

**UGANDA MARTYRS UNIVERSITY  
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**TAXATION & TAX MANAGEMENT  
Examination**

**2015 – 2016  
2<sup>nd</sup> SEMESTER EXAM**

**BAM III Nkozi & Rubaga**

**Date: Friday 29<sup>th</sup> April 2016**

**Time: 09.30 am to 12.30 pm**

**Instructions**

- 1. Do not write anything on the question paper**
- 2. Answer FOUR Questions in All.**
- 3. Section A is Compulsory**
- 4. Answer ANY three questions in Section B**
- 5. Marks are indicated against each Question**

## **SECTION A: COMPULSORY**

### **Question One**

Bananda Ltd is located in Busia town. The company manufactures bicycles for the regional market. Below are extracts of its financial statements for the year ended 30<sup>th</sup> June 2014

#### **A. Statement of Financial Position**

Non-current Assets balances were as indicated below;

i) Residual value for the industrial building as at 30<sup>th</sup> June 2013 was shs.50, 000,000.

Written down values as at 30<sup>th</sup> June 2013 were as follows:

	Shs.
Class I	20,000,000
Class II	10,000,000
Class III	30,000,000
Class IV	8,000,000

ii) Additions: Heavy Lorries -These were two Lorries; one UAA was bought on 1<sup>st</sup> October 2013 at shs 4,000,000. While the other UAB was bought on 31<sup>st</sup> January 2014 at shs. 6, 000,000

Cars: The UXT was bought at shs.5, 000,000 on 1<sup>st</sup> July 2013 While the other UAB was bought at shs.30, 000,000 on 1 April 2014

Computer worth 5,000,000 and office furniture of 2,000,000 were bought on 1<sup>st</sup> July 2013.

iii) The company paid provisional tax of sh. 1,000,000 during the year and withholding tax sh.500,000 before the year end.

#### **B. Statement of Comprehensive Income**

	shs
Gross profit b/d	100,000,000
<b>Expenses:</b>	
Depreciation	23,000,000
Rent	20,000,000
Entertainment	2,000,000
Cost of lease extension	1,000,000
Salaries	30,000,000
Wedding contribution	500,000
NSSF (company contribution)	3,000,000
Profit for the period	<b><u>20,500,000</u></b>

**Required:**

- i) Compute the taxable profit of Bananda Ltd for the year ended 30<sup>th</sup> June 2014 [17 marks]
- ii) Compute tax liability for the year [5 marks]
- iii) Compute tax payable [3 marks]

**SECTION B**

**Question Two**

Mr. Nganga is the Acting Chief Executive Officer (CEO) of Crown Architects (U) Ltd, an engineering consulting firm based in Uganda with regional head quarters in Nairobi, Kenya. Mr. Nganga is the Chief Finance Officer (CFO) in Nairobi but has moved to act as CEO in Uganda for four months while the company recruits a new CEO. He is a citizen of Kenya and has his permanent home and family in Kenya. Mr. Nganga's terms of employment include the following, among other things:

- (i) His contract commenced on 1<sup>st</sup> May 2012 and ends on 31<sup>st</sup> August 2012. His basic salary is Shs 14,500,000 per month payable in arrears.
- (ii) Accommodation is provided to him by the firm and an apartment has been rented for him in Nakasero at Shs 5,750,000 per month.
- (iii) His water and electricity bills are paid by Crown Architects (U) Ltd.
- (iv) Medical insurance is provided for him and his family. A premium of Shs 350,000 is payable to Jumbo Insurance Company by Crown Architects (U) Ltd every month.
- (v) A Toyota Land Cruiser Prado has been purchased for his use during his stay in Uganda after which it will be taken over by the new CEO. The vehicle has cost the company Shs 67,000,000
- (vi) The company has registered Mr. Nganga for NSSF and it contributes 10% while Mr. Nganga contributes 5% to the same fund.

During the month of May 2012, the following activities took place in respect to Mr. Nganga's employment:

- (i) He took a salary advance of Shs 6 million repayable within four months in equal installments. The current Bank of Uganda interest rate is 8.5% per annum.
- (ii) He was paid a relocation allowance of Shs 5.2 million.
- (iii) A return air ticket was purchased for him to report for duty from Kenya to Uganda and back after his term of employment. The air ticket cost USD 468. The May 2012 URA exchange rate was 1 USD = 2,896 UShs.
- (iv) The human resource department in Kenya has paid into his Uganda bank account Shs 2.5 million. This is a reward in recognition of his performance during the past year while still in the Nairobi office.
- (v) His water and electricity bills for the month of May 2012 amounted to

Shs.380,000

**Required:**

- (a) Compute Mr. Nganga's tax liability and net pay for the month of May 2012.  
[20 marks]
- (b) Identify Mr. Nganga's benefits or allowances that will be exempt from Ugandan tax as per the Income Tax Act of Uganda. [5 Marks]

**Question Three**

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<sup>st</sup> 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 3million.
- (v) The company purchased gifts for the company's 'star' workers for the month for Shs 5million, 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 (1,000 cartons) at Shs 160,850,000 VAT exclusive.
- (ix) The company incurred repairs and maintenance charges for company's 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 3million, 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 Four**

Kyagulanyi & Sons Ltd deals in the importation, resell and sometimes export of sugar. During the month of December 2014, the company imported 1,000 bags of sugar from the United Arab Emirates (UAE) of 50 kgs per bag. The cost of the sugar was USD 35,714.

The cost of transporting the sugar from the 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, Uganda. The then import rates of sugar were as follows:

Import duty - 75%

Excise duty - Shs 25 per kg

VAT - 18%

Withholding tax (WHT) - 6%. The Company is exempted from 6% WHT on imports.

URA imports exchange rate for December 2014 was 1USD = 3,200UShs.

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 Total tax payable by Kyagulanyi & Sons Ltd to URA Customs. **[15 marks]**
- (b) Uganda is a member of the East Africa Community Customs Union and Common Market. Currently, goods produced within any member state enjoy 0% import duty rate on importation. Suppose the sugar imported by Kyagulanyi & Sons Ltd was manufactured in Kenya. Compute the tax that would be paid by Kyagulanyi & Sons Ltd on importation. **[6 marks]**
- (c) Give two advantages of Uganda being part of the EAC Customs Union and Common markets **[4 marks]**

**Question Five**

Mr. Mugambwa has been constructing three residential units in Ntinda which were completed in January 2011 at Shs 80million. During the year ended 31<sup>st</sup> December 2011, Mr. Mugambwa earned gross rental income of Shs 28 million and incurred security expenses of Shs 3million, maintenance costs of Shs 5 million and legal fees of Shs 3.5million. This was the only income for Mr. Mugambwa during the year.

**Required:**

- (a) Distinguish between the tax treatment of rental income of an individual and rental income earned by a company. **[5 marks]**
- (b) Advise Mr. Mugambwa on his rental tax liability for the year ended 31<sup>st</sup> December 2011 and when his return will be due. **[13 marks]**
- (c) You are a tax advisor at PPK Consulting and Mugambwa has requested you to advise him on how much tax he would have paid had he registered the business as a company. Compute tax payable had Mr. Mugambwa registered his business as a company for the year ended 31<sup>st</sup> December 2011. **[7 marks]**

**Question Six**

- a) Define Presumptive Tax and give reasons why it was provided for in our tax laws **[5 marks]**
- b) Mukasa is a business man around Kakeeka Zone in Mengo, his Gross turnover during the year ended 2014 was Shs. 43,580,000. His business is clearly classified as Small business. Advise him on his likely tax liability. **[5 marks]**
- c) Smuggling is an illegal method of conducting business in Uganda. State different forms of smuggling. **[5 marks]**
- d) With use of relevant examples; Define Advalorem Tax and Specific tax **[5 marks]**
- e) Section 114 of the East African community Customs Management Act (EAC- CMA) 2004 provides for exemption of customs duties and taxes on importations by specified categories of people and goods outlined in the 5th Schedule. List specific and general exemptions of internal trade taxes given under this Act. **[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 (c) where the chargeable income of an individual exceeds Shs 10,000,000 an additional 10% charged on the amount by which chargeable income exceeds Shs 10,000,000.

### 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 additional 10% charged on the amount by which chargeable income exceeds Shs 10,000,000.

### Presumptive Tax rates

Gross Turnover	Tax Payable
Gross turnover exceeds 5 million but does not exceed 10 million a year.	Nil
Gross turn over exceeds shs 10 million but does Not exceed shs 20 million.	Shs. 450,000 or 3% of gross turn over which ever is lower
Gross turn over exceeds shs 20 million but does Not exceed shs 30 million	Shs 750,000 or 3% of gross turn over whichever is lower
Gross turn over exceeds shs 30 million but Does not exceed shs 40 million	Shs 1,050,000 or 3% of gross turn over whichever is lower
Gross turn over exceeds shs 40 million but Does not exceed shs 50 million	Shs 1,350,000 or 3% of gross turn over whichever is lower