = $\frac{20}{100}$ (Chargeable – Threshold)

$= \frac{20}{100}\ (225{,}760{,}000 - 2{,}820{,}000)$

= shs 44,588,000

EXAMPLE THREE

Ms. Nyaketcho Martin and Ms Logose Delilah own a building in Busega that belonged to their late brother Muganga Anthony; they earn 4,500,000 shs as rental income from this building. The tax rate for rental tax is 20% of the chargeable rental in excess of the threshold which is shs 2,820,000

Calculate their rental tax payable

Solution

Rental income	shs 4,500,000
Less provision for loss 20% X 4,500,000 =	shs 900,000
Chargeable income = (4,500,000 – 900,000) =	**shs 3,600,000**
Less threshold	shs 2,820,000
Chargeable income	Shs 780,000
Rental tax payable (20% X 780,000)	shs 156,000

EXAMPLE FOUR

Musoke earned shs 6,500,000 as rental income from his house located in Kampala. Compute his rental tax

Rental income		shs 6,500,000
Less provision for loss 20% X 6,500,000 =		shs 1,300,000
Chargeable income (6,500,000 – 1,300,000)		shs 5,200,000
Less threshold		shs 2,820,000
Taxable rental income		Shs 2,380,000
Rental tax	(20% X 2,380,000)	shs 476,000

Question

a) Alpha, a resident individual operates rental properties in the financial year ended December 2018. He received shs 17,500,000 as rent revenue
Required
Using allowable deductions and tax rate below

i. Gross rental income
ii. Taxation rental income
iii. Tax liability for the year 2018

Allowable deductions

- 20% as statutory expenses in gross income
- Shs 2,820,000 as tax free allowance

Solutions

Rental income		shs 17,500,000
Less provision for loss 20% X 17,500,000 =		shs 3,500,000
Chargeable income (6,500,000 – 1,300,000)		shs 14,000,000
Chargeable income		shs 14,000,000
Less threshold		shs 2,820,000
Taxable rental income		Shs 11,180,000
Tax liability		
Rental tax		(20% X 11,180,000)
	Tax liability	shs 2,236,000

20. X 10,000,000 = shs 2,000,000 Therefore balance = (10,000,000 – 2,000,000) = shs 8,000,000

Step 3: deduct Threshold (2,820,000)
8,000,000 – 2,820,000 = shs 5,180,000

Step 4: determine rental tax at 20%
20. X 5,180,000 = shs 1,036,000

Rental tax for companies

Step 1: determine the total annual gross rents from all sources of the company.
Say shs 120,000,000
Step 2 : deduct all expenses incurred in the production of the rental income, say expenses = shs 65,000,000
Therefore
Chargeable rental income = 120,000,000 – 65,000,000 = shs 55,000,000
Step 3: determine rental tax at 30%
= 30% X 55,000,000 = shs 16,500,000

ASSIGNMENT.ONE.

Mr Mukasa is a land lord SABA SABA shopping mall in Kampala. He earns annual rental income of shs.3000,000. Use 20% as the rental tax rate and 20% for losses and expenses.

Required. Determine rental tax.

ASSIGNMENT TWO

TINA earns shs.5000,000 as rental income from her house located from Kyengera.
Computer her Rental tax.

ASSIGNMENT THREE

Lucy has a flat in Kampala city, where she earns shs 72,000,000 as a rental income a year. Given that the rental tax rate is 20% provision for 20% and threshold is shs 2,820,000. Calculate (i) Lucy's rental tax (ii) Net rental income

ASSIGNMENT FOUR.

QN.BUKIRWA owns a house in Kamwokya town where she earns rental income of Shs 28,000,000 a year.
-Use 20% as provision for expenses and losses of the total rental income
-Use Shs 1,560,000 as Tax Threshold
-Use 20% as rental income tax rate.
Calculate.

i. Chargeable rental income.
ii. Rental income tax.
iii. Net rental income.

INTERNATIONAL TAXES.

NON TAX REVENUE

Non tax revenue in Uganda collected by URA includes stamp duty and other government non- tax revenue

Stamp duty. This is a duty payable on all the instrument of the schedule of stamps executed or signed in Uganda. Such instruments include transfer of land, Mortgages and agreements.

Stamp duty chargeable is transfer of land of 1. 5 % of the value of land. The value of land is determined by the chief valuer of government in the ministry of lands. Stamp duty on mortgages is 0.5% of the value while stamp duty on agreement, letter of credit, caveat etc is at a fixed rate of shs 10,000 ie it doesn't vary with the amount in the agreements and others.

Question 1

Ms Nabunya purchased land at plot 25 Kampala Road for shs 5,000,000. The land has been valued by the chief government valuer at shs 7,500,000. You are required to compute the stamp duty payable

Solution

Stamp duty payable = 1.5 % X 7,500,000

Stamp duty payable = shs 112,500

Question 2

Ms Nalwoga Rachael and Ms Batambuliza Doris have signed a mortgage with Stanbic Bank Ltd for shs 10,000,000 they borrowed, calculate their stamp duty

Solution

Stamp duty = 0.5% X 10,000,000

Stamp duty = shs 50,000

Import duty

On entering Uganda, goods are declared on the entry which is issued by URA on a prescribed format.

The assessment process would involve the following

a) Determination of the customs value. This is based on cost insurance and freight value (CIF)
b) Determination of tax payable using the tax rates as designed in the customs tariffs contained in the Customs External Tariffs (CEF)
c) Examination of the goods and if satisfied with the valuer and documentation, the goods are released

Imported goods normally pay the following

i) Import duty

ii) Excise duty
iii) Value added tax
iv) Withholding tax

Environmental levy (CIF X rates) – a levy imposed on old vehicles being imported into the country which are more than 5 years old from the date of manufacture.

Item	Current
Motor vehicles (excluding goods vehicles) which are between 5 -10 years	35 % of the CIF value
Motor vehicles (excluding goods vehicles) which are 10 years or more	50% of the CIF value

Computation of customs duties and taxes

In January 2005 Uganda a member of EAC, a regional economic body referred to as the customs union comprising of Uganda, Kenya, Tanzania and today Rwanda. The EAC agreed to establish a common external tariff (CEF) for all goods and services outside the region and this has three tax bonds ie 25%, 10% and 0%

Question 1

Mr. Lwanga Hamza imports goods from Dubai at a CIF value of 100 US dollars, attracting an import duty of 10% in order to derive the custom duty, its necessary to convert US Dollars into Ugandan shillings by applying the current exchange rate. Assuming the current exchange rate is 1 US Dollar = 2,250

(i) assuming the trader had to pay VAT 18%, an excise duty 60% and withholding tax 6%

Calculate the total amount payable

Step 1
Convert CIF value in US $ to Uganda shillings
Custom value = CIF X exchange rate
Custom value = 100 US $ X 2,250
Custom value = shs 225,000

Step 2
Deriving import duty
Duty rate = 10 % of custom value
Import duty = $\frac{10}{100}$ X 225,000
Import duty = shs 22,500

Step 3 Excise duty
Excise duty value = custom value + import duty
Excise duty value = 225,000 + 22,500

Excise duty value = shs 247,500
Excise duty = 60% 0f excise duty value
Excise duty = $\frac{60}{100}$ X 247,500
Excise duty = shs 148,500

Step 4 Value Added Tax (VAT)
Vat rate = 18%
VAT value = custom value + import duty + excise duty
VAT value = 225,000 + 22,500 + 148,500
VAT value = shs 396,000
VAT = $\frac{18}{100}$ X 396,000
VAT = shs 71,280

Step 5 withholding tax
Withholding Tax = 6% of custom value
Withholding Tax = $\frac{6}{100}$ X 225,000
Withholding Tax = shs 13,500

Total Tax payable = import duty + excise duty +VAT +withholding Tax
Total Tax payable = 22,500 + 148,500 + 71,280 +13,500
Total Tax payable = shs 255,780

Question 2
Mr. Tugume imported a car from South Africa at USD 1,200 (the car is 6 years old). Freight charges to Mombasa were USD 800. Insurance to Mombasa was USD 200. Compute the taxes and duties payable by the owner (use rate 1 USD = 3,650 shs). Where import duty is 25%, Vat is 18% and withholding tax is 6%, environmental levy is 35%
Solution
Determination
CIF to Mombasa

Cost (1,200 X 3650)	4,380,000	
Freight (800 X 3,650)	2,920,000	
Insurance (200 X 3,650)		730,000
CIF		8,030,000
Taxes payable		
Import Duty (25% of CIF) = 25% X 8,030,000	2,007,500	
VAT (18%) (8,030,000 + 2,007,500) X 18%	1,806,750	
Environmental levy (35% X 8,030,000)	2,810,500	
WHT (6%) (6% X 8,030,000)		481,000
Total taxes		
		7,106,550

Question 3

Mr. Mukasa imported a used motor van from japan in the month of June 2013. The motor van (FOB) was a land cruiser model 2000 invoiced at USD 12,000 free on Board (FOB) Tokyo, japan. Shipment costs from japan to Mombasa were USD 1,000 and insurance of USD 500 on board Mombasa.

The additional information relating to the transaction includes

- The ruling exchange rate as per Uganda Revenue Authority of 1 USD = shs 2,540.
- Import duty fee rate at 25%
- Environmental levy at 20% for used vehicles older than 8 years from the date of manufacture.
- VAT is 18%
- WHT is 6%
- Vehicle registration fees of shs 1,018,000

Compute the necessary taxes payable at registration

Computation of CIF

Cost	Ugandan shillings
FOB (1,200 X 2,540)	30,480,000
Shipment (1,000 X 2,540)	2,540,000
Insurance (500 X 2,540)	1,270,000
CIF or customs value	***34,290,000***

Computation of taxes due

Description	Amount for tax	Rate	Tax
CIF	34,290,000		
Import duty (34,290,000 X25%)	34,290,000	25%	8,572,500
VAT (34,290,000 + 8,572,500) X 18%	42,862,500	18%	7,715,250
Withholding tax	34,290,000	6%	2,057,400
Environmental levy	34,290,000	20%	6,858,000
Vehicle registration fees			1,018,000
Total tax and charges for registration			***26,284,150***

Question 4

Kyagulanyi and sons ltd deals in the importation resell and sometimes export of sugar. During the month of December 2011, the company imported 1,000 bags of sugar from UAE of 50kgs per bag.

The cost of the sugar was USD 35,714. The cost of transporting sugar from UAE to Mombasa was USD 4,000 and insurance costs of USD 400 from Dubai to Mombasa, Kenya and USD 200 from Mombasa to Kampala. The import rates of sugar were as follows

- Import duty – 75%
- Excise duty shs 25 per kg
- VAT – 18%
- Withholding tax – 6%. The company is exempted from WHT 6% on imports
- URA imports exchange rate for December 2011 was 1USD = 2,800 Uganda shillings

Tax is computed based on cost, insurance and freight (CIF) value. The freight value considered is up to Mombasa.

Required:

a) Using the above information, compute the tax payable by Kyagulanyi and sons ltd to URA customs

b) Uganda is a member of the East African community customs Union and common market. Currently, goods produced within any member state enjoy 0% import duty rate on importation. Suppose the sugar is imported by Kyagulanyi and sons limited was manufactured in Kenya, compute the tax that would be paid by Kyagulanyi and sons ltd on importation

Solution

Description	USD	shs
Cost (35,714 X 2,800)	35,714	99,999,200
Insurance (400 X 2,800)	400	1,120,000
Freight (4,000 X 2,800)	4,000	11, 200,000
CIF value	40,114	112,319,200

Computation of taxes due		
Import duty (75% X 112,319,200)	84,239,400	
Excise duty (shs 25 X 50kg X 1,000)		1,250,000
VAT value (CIF + ID + ED)	197,808,600	
VAT (18%)	35,605,548	
Total taxes paid	***121,094,948***	

b)

description		USD	shs
cost		35,714	99,999,200
insurance		200	560,000
freight	-		-
CIF value		35,914	100,559,200
Computation of taxes due			
Import duty		-	-
Excise duty			1,250,000
VAT			18,325,656
Total taxes			***19,575,656***

Sample Questions

1 a) Explain the principles of a good tax system
 b) Why are taxes imposed on firms and individuals in Uganda?
2 a) Distinguish between direct and indirect taxes
 b) Explain the challenges facing taxation in Uganda
3 a) Explain characteristics of a good tax system
 b) Give merits and demerits of direct taxes
4 a) Distinguish between tax compliance and tax incidence
 b) Discuss the advantages and disadvantages of tax compliance
5 a) Describe the factors that affect tax compliance in Uganda
 b) What measures that can be undertaken to encourage the citizens of a country to pay tax
6 a) Distinguish between impact of a tax and tax burden
 b) Discuss possible solutions to the problems of taxation in Uganda

c) Lucy has a flat in Kampala city, where she earns shs 72,000,000 as a rental income a year. Given that the rental tax rate is 20% provision for 20% and threshold is shs 2,820,000. Calculate (i) Lucy's rental tax (ii) Net rental income

d) kiyenge ltd is a retailer dealing in domestic appliances. In June 2014 he purchased appliances worth shs 7,500,000 exclusive of VAT. The company sold the same at shs 11,000,000 also exclusive of VAT.

Required

a) Determine the value Added
b) Determine the VAT payable or claimable.

e) Basajjakambwe enterprises purchased stationary worth shs 600,000 and incurred rent of shs 2,600,000 in May 2010. He made sales of shs 790,000 in the same month. All figures were VAT inclusive.

Required

Determine VAT payable / claimable.

Question

a) NALUBEGA SOPHIA owns 12 double roomed houses in Ndejje from which she collects shs 400,000 from each on a monthly basis given 20% the rental income tax rate and shs 2,820,000 as threshold. Help her to. Calculate
  i. Net chargeable rental income
  ii. Rental tax liability

b) Mukasa a wholesaler dealing in the supply of generators bought 5 generators at shs 59,000,000 and sold all of them at shs 118,000,000 all values are VAT inclusive. Using a VAT rate of 18%. Calculate
  i. VAT paid to Uganda Revenue Authority
  ii. The total cost of the generator VAT exclusive
  iii. Give four principles of a good tax system.

Question

Muwonge a cotton ginner sold 10 bales of cotton to Nyanza textile at shs 10,000,000. Nyanza textiles produced bed sheets out of the cotton and sold them to Merowoma ltd (a wholesaler) at shs 17,500,000. Merowoma ltd sold to Meme Joy (a retailer) at shs 22,500,000. Meme Joy sold all the bed sheets to various customers and the total sales were shs 30,000,000.

N.B: all figures are VAT exclusive and the VAT rate applicable is 18%.

Required.

a) Determine the total VAT payable through the process / trial.
b) Compare your answer with the VAT Meme joy (the retailer) collects from her customers.

Question

KAMWESIGYE is a trader in Ntinda. His business is VAT registered. The following transactions appeared in her books for the Months of January 2016.

No.	PRODUCTS	PURCHASES (Shs)VAT Exclusive	SALES (Shs) VAT
1	Apples	4,000,000	9,000,000
2	Pineapples	4,500,000	6,500,000
3	Pawpaw	9,000,000	14,000,000
4	Mangoes	8,000,000	12,000,000
5	Oranges	12,000,000	18,000,000
		37,500,000	**59,500,000**

b) Use 18% as VAT rate. Calculate
   iii. VAT paid by KAMWESIGYE on each type of product.
   iv. Compute VAT paid to URA.

NAMUSOKE is an employee of an NGO and she earns Shs 8,000,000 per year. The company uses monthly pay tax rates below to calculate PAYE deductions.

MONTHLY CHARGEABLE INCOME (Shs)	RATE OF TAX
0 – 235,000	NIL
235,000 – 335,000	10% of the amount by which chargeable income exceeds Shs 235,000
335,000 – 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds Shs 335,000

410,000 – 10,000,000	iii. Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000 iv. Above Shs 10,000,000, charge additional 10%

Calculate NAMUSOKE's monthly PAYE deductions.

c) BUKIRWA owns a house in Kamwokya town where she earns rental income of Shs 28,000,000 a year.
-Use 20% as provision for expenses and losses of the total rental income
-Use Shs 1,560,000 as Tax Threshold
-Use 20% as rental income tax rate.
Calculate.
iv. Chargeable rental income.
v. Rental income tax.
vi. Net rental income.

d) State two reasons for non-tax compliance in Uganda today.