

**UGANDA MARTYRS UNIVERSITY, NKOZI**

**FACULTY OF BUSINESS ADMINISTRATION AND  
MANAGEMENT**

**DEPARTMENT OF ACCOUNTING & FINANCE**

**CODE: TAX 3201**

**COURSE: TAXATION AND TAX MANAGEMENT**

**BAM 3 2016/17  
LUBAGA EVENING**

**DATE: Tuesday, 11<sup>th</sup> April 2017**

**Time allowed: 6:00 pm – 9:00pm**

**Instructions to Candidates:**

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) The examination has two **sections A & B**
- 3) **Section A is compulsory**, attempt **any three from Section B**
- 4) All questions carry equal marks

## SECTION A (COMPULSORY)

### QUESTION ONE

Kyampisi Coffee Limited was registered in Uganda in June 2013 and commenced business on 1 July 2013. The company deals in the local purchase, processing and export of coffee and cocoa. The principal company premises and factory are located in Kampala. The following is the company's statement of comprehensive income for the year ended 30 June 2016.

Statement of Comprehensive Income for the year ended 30 June 2016:

	Sh. 000
Turnover	110,000,005
Cost of Sales	<u>(97,500,000)</u>
<b>Gross Profit</b>	<b>12,500,005</b>
Expenditure:	
Operating expenses [Details Below]	387,005
Staff Expenses	935,000
Administration Expenses	<u>1,189,000</u>
<b>Total Expenditure</b>	<b><u>2,511,005</u></b>
<b>Net Profit Before Tax</b>	<b>9,989,000</b>

Notes:

Operating Expense:

- Depreciation	404,000
- Prepaid Lease Rental	2,005
- Reversal of Provision for Bad debts	(73,000)
- Bank Charges	<u>54,000</u>
	<b><u>387,005</u></b>

Notes to the Accounts:

1. Included in staff expenses is Shs 80 million that the company paid to Uganda Revenue Authority as a penalty for wrong computation of staff PAYE taxes over the years after a tax audit.

2. Administration costs include the following among other items:

	Shs '000'
- Realized exchange loss on legal/professional fees. This amount was unrealized at the end of June 2015.	52,000
- Travel Expenses for the Managing Director and his family for vacation	13,100
- Purchase of a personal car for the Managing director	56,500
- Rent for the staff, [staff are taxed on the benefit]	120,600



- Advertising and marketing	237,560
- Donation towards Organization of PAM Awards	24,500

3. The provision that was reversed relates to an amount that had been owing to FBK Packers that was eventually paid during the year. The provision had been made in period ending June 2015.

4. Details relating to non- current assets:-

i) Written Down values as at 1<sup>st</sup> July 2015: Shs 000

Class I	9,352
Class II	47,050
Class III	83,775
Class IV	391,111

(ii) Additions to depreciable assets during the year:

	Shs '000'
Computers	4,499
Office Furniture	32,700
Plant and machinery	322,321
Toyota Land Cruiser	25,200
5 Yamaha Motorcycles	22,000

(iii) An extra block was added to the buildings in Kampala during the year at a total cost of Shs 115 million. The block was completed and was put to first use on 1 May 2016. The aggregated cost for existing buildings which still have a residual value is Shs 1,250 million. All the buildings were put to use on 1 July 2014.

5. The company's start-up costs in 2014 amounted to Shs 1,500 million.

6. The company paid provisional tax of Shs 1,000 million during the year and had no tax recoverable from previous years.

**Required:**

- Compute the tax adjusted profit, tax liability and tax payable by Kyampisi Coffee Limited for the year ended 30 June 2016. **[20 marks]**
- Advise Kyampisi Coffee Limited on circumstances under which they can deduct bad debts when computing tax payable for a year of income. **[5 marks]**

## SECTION B (Attempt any three)

### QUESTION TWO

- a) John has been employed by a foreign construction company for the last 7 ½ months with the following monthly remuneration.

	Shs.
Basic salary	1,000,000
Medical allowance	400,000
Meals	100,000
Utilities	70,000
Overtime pay	60,000
Monthly bonus	40,000

#### **Additional information:**

- He uses a shs.10,000,000 company vehicle for official and private purposes on equal day basis paying shs.5,000 per month to the employer as a contribution to the facility.
- He was are provided with a house girl and gardener each paid shs.20,000 per month.
- The meals were provided by the employer in the company canteen during official working hours using cafeteria system.
- He was provided with accommodation which costs shs.100,000 per month. The amounts are paid by the employer.

#### **Required:**

Compute John's monthly taxable income and tax liability, assuming:

- i) He is a resident person. **[10 marks]**
  - ii) He is a Non-resident person **[5 marks]**
- b) Mrs. Kwewana Nyo has been an employee of Kwena Ltd. For the last 15 years. She was recently retired and granted shs.10,000,000 in June 2015 as terminal benefit.

#### **Required:**

- i) Compute her annual income tax assuming she is a resident person and had no other income during the year ended 30 June 2015. **[6 marks]**
- ii) Using the same information, what would be her tax liability if she had worked with Kwena ltd for 9 years. **[4 marks]**

### QUESTION THREE

- a) Discuss the role of Taxation in developing countries as advanced by the proponents of tax Philosophy, clearly showing how it promotes development. **[8 marks]**
- b) Discuss the major principles/canons of taxation as presented by the designers of tax Systems. Show any challenge faced in complying to the principles **[8 marks]**
- c) State and Explain the Various sources of Government Revenue in Uganda. **[4 marks]**



- d) Define and distinguish between direct and indirect tax system as operated by government tax authorities. (5 marks)

#### **QUESTION FOUR**

Juma and Sons Ltd imports wine from Australia, the cost of Wine \$ 17,000, the insurance company charged them \$ 6,000 and transport was \$ 2,000. This import attracted 25% import duty, 70% excise duty, VAT of 18% and withholding tax of 6%. The current Exchange rate is UGX 3,500. Compute the following;

- a) Custom Value [5 marks]
- b) VAT [10 marks]
- c) Withholding Tax [5 marks]
- d) Total cost of Wine all taxes inclusive [5 marks]

#### **QUESTION FIVE**

- a) Define VAT as used in Taxation and state the factors that make vat a good tax system. [4 marks]
- b) Define the following: (2 marks each)
  - i) Taxable supplies
  - ii) Out put and Input VAT
  - iii) Exempt supplies and Zero-rated Supplies

- c) Mawungu Enterprises had the following transactions for the month of May 2013:

Expenditure:	Shs '000'
Office furniture and equipment (VAT inclusive)	8,500
Office stationery (VAT inclusive)	6,000
Computers (VAT exclusive)	5,500
Computer repair charges (VAT exclusive)	1,200
Inventories for trading (VAT exclusive)	47,800
Purchase of pickup truck to ferry goods (VAT inclusive)	65,214
Airtime purchase (VAT inclusive)	4,560

#### **Additional information:**

1. Sales turnover was Shs 210 million (VAT exclusive).
2. All purchases were made from VAT registered companies.
3. Sales worth Shs 12 million (VAT exclusive) declared in August 2010 have been determined as bad debts and written off.

#### **Required:**

Compute the VAT claimable/ payable for the month of May 2013. [15 marks]

### **QUESTION SIX**

Define Presumptive tax and give two reasons why its being implemented in Uganda. [5 marks]

- a) Samuel operates a small business around Rubaga in Kampala, His Annual turnover was assessed to be 34 million. Annual business expenses included electricity, 1.5 million, Water – 1 million and helper 0.5 million.

Required: Compute his annual tax liability. [5 marks]

- b) John and Mark were in Partnership with the profit sharing ratio of 2:3 and 1:3 respectively. Mark earned an annual salary of shs. 2,400,000/=, the interest earnings were as follows;

	John	Mark
Interest on drawings	1,000,000	500,000
Interest on Capital	5,000,000	2,500,000

The net profit before any distribution to the partners was shs. 36,000,000/= for the year ended December 2012.

**Required:**

- i) Calculate the profit to be shared [5 marks]  
ii) Calculate the income assessable on Partners [5 marks]  
iii) Compute Partners tax liability. Resident individuals [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 (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.

### Presumptive Tax rates

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