

UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION & MANAGEMENT

DEPARTMENT OF ACCOUNTING & FINANCE

**END OF SEMESTER TWO FINAL EXAMINATION FOR
BACHELOR OF BUSINESS ADMINISTRATION
& MANAGEMENT**

TAX 3201 – TAXATION & TAX MANAGEMENT

CAMPUSES:

MASAKA, LUBAGA, MBALE & NGETTA

(EVENING)

WEDNESDAY, 20TH JULY 2022 9:30AM – 12:30 PM

INSTRUCTIONS:

- a) Attempt any **four (4)** questions
- b) All questions carry equal marks
- c) Time allowed is **3 hours**
- d) Write your answer to each question on a fresh page in your answer booklet.
- e) Tax rates are provided on page 8.
- f) No mobile phones are allowed in the examination room
- g) Do not write anything on the question paper
- h) Please, read further instructions on the answer booklet, before attempting any question.



QUESTION ONE

Maython Manufacturers Limited (MML) is a resident company located in Jinja dealing in the manufacture of household items. The following is an extract of MML's financial statements for the year ended 31 December, 2021:

	Notes	Shs '000'
		578,726
Net revenue	2	(315,947)
Cost of sales		262,779
Gross profit	6	52,034
Other income	3	(57,611)
Distribution costs	4	(87,256)
Administrative expenses	5	(3,600)
Donations		(3,120)
Provision for bad and doubtful debts		(12,558)
Depreciation		150,668
Operating profit		(8,140)
Finance costs		142,528
Profit before tax		

Additional Information:

- i. MML carried forward assessed tax loss of Shs 16.2 million from the previous financial year.
- ii. Included in the cost of sales is Shs 16.2 million spent on designing, branding, and installing display racks at two supermarkets in Kampala.
- iii. Distribution costs included Shs 32 million used to purchase and brand a distribution van.
- iv. Administrative expenses include:
 - i. 5% NSSF employee contribution of Shs 23.4 million which was already expensed under salaries and wages.
 - ii. A gift of Shs 1.5 million to the best marketer for the year.
 - iii. Payment in advance to a local Radio Station for adverts to be aired in the first quarter of 2022 of Shs 4.5 million.
- v. Donations relate to support provided to a local politician for participation in general elections.
- vi. Other income includes unrealized foreign exchange gain of Shs 13.2 million.
- vii. Opening written down tax values were as follows:

i. Class I	42,150,000
ii. Class II	125,300,000
iii. Class III	251,825,360

viii. During the year the company acquired the following assets:

Compressor	shs 3,600,000
Industrial storage tank (1,500 litres)	shs 9,000,000
Industrial mixer	shs 16,560,000

Required:

- Determine MMLs chargeable income and compute corporation tax liability for the period ended 31 December, 2021. (20 marks)
- In accordance with the Income Tax Act Cap 340, explain the treatment of initial allowance on depreciable assets (5 marks)

QUESTION TWO

Kalyesubula Mariam is a Technical Director for the Locusts Control Initiative (LCI) a donor funded project located in Kotido district for the past 12 years. LCI has branches in other parts of the country. Mariam is entitled to the following:

- Gross monthly salary Shs 11.4 million.
- Hardship allowance Shs 750,000 per month. Kotido district is considered a hard-to-reach area.
- Monthly airtime Shs 145,000.
- Monthly digital satellite television subscription Shs 285,000.
- Meals worthy Shs 15,000 per day including weekends and public holidays. The rest of the staff in other districts are not entitled to this benefit.
- A house valued at a market value Shs 600,000.

Additional information:

- LCI pays 15% of gross salary per month into a retirement scheme managed by Sage Insurance Company.
- In September 2021, Mariam was informed by her employer that due to funding limitations, her contract will be terminated at the end of the month. The letter indicated that she would be entitled to Shs 136.8 million as her terminal benefit.
- In September 2021, Mariam was appointed by the Ministry of Farmers to support government officials with planning preventive actions in the event of locust invasion. The ministry paid her Shs 3.2 million for her services in the month.

Required:

- a) Determine Mariam's employment income for the month of September 2021 and compute her tax liability of the month. **(19 marks)**
- b) Explain any five employee and employer offences under the Income Tax Act Cap 340. **(6 marks)**

QUESTION THREE

Raspberry Computer Point (RCP) is an authorized dealer for the distribution and servicing of multiple computer brands in Uganda. The company's business involves the importation and exportation of hardware and software license from multiple brands. The following transactions took place in the month of February 2022:

Sales (VAT exclusive where applicable).

- i. RCP sold 16 advanced high end laptops to a humanitarian organization operating in the Democratic Republic of Congo (DRC) at Shs 8.4 million per laptop. They were also required to transport these laptops to Mahagi, a district in the DRC for which they charged Shs 1.2 million.
- ii. Received payments of Shs 23.8 million for a supply of computers made in January 2022.
- iii. Provided networking services worth Shs 16.4 million to a project funded by a foreign mission which is a tax exempt organization in Uganda.
- iv. Installed a Virtual Private Network (VPN) for accessing organization servers by staff working from home at Shs 22.8 million.
- v. Additionally, RCP received an order of Shs 32.5 million to install a teleconferencing facility at a government parastatal in March 2022.
- vi. Sold heavy duty printers worth Shs 17,753,000.
- vii. Sold software license for 22 computers, each equivalent to Shs 201,600. This software was delivered remotely by the developer although RCP invoiced and received the payment as an agent.

Purchases (VAT exclusive where applicable)

- i. Purchased office stationary of Shs 1,320,000.
- ii. Paid staff medical bills of Shs 620,000.
- iii. Repaired the company car, a Toyota Prado for Shs 1,620,000.
- iv. Topped up the vehicle fuel card at Shs 3,425,000.
- v. Paid office telephone bills of Shs 92,000.
- vi. Bought from a local supplier hub adaptors for networking at Shs 16,230,000.

Required:

- a) Compute RCP's VAT payable/claimable for the month of February 2022. **(15 marks)**
- b) In accordance with the Value Added Tax (VAT) Act Cap. 349 and with three (3) examples on each, distinguish between zero rated and exempt supplies **(6 marks)**

- c) Outline any four offenses that may be committed by a taxable person under VAT act Cap 349 (4 marks)

QUESTION FOUR

Kasubi, Kagolo and Kalungi are medical doctors specialised in different medical fields who established Goodwill Doctors Clinic located in Kampala. Kasubi is a physician, Kagolo is a gynecologist while Kalungi is an optician.

They started their clinic in 2010 in rented premises. They have a written partnership agreement. At the time of starting the clinic, they agreed to pool their savings together, each according to what he could afford, in order to purchase the medical equipment that they would need. Their contributions were Kasubi - 100 million, Kagolo - 200 million and Kalungi - 300 million.

They also agreed that in order to compensate their effort, the partnership would pay each partner interest on capital at 10% per annum. They agreed on a profit sharing ratio of 3:2:1 to Kasubi, Kagolo and Kalungi respectively.

They agreed that in order to discourage each other from making drawings out of the partnership for it to grow, the partnership would charge interest on drawings of 5% per annum.

However, in consideration of the fact that they would need some upkeep, they agreed that each one of them would be paid a monthly salary of: Kasubi - Shs 10 million, Kagolo - Shs 8 million and Kalungi - Shs 6 million.

The partnership's statement of profit or loss and other comprehensive income for the year ended 31 December, 2018 was given below:

Item	Notes	Shs
Total revenue		<u>1,573,000</u>
Less expenses		
Rent		150,000
Salaries	1	450,000
Audit and accounting expenses		5,000
Clinic consumables		12,800
Depreciation		279,000
Travelling & communication		275,500
Interest paid	2	160,000
Repairs of hospital equipment		120,000
Bad debts written off		43,000
Staff training		<u>30,900</u>
Total expenses		<u>1,526,200</u>
Net profit		46,800

Notes:

1. The amount includes the partners' salaries.
2. The tax written down values of the assets were as below:

Class	Shs '000'
I	26,325
II	108,280
III	176,300

No assets were bought or sold during the year.

No partner made any drawings during the year.

Required:

- a) Compute the partnership distributable profit for the year ended 31 December 2018. **(14 marks)**
- b) Determine the tax liability for each partner. **(6 marks)**
- c) Explain to the partners of Goodwill Doctors Clinic the principles of taxation of partnerships in accordance with Section 65 of the Income Tax Act. **(5 marks)**

QUESTION FIVE

- a) M & M Ltd a company dealing in the manufacture of pure drinking water is considering diversifying its operations into real estate business and is seeking your advice about rental tax.

Required:

According to the Income Tax Act Cap 340, explain to the management of M & M Ltd the:

- i. Meaning of rental income and rental tax **(4 marks)**
 - ii. Tax treatment of rental income in accordance with the provisions related to the taxation of rental income as provided for in the Income Tax Amendment bill effective July 2021 **(6 marks)**
- b) Baraka Uganda Limited (BUL) bought land in Kampala in February 2015 at a cost of Shs 200 million. The company spent the following amounts in order to transfer the land title to its name.

Shs Transfer fees	1,500,000
Stamp duty	3,000,000
Search fees	10,000
Lawyer's consultation fees	2,500,000
Surveyor's fees	1,200,000

In July 2018, the company constructed a building worth Shs 90 million which it intended to hire out as a warehouse. Due to the excessive rain during that year, the area got flooded and the building could not be used for its intended purpose. Shs 20 million was

paid to a construction company to make proper drainage channels around the premises. However, the management of BUL later made a decision to sell the land and developments thereon to an investor from China, China Overseas Construction Limited (COCL). The consideration received was USD 140,000 on 20 December 2019.

The rate of exchange of the Shilling to the USD in December 2019 was 1 USD = Sh 3,650

Required:

With computations, explain in detail to Baraka Uganda Limited (BUL) how the cost base of a business asset may be determined, in accordance with the provisions of the Income Tax Act. (15 marks)

QUESTION SIX

- a) Explain any four examples of tax and four non-tax revenues in Uganda (8 marks)
- b) Explain any four (4) employment incomes which do not constitute taxable income according to income tax act sec 19 of the income tax act (8 marks)
- c) What is a return of income and explain the persons who in accordance with Sec 92 (A) are required to file a return of income (5 marks)
- d) What is Withholding Tax (WHT), and what are the circumstances under which withholding tax is treated as a final tax (4 marks)

Chargeable income	Rate of tax
Not exceeding Shs 2,820,000 (Shs 235,000 pm)	Nil
Exceeding Shs 2,820,000 (Shs 235,000 pm) but not exceeding Shs 4,020,000 (Shs 335,000 pm)	10% of the amount by which chargeable income exceeds Shs 2,820,000 (Shs 235,000 pm)
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds Shs 4,020,000 (Shs 335,000 pm).
Exceeding Shs 4,920,000 (Shs 410,000 pm)	<p>(a) Shs 300,000 (Shs 25,000 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and</p> <p>(b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).</p>

Non-resident Individuals

Chargeable income	Rate of tax
Not exceeding Shs 4,020,000 (Shs 335,000 pm)	10%
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 402,000 (Shs 33,500 pm) plus 20% of the amount by which chargeable income exceeds 4,020,000 (Shs 335,000 pm).
Exceeding Shs 4,920,000 (Shs 410,000 pm)	<p>(a) Shs 582,000 (Shs 48,500 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and</p> <p>(b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).</p>

Rate of tax for corporate businesses 30%

VAT 18%

.....End of the paper, Good luck.....