

# Uganda Martyrs University Nkozi

Faculty of Business Administration and Management

## END OF SEMESTER EXAMINATIONS 2023

PAPER : **TAX MANAGEMENT**

PROGRAM : **MASTERS OF BUSINESS ADMINISTRATION**

STUDY SESSION: **WEEKEND**

CAMPUS : **LUBAGA, MASAKA & MBALE**

TIME : **3 HOURS**

DATE : **16<sup>th</sup> December, 2023**

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### INSTRUCTIONS:

1. DO NOT WRITE ANYTHING ON THIS QUESTION PAPER.
2. Read the QUESTIONS carefully and the INSTRUCTIONS on the ANSWER BOOKLET before attempting to answer any question.
3. ALL ROUGH WORK must be done on the second last page of the booklet and clearly indicated "Rough work".
4. Attempt ANY four (04) questions including question ONE. All questions carry equal marks. Always start answering each question on a fresh page.
5. Write clearly in BLUE or BLACK ink and always cite relevant examples and cases where applicable. A pencil can only be used for diagrams.
6. Uganda Martyrs University examinations are conducted in accordance with the *Uganda Martyrs University Senate General Rules & Regulations*. Breach of the above instructions, irregularity, or any other contravention of the examination regulations will lead to disqualification and/ or subsequent disciplinary action by Senate.



## QUESTION ONE

Tuzimbe Construction Company Limited (TCCL) is a resident Ugandan company engaged in the business building constructions, civil works, road construction, and electrical power line works. The company's main office is located in the Kawempe Division industrial area, Kampala District. TCCL's main contracts are with government agencies and other corporate bodies.

TCCL has a long running arrangement with a financial institution for financing its projects at a pre-negotiated rate of 14% per annum below the commercial rate of 16% for long term credits. This financing cost is written to the annual financial statements. Additional information to the financial statement is provided in the notes.

Provided is TCCL's statement of profit or loss and other comprehensive income for the year ended 31 December 2022.

	Notes	Shs '000'
Revenue	1	30,064,000
Cost of sales		(19,404,000)
Gross profit		10,660,000
Other incomes	2	552,000
Total income		11,212,000
Administrative expenses	3	(2,298,000)
Operating expenses	4	(4,626,322)
Finance cost		(161,900)
Profit before tax		4,125,778

### Notes to the financial statement:

1. Included in revenue is Shs 6 billion paid in advance for the construction of a government complex on which approval is yet to be obtained.

2. Included in other incomes are the following amounts:

	Shs '000'
Bad debts recovered	82,800
Interest on treasury bonds	231,840
Gain on disposal of asset	237,360

3. Administrative expenses include the following:

	Shs '000'
Staff salaries & wages	1,171,980
NSSF employer contributions	117,198
Life insurance for site workers	45,960
Director benefits not included in employment benefits	91,920
Electricity & water	114,900
General expenses not supported by e-receipts and invoices	298,740
Un-accountable travel allowances for management	459,600

4. Operating expenses include the following:

	Notes	Shs '000'
Purchase of staff protective wear	(i)	231,316



Supplies and materials	(ii)	693,948
Purchase of on-site facilities (trailers, ladders, etc)		693,948
On-site set-up costs	(iii)	231,316
Legal fees		185,053
Depreciation		925,264
Construction supplies (cement, paints, electricals)	(iv)	1,017,791
Fuel		647,685

(i) Staff protective wear individually does not cost more than Shs 1million.

(ii) Supplies and materials include Shs 85 million paid to a supplier for cement and paint which were not yet delivered by the end of the year.

(iii) Site set-up costs relate to a project on which construction works are yet to begin in Mbale.

(iv) Supplies valued at Shs 325 million were not used although included in the cost of supplies.

5. Finance costs include:

	Shs '000'
• Interest paid	134,377
• Bank charges	27,523
•	

6. Information relating to property plant and equipment:

(i) Opening tax written down values at 1 January, 2022.

	Shs '000'
Class I	43,520
Class II	-
Class III	342,500

Additions during the year were as follows:

	Shs '000'
• 1 Cement Mixer	168,000
• Self-Loader	213,500
• MDs Landcruiser	425,900
• Extractor	63,600

(ii) Disposals during the year

	Shs '000'
• Old compactor	32,100
• Dump truck	43,400

7. The company paid provisional tax of Shs 11.3 million.

8. The qualifying amount of the company building when it was first put use on 1 July 2015 was Shs 930,310,000. No major alterations have been made to the building since its completion.

**Required:**

(a) Advise the management of Tuzimbe Construction Company Limited (TCCL) on their income tax obligations for the year ended 31 December 2022. (20 Marks)

(b) In accordance with the Income Tax Act Cap 340, explain any five forms of income exempted from tax. (5 Marks)

(Total 25 Marks)

**QUESTION TWO**

Ronald Mufumbiro is a Ugandan flight captain flying for Kamwokya Airlines. Ronald has been working with the airline as a Senior First Officer for the past six years and got promoted to Captain in January 2023. The following are the terms of his engagement in the new rank and other gains in the month of January 2023.

1. Monthly retainer of \$ 800 and flight allowance of \$ 150 per international flight and \$ 100 per regional flight. In the Month, Ronald made 6 international flight and 3 regional flights.
2. In the month, Ronald was engaged as a Training Captain for the airline's training school in Soroti. He was paid Shs 3.2 million for the assignment.
3. The Airline reimbursed him fuel for his travels to and from the airport of Shs 420,000 of which only Shs 220,000 related to actual work travels.
4. Ronald also received 2 pairs of a four-striped Pilot uniform from the airline valued at Shs 450,000 per pair.
5. The airline gave Ronald \$ 300 for "warm clothing allowance" a special kind of clothing allowance given once in three years to buy winter clothing.
6. For each of the 6 international flights in the month, Ronald was given \$ 200 for lodging and accommodation. The airline does not require accountability for this allowance.
7. The airline provides accommodation for all flight pilots, Ronald's apartment in Magere is valued at a monthly rent of Shs 1.2 million.
8. During each flight, Ronald and the entire crew are served with meals valued at Shs 20,000 per flight.
9. Additional monthly benefits include airtime of Shs 150,000 and internet data bundles of Shs 250,000.
10. He also attended a routine medical check-up for which the airline paid Shs 850,000.

**Additional information:**

The exchange for the month was \$ 1: Shs 3,500

**Required:**

(a) Compute Ronald's chargeable income and tax liability for the month of January 2023.

(20 Marks)



b) In accordance with the provisions of the Income Tax Act Cap. 340 give the instances where employment income may not be included in the chargeable employment income. (5 Marks)

(Total 25 Marks)

### QUESTION THREE

(a) Distinguish between an Advalorem tax and Specific tax (2 Marks)

(b) Mr. Kamuntu Fred is a wealthy businessman based in Kyanja, a Kampala suburb found in Nakawa Division, Kampala District. He owns a big store in Kyanja that deals in the sale of electronics that are supplied to him by Sumsung Electronics and LG electronics. The business is a profitable one, although he has observed that much of the profits made are taken by his suppliers who supply to him the electronics. In a bid to increase on his earnings (profits), a friend of his advised him to import the goods for himself. However he is unaware of how taxes are computed at importation, he has approached you for advice. Explain the various methods used to determine the value of imported goods used to compute taxes at importation. (8 Marks)

(c) Rock Beverages Limited (RBL) is a mineral water bottling company packing mineral water and has recently started packaging juice and other soft drinks. For its juice packaging brand, RBL imported a filling machine from Ostim Industrial City in Turkey. RBL paid \$ 18,900 for the machine at the factory, \$ 600 to transport the unit to the port of export, insurance of \$ 945, and freight of \$ 350 to the port of Mombasa.

RBL made additional payments to the manufacturer for a non-returnable container of \$ 120 and training fees of \$ 1,200. As part of the purchase, the manufacturer provided start-up bottling supplies for free valued at \$ 1,500.

The manufacturer sold the control unit of the machine separately at \$ 3,100. This was airlifted from Esenboga International Airport in Ankara to Entebbe International Airport in Uganda. The air freight was \$ 110 and freight insurance of \$ 50.

#### Additional information:

- The Exchange rate at the time was \$ = Shs 3,700
- The Import duty rate is 25%
- Value added tax rate is 18%
- Withholding tax is 6%
- Infrastructure levy is 1.5%

**Required:**

Compute the customs value and taxes payable by RBL for the importation.

**(15 marks)**

**(Total 25 marks)**

**QUESTION FOUR**

(a) Muriffe John (MJ) is the sole shareholder and managing director for Muriffe Investments Limited (MIL). During the year ended 31 December 2022, the company disposed of one of its saloon cars used by MJ at Shs 142 million; this vehicle had been acquired a year before at Shs 163 million.

**Required:**

Determine the gain or loss on the disposal of the vehicle and the applicable capital gains tax, if any.

**(10 marks)**

(b) Tax is the most important form of government revenue used not only to pay for public goods and services but also a key ingredient in the social contract between citizens and the economy.

Based on your knowledge of taxation, explain the:

(i) Fundamental principles of ethics for tax practitioners in Uganda. **(9 marks)**

(ii) At least **Six** Key sources of non-tax revenue in Uganda **(6 marks)**

**(Total 25 marks)**

**QUESTION FIVE**

Sky View Agencies (SVA) Ltd is a value added tax (VAT) registered company dealing in the production, recycling, and supply of paper products. The company had the following transactions during the month of February 2023.

1. The company supplied paper bags on credit to a supermarket worth Shs 6.3 million.
2. SVA supplied 50 dozen of counter books at Shs 2 million.
3. The company supplied locally produced exercise books to 6 primary schools worth Shs 12.8 million.
4. During the month, SVA also supplied toilet papers produced from recycled materials worth Shs 7 million to various markets in Uganda.
5. The company also produced and supplied gift wrappers worthy Shs 5 million on credit to a supermarket in Kampala.
6. During the month, one of its stores in Mbale was flooded and papers materials valued at Shs 4 million were destroyed. VAT had been reported on these materials.
7. To customers in the DRC, SVA made supplies equivalent to Shs 12.8 million. These remained unpaid by the end of the month.
8. The toilet paper plant uses materials from the recycling unit, during the month; materials worth Shs 9.2 million were used by the plant.



9. The company also purchased a paper pulping machine from a local supplier at Shs 52 million.
10. SVA also purchased old papers for recycling from a non-registered VAT supplier at Shs 1.2 million.
11. Items worth Shs 4.4 were returned and a credit note has been issued to the customer.

**Additional information:**

All purchases are VAT inclusive and Sales are VAT exclusive where applicable.

**Required:**

- (a) Compute the VAT payable/claimable for the month of February 2023. **(15 Marks)**
- (b) In accordance with the VAT Act Cap 349, explain
  - (i) The rules governing time of supply in Uganda. **(6 Marks)**
  - (ii) The circumstances under which VAT is refundable. **(4 Marks)**

**(Total 25 Marks)**

**QUESTION SIX**

- a) Although governments have the right to impose taxes on citizen as an avenue to raise government revenue for development and provision of public goods, taxes should be administered in a way that creates minimum pain to the payer. According to the taxpayers' charter, explain the rights of taxpayers in the process of tax collection. **(10 marks)**
- b) In accordance with the Income Tax Act Cap 340, explain the circumstances under which withholding tax is considered a final tax and the implication of withholding tax being a final tax. **(7 marks)**
- c) Mr Matayo Katumba (MK) is a retired civil servant who provides professional services on a consultancy basis. For the year ended 30 June 2023, Matayo earned:
  1. Shs 12 million in gross income from providing tax advisory services to Avengers Company Limited.
  2. Shs 9.4 million from the provision of Mobile Money services.
  3. Shs 1.1 million from a bet on an English Premier League game.

**Required:**

Compute the withholding tax applicable to each of the incomes earned by MK in the year ending 30 June 2023.

**(8 marks)**  
**(Total 25 marks)**

**End of Paper**  
**Merry Christmas and Happy New Year**

**Rates of Tax  
Resident Individual**

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)	(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  (b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).

**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)	(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 (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).



### Small Business Taxpayers

Gross Turnover	With records	Without records
Not exceeding Shs 10 million	NIL	NIL
Exceeding Shs 10 million but does not exceed Shs 30 million per annum.	0.4% of annual turnover in excess of Shs 10 million.	Shs 80,000
Exceeding Shs 30 million but does not exceed Shs 50 million per annum.	Shs 80,000 plus 0.5% of annual turnover in excess of Shs 30 million.	Shs 200,000
Exceeding Shs 50 million but does not exceed Shs 80 million per annum.	Shs 180,000 plus 0.6% of annual turnover in excess of Shs 50 million.	Shs 400,000
Exceeding Shs 80 million but does not exceed Shs 150 million per annum.	Shs 360,000 plus 0.7% of annual turnover in excess of Shs 80 million.	Shs 900,000