

UGANDA MARTYRS UNIVERSITY (Masaka Center)
Faculty of Business Administration and Management
Taxation and Tax Management Examination Semester II 2011
BAM 111

Time allowed three hours

Instructions

- (a) Attempt **four (4)** questions out of seven questions.
- (b) **Question One** is compulsory
- (c) You are encouraged to use Income Tax Act CAP 340 provisions and relevant examples.

Question 1

Mr. Musiime Jackson is an employee of Kasaba Investments Ltd. During the year ended 31st December 2009, he received the following from his employer.

	Shs.
(a) Basic salary	500,000
(b) Annual medical reimbursement	1,800,000
(c) Leave pay	1,000,000
(d) Company loan of 5% interest (Bank interest is 20%)	20,000,000
(e) Company food ration	20,000
(f) Air tickets during annual leave	3,000,000
(g) During the year, he was given a company car which was bought at shs. 20,000,000 five years ago. It is depreciated on a straight line basis at 10%. It is estimated that private use of the car was 80 days during the year. The company deducts shs. 50,000 per month from his emoluments of car benefit.	
(h) He stays in a company house whose monthly rent was put at shs. 100,000 by a market survey.	
(i) During the year he received dividends worth shs. 4,000,000 from Stanbic bank a resident company.	
(j) As a reward for his exemplary service Mr. Jackson acquired 20 shares from Uganda Clays Ltd. at shs. 4,500 each, his employer financing 50% of the cost.	

(k) During the month of May renovations were made at his office and he was given furniture with a market value of shs. 600,000.

(l) Mr. Jackson is also a part-time lecturer at Kampala International University earning shs. 500,000 per month. No tax was deducted at the source before he received his payments.

(m) Mr. Jackson enjoys the services of two watchmen, a house keeper, and a shamba boy each paid shs. 40,000 by his employer.

Required

(a) Compute Mr. Jackson's annual taxable income and tax liability for the year ended 31st December 2008 (20 marks)

(b) What are the limitations of PAYE system in Uganda? (5 marks)

Question 2

Walugembe and sons LTD registered for VAT and its registration process was completed on October 15th 2008. The company deals in electrical appliances. The company had the following transactions from March 2009 to December 2009.

15 th April 2009 bought a computer for cash for business use	5,000,000
20 th April bought office furniture for cash	7,000,000

Bought stock for sale as follows,

Sales invoice date	Shs	Payment date
15 th April 2009	5,000,000	16 th April 2009
15 th August 2009	35,000,000	14 th September 2009
20 th October 2009	15,000,000	12 th December 2009

The sales were as follows.

Sales invoice date	Sales invoice value	Cash received from current sales & Debtors
	Shs	Shs
April 2009	3,000,000	2,000,000
May 2009	1,000,000	1,000,000
June 2009	500,000	1,000,000
August 2009	5,000,000	6,000,000
September 2009	3,000,000	3,000,000
October 2009	<u>9,000,000</u>	<u>7,000,000</u>
	21,500,000	20,000,000

The following extra information is available

- (a) The sales invoices and cash from current sales plus debtors are VAT inclusive where applicable.
- (b) The purchase prices are VAT exclusive.
- (c) All purchases of the company are made from VAT registered suppliers who issued valid tax invoices to the company.
- (d) Standard gross mark-up on all sales is 25%.
- (e) The company paid VAT in respect of hotel accommodation for the Director during the month of October 2009 of shs. 450,000.
- (f) The company bought a second hand computer from Kenya at a cost of Ushs. 25,000,000. The VAT paid in Kenya in respect of computer is equivalent to shs. 2,500,000. At the customs entry point into Uganda the company paid extra VAT of shs. 4,675,000.
- (g) The company paid October 2009 wages to casual laborers amounting to 1,500,000.

Required

- (a) Compute VAT claim on stock and capital goods at registration
- (b) Compute VAT liability for the company for the month of October 2009
 - (i) Using invoice/ Accrual basis accounting
 - (ii) Using cash basis accounting

(15 marks)

- (c) Briefly describe the reasons for introducing VAT in Uganda and their limitations (10 marks)

Question 3

- (a) Briefly using examples distinguish between direct and indirect taxes. (5 marks)
- (b) Give the reasons why most governments prefer indirect taxes to direct taxes. (4 marks)
- (c) State the merits and demerits of direct and indirect taxes. (16 marks)

Question 4

- (a) What do you understand by the term taxable capacity? (5 marks)
- (b) With specific examples from Uganda explain the factors that determine taxable capacity. (10 marks)

(c) Mention obligations of a tax payer. (10 marks)

Question 5

Taxation is a backbone and a component of public finance and also a source of public revenue which any government cannot do without. It is carried out for various reasons.

- (a) What is the rationale and functions of taxation? (10 marks)
- (b) Define the canons or principles of taxation and explain them. (10 marks)
- (c) Describe other sources of public revenue other than taxation (5 marks)

Question 6

Briefly explain any **five** of the following terms as applied to Income from business.

- (i) Exempt income
- (ii) Allowable deductions
- (iii) Non allowable deductions
- (iv) Capital deductions
- (v) Wear and tear
- (vi) Industrial building deductions
- (vii) Initial allowance (10 marks)

Question 7

Discuss the extent to which taxes contribute to the political, social and economic growth and development of your country. (25marks)