

**UGANDA MARTYRS UNIVERSITY, NKOZI/LUBAGA  
CAMPUS**

**FACULTY OF BUSINESS ADMINISTRATION AND  
MANAGEMENT**

**DEPARTMENT OF ACCOUNTING & FINANCE  
BAM III SEMESTER TWO 2017/18**

**COURSE UNIT: TAXATION AND TAX MANAGEMENT**

**DATE:** Thursday, 3<sup>rd</sup> May 2018

**Time allowed:** 9:30am-12:30pm

**Instructions to Candidates:**

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Write neatly and show all workings clearly.
- 3) Start every question on a new page
- 4) Clearly state the question number & sections attempted
- 5) Answer **any four** questions, all questions carry equal marks

### **QUESTION ONE**

Miss Saudah Nalunkuuma has landed a job of Operations Manager (OPM) with Vine Legacy Consults Ltd. Her appointment reads in part as follows:

- i) Basic Monthly salary Sh. 7,500,000 per month.
- ii) Professional Allowance – Sh. 150,000 per month
- iii) Lunch Allowance – Sh. 250,000 per month
- iv) Bonus – equivalent to two month's basic salary payable in December.
- v) School fees payment of Sh. 1,000,000 per term will be paid for her child / dependant City International School. They count two school terms in a financial year.
- vi) Transport Allowance for her spouse, Medi of Sh. 1,200,000 per year.
- vii) She will be provided with a residential house in Ntinda. The house is part of the company houses reserved for senior managers. The house has an annual market rate of US Dollars 4,000 but she will be making a monthly contribution of Sh. 200,000 per month for the house.
- viii) She will be provided with a house helper who will be paid Sh. 250,000 per month and a security guard who will be paid Sh. 300,000 per month. All these will be paid by the company.
- ix) The employer grants benefits to senior employees including Ms Saudah in the form of food ration worth sh. 500,000 per month. The company contracted Tusksys Stores to do this.
- x) The company has a policy of encouraging senior employees to acquire loans at a lower rate to enable them acquire property. Ms Saudah will thus be given Sh. 50,000,000 at an interest rate of 5% p.a. which she will pay back in one year.
- xi) A medical allowance of Sh. 4,000,000 p.a. is given to all senior employees.
- xii) The company contributes 10% of basic pay of every employee to National Social Security Fund. The employee contributes 5%.
- xiii) The company pays for telephone bills of the OPM of sh. 2,500,000 p.a. to MTN Uganda of which 80% relates to official business.
- xiv) A life insurance premium of Ms Sauda, her husband Medi and dependant worth Shs. 3,000,000 p.a. has already been signed with African Insurance Group.
- xv) Ms Saudah was provided with a company car worth Sh. 60,000,000 at the time of her appointment. She agrees that she will use the motor car for 72 days in a year for private purposes and contribute Sh. 100,000 per month.

You are told that Ms Saudah will continue receiving alimony of Shs. 300,000 per month from her ex- husband, Mr. Wallet Kifeesi.

- Assume an exchange rate of **USD 1 = Sh. 3000**
- Take Bank of Uganda borrowing rate at 11%.
- The appointment runs from Jan 2016 to December 2018.

#### **Required:**

Compute Ms Saudah Nalunkuuma's PAYE liability for the year ending 31 December 2016, giving reasons for any item not included in the computation. **(25 Marks)**

## **QUESTION TWO**

Kyetume Boys (U) Ltd deals in the wholesale of assorted products including salt, wheat flour, maize flour, packed juices, and powdered milk. The products are sourced locally or imported. The company was in business for the year ended 31 December 2015 and is registered for value added tax (VAT). The company applies the standard apportionment method to claim for input VAT on its purchases. During the month of December 2015, the company had the following transactions:-

(i) Sales (VAT inclusive):

	Shs '000'
Standard rated	165,20
Exempt	22,03
Zero rated	<u>137,06</u>
Total	<u>324,29</u>

- (ii) An Isuzu truck was purchased to transport customer products at Shs 75.5 million, VAT exclusive.
- (iii) 150 bags of maize flour were purchased at Shs 12,750,000 VAT exclusive.
- (iv) The company paid insurance for company vehicles to Nice Insurance Company of Shs 3 million.
- (v) The company purchased gifts for the company's 'star' workers for the month for Shs 5 million, VAT inclusive.
- (vi) Purchased office stationery at Shs 6,250,000, VAT exclusive.
- (vii) Purchased home furniture for the new chief executive officer (CEO) at Shs 15 million, VAT inclusive.
- (viii) Imported packed juices (1000 cartons) at Shs 160,850,000 VAT exclusive.
- (ix) The company incurred repairs and maintenance charges for companies Pool passenger vehicles at Shs 4.8 million. The vehicles used to transport sales staff to the field.
- (x) Paid security services fees of Shs 3 million, VAT exclusive of which Shs. 550,000 was for security services at the managing director's home.
- (xi) The managing director donated 50 cartons of packed juices to Stella Babies Home as a Christmas gift. The company normally sells a carton of packed juice at Shs .250, 000 VAT inclusive.

### **Required:**

- a) Compute the tax payable/claimable by Kyetume Boys (U) Ltd for the month of December 2015. **[20 marks]**
- b) Why was VAT introduced in Uganda in 1996? **[5 marks]**

### **QUESTION THREE**

Mukwana identified a car through the internet from Toyota Motors Ltd's website, a company registered in Japan. Mande made an order in December 2016 for a Toyota Nissan Model 2000 invoiced at a price equivalent to \$ 8500 free on board (FOB) Nagoya Japan. Mukwana paid an equivalent of \$ 9,000 for shipment from Japan to Mombasa and \$ 250 for insurance premium on board. Kangaroo Cargo Movers Ltd charged Mukwana \$ 100 to transport the vehicle from Mombasa to Kampala.

Additional information:

1. Import duty rate for the vehicle is 25%.
2. Environmental levy is 20% for used vehicles older than 8 years.
3. Vehicle registration fees is Shs 2,000,000

Mukwana was given an assessment to clear taxes on importation of the vehicle by Uganda Revenue Authority. He, however, was in doubt of Uganda Revenue Authority's computations since it was his first time to make an import. You are working with Wiser Certified Public Accountants as a tax consultant.

**Required:**

- a) Compute all the necessary taxes and advise Mukwana on the tax due, including registration charges to enable him register his motor vehicle **(5 marks)**
- b) What are any five roles of customs department in the assessment of taxes to be paid by the tax payer? **(5 marks)**

### **QUESTION FOUR**

The expansion of the East African Community Customs Union to include states like Rwanda and Burundi presents a number of opportunities to Uganda's economy.

**Required:**

- a) Discuss the opportunities and challenges arising from the East African Community Customs Union. **[15 marks]**
- b) Explain any five features of a proper VAT tax invoice. **[5 marks]**
- c) Why does Uganda Revenue Authority (URA) impose heavy penalties on smugglers? **[5 marks]**

### **QUESTION FIVE**

Ms Akol Freda owns several rental houses in the country as follows.

- Ten rental houses each earning her Sh. 1,000,000 per month at Bukoto
- Six rental apartments each earning her sh. 750,000 per month at Bakuli
- Twenty double roomed cubicles at Kasubi each fetching sh. 250,000 per month.

However, for two complete months during the year they were not occupied.

Besides the houses she also runs AkoFrica Supermarket making an annual turnover of sh. 120,000,000. Throughout the year Ms Akol incurred Sh.20 million in expenses of which  $\frac{3}{5}$  were in relation to house maintenance and  $\frac{2}{5}$  were in relation to AkoFrica supermarket salaries and utility bills.

**Required:**

- (a) (i) Determine the rental tax payable by Ms Akol Freda for the year ended June 30, 2015. **(10 Marks)**
- (ii) Advise Ms Akol Freda on the due dates for filing returns and payment of rental tax. **(2 Marks)**
- (iii) What amount tax would be payable if the rental houses were registered and managed as a company? **(5 Marks)**
- (b) Taking the super Market business as a small taxpayer's business, calculate the amount of tax payable during the year. **(6 Marks)**
- (c) Determine the total amount of tax payable to URA (i.e. a ( i) and b) in figures and in words. **(2 marks)**

**QUESTION SIX**

- a) State and Explain six badges of trade as indicated in the income tax Act, 1997. **[5 marks]**
- b) Define Tax Evasion and Tax Avoidance. **[5 marks]**
- c) Discuss the role of Taxation in developing countries as advanced by the proponents of tax Philosophy, clearly showing how it promotes development. **[5 marks]**
- d) Discuss the major principles/canons of taxation as presented by the designers of tax systems. Show any challenge faced in complying to the principles. **[5 marks]**
- e) State and Explain the Various sources of Government Revenue in Uganda. **[5 marks]**

## TAX RATES

### Resident Individual Income Tax Rates

Monthly chargeable income	Rate of tax
Not exceeding Shs 235,000	Nil
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 plus 20% of the amount by which chargeable income exceeds Shs 335,000.
Exceeding Shs 410,000	(a) Shs 25,000 plus 30% of the amount by which chargeable income exceeds Shs 410,000 and (b) Where the chargeable income of an individual exceeds Shs 10,000,000 an

### Non-resident Individuals Income Tax Rates

Monthly chargeable income	Rate of tax
Not exceeding Shs 335,000	10%
Exceeding Shs 335,000 but not exceeding Shs 410,000	Shs 33,500 plus 20% of the amount by which chargeable income exceeds Shs 335,000.
Exceeding Shs 410,000	(a) Shs 48,500 plus 30% of the amount by which chargeable income exceeds Shs 410,000 and (b) Where the chargeable income of an individual exceeds Shs 10,000,000 an