UGANDA MARTYRS UNIVERSITY, NKOZI/LUBAGA CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT
DEPARTMENT OF ACCOUNTING & FINANCE

BSC ACC & FIN II & BSC ACC & FIN III

COURSE CODE: CPA(U)09

COURSE UNIT: ADVANCED TAXATION

DATE: Friday, 28th January 2022

Time allowed: 2:00pm -5:00pm

Instructions to Candidates:

Read the following before answering the examination questions.
1)Do not write anything on this 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

Kansanga International Hospital Ltd is a company that deals in the provision of Medical services to the general public. The hospital, which started operating on 1st July 2015, has its head offices in Kampala. The company's tax accounting date is **30th** June. The results of Kansanga International hospital Ltd for the year to 30 June 2020 were as follows:

		Shs. '000'	Shs. '000'
Receipts			3,600,000
Unrealized foreign exchange gain			54,000
Interest income			20,000
Profit on disposal of non-current assets			25,000
			3,699,000
Less: Cost of sales			(600,000)
Gross profit			**3,099,000**
Less: Expenses			
Salaries and wages paid	646,000		
NSSF company contribution	47,500		
Employee taxes (PAYE)	256,500	**950,000**	
Unrealized foreign exchange loss		27,000	
Depreciation		250,000	
Advertising		95,000	
Repairs and maintenance costs		90,000	
Uniform for staff		15,000	
Electricity and water bills		150,000	
Telephone costs		120,000	
Specific provision for trade bad debts		35,000	
Provision for future repair costs		65,000	
Legal fees		80,000	
Accountancy fees		12,000	
Non-current assets valuation fees		39,000	
Pension		20,000	
Other tax allowable costs		150,000	
Total Expenses			*2,098,000*
Net profit			*1,001,000*

Additional information is as follows:

a) At the start of its business operations on 1 July 2015, the company had incurred the following capital expenditure:

Description	***Cost (in shs.)***
Land	450,000,000
Hospital building	1,500,000,000
Motor vehicles (cars)	20,000,000
Fixtures and fittings	150,000,000
	2,120,000,000

b) During the year to June 2020, the company incurred the following additional expenditure:

Description	***Amount (in shs.)***
1 Mercedes Benz car	85,000,000
3 Pick-up vans (6-tonnes) each **at**	45,000,000
5 computers totaling	12,500,000
Office chairs and tables	5,000,000
Hospital equipment	100,000,000

c) During the year the company made an extension to the hospital at a cost of shs.4 10,000,000. The extension was completed and put to use that very year.

d) During the year the company disposed off three computers at a price of shs3,500,000 and a motor vehicle at shs.4,500,000.

e) The company had an agreed tax loss of shs.50,000,000 as at 30th June 2019.

f) On 15th December 2016, the company acquired a set of hospital equipment worth shs.150,000,000 from a UK non-resident supplier on credit. On negotiations with the management of the company, this debt was written off on 31" March *2020.*

g) The company paid provisional tax of shs.200,000,000 during the year 30th June 2020.

h) On the interest income of shs.20,000,000 it earned, Standard Chattered Bank withheld shs.3,000,000 as withholding tax, which was remitted to URA. The company was only paid shs.17,000,000.

i) Analysis of legal fees:

	Shs.
Increase in share capital	15,000,000
Debt collection fees	10,000,000
Purchase of the extra piece of land	55,000,000
	80,000,000

j) The tax written down values of the company's depreciable assets as at July 2019 were as follows:

Class	Shs.
I	95,000,000
II	75,000,000

IV 250,000,000

Required:
Compute the final corporation tax payable by Kansanga International Hospital Ltd for the year ending 30th June 2020. *[40 marks]*

SECTION B

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 2018 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 2018, the company had the following transactions:-

(i) Sales (VAT inclusive):

	Shs '000'
Standard rated	165,200
Exempt	22,030
Zero rated	137,060
Total	324,290

(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 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 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. *[15 marks]*

b) Why was VAT introduced in Uganda in 1996? *[5 marks]*

Question Three

Jane Nakassuja works for Fahamu Uganda Limited as the Chief Accountant. The terms of her employment contract are as follows:

1. Monthly salary UShs24 million.
2. The company provides her with accommodation in Muyenga at a cost of UShs 2 million per month.
3. She was provided with a Fortuner car that a cost UShs 120 million on 1 July 2017 for official and private use on equal basis.
4. She earns a 13th cheque at the end of December equivalent to one month's salary.
5. She is given a fuel for her car for UShs 2 million per month.
6. She is also provided with a housekeeper by the company at a cost of UShs 300,000 per month.
7. Electricity and water bills paid for her by the company amount to UShs 1.2 million per month.
8. She was enrolled to a medical insurance scheme with a leading insurance company in Uganda for USh 6 million annually.
9. The company pays UShs 3 million per month.to a health club for her and her family; she contributes UShs:800,000 to this.
10. She was extended a loan of UShs 50 million by the company at an annual interest of 6%.
11. During the year, when she took her annual leave, she worked in Nigeria as a consultant from where she earned 2 million Naira.

Additional information:

- The Bank of Uganda discount rate as at 1 July 2017 was 26%.
- Jane never paid any taxes in Nigeria.
- Exchange rate: 1.Naira = UShs 100
- Jane was on annual leave in the month of December and she was entitled to all her benefits at her place of work.
- Fahamu Uganda Limited is a compliant taxpayer and regularly remits PAYE for all its employees.

Required:

a) Compute Jane Nakassuja's chargeable income and tax liability for the year ending 30th June 2018. *[17 marks]*

b) Clearly state when Jane Nakassuja's obligation falls due. *[3 marks]*

Question Four

ASK & Co. is a firm that deals in providing accounting and taxation services. Its partners Andrew, Simon and Kellen share: profits in the ratio of 2:3:4, respectively. The three have spent over 183 days in Uganda. The partners would also want to get a clear understanding of the ethical issues concerning them as tax practitioners.

The firm's income statement for the year ended 30 June 2018 was as follows:

	UShs '000'
Accounting advisory fees	400,000
Tax advisory fees	300,000
Rental and property income	150,000
Less:	
Staff salaries:	120,000
Staff PAYE	12,000
Partners' salaries	
• Andrew	20,000
• Simon	35,000
Partners' PAYE	20,000
Other deductible expenses	67,000
Personal partner expenses	15,000
Royalties paid to an affiliated firm in Germany	25,000
Commission to government officials	16,000
Partners' professional insurance	10,000
Partners' personal insurance policies	5,000

The accountant omitted expensing the accounting depreciation of UShs 30 million. Tax depreciation allowances on the firm's assets were UShs 25 million. In the previous tax audit, it was agreed with URA that the non-qualifying use of the partnership assets was 10%.

Required:

a) Compute the tax liability of the partners for the year ended 30 June 2018. *[15 marks]*

b) Discuss the five fundamental principles and explain why tax practitioners need to observe such principles. *[5 marks]*

Question Five

a) Explain the rationale behind capital deductions/ allowances. [2 marks]

b) Briefly explain the types of capital allowances/ deductions acceptable in Uganda. [4 marks]

c) Citi Consults Ltd are specialized engineers in Uganda. They prepare their books to 30 June . The opening tax written down value s on 1 July 2017 were as follows:

	Class 1	Class II	Class III	Class IV
OTWDV	16,000,000	55,000,000	23,000,000	88,000,000

During the year ended 30 June 2018, the following assets were acquired and put into use :

Item	Amount in Sh'000
Tally Accounting Package/ software	6,000
Laptop computers for staff in accounts	15,000
Prado for Executive Director while on duty	80,000
Photocopying machine	8,000
Office equipment and fittings	14,000
Plant and Machinery	8,000

Two 6 Tonne delivery trucks each at Sh.18 Million.
Industrial Building of Sh. 990,540,000 was completed and used .

Assets **disposed of** were:

- Computers which original cost Sh. 5 Million were disposed of at Shs . 3 Million
- Office equipment and fittings fetched Shs. 8 Million.

Required :

i) Compute the wear and tear allowance for the year. *[10 Marks]*

ii) Compute the Industrial Building Deduction (IBD) . *[3 Marks]*

d) The Financial Accountant of Citi Consults Ltd in (c) above had calculated a Net Profit before tax figure as Sh. 480, 500,000 after charging depreciation on assets of sh. 129,500,000. Determine the chargeable income and the corporation tax payable by the company. *[6 Marks]*

Question Six

Miss JamboSa is a land lady in the suburbs of Kampala. She earns rental income from her houses for the year ended 30 June 2019 as follows:

Location	Monthly Rent	Monthly Maintenance expenditure
Kibuli	910,000	80,000
Nateete	600,000	60,000
Mengo	750,000	70,000
Buwama	900,000	110,000

Required:

a) Compute Miss Jambosa's Rental Income Tax payable for the year ended 30 June 2019. *[10 marks]*

b) What would be the difference in the taxes payable if the above houses were owned by Jambosa Estates Limited? Show your workings . *[8 marks]*

c) Mwana Ltd. is a mining company in Uganda. Its annual turnover for the year ending 31st December 2019 was shs.250, 000,000. The company's chargeable income was found to be shs.80,000,000 after examination of the accounts.

Required: Compute the tax payable by Mwana Ltd. for the year ended 31st December 2019. *[7 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 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.