

UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS/ LUBAGA

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

BSC FIN & ACC II (JAN INTAKE)

SEMESTER TWO 2021/2022

COURSE UNIT: ADVANCED TAXATION

CODE: CPA(U)09

DATE: 14TH JULY, 2022

TIME: 9:30 AM - 12:30 PM

Instructions:

- *Carefully read through ALL the questions before attempting*
- *Answer FOUR Questions in All.*
- *Section A is Compulsory*
- *Answer ANY three questions in Section B*
- *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		<u>25,000</u>
		3,699,000
Less: Cost of sales		<u>(600,000)</u>
Gross profit		3,099,000

Less: Expenses

Salaries and wages paid	646,000	
NSSF company contribution	47,500	
Employee taxes (PAYE)	<u>256,500</u>	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	<u>150,000</u>	
Total Expenses		<u>2,098,000</u>
Net profit		<u>1,001,000</u>

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	<u>150,000,000</u>
	<u>2,120,000,000</u>

- 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 31st 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	<u>55,000,000</u>
	<u>80,000,000</u>

- 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:

- a) Kawa Super Limited is a VAT registered company mainly dealing in the buying, processing and export of processed coffee. The company also engages in buying and selling of other items especially when the coffee season has not peaked. The transactions for the company during the month of March 2019 are shown below;

Imports

Date:	Particulars	Quantity (tons)	Amount (USD)
1	Sugar	50	40,000
5	Maize	100	100,000
15	Wheat	50	37,500
18	Coffee processing machines		300,000
20	Sugar	120	96,000
25	Maize	500	500,000

Local sales:

Date:	Particulars	Quantity (tons)	Amount (US\$ '000')
5	Sugar	120	450,000
10	Maize	200	600,000
17	Sugar	50	187,500
25	Wheat	40	100,000

Local purchases and expenses paid:

Date:	Particulars	Amount (US\$ '000')
2	Unprocessed coffee (kiboko)	800,000
4	Wages for casual staff	20,000
15	Processing inputs (all standard rated)	25,000
24	Water bills	15,000
28	Electricity bills	50,000
29	Telephone bills	12,000
30	Salaries	60,000

30	Transport**	30,000
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Therefore the amount was paid to a VAT registered transport company.

Exports:

Date:	Particulars	Quantity (tons)	Amount (USD)
10	Sugar	250	300,000
15	Maize	400	500,000
20	Sugar	200	240,000
25	Maize	100	125,000
30	Coffee	900	900,000

Notes

- The exchange rate relevant for the month of March 2019 was 1 USD to US\$ 3,600
- All imports purchases, local sales and exports have been reported VAT exclusive.
- The company has an offset brought forward from February 2019 of US\$ 51,250,300.

Required:

Compute the VAT payable / claimable by Kawa Super Limited for the month of March, 2019. *[15 marks]*

- Mrs. Okello has been an employee of K. Ltd. For the last 15 years. She was recently retired and granted shs.10,000,000 in June 2018 as terminal benefit.

Required:

- Compute her annual income tax assuming she is a resident person and had no other income during the year ended 30 June 2018. *[6 marks]*
- Using the same information, what would be her tax liability if she had worked with Kwena Ltd for 9 years. *[4 marks]*

Question Three:

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

- Monthly salary US\$24 million.
- The company provides her with accommodation in Muyenga at a cost of US\$ 2 million per month.
- She was provided with a Fortuner car that a cost US\$ 120 million on 1 July 2017 for official and private use on equal basis.
- She earns a 13th cheque at the end of December equivalent to one month's salary.
- She is given a fuel for her car for US\$ 2 million per month.

6. She is also provided with a housekeeper by the company at a cost of US\$ 300,000 per month.
7. Electricity and water bills paid for her by the company amount to US\$ 1.2 million per month.
8. She was enrolled to a medical insurance scheme with a leading insurance company in Uganda for US\$ 6 million annually.
9. The company pays US\$ 3 million per month to a health club for her and her family; she contributes US\$ 800,000 to this.
10. She was extended a loan of US\$ 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 = US\$ 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:

	US\$ '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 US\$ 30 million. Tax depreciation allowances on the firm's assets were US\$ 25 million. In the previous tax audit, it was agreed with URA that the non-qualifying use of the partnership assets was 10%.

Required:

- Compute the tax liability of the partners for the year ended 30 June 2018. [15 marks]
- Discuss the five fundamental principles and explain why tax practitioners need to observe such principles. [5 marks]

Question Five:

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

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

- Citi Consults Ltd are specialized engineers in Uganda. They prepare their books to 30 June. The opening tax written down values 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 Sh . 3 Million

- Office equipment and fittings fetched Sh 8 Million.

Required :

- Compute the wear and tear allowance for the year. **[10 Marks]**
- Compute the Industrial Building Deduction (IBD) . **[3 Marks]**
- 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:

Kyagulanyi & Sons Ltd deals in the importation, resell and sometimes export of sugar. During the month of December 2021, 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 2021 was 1 USD = 3,600 UShs.

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

Required:

- Using the above information, compute the tax payable by Kyagulanyi & Sons Ltd to URA Customs. **[10 marks]**
- Uganda is a member of the East Africa Community Customs Union and Common Market. Currently, goods produced within any member state enjoys 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. **[8 marks]**
- Give **two** advantages of Uganda being part of the EAC Customs Union and Common Market. **[2 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.