

UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION & MANAGEMENT
BACHELOR OF BUSINESS ADMINISTRATION & MANAGEMENT
THIRD YEAR END OF SEMESTER II FINAL ASSESSMENT

COURSE UNIT: TAXATION & TAX MANAGEMENT

COURSE UNIT CODE: TAX3201

Date: Wed 13/12/23

Time: 9.30 - 12.30 PM

Duration: 3 hours

INSTRUCTIONS:

- Read the instructions on the cover of the answer book and the question paper
- Carefully read through ALL the questions before attempting
- The total number of questions in this paper is SIX. Attempt FOUR questions
- Relevant examples will earn you marks
- Write legibly.
- Don't write anything on the question paper.



Qn 1

Menya Ivan is a production manager of Robson Ltd, the following information is available for the tax year 2022:

- 1) Ivan's total gross salary from his employment was shs.1200,000. Income tax of shs.262,000 was deducted from this figure under PAYE. He also made a prepayment of shs. 45,000 to URA.
- 2) He earns director's fees of Shs.800,000 annually for sitting on the Board of Directors for Robson Ltd,
- 3) He received a performance bonus of Shs.150,000, which he used to purchase Shs.120,000 worth of government bonds and treasury bills,
- 4) He was provided with a company car with a cot price Of Shs. 80,000,000 on July 1, 2020. The company paid the car's running costs (insurance, fuel, and repairs) of 12,000,000. Ivan has contributed Shs. 2,000,000 for the upkeep of the car.
- 5) During September 2022, Ivan spent five nights overseas on company business. The company paid Shs. 12,500,000 for accommodation and airline tickets for the trip. Robson Ltd paid Ivan a daily allowance of Shs. 600,000 to cover the cost of personal expenses such as telephone calls to his family.
- 6) Ivan received an entertainment allowance of shs.90,000 and a travel allowance of and child allowance of 100,000
- 7) He also received a housing allowance of S120,000. He paid mortgage interest of 100,000 during the year.
- 8) Ivan has a property rented to families on vacation, During the year he received rental income of 25,000,000. Expenses connected with the property were maintenance of 6,000,000 property taxes of 1500,000 and insurance of 3,000,000.
- 9) Ivan also has a small catering business. The revenue and expenses related to the jobs were: Travel Shs. 900,000 Wages Shs1,400,000, Materials Shs. 2,500,000. Income 12,000,000
- 10) Robson Ltd provided Ivan with a mobile telephone. The telephone bill for 2022 was Shs 5,000,000. of which 35% was identified as personal use

Required:

- a) Calculate Ivan's taxable income for the tax year 2022. (20 marks)
- b) Calculate John's final tax liability for 2022 (2 marks)
- c) Briefly define the term 'benefits-in-kind' and explain its tax implications. (3 marks)

Qn 2

Bwala Traders Ltd retails household products in Masaka City. The company's summarized income statement for the year ended 31 December 2022 is as follows:

Gross profit	373,000
Operating expenses	
Depreciation	44,000
Gifts and donations (note 1)	8,750
Professional fees (note 2)	19,950
Repairs and maintenance (note 3)	58,800
Other expenses (note 4)	90,000
Loss on disposal of van	8,000
Bad debts (note 5)	29,000
Miscellaneous expenses (note 6)	<u>1 3200</u>
Operating profit	101,300
Profit on disposal of motor car	2,000
Interest received (note 7)	7,500
Profit on sale of property	35,000
Profit on sale of shares (note 8) Profit	<u>30,000.</u>
before taxation	
Notes to accounts	175,800
Note 1 — Gifts and donations	
Donations under deed of covenants	3,000
Wedding gift to an employee's son	500
Donate amounts to underprivileged individuals	2,900
Gifts to customers (pens displaying Bwala's name)	750
Staff awards for excellent work done	<u>1 600</u>
Note 2 — Professional fees	<u>8,750</u>
Audit and accounting fees	5,000
Debt collection services	2,500
Fees for advice on investigation by the tax authorities	1,200
Legal fees re: purchase of a property	4,500
Legal fees re: the company's breach of environmental laws	2,250
Legal fees re: the issue of a loan	1,500
Legal fees re: the defense of the company's trading name	<u>3 000</u>
	<u>19,950</u>
Note 3 — Repairs and maintenance	

The figure of Shs. 58,800 for repairs and maintenance includes Shs. 32,800 for office painting, Shs. 3,000 relates to the maintenance of the company's vehicles, construction of an extension to the office for Shs. 25,000 and a staff gym for Shs.20,000

Note 4 — Other expenses

The figure of Shs. 90,000 for other expenses includes; a) fines Of Shs. 500 for speeding by the company's messenger and Shs.600 for the Managing Director driving under the influence of alcohol; b) Shs 4,000 for entertaining suppliers. c) Shs.2,700 for entertaining employees, d) shs. 40,000 as a contingency reserve for inventory, e) Shs.12,000 for medical expenses for the Managing Director's wife, and f) a bribe of Shs. 8,000 to secure a valuable contract. The remaining expenses are all fully allowable.

Note 5 — Bad debts

Trade debts recovered from previous years Trade debts written off	(2,750)
Increase in specific bad debt provision	13,800
Misappropriation of company funds by a director	3,100
Increase in general provision for doubtful debts	4,250
General reserve created for the probable loss of fixed assets	3,000
	<u>7,600</u>

Note 6 — Miscellaneous expenses

Theft by an employee	6,000
Funds taken by a director to purchase clothing necessary for the performance of his duties	<u>7,209</u>

Note 7 — Interest received

The interest was received on 31 October 2010. The loan was made for non-trading purposes to another resident company.

Note 8 — Profit on sale of shares

The company sold its shares in BS&T Ltd on 30 September 2010, as a result of a fall in market value of the shares. It achieved a profit of Shs.30,000.

Note 9 — Allowances

Capital allowances – Shs. 8,000; Balancing charge – Shs.2,500; and Balancing allowance - Shs, 800.

Note 10— Other information

Bwaala Traders Ltd had unrelieved tax losses brought forward of Shs. 56,000 as at the 2021 tax year. The company prepaid corporation taxes of Shs. 17,000 for tax year 2022.

Required:

- Calculate Bwala Ltd's tax-adjusted profit for the year ended 31 December (20 marks)
- Calculate Bwaala Ltd's final tax liability for 2022 (5 marks)

Qn 3

You are a tax expert working for your client, Jude Ltd, your client has asked you for advice on value added tax (VAT).

Required:

- a) Advise Jude Ltd on the tax implications of providing standard rated, zero rated and exempt supplies. (6 marks)
- b) Advise your client on the offences and penalties related to VAT (6 marks)
- c) Contrast Carrying forward of losses and tax incidence. (3 marks)
- d) The following information is available in respect of Jude Ltd's Value Added Tax (VAT) for the two months ended 31 December 2022 (i.e November and December 2022).
 - i. Invoices were issued for sales of Shs. 44,600 to VAT registered customers. Of this figure, Shs. 35,200 was in respect of exempt sales and the balance in respect of standard rated sales. The standard rated sales figure is exclusive of VAT
 - ii. In addition to the above, on 1 December 2022 Jude Ltd issued a VAT invoice for Shs. 8,000.
 - iii. Invoices were issued for sales of Shs. 289,000 to non-VAT registered customers. Of this figure, Shs. 242,000 was in respect of zero-rated sales and the balance in respect of standard rated sales. The standard rated sales figure is inclusive of VAT
 - iv. The Managing Director of Jude Ltd is provided with free fuel for private mileage driven in her company motor car. During the two months ended 31 December 2022, this fuel cost Jude Ltd Shs. 7000. This figure is inclusive of VAT
 - v. For the period ended 30 April 2022 and 31 August 2022 Jude Ltd was one month late in submitting its VAT returns and in paying the related VAT liabilities. All of the company's other VAT returns have been submitted on time.
 - vi. Other input VAT incurred for the two-month period — Standard rated supplies, Shs. 3,800, zero rated supplies Shs. 2,500, exempt supplies Shs 1,700

Calculate the amount of output VAT payable or refundable by Jude Ltd for the two month period ended 31 December 2022 (10 marks)

Qn 4

- a) Briefly explain the concept of residence and its relevance to taxation, (6 marks)
- b) Distinguish between the concepts of tax avoidance and tax evasion, and explain with examples the tax implications of each. (7 marks)
- c) With reference to the badges of trade, briefly explain the relevant factors that suggest that a taxpayer is carrying on a trade (12 marks)

Qn 5

- a) Discuss the arguments for the formation of URA and analyse the achievements registered to date (10 marks)
- b) When a person refuses or fails to comply with payment of taxes as and when required, the commissioner may collect the outstanding tax using various methods. Discuss the existing methods that can be employed to recover taxes in such circumstances. (08 marks)
- c) Annet aged 25 is self-employed as a business consultant, and her tax adjusted trading profit for the year ended 31 December 2022 was Shs. 19,000,000. During the tax year 2022, Annet made a covenanted donation of Shs. 6,000,000 to Sanyu Baby's home. she has rented property with a rental income of Shs. 15,000,000. Expenses connected with the property were repairs and maintenance of Shs. 3,500,000 property taxes of Shs. 900,000 and insurance of Shs 1,600,000. She has prepaid income taxes of Shs. 8,000,000 Calculate Annt's tax liabilities for the tax year 2022 (7 marks)

Qn 6

- a) Customs management involves a series of activities to ensure lawfulness and sanity on imports and exports. Elaborates on these activities. (8 marks)
- b) Explain the meaning of smuggling and its effects on an economy like Uganda. (10 marks)
- c) Miss Molly purchased a derelict property of land and house for Shs. 127,000,000, Legal fees of Shs. 1000,000 were paid in respect of the purchase. Molly then renovated the house at a cost Of Shs. 50,000,000 with the renovation being completed on 10 August 2022.

She immediately put the property up for sale, and it was sold on 31 August 2022 for Shs. 260,000,000. Legal fees of Shs. 2,600,000 were paid in respect of the sale. Molly financed the transaction with a bank loan of Shs. 150,000,000 that was taken out in 1 May 2022 at an annual interest rate of 6%. The bank loan was repaid on 31 August 2022. Molly.

Calculate Molly's capital gains tax liability for the tax year 2022. (7 marks)

