

PRINCIPLES OF TAXATION REVISION KIT



PASTPAPER QUESTIONS & ANSWERS

Certified Tax Advisor Course

CTA

PRINCIPLES OF TAXATION (P3)

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Questions

TEST PAPER 1
CTA MAY 2018

Attempt four of the five questions

Question 1

Mr. Fred Butima has been operating a restaurant in Kampala city centre for over 6 years. He is also employed by Quest Uganda Limited (QUL) as an accountant. He runs a side consultancy business to raise his standard of living. The following information relates to his income generating activities for the year ended 30 June, 2017.

Restaurant business

Statement of comprehensive income for the period ended 30 June:

	2017	2016
	Shs '000'	Shs '000'
Revenue	500,000	450,000
Direct costs	<u>(295,000)</u>	<u>(280,000)</u>
	205,000	170,000
Administrative costs	<u>(60,000)</u>	<u>(50,000)</u>
Operational profits	<u>145,000</u>	<u>120,000</u>

Additional notes:

(i) Included in administrative costs the following:

	Shs '000'
Rent	12,000
Salaries	14,400
Depreciation	1,200
Provision for bad debts	5,000
Repairs	1,100
Trading licence	500
Professional fees	1,000
Bank charges	506
Drawings	20,194
Christmas gifts	500
Transport	<u>3,600</u>
	<u>60,000</u>

(ii) During the year, the restaurant acquired the following assets:

	Shs '000'
Computer	2,500
Cooker	3,000
Chips cutter	900
Showcase warmer	1,500
Furniture	2,000

(iii) Tax written down values 1 July, 2016:

	Shs '000'
Class I	4,500
Class IV	9,700

- (iv) Mr. Butima provided professional accounting services to an NGO in his locality and earned Shs 10,000,000 for his consultancy business. This income was subjected to 6% withholding tax.
- (v) Mr. Butima earns a monthly salary Shs 9,000,000. He was provided with a company car that was acquired on 1 July, 2015 for Shs 45,000,000. QUL paid rent of Shs 1,500,000 per month directly to his landlord. He was provided with medical insurance that cost the company Shs 2,000,000. His employer deducted local service tax of Shs 100,000. He received a year-end bonus of Shs 10,000,000. He also travelled to Nairobi on official duties for 6 days and was given a per diem of USD 150 per day (USD 1: Shs 3,600) to cater for his accommodation and meals.
- (vi) Mr. Butima owns apartments in Gayaza, Wakiso district from which he earned annual rent of Shs 24,000,000 during the year ended 30 June, 2017.

Required:

Compute for Mr. Butima for the year ended 30 June, 2017:

- (a) taxable income, giving reasons for any omissions where applicable. **(20 marks)**
- (b) tax payable. **(5 marks)**

Total (25 marks)

Question 2

Mr. Kagoro is a resident of Seeta - Mukono district and owns one residential unit and a commercial unit, both situated near his residence. These buildings were completed in June, 2016 at a cost of Shs 300 million and Shs 800 million respectively. He earned gross rental income Shs 24 million from the residential unit and Shs 84 million from the commercial building during the year ended 30 June, 2017. During this period, this was the only source of income of Mr. Kagoro having retired as lecturer at Ishaka Christian University in 2016.

The following information relates to Mr. Kagoro's rental business during the year of income ended 30 June, 2017.

No.	Item	Shs '000'
1.	Repairs, cleaning and sanitation	17,000
2.	Emptying the sewerage system	15,000
3.	Property rates	6,000
4.	Security	3,500
5.	Contribution towards the niece 's wedding	3,600
6.	To facilitate the process of obtaining an occupancy permit, Mr. Kagoro paid Shs 1 million to Mr. Kintu who was a member of the local council.	
7.	While commissioning his commercial building, he threw a party for friends and business associates worth Shs 4 million.	

Required:

- (a) Compute the rental tax payable by Mr. Kagoro for the year ended 30 June, 2017.
(5 marks)
- (b) In case Mr. Kagoro had incorporated a company through which his rental business was conducted; compute the rental tax that would be payable by the company for the year ended 30 June, 2017.
(10 marks)
- (c) Advise Mr. Kagoro on the due dates of the final returns of an individual and of a company dealing in rental business.
(3 marks)
- (d) Advise Mr. Kagoro on the VAT treatment of his rental income and output VAT arising, if any, assuming that he was voluntarily registered for VAT effective 1 July, 2016.

(7 marks)

Total (25 marks)

Question 3

Kantu Enterprises Limited (KEL) operates a supermarket located in Kawempe, Kampala district, and is registered for value added tax. The following transactions relate to the business operations for the month ended 31 December, 2017:

Sales:

- (i) Sales revenue Shs 1,140,000,000 (VAT exclusive).
- (ii) Included in the sales revenue was Shs 150 million relating to sale of unprocessed foodstuffs and Shs 70 million relating to sale of cereals grown and milled in Uganda.

Purchases:

	Shs '000'
(i) Computers & accessories (VAT exclusive)	12,500
(ii) Computer servicing (VAT inclusive)	1,600
(iii) Office stationery (VAT inclusive)	1,800
(iv) Meals for staff (VAT inclusive)	4,500
(v) Airtime (VAT inclusive)	1,000
(vi) Rent (VAT exclusive)	50,000
(vii) Audit fees (VAT inclusive)	5,000
(viii) Trading stock (VAT inclusive)	650,000
(ix) Repair of company's vehicle (Toyota Land Cruiser) for general manager (VAT exclusive) Shs 1,600,000.	

Additional information:

1. All purchases were made from VAT registered suppliers.
2. Trading stock relates to standard rated purchases on which VAT at 18% was applied.
3. Sales Shs 18 million (VAT inclusive) declared in the VAT returns of September, 2015 were found to be bad debts and decided to be written off.

Required:

- (a) Compute the VAT claimable/ payable by KEL for the month of December, 2017.
- (b) Distinguish between a zero rated supply and an exempt supply.

(20 marks)

(5 marks)

Total (25 marks)

Question 4

Zhoghi Limited is incorporated in China and deals in road construction. The company set up a branch in Uganda, Zhoghi Uganda Limited, in 2015. The branch's income tax for the year ended 30 June, 2017 was determined to be Shs 200 million.

The branch's financial statements for the year ended 30 June, 2017 are shown below:

Statement of comprehensive income:

	2017		2016	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Revenue		5,280,000		3,920,000
Direct costs		<u>(2,430,000)</u>		<u>(1,752,000)</u>
Gross profit		2,850,000		2,168,000
Administrative costs	650,000		580,000	
Other expenses	<u>250,000</u>	<u>(900,000)</u>	<u>190,000</u>	<u>770,000</u>
Profit before tax		1,950,000		1,398,000
Tax expense		<u>(150,000)</u>		<u>(120,000)</u>
Profit after tax		<u>1,800,000</u>		<u>1,278,000</u>

Statement of financial position:

	2017		2016	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets		25,000,000		20,000,000
Current assets:				
Inventory	560,000		650,000	
Trade & other receivables	950,000		1,250,000	
Cash & cash equivalents	<u>200,000</u>	<u>1,710,000</u>	<u>180,000</u>	<u>2,080,000</u>
Total assets		<u>26,710,000</u>		<u>22,080,000</u>
Equity & reserves				
Reserves	10,260,000		8,460,000	
Head office account	<u>12,050,000</u>	22,310,000	<u>13,200,000</u>	21,660,000
Current liabilities:				
Trade & other payables		<u>4,400,000</u>		<u>420,000</u>
Total equity & liabilities		<u>26,710,000</u>		<u>22,080,000</u>

Required:

- (a) Compute the branch remittance tax for the year ended 30 June, 2017. **(14 marks)**
- (b) Provide an explanation of what constitutes a branch of a non-resident company in Uganda. **(8 marks)**
- (c) The branch did not file its provisional tax returns during the year ended 30 June, 2017; however, the final self-assessment return was filed.

Required:

Compute the penalty for under provisioning.

(3 marks)

Total (25 marks)

Question 5

Governments world over require tax revenue for the provision of public goods and services. Tax is said to be the cost of civilization. The residence principle is fundamental in determining a person's connection with a country to justify its jurisdiction and right to tax that person's income.

Mr. Paul Okello works for a government institution and is considering retiring and starting his own company to deal in the processing of juice by 30 June, 2018. He anticipates his company to have an annual turnover in excess of Shs 500 million. He does not have enough knowledge about the tax laws of Uganda. Recently while reading the newspapers, he came across an article written by a tax consultant concerning the taxation of resident and non-resident persons.

Required:

- (a) As a tax advisor, advise Mr. Okello on what constitutes the residence of the following persons according to the Income Tax Act in Uganda for a year of income:
- (i) Individual **(4 marks)**
 - (ii) Company **(3 marks)**
 - (iii) Trust **(3 marks)**
 - (iv) Partnership **(2 marks)**
 - (v) Retirement fund **(3 marks)**
- (b) Mr. Okello is considering partnering with a non-resident person with intention of processing fruit juice.

Required:

Advise him on the status of a non-resident person under the Income Tax Act of Uganda. **(2 marks)**

- (c) Advise Mr. Okello on the likely taxes that his company will be subjected to and their applicable rates in Uganda. **(8 marks)**

Total (25 marks)

TEST PAPER 2
CTA NOVEMBER 2018

Question 1

Luzige Senior Secondary School Limited (LSSL) is a private school offering secondary education. The school, whose year end is 30 June, is located in Buikwe district. During the month of June 2018, the Board of Directors held a strategic management meeting to move the school to a different level. One of the discussion points rotated around tax implications, though none of the directors had an in-depth knowledge of taxation.

The managing director had written to you requesting for advice on the tax implications of the following:

- (i) The Board acted retrospectively approving a cost of Shs 120 million for an acre of land where the main hall was constructed at a cost of Shs 730 million and put into use on 1 July, 2017. Included in the construction costs was Shs 75 million paid to squatters who had stayed on the land for over 20 years. The school also paid Shs 10 million to Mr. Bamwe who sits on the town council committee that approves construction plans.

(4 marks)

- (ii) The school management's proposal to buy a new car for the head teacher was approved by the Board since his old car was always having mechanical problems. The new car (Toyota Rav4, 2010) was purchased at cost of Shs 75 million on 1 September, 2017 and the old car (Toyota Corolla) was later disposed of at Shs 5 million. Management purchased kitchenware and equipment amounting to Shs 130 million having realised that the school's population was increasing.

(7 marks)

- (iii) In September 2017, management's proposal to sell part of the school's land was approved by the Board. The land had been acquired at a cost of Shs 20 million on 1 July, 2014. On the land was a school dormitory whose construction was completed and put to use on 1 July, 2015 at a cost of Shs 120 million. The land and buildings were sold for Shs 215 million during the year.

(7 marks)

- (iv) During the board meeting, the head teacher presented a list of school fees defaulters totalling to Shs 36 million who had been outstanding for over 18 months. Most of the defaulters had since left the school. The school's management policy on bad debts is to write off bad debts which are 12 months old. The Board approved the bad debts write off.

(2 marks)

- (v) The Board approved an increase in the authorised share capital from Shs 1 billion to Shs 2 billion. Stamp duty of Shs 15 million was paid for the

increase by the school and expensed in the company's administrative expenses for the year.

(2 marks)

- (vi) Having received a report on previous year's financial performance of the school indicating a profit of Shs 260 million, the Board approved an investment of Shs 200 million in treasury bills. During the year ended 30 June, 2018 the school earned interest on treasury bills of Shs 10 million.

(3 marks)

Additional information:

Tax written down values as at 1 July, 2017.

	Shs '000'
Class I	21,000
Class II	15,600
Class IV	80,000

Required:

Advise the school's managing director on the income tax implications of the above five scenarios for LSSL.

Include workings for your answer.

(Total 25 marks)

Question 2

Mr. McCain is an employee of an American multinational company, Priso Company, which has operations in East Africa. McCain is responsible for overseeing Priso Company's subsidiaries in the East African region. Following the restructuring of Priso Company's subsidiary company (Silo Limited) in Uganda, McCain has had to travel frequently to work in Uganda. During the year ended 30 June, 2018 Mr. McCain earned an annual salary of United States dollars (USD) 120,000 for his regional responsibilities. He spent 40% of his working time in Uganda, 30% in Kenya and 30% in Tanzania. McCain also owns rental properties in the USA from which he earned USD 20,000. While in Uganda, he disposed of shares that he owned in another private company in the USA and made a gain of USD 17,000. Given McCain's senior position in the company, he was entitled to share options that vest after a 3 years period of continuous employment. It was during his working days in Uganda that Mr. McCain's share options vested having fulfilled the vesting conditions and the shares were issued to him. The value of the issued shares was USD 10,000. (Assume the rate of USD 1: Shs 3,600 and that no tax was paid to a foreign government in respect of the above incomes).

Required:

- (a) Compute Mr. McCain's income tax payable in Uganda for the year end 30 June, 2017 if:
- (i) He spent 150 days in Uganda. **(6 marks)**
 - (ii) He has a permanent home in Uganda. **(14 marks)**
- (b) Explain to Mr. McCain the relevance of residence or non-residence status in relation to taxation of incomes of persons in Uganda. **(5 marks)**
- (Total 25 marks)**

Question 3

Kasumba Uganda Limited (KUL) is in the business of manufacturing soap. The company is registered for value added tax (VAT). The following were the company's transactions for the month ended 31 December, 2017:

1. Received an invoice for electricity bills of 7.2 million.
2. Purchased a printer and its accessories Shs 2.5 million.
3. Ordered and purchased for a Toyota double cabin pick-up truck Shs 45 million.
4. 7 December; purchased furniture Shs 17 million.
5. 21 December; exported soap Shs 160 million to South Sudan.
6. Imported materials for soap manufacturing Shs 400 million.
7. Purchased legal services Shs 12.6 million from a law firm to settle a land dispute between the general manager and his neighbour, Mr. Magala.
8. 17 December; cleared an invoice of staff meals for the same month Shs 7.2 million.
9. Received an invoice Shs 1.8 million from Sheraton Hotel relating to meals the managing director had with potential customers.
10. Gave out 5 cartons of soap as Christmas gifts to staff. One carton is sold for Shs 60,000.
11. Gave out soap samples to potential customers in a new market worth Shs 26.5 million.
12. Was invoiced by Super Telecom Uganda Limited for airtime used during the month Shs 4.8 million.
13. Received security deposits Shs 200 million from customers. Security deposits are refundable at the end of business relationship with the company.
14. A customer returned soap worth Shs 25 million due to manufacturing defects.
15. Wrote off a 3-year old bad debt Shs 36 million relating to a customer after meeting all the necessary procedures for recovery.

Note: Amounts relating to sales are VAT exclusive where applicable and amounts relating to purchases are VAT inclusive.

Required:

- (a) Advise KUL on the VAT implications of each of the above transactions.
(15 marks)
 - (b) Describe what you understand by the term 'taxable value of a taxable supply'.
(8 marks)
 - (c) Explain what constitutes mixed supplies under the VAT Act Cap 349.
(2 marks)
- (Total 25 marks)**

Question 4

Mr. Kigude is a taxpayer dealing in general merchandise in Hoima, western Uganda. His business has expanded drastically to the size of making an annual turnover of over Shs 500 million. His business associates have advised him that in this era, he is supposed to keep proper books of account to support his business' tax returns.

Required:

As a tax advisor, you have been approached by Mr. Kigude to:

- (a) explain the nature of accounts and records that his business is required to maintain under the Tax Procedures Code Act, 2014.
(10 marks)
 - (b) explain, in form of brief notes, the extension of time to furnish a tax return under the Tax Procedures Code Act, 2014.
(10 marks)
 - (c) advise on the due date and the resultant penalties for failure to file provisional returns of a company.
(5 marks)
- (Total 25 marks)**

Question 5

- (a) Uganda has various forms of tax legislation to govern tax compliance and administration. Over the years, there have been various amendments in the tax legislation; and compliance has drastically increased. Projecting by the year 2020, over 75% of Ugandan businesses would have embraced tax compliance.

ABB Company Limited dealing in furniture in Kampala for over 10 years was uncertain about the value added tax (VAT) treatment of imported services on 1 September, 2011 and applied for a private ruling from Uganda Revenue Authority (URA). URA's response was contrary to the expectations of the company, and the taxpayer opted not to adopt URA's interpretation.

Required:

The management of ABB Company Limited has approached you as their tax advisor to provide advice on the use and interpretation of the following categories of tax statutes in Uganda:

- (i) Primary legislation. **(4 marks)**
 - (ii) Secondary legislation. **(4 marks)**
 - (iii) Practice notes. **(4 marks)**
 - (iv) Private ruling. **(4 marks)**
 - (v) Double taxation agreement. **(4 marks)**
- (b) Effective 1 July 2011, Paragraph 13 of the Value Added Tax (VAT) Regulations, 1996 was amended to exclude a claim of input VAT on imported services and effective 1 July 2012, Section 28 of the VAT Act, Cap 349 was amended to exclude a claim of input VAT on imported services.

Required:

Advise ABB Company Limited on the implications of the above amendments on the claim of input VAT on imported services.

(5 marks)

(Total 25 marks)

TEST PAPER 3

CTA MAY 2019

Attempt four of the five questions

Question 1

Mills Uganda Limited (MUL) is a company dealing in rice milling in Uganda. The company is located in Masaka Industrial Park, Masaka district. MUL's year end is 31 December. Having realised steady growth, the Board of Directors organised a retreat for top management on 20 December, 2017 to discuss tax planning and management issues to be able to fit in the prevailing volatile economic conditions.

The secretary to the board of directors has written to you as a tax consultant seeking advice on the following matters discussed at the retreat relating to the year ending 31 December, 2018:

1. In order to expand, management agreed to purchase equipment and land. They formally approved the cost of Shs1.5 billion which management had paid for the 10 acres of land where they had started constructing the new premises.

The directors also commended management for the job well done for the new factory building whose total cost was Shs1.2 billion. Included in the cost of the building is Shs100 million paid to squatters who were occupying the land and management also paid Shs50 million to town council officials to quicken the process of approving the plan for the building. The new building was finally commissioned on 1 October, 2018.

Management further spent Shs400 million to acquire furniture and machinery. Included in this cost was a new sorting machine worth Shs300 million. MUL also acquired 3 binding machines for the administration office each costing Shs 750,000.

2. The directors agreed to procure a Land Cruiser Prado model 2018 for the chief executive officer (CEO) at a cost of Shs 250 million. Previously, the CEO was using a Toyota Rav 4 which was purchased by the company at a cost of Shs57 million on 1 January, 2017. The Toyota Rav 4 was sold to one of the staff at Shs 30 million on 1 June, 2018.
3. In order to pay the bank loan which they had secured to put up the building, MUL sold its old commercial building at Shs500 million, a value approved by the company valuers. The old building was completed and first occupied on 1 January, 2008. It had been constructed at Shs250 million (all qualifying expenditure).

Note:

The written down values as at 1 January, 2018 were:

	Shs'000'
Class I	350,000
Class II	150,000
Class III	800,000
Class IV	550,000

Required:

- (a) Advise the board of directors of MUL on the tax implications of the matters raised in the retreat relating to the year ending 31 December, 2018, giving any supporting explanations and workings. **(20 marks)**
 - (b) Explain to management of MUL the due dates for filing of provisional income tax returns, self-assessment return and payment of any taxes due, during the year of income ended 31 December, 2018. **(5 marks)**
- (Total 25 marks)**

Question 2

Buyinza Uganda Ltd (BUL) is a Ugandan VAT registered company importing clothes from Turkey. Its main customers are wholesalers in Kikuubo shopping centre, Kampala. It also exports clothes to other countries especially Rwanda and South Sudan. The company employs a tax agent, who among other roles, advises and files its returns as and when they are due. Their transactions for the month of June 2018 were as follows:

1. Imported 400 bales of clothes from Turkey Shs 250,000 per bale and paid value added tax (VAT) on importation Shs 56,250 per bale.
2. Sales
 - (i) Local sales Shs 950 million (VAT inclusive).
 - (ii) Export sales Shs 400 million.
 - (iii) Mr. Buyinza, the proprietor of BUL, gave out clothes worth Shs 1.5 million (VAT exclusive) from BUL's stock to his children and wife. No sale was recorded for this transaction.
3. Expenses (VAT inclusive where mentioned)
 - (i) Rent Shs 1 million.
 - (ii) Salaries and wages for 2 shop attendants Shs 1 million each.
 - (iii) Hire of trucks from a VAT registered transporter Shs 5 million.
 - (iv) Telephone bill paid to MTN Uganda Shs 500,000.
 - (v) Purchased office stationery Shs 16.5 million (inclusive of VAT) from a non-VAT registered company situated along Nasser Road in Kampala.
 - (vi) The company purchased hampers for its loyal customers worth Shs 50 million, VAT inclusive.

- (vii) Purchased a pickup motor vehicle at Shs 45 million (VAT inclusive) for delivering clothing to customers.
- (viii) Purchased a sofa set, carpet and curtains for the new managing director's home at Shs 20 million, VAT inclusive.
- (ix) The company incurred repairs and maintenance charges for the company's pool passenger vehicles Shs 6 million. The vehicles are used to transport sales staff to the field.
- (x) Purchased meals for staff Shs 600,000 from a VAT registered supplier.

Required:

- (a) Compute the VAT payable/ refundable for the month. **(15 marks)**
- (b) Outline the roles of Tax Agents as per the Tax Procedures Code Act, 2014. **(10 marks)**

(Total 25 marks)

Question 3

Brian, Ben and Benjamin are in partnership trading as BBB General Traders. According to their partnership deed, they share profits and losses in the ratio 2:2:1 respectively, after deducting partners' salaries. Their salaries for the year ended 30 June, 2018 were:

	Shs'000'
Brian	70,000
Ben	70,000
Benjamin	130,000

The partnership statement of profit or loss and other comprehensive income for the year ended 30 June, 2018 was as follows:

	Note	Shs '000'	Shs '000'
Revenue			1,484,900
Cost of sales			(560,000)
Gross profit			924,900
Other income	1		<u>25,100</u>
			950,000
Expenses			
Depreciation		73,020	
Audit and accounting fees		22,000	
Staff costs		93,000	
Management costs	2	360,000	
Repairs & maintenance	3	35,000	
Sundry expenses	4	<u>83,000</u>	<u>(666,020)</u>
Net profit			<u><u>283,980</u></u>

Notes:

- Other income comprised of exchange gains and losses as follows:

	Shs'000'
Unrealised	17,250
Realised	<u>7,850</u>
	<u>25,100</u>

- All the partners work in the business. Brian is the general manager; Ben is the sales manager while Benjamin is the human resource manager. Management costs include the partners' children's school fees of Shs 9,000,000 paid for Brian's son who is a private undergraduate student at Makerere University.
- Included in repairs and maintenance is the cost of repairing Ben's private car which is exclusively used by his wife to run personal errands. The total cost for repairing the car was Shs 4,100,000.
- The premises where the business is conducted belongs to Benjamin. The partnership paid him rent Shs 45,000,000, which amount is included in sundry expenses.
- The written down values for the assets as at 1 July, 2017 were:

	Shs '000'
Class II	82,500
Class IV	124,500

There were no acquisitions and disposals of assets during the year.

- Other income earned by the partners outside the partnership, were:

	Brian Shs '000'	Ben Shs '000'	Benjamin Shs '000'
Dividends from listed company (net)	4,000	2,500	3,000
Interest on savings account (net)	10,000	-	560
Interest on fixed deposit account (net)	12,000	10,000	-

Required:

Compute each partner's chargeable income and income tax payable for the year ended 30 June, 2018.

(25 marks)

Question 4

Withholding tax is a form of collection of tax revenue where a person making a payment is required to deduct a portion of their supplier's income and remit it to the revenue authority as tax paid on behalf of the supplier. Uganda's tax collection system may require a person to be a withholding tax agent and withhold tax when paying suppliers.

As a tax consultant, you have been approached by a prospective investor in Uganda and you have had an interface with the investor on the withholding tax regime in Uganda.

Required:

Advise the investor on the:

- (a) forms of transactions mentioned in the Income Tax Act cap 340 on which withholding tax applies and the respective applicable withholding tax rates. **(12 marks)**
 - (b) circumstances under which withholding tax may be applied as a final tax and the implication of withholding tax being a final tax on income. **(8 marks)**
 - (c) obligations of a withholding tax agent and the consequences of failure to withhold tax. **(5 marks)**
- (Total 25 marks)**

Question 5

Everest Ltd is a multinational company operating across Europe, Asia and Africa. The company intends to set up its business operations in Uganda as a branch to deal in agro-processing business. The managing director visited Uganda Investment Authority to inquire about the tax system in Uganda and was advised to consult a tax expert. As a tax consultant, you have been approached by the managing director of Everest Ltd for tax advice.

Required:

According to the Income Tax Act cap 340:

- (a) Explain what constitutes:
 - (i) exempt income, giving relevant examples. **(10 marks)**
 - (ii) a branch. **(8 marks)**
 - (b) Distinguish between:
 - (i) 'practice notes' and 'private rulings'. **(4 marks)**
 - (ii) 'business asset' and 'depreciable asset'. **(3 marks)**
- (Total 25 marks)**

TEST PAPER 4
CTA NOVEMBER 2019

Question 1

Excel Senior Secondary School is a company limited by shares based in Kampala. The School belongs to Mr. Bwogi who is at the same time its director. The school commenced its operations on 1 January, 2015. The school owns a school farm, and has completed constructing a modern dining hall facility. During the 2018 second term, the school purchased a 68-seater new school bus at a cost of Shs 300,000,000 from Tete Uganda Limited. On 1 July, 2018, the school put into use a newly constructed boy's dormitory worth Shs 1,550,000,000 to accommodate the growing number of students in the Advanced level.

The following is the profit and loss account for Excel Senior Secondary School as at 31 December, 2018:

		2018
	Shs'000'	Shs'000'
Revenue (School fees)		2,500,000
Other revenue		100,000
Total income		2,600,000
Direct costs		
School meals	560,000	
Kitchen fuel	210,000	
Stationary	150,000	
Uniforms (Note viii)	74,000	
Drugs & sickbay	20,000	1,014,000
Administrative expenses		
Salaries & wages	960,000	
Professional fees (Note iii)	45,500	
Security	25,700	
Meetings	2,500	
Dividends (Note vi)	30,000	
Entertainment	4,500	
Donations (Note ix)	20,000	
Bank charges	8,500	
Provisions for bad debts	95,000	
Depreciation	75,000	1,266,700
Profit before tax		319,300

Additional information

- (i) In order to modernize its farm, the school constructed a farm fence at a cost of Shs 95,000,000, labour quarters for its farm staff at Shs 60,000,000 and incurred Shs 38,000,000 on water and electricity supply works for its farm.
- (ii) The school incurred Shs 500,000,000 in the construction of the new dining hall which it put to use on 1 January, 2018. During year, the school purchased laboratory equipment worth Shs 70,000,000 to facilitate science courses and constructed a biogas plant at Shs 120,000,000.
- (iii) Included in the professional fees is a reimbursement to the school's lawyers, Ssekivivu & Co Advocates, for the cost of stamp duty amounting to Shs 22,500,000 paid for the transfer of land acquired to build the new dining hall.
- (iv) During the year, the company bought a motor vehicle (Prado) for a director, Mr. Bwogi, at the cost of Shs 175,000,000 for official use.
- (v) The written down value of the assets as at 1 January, 2018 were as follows:

	Shs'000'
Class 1	215,000
Class 2	150,000
Class 4	450,000
Farm works	180,000

- (vi) Dividends included Shs 5,000,000 relating to the cost of sitting allowances paid to directors for attending an extra ordinary board meeting.
- (vii) The school purchased 50 science text books each costing Shs 40,000 for the advanced level section in preparation for Uganda Advanced Certificate Education (UACE) examinations and included them in the school's non-current asset register.
- (viii) The accountant, Mr. Tito, included a fictitious invoice of Shs 3,500,000 in the cost of uniforms.
- (ix) Donations were made to an amateur sporting association in Kampala to promote football among youth under 19 years of age.
- (x) Included in other revenue were collections for school uniforms, dispensary fees and sports contributions from students.

Required:

Compute the income tax payable by Excel Senior Secondary School for the year ended 31 December, 2018.

(25 marks)
(Total 25 marks)

Question 2

Mr. Shankar is an Indian national employed as an expatriate employee with a leading oil and gas exploration and production company in Uganda, Jupiter Petroleum Uganda Limited (JPUL). His employment commenced on 1 December, 2018 and he is a resident for Uganda tax purposes. His employment terms are as follows.

- (i) Monthly basic salary was Shs 62,000,000.
- (ii) The company provided him with medical insurance cover of Shs 5,000,000 from Briton Insurance Company Limited to cover medical costs for him and 4 dependents.
- (iii) The company incurred a cost of air tickets of Shs 18,500,000 for him and his family to travel from India to Uganda to settle in for his new assignment at JPUL.
- (iv) Mr. Shankar is entitled to housing benefit which JPUL provided by paying his landlord in upscale Kololo, Kampala a monthly rent of Shs 25,000,000.
- (v) His electricity bill for the month of December 2018 was Shs 600,000 and was paid on his behalf by JPUL to Uganda Electricity Company Limited (UECL). Mr. Shankar contributed Shs 100,000 towards meeting this cost.
- (vi) JPUL purchased a motor vehicle Jeep Cherokee whose market value was Shs 250,000,000 on 30 November, 2017, this vehicle was allocated to Mr. Shankar on 1 December, 2018 for his official and private use.
- (vii) The company pays Shs 2,000,000 monthly to Sheraton Hotel for Mr. Shankar and his family's health club costs. Mr. Shankar contributes Shs 500,000 towards his health club costs.
- (viii) During the month of December 2018, the company paid for a return air ticket costing Shs 5,000,000 for Mr. Shankar to travel back to India to check on his sick mother for seven days.
- (ix) Mr. Shankar obtained a loan of Shs 40,000,000 from JPUL to assist him in settling in to Uganda. The loan was issued to him at 5% per annum and is repayable within 1 year.
- (x) The company pays Walinzi Security (U) Ltd (WSUL) to provide security guards at the residential premises of Mr. Shankar. The security cost in December 2018 was Shs 800,000.
- (xi) The company buys him monthly airtime of Shs 300,000 from MTA Uganda Limited which is loaded on his personal mobile phone. The company has no mechanism to prove that the calls made by Mr. Shankar were for business purposes.
- (xii) JPUL purchased household items including dining set, electric cooker and executive sofa sets at a total cost of Shs 60,000,000. These were given to Mr. Shankar as part of relocation benefits.

- (xiii) In preparation to relocate from India to Uganda to take up his new job, Mr. Shankar requested for Shs 20,000,000 as his relocation allowance which the company granted.

Required:

- (a) Compute Mr. Shankar's taxable employment income for the month ended 31 December, 2018. **(20 marks)**
- (b) Determine Mr. Shankar's income tax liability for the month ended 31 December, 2018. **(3 marks)**
- (c) Advise JPUL on the due date of paying Mr. Shankar's income tax. **(2 marks)**
- (Total 25 marks)**

Question 3

Primex Uganda Limited (PUL) is a Ugandan company dealing in motor vehicle tracking services. The company was incorporated in 2017 and is registered for value added tax (VAT). Since then, PUL has grown to attract regional customers. Sales and purchases are inclusive of VAT unless stated otherwise. PUL's transactions for the month of December 2018 were as follows:

Sales

1. Sales of tracking devices amounting to Shs 10,000,000 were made to MTA Uganda Limited.
2. Sale of tracking devices to KenTech Limited a company located in Kenya amounted to Shs 70,000,000.
3. Sale of tracking services to MTA Uganda Limited amounted to Shs 45,000,000.
4. Sale of tracking services for KenTech Limited's motor vehicles situated in Kenya amounted to Shs 210,000,000.
5. Sales of tracking devices to Phillips Oil Uganda Limited, a petroleum licensee amounting to Shs 20,000,000.

Purchases

1. Imported tracking devices whose customs value for VAT purposes was Shs 500,000,000 exclusive of VAT.
2. Procured serviced office space from Regus Uganda Limited at a cost of Shs 9,500,000, 20% of this cost related to telephone expenses.
3. Purchased a land cruiser Prado for the managing director at a cost of Shs 175,000,000 from Tete Uganda Limited.

4. Hosted customer at Golden Trip Hotel in Kampala at a cost of Shs 5,000,000 on meals.
5. Incurred medical insurance costs for staff to UPA Insurance at a cost of Shs 6,500,000.
6. Procured data hosting services costing Shs 100,000,000 from Blex Uganda Limited, a company resident in India. These services are deemed to have taken place in Uganda.
7. Purchased internet services from MTA Uganda Limited at a cost of Shs 7,800,000.
8. Security services costing Shs 2,800,000 from G2 Security Services Uganda Limited were incurred, 30% of these costs relate to security guards for the Managing director's residence.
9. The company paid Shs 3,600,000 for accounting services to Abacus Certified Public Accountants of Uganda. The fees relate to accounting services invoiced by the firm in the month of September 2018.
10. Received a proforma invoice of Shs 2,700,000 from Star Link Car Rentals limited. The company offered car rental services to Premix Limited.

Note: The company had a VAT offset of Shs 24,500,000 in the month of November 2018.

Required:

- (a) Compute PUL's VAT payable or refundable for the month of December 2018.

(20 marks)

- (b) State any **five** conditions for an export of goods and services to qualify as zero rated supplies.

(5marks)

(Total 25 marks)

Question 4

- (a) Teleco Uganda Limited (TUL) is a telecommunication company providing various communication services in Uganda. The company sold some prepaid airtime scratch cards worth Shs 100,000,000 inclusive of VAT and excise duty in the month of February 2019. The airtime was also used by the customers in the same month.

Required:

- (i) Compute the taxable value of airtime for value added tax purposes and the VAT payable by TUL.

(4 marks)

- (ii) Compute taxable value of the airtime for excise duty purposes and excise duty payable by TUL.
(4 marks)
- (iii) Advise TUL on the due date of paying VAT and excise duty payable and of the due date of filing the respective VAT and excise duty returns.
(4 marks)
- (b) TUL also purchased land worth Shs 1.5 billion and agreed to pay stamp duty arising on the transaction according to the signed sale and purchase agreement.

Required:

Advise TUL on the applicable stamp duty rate and amount payable on the said transaction.

(4 marks)

- (c) TUL provides mobile money services to its customers through which payment of non-tax revenues can be made to Uganda Revenue authority.

Required:

- (i) Explain what VAT treatment should be accorded to mobile money transaction transfer fees charged by TUL on its customs that use this service.

(4 marks)

- (ii) State examples of any **five** non-tax revenues collected by Uganda Revenue Authority.

(5 marks)

(Total 25 marks)

Question 5

Uganda operates a self-assessment tax system where a tax payer is required to file their own tax returns in accordance with the relevant tax laws. Mbolite Limited, a registered tax payer filed its income tax return for the year ended 30 June, 2018 with Uganda Revenue Authority (URA). The company's chief financial officer Mr. Trimax received an email from an officer of URA requesting for an explanation as to why its total revenue declared in its income tax returns was less than the revenue declared in the company's value added tax (VAT) returns filed during the same year but did not respond to the email in time due to his busy schedule. The company later received a notice of assessment from URA amending its income tax returns and requiring the company to pay more income tax. Mr. Trimax is confused about the nature of URA's assessment but does not agree with it and thinks that the company should invoke objections and appeals procedures against the assessment.

Required:

- (a) Explain to Mr. Trimax the different kinds of tax assessments that Uganda Revenue Authority could issue.

(10 marks)

- (b) Advise Mbolite Limited on the procedures that company may take to object to assessments and appeal against tax decision of URA as provided for in Part VII of the Tax Procedure Code Act (2014).

(15 marks)

(Total 25 marks)

TEST PAPER 5
CTA DECEMBER 2020

Question 1

Sucrose Company Uganda Limited (SCUL) was incorporated in Uganda on 12 December 2002. The company is a member of Sucrose Group of Companies, a parent company tax resident in Brazil.

SCUL is engaged in manufacturing sugar and other byproducts like molasses, fertilizers, cane wax and bagasse fibre, used for power generation. The company's head office is located in Amuru district, northern Uganda, with branches in Jinja, Mbale, and Busia, in eastern Uganda.

The company has been filing all its tax returns on time apart from the provisional return for the year ending 31 December, 2019.

Management of SCUL is seeking your advice on their corporation tax payable for the year ending 31 December, 2019. You have been provided with a summary of the statement of profit or loss and other comprehensive income together with notes to the accounts for the year ending 31 December, 2019 as below:

Particulars	Notes	Shs '000'
Revenue		1,640,000
Cost of sales	1	(886,400)
Gross profit		753,600
Other income	2	394,900
Depreciation and amortization		66,300
Administrative expenses	3	548,704
Selling and distribution expenses	4	321,360
Profit before tax		212,136

Additional information

1. Cost of sales includes:
 - (a) Withholding tax paid on imports of Shs 89 million.
 - (b) Donations made to Kampala capital city festival of Shs 13 million.
 - (c) Cost of clearing the drainage channel at the factory premises of Shs 25 million.
 - (d) Penalty of Shs 4 million imposed by the regulator due to distribution of expired products to customers.
2. Other income includes:

	Shs'000'
(a) Interest earned on treasury bills.	164,000
(b) Dividend income.	45,000
(c) Unrealised foreign exchange gain.	22,900
(d) Unrealised foreign exchange loss.	(18,000)

3. Administrative expenses include salaries and wages of Shs 296 million, National Social Security Fund (NSSF) company contribution Shs 28 million, Pay As You Earn (PAYE) for directors Shs 12 million, life insurance premiums Shs 28 million, electricity and water bills Shs 11 million, finance costs Shs 35 million and expenses related to treasury bills Shs 18 million.
4. Selling and distribution expenses include carriage on sales Shs 153 million, bad debts written off Shs 55 million, market research Shs 22 million, sales commission Shs 24 million.
5. Capital expenditure:
 - (a) The factory building was constructed at a cost of Shs 740 million in 2004. SCUL started using the building on 1 September, 2004 when its qualifying expenditure was Shs 592 million.
 - (b) The tax written down values for SCUL's depreciable assets as at 1 January, 2019 were as follows:

	Shs '000'
Class I	24,000
Class II	40,000
Class III	324,000
Class IV	142,000
 - (c) Additions made during the year include;
 - (i) Extension of the factory building at a cost of Shs 550 million (SCUL started using the building on 1 January, 2019)
 - (ii) Replacement of the factory machinery at a cost of Shs 440 million.
 - (iii) 2 tractors at a cost of Shs 78 million each.
 - (iv) A water truck of Shs 66 million.
 - (v) Furniture and fittings of Shs 39 million. However, furniture worth 8 million was for managing director's home.
 - (vi) 10 data storage devices of Shs 800,000 each.
 - (vii) 3 trucks (5 tons each) at Shs 52 million per each truck.
 - (viii) Other machinery other than manufacturing at Shs 13 million.
 - (d) Disposals made during the year include part of the office old furniture that was sold for Shs 4 million.
6. The company had an assessed loss brought forward of Shs 18 million.
7. The provisional return for the year was filed on 31 December, 2019 with chargeable income of Shs 360 million.
8. Details of withholding tax (WHT) deducted at source include:

	Shs '000'
(a) WHT on imports.	89,000
(b) WHT on interest income (treasury bills).	12,800
(c) WHT on local supplies.	44,500

Required:

- (a) Determine SCUL's chargeable income and corporation tax payable for the year ending 31 December, 2019.

(20 marks)

- (b) Advise SCUL on the due dates for filing and paying a provisional and final income tax return and the tax implications for late filing if any.

(5 marks)

(Total 25 marks)

Question 2

Biden Uganda Ltd (BUL) is a logistics company that imports and distributes products in Uganda. All its imports are from United States and it also distributes locally manufactured products in Uganda and its neighboring countries. The Company acquired a Tax Identification Number (TIN) in May 2017 immediately after its incorporation and it was registered for Income Tax, Value Added Tax (VAT), imports and exports, and Pay As You Earn (PAYE). The board of directors of BUL has approached your firm of tax advisors to review their VAT status for the month of April 2020.

The following information has been availed to you:

1. During the month BUL purchased fuel worth Shs 90 million (VAT exclusive).
2. BUL was charged Shs 5 million being telephone expenses for the month of April 2020.
3. BUL paid Shs 240 million (VAT exclusive) to AK Transporters for transportation of its goods from Mombasa to Kampala during the month of April 2020. There is a balance of Shs 30 million as the entire invoice issued was Shs 270 million.
4. The company paid Shs 8 million for the repair of its truck in Kiseka market. No receipt or invoice was received for this service; the truck is used to distribute goods in the country.
5. During the month BUL exported goods worth Shs 360 million to traders in South Sudan.

6. On 10 April 2020, the company disposed of a Toyota Fortuner that was being used by the managing director for Shs 50 million (No VAT was charged).
7. Electronics sold locally amounted to Shs 840 million.
8. Imported electronics and other appliances in the month of April 2020 were worth USD 150,000 (Cost, insurance and freight up to Mombasa), transport from Mombasa to Kampala was USD 15,000 and insurance from Mombasa to Kampala was USD 7,000.

Note: 1 USD = Shs 3,740 and assume no other taxes charged on the imports except VAT.

Required:

- (a) Advise the board of directors of BUL on the VAT payable or claimable for the month of April 2020.

(10 marks)

- (b) In the month of March 2020, BUL's input tax was higher than output tax by Shs 80 million. Management of BUL was told they can claim a VAT refund but are not aware on how this is done. Advise BUL on the process of obtaining a VAT refund from URA.

(5 marks)

- (c) Explain to management the meaning of the following concepts as used in the VAT Act.

- (i) Circumstances under which a person shall not qualify for input tax credit.

(3 marks)

- (ii) Circumstances under which a taxpayer may issue a simplified tax invoice.

(2 marks)

- (iii) Records kept by a VAT registered person.

(5 marks)

(Total 25 marks)

Question 3

Mr. Kamau a Kenyan citizen was born and raised from Kenya. He completed his university at Moi University in 2015. He was appointed the chief financial controller by Green Sugar Ltd, a company formed under the laws of Uganda for a two-year contract commencing on 1 July, 2019. He later relocated to Uganda with his family. Below were the benefits derived by Mr. Kamau for the month of July 2019.

1. Basic salary of Shs 6 million per month.
2. He was reimbursed USD 1,000 being cost of air ticket to Uganda and USD 500 air ticket for his wife to Uganda. (assume the exchange rate of 1 USD = Shs 3,600)
3. The company paid Shs 1.6 million and Shs 1million to ARA Medical Services being medical insurance for him and his wife respectively.
4. The company provides him a driver at a cost of Shs 400,000 per month paid by the company.
5. The company paid Shs 800,000 to KIKO Security Limited for the night security guard at his residence in Kyaliwajjala.
6. His annual club membership at the National Golf Club totaling to Shs 4 million was paid in the month of July 2019.
7. He also received 1,000 shares at Shs 2,000 per share under employee share acquisition scheme at the time when the company's share price as per Uganda Securities Exchange was Shs 3,000 per share.
8. He acquired housing allowance of Shs 2 million for month of July 2019.
9. He was reimbursed Shs 540,000 being transport from his home to his place of work
10. Being part of management staff, the company paid Shs 1,330,000 to Serene Hotels for his lunch in the month of July 2018.
11. He paid local service tax of Shs 100,000 to Kiira Town Council.
12. He also earned dividend income from his shares in Safecom, Kenya of Shs 22 million. No tax has been deducted on this income in Kenya.

Required:

- (a) Compute Mr. Kamau's tax liability for the month of July 2019. **(14 marks)**
- (b) Explain to Mr. Kamau the meaning of the term employment according to the Income Tax Act. **(2 marks)**
- (c) Under what circumstances is employment income exempt from tax as provided by section 19 and 21 of the Income Tax Act? **(4 marks)**

- (d) Distinguish between an employee and an independent contractor as per the Income Tax Act.

(5 marks)
(Total 25 marks)

Question 4

James, Edson and Timothy are business partners trading as JET Advocates and are providing legal services across East Africa. Both James and Edson are graduates of Makerere University while Timothy is a graduate of Uganda Christian University. They birthed the idea of starting a law firm after completing the bar course at the Law Development Centre in 2017. Their accounting period commences on 1 July of every year and ends on 30 June of the following year.

The following information relating to the partnership activities as at 30 June, 2019 has been availed.

1. Opening balance on the capital account as at 1 July 2018:

	Shs 'million'
James	40
Edson	30
Timothy	20

2. The profit-sharing ratio among the partners is 4:3:2 respectively.
3. Interest payable on capital is 15% on the opening balance at the beginning of each year.
4. Partners pay interest on drawings made from the partnership business at a rate of 12%
5. Profit for the year ending 30 June, 2019 of Shs 122 million was arrived at after charging the following:
- (a) Depreciation of Shs 9 Million.
 - (b) Interest on Capital and partner's salaries.
 - (c) Timothy's holiday in Dubai Shs 5 Million.
 - (d) Partner's drawings for the year of Shs 3 million by James and Shs 2 million by Edson.
6. Partner's salaries:

	Shs 'million'
James	8
Edson	9
Timothy	12

7. The tax written down values as at 1 July, 2018 were as follows:

	Shs 'million'
Class I	15
Class II	18
Class IV	32

Additions to non-current assets comprised of land at a cost of Shs 120 million and furniture at a cost of Shs 22 million.

8. The partners' closing capital as at 30 June, 2019 were as follows:

	Shs 'million'
James	38
Edson	28
Timothy	25

Required:

Compute the:

- (a) Partnership's chargeable income for the year ending 30 June 2019. **(11 marks)**
- (b) Partners' taxable profits and tax payable by each partner. **(7 marks)**
- (c) James would like to transfer his Mercedes Benz to the partnership to meet the growing transport needs of the partnership.

Required:

Explain the;

- (i) tax implications of this transaction. **(4 marks)**
- (ii) tax treatment of items taken by partners during the year. **(3 marks)**

(Total 25 marks)

Question 5

Mrs. Edna Nsubuga is a business woman in Uganda. Her business is located in Kampala capital city. She started as a small trader in Owino market dealing in leather products. Later her business grew and she started importing from China. She now runs a wholesale business in Kikubo downtown Kampala with most of products imported from China.

She registered for income tax in July 2015 and her Taxpayer Identification Number (TIN) registration certificate shows the effective date of registration as 1 July, 2015. She immediately changed her year of income to end 31st December

of every year, the effective date of change is 1 July, 2016. In March 2020 she received a notice of a default assessment of Shs 6 million due to failure to file the return of income for the year ending 30 June, 2016. Upon contacting her accountant, she was told she was not required to file a return for that year of income since she had changed to a substituted year of income.

In March 2020, she was issued an additional assessment of Shs 178 million for the year ending 31 December, 2017 due to significant variances between imports and income tax sales and nonexistent closing stock. She is not satisfied with this decision claiming that URA did not visit one of her warehouses to confirm existence of closing stock. She had filed a provisional return for the year with a liability of Shs 82 million and the final return with a liability of Shs 84.5 million.

Required:

Explain to Mrs. Edna Nsubuga;

- (a) the due dates for;
 - (i) filing a return of income for both years. **(2 marks)**
 - (ii) paying the tax arising from the returns of income filed for both years. **(2 marks)**
 - (b) (i) penalties if the tax return for the year ending 30 June, 2016 was filed in March 2020 as per the Income Tax Act. (Computations are not required). **(4 marks)**
 - (ii) objections and appeals procedure to the additional assessment issued for the year ending 31 December, 2017. **(8 marks)**
 - (c) Differentiate between a:
 - (i) private ruling and a practice note as provided in the Tax Procedures Code Act. **(2 marks)**
 - (ii) business asset and a depreciable asset as provided in the Income Tax Act. **(2 marks)**
 - (d) Explain the circumstances under which the commissioner may reject a private ruling. **(5 marks)**
- (Total 25 marks)**

TEST PAPER 6
CTA OCTOBER 2021

Question 1

- (a) Explain, giving examples, the legal framework of taxation in Uganda **(3 marks)**
- (b) Amatalia (U) Limited (AMUL) is an indigenous agro-processing fruit factory that was incorporated and established in Uganda in July 2018. The factory which is located in Eastern Uganda started its full operations in January 2019. Given the sophisticated nature of the machinery and the formulae to be used in the factory production processes, the factory needed an expert in agro-processing to head their production department. Mr. Oundo Kelvin an Egyptian national was recruited to head their production department, on the basis of his vast wealth of knowledge and experience in managing fruit production processes in various companies and countries where he previously worked.

Below are the details of Mr. Oundo's 3-year employment contract which commenced effective 1 January 2020, with a possibility of renewal.

- (i) He received a basic salary of Shs 11 million per month.
- (ii) The company paid him housing allowance of Shs 1.2 million per month.
- (iii) He was reimbursed Shs 10 million being cost of travel for him and his family to Uganda when taking up his job in January, 2020.
- (iv) In April 2020, he received Shs 114 million as part of his pension package from his previous employment.
- (v) The company provided him a Toyota Hilux double cabin to allow him perform his duties well. The car was bought at Shs 150 million from Toyota Uganda in January 2020. However, the car was available for his private use only on weekends throughout the year.
- (vi) Mr. Oundo lectures on a part-time basis at one of the Universities in Eastern Uganda and during the year ended 31 December 2020, he received Shs 24 million from the University for services offered.
- (vii) AMUL paid an insurance premium of Shs 2.5 million for the life insurance of Mr. Oundo for the year ended 2020.
- (viii) He is entitled to receive school fees reimbursement for his three school going children for school fees paid up to a maximum of Shs 12 million in a year for all the three children. By 31 December, 2020, he had paid and had been reimbursed school fees for the whole year.
- (ix) He will be provided with a medical insurance cover for himself, spouse and three Children as per the policy. The company will pay an annual premium of Shs 5 million to the insurance company.

- (x) In appreciation of his services as an exceptional employee of the year, in December 2020, he was given a Toyota Prado free of charge which has always been used by the Managing Director. On the open market this vehicle was worthy Shs 35 million
- (xi) It was company policy to avail its senior managers with interest free loans upon completion of their probation period. On 1 July, 2020 Mr. Oundo took this opportunity to get a 6 months' loan of Shs 40 million. This loan had been fully repaid by the end of 2020.
- (xii) In the month of November 2020, Mr. Oundo was the manager of the month and he received a gift of a bottle of juice worthy Shs 9,950
- (xiii) There was an issue of shares by AMUL in July 2020 and Mr. Oundo was offered 200 shares by the company at Shs 1,500 each which he paid for. The open market price was Shs 2,000 for each share.
- (xiv) The company also provides him with two (2) security guards who are paid Shs 3.6 million each, per annum.
- (xv) A monthly entertainment allowance of Shs 500,000 will also be paid to him by the company.
- (xvi) Local service tax paid during the year amounted to Shs 100,000.
- (xvii) The company paid a Christmas bonus to all staff on 22 December 2020 which was equivalent to 50% of their one month's basic salary.

Additional information:

The bank of Uganda's lending rate for the year 2020 was 12.5%

Required:

- (a) Determine Mr. Oundo's chargeable income and tax payable for the year ended 31 December 2020. Comment on some specific transactions which you excluded from chargeable.
(14 marks)
- (b) Explain the circumstances where a benefit is derived in respect of employment income as per the provisions of the Income Tax Act Cap 340.
(3 marks)
- (c) Explain any five (5) differences between contract for service and contract of service.
(5 marks)

(Total 25 marks)

Question 2

Zion Uganda Ltd (ZUL) is a company engaged in the business of publishing and publication. ZUL business lines include print media, television and radio. The company head office is located on 7th street industrial area, Kampala. ZUL has several branches in the East African region.

In March 2020, management of ZUL decided to sell their old office building on Jinja road for Shs 960 million to Link Mobile Communications Company Limited (LMCCL). The old office building was constructed in 2007 at a cost of Shs 550 million.

In April 2020, ZUL was evicted from its branch building in Arua by Roads Authority. The building was destroyed in the process of expanding the road to South Sudan. This was after receiving compensation from the Roads Authority of Shs 300 million. The cost base of the building at the time of eviction was Shs 210 million. ZUL immediately erected a new commercial building on Odaa road, Arua city at a cost of Shs 365 million. This new building was commissioned on 1 Feb 2021. (Ignore any capital allowances allowed).

Required:

- (a) Explain the circumstances under which a taxpayer is deemed to have disposed of an asset as per the Income Tax Act, CAP 340.
(4 marks)
- (b) Discuss the income tax treatment of the following transactions, and compute the gain or loss if any, that would result from;
 - (i) Sale of ZUL's old office building.
(4 marks)
 - (ii) Eviction by the Roads Authority.
(4 marks)
- (c) ZUL wishes to relocate its head office activities to Tanzania and as a result it has started setting up in Tanzania. It would therefore be a non-resident company in Uganda effective 1 July 2020. Explain the tax implications of this decision to its buildings in Tanzania and Uganda after re-location
(4 marks)
- (d) Explain the circumstances where a gain or loss from disposal of a business asset may not be recognized as per the Income Tax Act Cap 340.
(4 marks)
- (e) Discuss the tax treatment of a finance lease as provided in the Income Tax Act Cap 340.

(5 marks)

(Total 25 marks)

Question 3

- (a) INTELEX Uganda Limited (IUL) is a VAT registered taxpayer in Uganda. It deals in export of processed and unprocessed agricultural products with branches all over the country. The management of INTELEX Uganda Limited (IUL) has approached you for advice on the tax treatment of various transactions that happened in the month of March 2020 as below.
- (1) Due to COVID-19, INTELEX sold its branch in Mbale whose main business was wheat processing, to "Wheat out growers" in the region for Shs 600 million. "Wheat out growers" are not registered for VAT.
 - (2) Hired consultants from India to train staff on modern methods of agro processing. Fees totaling to Shs 89 million (VAT exclusive) was paid to consultants from India.
 - (3) Imported plant and machinery from Turkey and was advised by URA customs office that VAT on this item is deferred. However, the company is not sure of what VAT deferment means and conditions for approval of VAT deferment by the Commissioner General as per the VAT Act Cap 349.
 - (4) INTELEX wrote off bad debts amounting to Shs 72 million VAT Inclusive. These debts were incurred in March 2019.
 - (5) Goods worth Shs 28 million were returned to INTELEX from different customers.

Required:

Advise INTELEX on the VAT treatment of the following transactions, and compute the VAT payable where applicable.

(15 marks)

- (b) Advise Management of INTELEX on the meaning of the term "mixed supply" as per the VAT Act Cap 349. **(3 marks)**
- (c) Discuss the advantages of cash accounting over invoice accounting. **(3 marks)**
- (d) Explain the various sources of government revenue other than taxes. **(4 marks)**

(Total 25 marks)

Question 4

- (a) Explain the meaning and relevance of international taxation. **(4 marks)**
- (b) The Multilateral Competent Authority Agreement is a multilateral framework agreement that provides a standardised and efficient

mechanism to facilitate the automatic exchange of information (EOI) in accordance with the standard for automatic exchange of financial information in tax matters as provided for under the OECD guidelines. You have been identified as a tax expert.

Required:

Explain **five** benefits that may accrue to a tax authority as a result of entering into a multilateral agreement (treaty) of EOI for tax purposes, with tax authorities, in other jurisdictions.

(5 marks)

- (c) Explain the concepts of source jurisdiction and residence jurisdiction in international taxation

(5 marks)

- (d) The concept of residence gives a company taxing rights.

Required:

Explain the tie-breaker rules for resident individuals as stated in Article 4 of the OECD.

(5 marks)

- (e) Mr. Alex Bwambule is a Ugandan who moved to United Kingdom (UK) five years ago with his entire family and has never returned to Uganda. However, prior to Alex's move to UK, he had constructed a 3 storeyed commercial building in the centre of Fort-Portal city. In December 2019, Alex was contacted by one of the leading banks in Uganda with the intention of occupying the whole building at an annual rent of Shs 180 million effective January 2020. They signed a tenancy agreement and immediately Alex's money was wired to his UK bank account. However, upon payment, Alex realised that the money deposited to his account was less than what was signed for in the tenancy agreement and when he inquired from the bank, he was told there was withholding tax (WHT) deducted from the payment.

Required:

Explain to Mr. Alex Bwambule,

- (i) what withholding tax (WHT) is all about, what rate was used to withhold from the rental income payment by the bank and determine the amount withheld by the bank.

(4 marks)

- (ii) the tax implications of withholding tax (WHT) being a final tax

(2 marks)

(Total 25 marks)

Question 5

Abmal (U) Limited (AUL) was registered in Uganda in 2016 with the main activity of growing and processing medical cannabis for export. AUL is a subsidiary of Abmal Group International (AGI) whose head office is in Mauritius. AUL is located in western Uganda, and started its full operations in July 2018. The company is currently one of the leading exporters of medical cannabis in Uganda, and also sells to the local market. AUL employs over 200 casual workers who work in shifts. AUL has since constructed six green houses in Kasese with modern horticulture equipment installed and so far the total investment in the green house project is estimated to be Shs 10.5 billion.

Extract of AUL statement of profit or loss and other comprehensive income for the year ended 30 June 2020.

Sales:	Notes	Shs '000	Shs '000
Exports		18,825,000	
Local sales		325,000	
Total			19,150,000
Expenses:			
Administrative	1	6,900,000	
Selling and distribution	2	2,265,000	
Finance	3	6,637,500	
Total			15,802,500
Net profit			3,347,500

Notes:

1. Administrative expenses comprise of the following;
 - (i) Salary Shs 1,125 million and wages Shs 645 million. Included in salary is local service tax amounting to Shs 63,678,150 which was paid by the company for the benefit of employees.
 - (ii) Water and Electricity Shs 368,250,000. AUL is considering paying water and electricity for some key management staff next financial year.
 - (iii) Insecticides and pesticides amounted to Shs 150 million
 - (iv) General office expenses amounted to Shs 15 million during the year. Accountability for these expenses is missing.
 - (v) Repairs and maintenance Shs 172,815,000. From the interview with the accountant, it was established that Shs 30 million was used for repainting the building, Shs 67.5 million for partitioning the stores from the cold room facility, and Shs 35,175,000 for tiling part of the office.

- (vi) Internet and communication Shs 123,345,000 during the year.
 - (vii) Travel expenses Shs 225 million.
 - (viii) Compensation for Baluku, one of the workers who were intoxicated by the pesticides amounted to Shs 17,250,000.
 - (ix) Legal fees Shs 67.5 million. This comprised of Shs 33 million that AUL has provided to cater for any employee who sues the company in future. The balance is retainer fees charged by Mpiima & Co. Advocates annually.
 - (x) Penalty for non-conformity to NEMA standards Shs 15 million.
 - (xi) Packing boxes Shs 225 million
 - (xii) Payments to NSSF Shs 382,680,000
 - (xiii) Bought 20 laptops for the marketing department at Shs 30 million
 - (xiv) Sponsored 20 football fans to travel to Gabon to support the Uganda Cranes football team Shs 345,225,000
 - (xv) Reimbursement for director's medical bills Shs 33,751,500
 - (xvi) Depreciation for delivery vans Shs 77 million and Laptops Shs 500,000
 - (xvii) A planning retreat for 5 days at Queen Elizabeth National Park Shs 234,765,000. This expense included; hall & projector hire Shs 52.5 million, tip for good service Shs 9,765,000, staff accommodation Shs 105 million and the balance being foods and beverages.
2. Selling and distribution expenses include the following;
- (i) Acquisition of 8 delivery vans, that have the capacity to carry 2 tons each, imported from Japan costing Shs 105 million each.
 - (ii) Acquisition of GPS car tracker installation software at Shs 45 million.
 - (iii) Advertising Shs 88 million. Of this, 40% related to online marketing and 60% related to television and magazines.
 - (iv) Participation in the King's birthday run in Fort-portal organized by the Kingdom. AUL contributed Shs 8 million and it is believed that revenues would increase as a result of such participation.
 - (v) The marketing manager was sponsored to study a course on online marketing and it estimated to cost Shs 18 million for the three years.
3. Finance expenses include the following;
- (i) AUL obtained a 10-year bank loan of Shs 22.5 billion, at 7% simple interest annually, to improve on the green house project. The loan was obtained at the beginning of the financial year. However, the directors are believed to have used Shs 750 million for non-business activity. Interest on loans is included in finance costs
 - (ii) Loan guarantee charges for staff loans during the year amounted to Shs 35,250,000

- (iii) Bank charges for the year Shs 53,250,000.
 - (iv) Interest charge on bank overdraft during the year Shs 45.5 million
4. The tax written down values for AUL's depreciable assets as at 1 July 2019 were as follows:

Class	I	II	III	IV
Amount (Shs `million`)	225	1,750	3,800	1,385

Required:

Advise AUL on the:

- (a) Chargeable income and tax liability and amount payable for the year ended 30 June 2020.
(18 marks)
 - (b) Due dates for filing and paying the provisional tax.
(2 marks)
 - (c) Meaning of an exempt organisation as per the provisions of the Income Tax Act Cap 340.
(5 marks)
- (Total 25 marks)**

TEST PAPER 7

CTA JUNE 2022

Question 1

Mark Roberts is employed by Maxon Oil and Gas, a large Oil and Gas company located at Kapeeka, Luweero, as a head of legal department. The company needed a vibrant talented counsel with a lot of exposure in the industry. Having studied law in the Melbourne Law School, Australia and LLM in American University, Washington College of Law, he undertook a Diploma in Legal Practice at Law Development Centre (LDC), Kampala - Uganda. It is his wide exposure in the field of legal affairs that moved the interview panel to engage him for a three year contract so that he makes a contribution since the company was preparing to establish other branches in Uganda.

During the year ended 31 December, 2021, Mark Roberts received the following remuneration and benefits:

1. Basic monthly salary Shs 12 million.
2. Transport allowance Shs 500,000 per month.
3. Domestic bills: electricity and water; Shs 1.9 million and Shs 1.7 million a year respectively.
4. Mark Robert's children go to an international school in Kampala. The company paid Shs 4 million per term for each of his two children. There are three terms in a year.
5. On weekends, Mark and his wife Sandra, attend a health club at Kamwokya, a Kampala suburb. The company paid Shs 3.5 million for their annual membership.
6. The company paid Shs 1.2 million to Uganda Law Society (ULS) for Mark's annual practicing license fees.
7. During 2021, he attended several short-term trainings and the company paid Shs 4 million to Uganda Law Society for Continuing Legal Education sessions for Mark. He attended Mineral Resource Law and Energy session on 8 May, 2021, Oil and Gas Law on 25 July, 2021 as well as the Annual Law Conference on 4 April and 5 April, 2021. The company also paid Shs 250,000 to the Institute of Internal Auditors for him to study about internal controls and audit techniques.
8. During the year, he completed construction of rental houses on his plot of land at Matugga to supplement his monthly salary. From the start of the construction project, he used his personal savings until the roofing stage. However, the cost of finishing the interior was so unbearable that he appealed to his employer for a loan of Shs 300 million payable within two years. On 1 May, 2021, the company duly granted 60% of the loan to him at 5% interest annually on a straight-line basis.

9. The company paid Shs 3 million for his accommodation and meals while he was negotiating with squatters on the company land located in Appa Parish, Koboko town council, Koboko district.
10. During the year, Mark Roberts approached Summit Trust Bank (STB) for a loan mortgage of Shs 70 million to complete the remaining part of the rental houses. The loan mortgage was provided to him on 1 July 2021 at an interest rate of 18% per annum.
11. Mark's rental houses were occupied in September 2021 and by the end of the year he had earned a gross rental income of Shs 175 million from all the tenants.
12. Mark was given a residential house for his accommodation. The market value of the house was Shs 2 million per month. He contributed Shs 500,000 towards his accommodation. He lived in the house from the start of the year until the start of November when he decided to occupy one of his rentals. For November and December 2021, the company paid him house allowance equivalent to the market value of the house he was occupying before. This house allowance is not part of gross rental income in (11) above.
13. In the months of March and April 2021, Mark was employed by Rwot Myer Oils Ltd, a sister company to Maxon Oils and Gas, located in South Sudan. During those months his basic salary was paid by Rwot Myer Oils Ltd in South Sudan. He also received a hardship allowance of USD 5,000 per month while he was still there. Rwot Myer Oils Ltd is tax compliant in the country of residence.
14. The company paid Shs 30 million as Mark's National Social Security (NSSF) company contribution.
15. Mark Roberts also received Shs 9.5 million as dividends paid on his shares held in Vision Limited during the year.
16. Bank of Uganda interest rate was 12.5% for the year and the average exchange rate was Shs 3790/USD.

Required:

- (a) Compute Mark Roberts' chargeable income and tax liability for the year ended 31 December, 2021.

(Total 25 marks)

Question 2

MTK Ltd is a limited liability company which was incorporated in Uganda in 2013. The company is located at Lukaya, 90 km along Kampala - Masaka road and deals in tile manufacturing. The company's year of income ends on 30 June.

The main brand of tiles is known as Tegula. The company's main manufacturing plant is located in the same area with its main sales outlet, although it has other outlets in different towns of Uganda. The company employs over 150 full-time workers who provide support at manufacturing and sales points. It has been established that 10 of the full-time workers are persons with disabilities.

In order to comply with Section 19 of The Person with Disabilities' Act, 2006 (Access to premises), the company redesigned its three storeyed administration block to provide for elevators and toilet facilities. The initial cost of the building was Shs 540 million and it was commissioned on 1 July, 2018. During the year ended 30 June, 2021, the company spent Shs 45 million to buy and fix two elevators in that administration block and improvised four units of seat-on toilets with a handle at Shs 980,000 per unit. Below is the profit or loss statement for the company.

MTK Ltd Statement of Profit or Loss for the year ended 30 June, 2021

	Notes	Shs '000'
Sale of tiles		4,500,000
Sale of ceramics		2,700,000
Other sales		1,650,000
Total sales		8,850,000
Cost of goods sold	1	4,925,700
Gross profit		3,924,300
Other income		
Foreign exchange gains	2	240,500
Profit on disposal of truck	3	52,300
Total income		4,217,100
Expenses		
Staff costs	4	1,892,500
Selling and distribution costs		746,300
Rent for outlets		150,650
Motor expenses		240,000
Depreciation		459,820
Professional fees	5	80,000
Provision for bad debts		183,000
Interest on loans		245,000
Provisional income tax		126,000
Total expenses		4,123,270
Net profit		93,830

Notes:

1. Cost of sales includes purchase cost of a heavy-duty fork-lift Shs 97 million which the accountant treated as a direct cost.
2. Foreign exchange gains result from the importation of feldspar, pottery stone and silica sand from China on credit. 90% of the exchange gains were realized during the year.
3. The company disposed of an old 10 ton truck which was delivering tiles to different sales outlets. The truck was bought at a cost of Shs 90 million on 1 July, 2018. It is company policy to charge depreciation for trucks at 25% on cost and its net book value at the time of sale was Shs 22.5 million.
4. Staff costs are broken down as follows:

	Shs'000'
Staff accommodation (not included in employment income)	71,646
Net salary	1,285,000
Pay As You Earn (PAYE)	258,960
10% NSSF contribution	154,396
5% NSSF contribution	77,198
Staff Christmas party	45,300
Total	<u>1,892,500</u>

5. Professional fees include Shs 60 million which was incurred by the company on surveying and transfer of its land located in Adekokwok sub-county in Lira district. This land was bought strategically for construction of MTK's factory plant that will serve Lango sub-region.

Additional information:

- (a) During the year the company constructed a new factory at Lukaya which cost Shs 945 million. This factory was commissioned on 1 March, 2021.
- (b) During the year, the company sold a Toyota Prado which was the official car for the managing director at Shs 38 million. This car was bought on 1 July, 2019 at Shs 75 million.
- (c) The written down values as at 1 July, 2020 were:

	Shs '000'
Class I	175,000
Class II	245,000
Class III	463,500
Class IV	329,100

(d) The following assets were bought during the year:

	Shs '000'
Computers (All to be used within Kampala outlets)	152,000
Furniture	71,000

Required:

Compute the chargeable income and tax liability of MTK Ltd for the year ended 30 June, 2021.

(25 marks)
(Total 25 marks)

Question 3

(a) Mukwasi Enterprises Ltd, (MEL) is a VAT registered supplier dealing in hardware supplies. The company is located in Mbale Municipality. The Chief Executive Officer (CEO) is querying the competence level of the accounting officer in charge of VAT returns. The amount of VAT paid by the company is on the increase since January 2022. The CEO was able to summarise some transactions he thinks would have reduced VAT liability yet the accounting officer treated them otherwise as per transactions below.

1. MEL paid VAT on goods sold on credit to Mr. Kamwesigye in June 2021. Mr. Kamwesigye died of cancer in November 2021 and the board decided to write off his invoice worth Shs 4.5 million (VAT inclusive). Since then, the accounting officer has not claimed back the VAT on that invoice.
2. MEL supplied cement and iron bars worth Shs 200 million VAT inclusive to Zim Construction International Ltd (ZCIL), an approved supplier by URA, for the construction of a bridge in Sironko. The construction was donated by the government of South Korea through Korea International Cooperation Agency (Koica). Upon remitting the payment in December 2021 VAT payment, ZCIL paid the company an amount net of VAT.
3. MEL imported a new Toyota Prado for the Chief Operations Officer (COO) in January 2022 at Shs 120 million. The VAT paid at importation has not yet been claimed.
4. MEL paid rent for its full time staff in January 2022 of Shs 72 million to different landlords who are not registered for VAT. Each employee was charged PAYE because the rent benefit was added on the individual's payroll for the month. Since then no VAT has been claimed.

5. The accounting officer does not claim all the input VAT he computes for the month. His explanation is that some of the company's supplies are exempt and so no input VAT is claimable. The CEO is bothered about this inappropriate explanation.
6. MEL did not charge VAT on sales of corrugated iron sheets to Mutoto Church, along Bungokho Road on orders of the CEO. The CEO is convinced that Mutoto is a non-government organisation and should not pay VAT.

You have been hired as a tax consultant to review the above transactions.

Required:

Write a letter to the CEO of MEL advising him on the appropriate VAT treatment of the above transactions.

(15 marks)

- (b) Following the advice from the finance manager, RK Ltd, a VAT registered person sold her branch located in Kasese in December 2021 because it was making losses. The branch was sold to one Akiiki, who was not registered for VAT purposes. In the January 2022 VAT return, RK Ltd treated the sale of the branch as an exempt supply, a matter which was queried by Uganda Revenue Authority (URA) officials. In their explanation to the URA officer, the company emphasises that the Second Schedule of the VAT Act would allow the sale as an exempt supply and they do not see why URA would query such an obvious transaction. URA has invited both the finance manager and director of the company for a meeting which will take place in two weeks' time.

You have been appointed as a tax advisor for RK Ltd.

Required:

Write a memo to the director explaining the conditions that must be fulfilled for a sale of business as a going concern to be treated as an exempt supply.

(10 marks)

(Total 25 marks)

Question 4

Babatunde Uganda Limited (BUL) is a company dealing in financial services. It is owned by a group of five young men from Nigeria. The company was registered in Uganda in 2015, with its headquarters at Kampi Building, Kampala road. Since its inception, the company has specialised in money lending and investment services. The business of money lending brings a bigger contribution to the

company. Sometimes the borrowers fail to pay up their debts and eventually surrender their property to the company. Through this arrangement, BUL has acquired a large portfolio of property in different parts of Kampala.

During the year ended 31 March 2022, the company decided to dispose of one of its commercial properties located on plot 99, Kimathi Avenue, at Shs 3,630 million. The company spent Shs 250 million to acquire the land on which the building is sitting and another Shs 853,600,000 on the construction of the building. The building was fully commissioned on 1 April, 2016.

The company sold the managing director's Benz at Shs 80 million. The car was bought on 1 April, 2019 at Shs 135 million. The company's 10-ton lorry was involved in an accident during the year. The lorry cost Shs 75 million on 1 April, 2019. Management decided to dispose of the wreckage at Shs 50 million and replaced it with another lorry of a similar kind in December 2021.

The tax written down values for each asset class as at 1 April 2021 were as follows:

	Shs '000'
Class II	346,000
Class III	538,000

Required:

- (a) Calculate the capital gains or loss on the above transactions for the year ended 31 March, 2022.
(15 marks)
- (b) Explain circumstances under which a disposal is said to have taken place.
(5 marks)
- (c) Outline circumstances under which gains or losses on disposal of a business asset are not taken into account in determining chargeable income of a person.
(5 marks)

(Total 25 marks)

Question 5

Avia Beauty Parlor (ABP), located in Nansana Municipality, is a business owned by Flavia, an enterprising business woman. The business offers salon and beauty therapy services to both men and women. Flavia started her business while still pursuing studies at the university few years back. After acquiring her vocational training in cosmetology, she wanted to apply her skills in own enterprise as this would give her the opportunity to introduce innovations in the industry. Since its inception in 2019, her salon business is booming and giving her reasonable income for her survival and further education. She plans to open up other branches in different areas of Kampala.

The following transactions relate to her business during the year 2020:

Avia Beauty Parlor

Profit or Loss for the year ended 31 December, 2020

	Shs '000'
Income from:	
Hair dressing	35,000
Hair styling	22,500
Hair cuts	18,750
Sale of synthetic hair	48,000
Nail making	12,960
Total income	137,210
Cost of Synthetic hair	14,253
Gross income	<u>122,957</u>
Expenses	
Rent	12,000
Wages to staff	24,500
Cleaning materials	3,200
Municipal license	250
Staff meals	2,500
Transport	3,625
Stationery	368
Communication	729
Total expenses	47,172
Net profit	<u>75,785</u>

Additional information

1. During the year, ABP paid provisional tax amounting to Shs 640,000.
2. Rent paid included one month's rent for her personal residence Shs 500,000.
3. Flavia imported synthetic hair from Kenya during the year and paid withholding tax Shs 900,000 at Malaba customs point.

Flavia has approached you for advice on the appropriate income tax payable for the year.

Required:

- (a) Compute the income tax payable by ABP for the year ended 31 December, 2020.
(15 marks)
- (b) Write notes about the following taxation terminologies.
 - (i) Electronic tax system.
(3 marks)
 - (ii) Digital tax stamps.
(4 marks)
 - (iii) Reverse charge mechanism of VAT.
(3 marks)**(Total 25 marks)**

Question 1

Maro Institute of Technology (MIT) located in Kampala is a Private tertiary institute of higher learning specialising in information technology (IT). MIT is accredited by the National Council of Higher Education (NCHE) of Uganda and its programmes of study are both academic and professional, offering diploma and degree courses. MIT is affiliated to two foreign Universities; one in Egypt and the other in UK. Under the affiliation, MIT locally trains programs owned by those foreign universities and participates in a staff exchange program as well.

The following information relates to the profit or loss statement for MIT for the year ended 31 December, 2021:

Income:	Note	Shs '000'	Shs '000'
Tuition			4,589,600
External university fees			1,825,300
Convocation			450,800
Other functional fees			792,000
Research grants	1		2,936,500
Consulting fees	2		1,684,100
Investment income	3		<u>640,900</u>
Total income			<u>12,919,200</u>
Expenses:			
Staff costs	4	5,934,505	
Other operating expenses	5	4,863,200	
Finance costs	6	<u>1,830,400</u>	<u>(12,628,105)</u>
Profit before tax			291,095
Income tax			<u>(240,601)</u>
Profit for the year			<u>50,494</u>

Notes:

1. Research grants consist of the following items:

Item	Shs '000'
Government of Uganda	750,000
Oversees grant	1,794,500
Industry-specific research grants	246,000
Other sources	<u>146,000</u>
	<u>2,936,500</u>

2. Consulting fees are made

Item	Shs '000'
Programming	439,000
Technology tools	153,800
Data analytics	589,700
System audits	400,000
Other sources	<u>101,600</u>
	<u>1,684,100</u>

Other sources relate to personal grants extended to staff through MIT bank

3.	Investment income is made up as follows:	
	Item	Shs '000'
	Treasury bills net of Withholding tax	156,000
	Gains on disposal of land	240,000
	Unrealised foreign exchange gains	45,900
	Income from rent of property	<u>199,000</u>
		<u>640,900</u>
4.	Staff costs include the following:	
	Item	Shs '000'
	Staff salaries	3,896,300
	Staff wedding and other social events	189,700
	Social security	389,630
	Residences and hospitality	780,500
	Foreign travel costs	169,000
	Daily Subsistence Allowances	126,000
	Bereavement support	35,375
	Life insurance	<u>348,000</u>
		<u>5,934,505</u>
5.	Other operating expenses	
	Item	Shs '000'
	Depreciation of property	1,440,500
	Office administration	1,268,200
	Curriculum development	312,000
	Licensing and affiliation	167,000
	Land purchase	578,000
	Governance	152,300
	Remittances to external Universities	87,400
	Bad debts provision on tuition	104,450
	Convocation	177,742
	Loss on disposal of computers	26,500
	Rental property expenses (allowable)	61,608
	Construction (Work-in-Progress)	<u>487,500</u>
		<u>4,863,200</u>
6.	Finance costs	
	Item	Shs '000'
	Loan repayment (principal)	1,250,346
	Interest on loans	534,182
	Other finance charges	<u>45,872</u>
		<u>1,830,400</u>

Additional information:

1. Non-current assets schedule

	Land	Buildings	Motor vehicles	Furniture & fittings	Computers	Total
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Balances 1 January 2021 (cost)	17,800,000	35,789,300	2,654,000	1,368,000	295,620	57,906,920
Additions	578,000	487,500	-	240,000	135,000	1,440,500
Disposals	(138,500)	-	-	-	(170,000)	(308,500)
Total cost 31 December 2021	18,239,500	36,276,800	2,654,000	1,608,000	260,620	59,038,920
Depreciation 1 January 2021	-	7,296,500	1,352,500	428,956	154,600	9,232,556
Disposals	-	-	-	-	(94,500)	(94,500)
Charge for the year	-	1,789,465	530,800	201,000	65,155	2,586,420
Total 31 December 2021	-	9,085,965	1,883,300	629,956	125,255	11,724,476
Carrying Amount 31 December 2021	18,239,500	27,190,835	770,700	978,044	135,365	47,314,444
Carrying Amount 31 December 2020	17,800,000	28,492,800	1,301,500	939,044	141,020	48,674,364

The cost of the buildings in the schedule above relates to the cost incurred on a structure which is still under construction. The five-storeyed structure will premise a state-of-the-art technology centre which shall be used for research and innovation. The existing buildings were constructed in 2014.

2. Tax written down values 1 January 2021

Class	Shs '000'
I	96,235
II	170,630
III	348,000
IV	791,500

Provisional tax paid for the year 2021 Shs 34,945,000.

Required:

- (a) Compute the income tax payable by MIT for the year ended 31 December, 2021.

(20 marks)

- (b) Advise MIT on the:

- (i) Due date for filing the income tax return for the year ended 31 December 2021.

(3 marks)

- (ii) Available alternatives in case they have no funds available to pay income tax when due.

(2 marks)

(Total 25 marks)

Question 2

- (a) Explain the circumstances under which a disposal of a business asset occurs.

(5 marks)

- (b) Maja Consultants Ltd (MCL) is a firm of surveyors incorporated in Uganda, with its head office in Kampala. MCL provides data relevant to engineering construction projects, mainly in central Uganda. Some of the clients however, do not have money to hire surveyors and in effect MCL agrees to provide professional services in exchange for agreed pieces of land. This has led MCL to acquire chunks of land in the region.

Due to the COVID-19 pandemic, MCL decided to sell some property to finance their ongoing construction project in Mukono. The following events transpired at MCL during the year ended 31 December, 2021.

- (i) Sale of 10 acres of land located at Matugga, 10 miles along Kampala-Bombo Road at Shs 540 million. This land was acquired in 2014 at Shs 62 million. MCL spent Shs 5 million to process its land title and Shs 12.5 million on stamp duty.
- (ii) Sale of one (1) acre of land in Wakiso district at Shs 400 million. This piece of land, located near the Uganda Martyrs Shrine Namugongo, was acquired by MCL in 2018 at Shs 85 million. The land had been pledged to Access Bank Ltd for a one-year loan in January 2019. At that time, the bank sent its valuers who quoted the value of land at Shs 225 million. By close of 2019, MCL had paid back the loan.
- (iii) Sale of a commercial building at Shs 890 million. This building was constructed and commissioned on 1 January, 2011 at a cost of Shs 475 million. The land on which the building was constructed was bought in 2009 at Shs 200 million.
- (iv) During the year, the company's van was stolen from a parking yard and efforts to recover it were futile. The company had acquired the van at Shs 45 million on 1 January, 2020. Their insurer, however, compensated MCL Shs 40 million. On 30 November, 2021 they replaced the stolen van with another similar one at Shs 55 million.
- (v) The company also sold its 100,000 shares it held in Nation Media Group at Shs 540 per share. These shares were acquired in 2018 at Shs 3,500 per share.
- (vi) MCL held in trust 50 acres of land which belonged to Esau Estate. The market value of the land at the time it was passed to MCL in 2013 was Shs 250 million. In 2021, the company transferred all the 50 acres to the beneficiaries so as to allow them exercise full control over their property. At the time of transfer the market value of the land was Shs 950 million.

Required:

Advise MCL on the amount of capital gains/ losses accruing to them and the capital gains tax payable, if any.

(15 marks)

- (c) Engineer (Eng.) Brown, who is one of the directors of MCL, has approached you for advice. His wife, Ms. Clara Brown, who is a teacher at an international school in Kampala, wants to borrow funds from the bank to set up a day care centre. Eng. Brown transferred 2 acres of land to Ms. Brown so that she uses it as collateral security as well as a place for her project. Eng. Brown had acquired the land in 2009 at Shs 80 million. At the time of transfer, the market value of the land was Shs 420 million.

Required:

Advise Eng. Brown on the tax implications of the transfer of the 2 acres of land previously owned by him to his.

(5 marks)

(Total 25 marks)

Question 3

- (a) Mr. James Adiki is a successful businessman in Arua city. As a graduate from Gulu University with a degree in marketing, Mr. Adiki first worked as a sales executive for Amiku Tobacco Ltd, one of the leading tobacco companies in the Bunyoro sub-region. After four consecutive years of serious work, he opened up a chain of stores in Arua, his home area, and later expanded into real estate. Over the years he has constructed and owns properties in Arua, Kampala and Wakiso districts from which he earns rent.

At the beginning of 2022, Mr. Adiki was very scared after seeing the tax he is paying out of the rent he collects. He is of the view that he is over taxed. In light of this, he has provided you with the information concerning his properties which was compiled by his property manager. He seeks to understand how his obligation and liability as a property owner was arrived at. According to the available information, you are able to establish that all his properties are in his personal name. His year of income ends 31 December. Information relating to the various properties is as hereunder.

JA001

This is a storeyed building located in Arua city. This building was constructed in 2019 using a loan from Conte Bank amounting to Shs 2.85 billion. The property is occupied by an international non-governmental organisation and uses it as regional headquarters for Northern and North-Western Uganda. The organisation pays Mr. Adiki

\$¹ 10,000 per month. During the year ended 31 December, 2021, Mr. Adiki spent Shs 13.5 million to repair the roof and perimeter wall and Shs 6 million for security of the property. He also paid Shs 56 million in on the loan he used to construct the building.

JA002

This building is in Kampala city and is occupied by Jing Qu, a Chinese tile manufacturing company. Jing Qu was designated as a withholding tax agent since July 2019. James receives monthly rent of Shs 20 million from Jing Qu, after deducting 6% withholding tax. For the year ended 31 December, 2021, Jing Qu paid all the rent due for the year plus rent for the first quarter of the year 2022.

JA003

This is a chain of four separate house units located in Nansana, Wakiso district. James received rental income from the tenants (in 2021) as follows:

Tenant	Amount (Shs)
Nicholas Agaba	8,400,000
Yarem Enterprises	10,800,000
Cozy Nazziwa	10,800,000
Sulaiman Mukwasi	9,800,000

JA004

This building is located at Seguku along Entebbe Road. James uses the building as his urban residential house. The building sits on 5 acres of land and is well decorated. It has a well-designed compound and sometimes people hire the compound for parties. During the year ended 31 December, 2021, James received Shs six 6 million from such activities. He used Shs 2 million in cleaning the place and paying its utility bills.

Additional information;

- (i) The exchange rate applicable for the year ended 31 December, 2021 was Shs/ 1 \$ 3,655.
- (ii) James pays his property manager a monthly salary of Shs 900,000. Other costs incurred include transport, telephone and legal. He spent Shs 5 million during the year to cater for these costs.

¹ \$ denotes the United States dollar.

Required:

Advise James on the rental tax payable for the year ended 31 December, 2021.

(15 marks)

- (b) Mark & Raymond are in partnership having started in 2016, dealing in second-hand shoes from Thailand. They share profits and losses in the ratio of 3:2 respectively. Over the years their partnership business has thrived to the extent that they employ fifteen workers. In 2019, the partners bought a mansion but decided to let it out to tenants so as to diversify their income. During the year ended 31 December 2021, they earned Shs 145 million from rent of the mansion before deducting Shs 16 million for repairs and maintenance of the same building and Shs 2 million for general expenses. Their junior accountant advised them to start depreciating the building to recover the cost of investment over time. Depreciation during the same year amounted to Shs 15 million.

The partners have approached you to give a hand in making their income tax returns for the year ended 31 December, 2021.

Required:

Advise the partners on the rental tax payable for the year ended 31 December, 2021 by:

- (i) Mark. **(3 marks)**
(ii) Raymond. **(3 marks)**
- (c) Citing the relevant sections of the Income Tax Act, explain the tax treatment of the following transactions:
- (i) Rental income earned by Jimtex, a company resident in India, from properties located at Buganda Road, Kampala city. **(2 marks)**
(ii) Rent earned by Zadok Ltd, a resident company in Uganda, from properties located in Denmark. **(2 marks)**

(Total 25 marks)

Question 4

The Uganda Gazette	
Vol. CXIII No. 38	23 rd June, 2020
General Notice No. 595 of 2020 UGANDA REVENUE AUTHORITY (URA) TAXPAYERS FOR WHOM IT SHALL BE MANDATORY TO ISSUE E-INVOICES OR E-RECEIPTS NOTICE IS HEREBY GIVEN TO THE GENERAL PUBLIC by the Uganda Revenue Authority, pursuant to Section 73A (2) of the Tax Procedures Code Act, that it is mandatory for all Value Added Tax (VAT) registered taxpayers to issue e-invoices or e-receipts in accordance with the Tax Procedures Code (E-Invoicing and E-Receipting) Regulations, 2020. JOHN R. MUSINGUZI Commissioner General, Uganda Revenue Authority	

The Electronic Fiscal Receipting and Invoicing System (EFRIS) has brought a new twist in the administration of value added tax (VAT) in Uganda. Following the public notice in the Uganda Gazette above, URA designated 1 January, 2021 as the cut-off date for implementation of EFRIS. Many taxpayers have complied with difficulty but URA is doing its best to sensitize them so as to cope with the new technology. This applies to all VAT registered taxpayers (including diplomats, diplomatic or consular missions, and international organizations). With EFRIS in place, any input tax credit or refund claim shall not be granted unless it is supported by authentic e-invoice/receipt starting with the tax return of January 2021 which is due by 15 February 2021.

The executive director of Motox Ltd, your tax client, received several messages from URA advising him on compliance requirements for EFRIS. He is not convinced about the system and its benefits both to the taxpayer and URA. Nonetheless, if the company does not comply, the losses resulting from failure to claim input tax credit are vivid.

Required:

- (a) As a Tax Consultant, write a memo to the executive director of Motox Ltd explaining the:
 - (i) Benefits of using EFRIS to the business and the tax authority.
(6 marks)
 - (ii) Responsibility of Motox Ltd in the implementation of EFRIS.
(2 marks)
- (b) Explain any four (4) mandatory and discretionary powers of the commissioner of Uganda Revenue Authority when executing their duties.

(4 marks)

- (c) Jordan Enterprises Ltd (JEL) is a sole proprietorship business located at Nana Shopping Centre in Kampala City. The business is owned by Flavia Jordan Nambuusi, a prominent business lady. JEL deals in sale of Techno phones, phone accessories and supplies to customers within Uganda and neighbouring countries. JEL is registered for value added tax and is compliant.

You have been provided with the following information from JEL's cashbook for February 2021.

Date:		Debits			Credits
1 Feb. 2021	Balance b/ f	5,680,000	Date:		
	Total sales		1 Feb ² .	Bought the following assets	
	Sales to:			Bought below assets:	
	Tanzania	36,000,000		Computers	15,000,000
	Rwanda	29,600,000		Furniture	7,500,000
	Local sales:		5 Feb.	Bought:	
	Standard	89,680,500	6 Feb.	Stationery	4,520,000
	Exempt	13,600,000	9 Feb.	Phones	32,450,000
	Zero-rated	33,850,000	12 Feb.	Paid staff salary for the month	6,000,000
	Face masks	5,230,000	13 Feb.	Imported a Toyota Marc X	22,000,000
			18 Feb.	Paid tithe to the Church	2,500,000
			19 Feb.	Bought cleaning materials	720,000
			22 Feb.	Bought phones	600,000
			24 Feb.	Repair of Marc X	1,873,000
			25 Feb.	Imported furniture for private use	2,500,000
			26 Feb.	Bought phone accessories	19,700,000
			28 Feb.	Bought phones	1,200,000
			28 Feb.	Transporting phones to Rwanda	13,000,000
			28 Feb.	Balance c/f	84,077,500
		<u>213,640,500</u>			<u>230,640,500</u>

Note:

1. All the transactions were made with VAT registered suppliers.
2. Both sales and expenses are VAT exclusive.

Required:

- (i) Calculate VAT payable/ claimable by JEL for the month of February 2021.

(10 marks)

- (ii) Clarify for JEL the distinction between place of incorporation and place of management as applied in International Taxation.

(2 marks)

(Total 25 marks)

² Feb. is the short form for the month of February

Question 5

- (a) "The science of taxation comprises two subjects to which the character of pure theory may be ascribed: the laws of incidence and the principles of equal sacrifice ..." writes renowned researcher Edgeworth. Indeed, it is important to note that tax incidence is a very important terminology that policy makers must appreciate.

Required:

- (i) With an example, explain clearly the meaning of incidence of a tax as applied in tax theory. **(2 marks)**
- (ii) Distinguish between tax base and taxable capacity. **(2 marks)**
- (b) It is the duty of Uganda Revenue Authority (URA) to administer and give effect to tax laws enacted by Parliament. This involves assessment, collection, accounting and advising on aspects of policy changes. As part of creating awareness, URA often carries out tax education programs to sensitize taxpayers on their rights and responsibilities. Many taxpayers however think that some activities, at a micro level and for the sole purpose of increasing household income, or for the public good, should not be taxed. While the Income Tax Act defines business income to include any trade or adventure in the nature of trade, to an ordinary taxpayer these terms are not well understood.

You have been invited as a tax consultant to a public session organised by Hon. Bob Engole, the area member of parliament, to educate taxpayers on tax issues.

Required:

Write a memo to Hon. Bob Engole explaining the indicators of whether an activity being carried on constitutes a trading and therefore should be regarded as business income in accordance with the Income Tax Act.

- (5 marks)**
- (c) Rose Nyamaizi is a Ugandan working in Canada as a sales and marketing officer since 2018. She had registered a company, in Uganda, as a sole owner in the names of Nyamaizi Enterprises Ltd (NEL). When she left Uganda, NEL was left in the hands of her brother Amooti, who manages it on her behalf. NEL deals in bulk sales of stationery and other scholastic materials.

Over the years, Uganda Revenue Authority (URA) has been sending messages on Rose's email which she used when applying for a TIN for the company. She has been ignoring the messages until URA sent her an administrative assessment of Shs 100 million in March 2021. The mail required NEL to pay the said amount within 30 days. Rose is confused, she thinks that since she is already paying taxes in Canada

TEST PAPER 9

CTA (U) NOVEMBER 2023

Question 1

Mr. Mosh is a Tanzanian citizen, born and stayed in central Tanzania throughout his education life. Mr. Mosh graduated as an accountant in the year 2018 from the University of Mwanza (privately owned institution). The university is registered under the laws of Tanzania. One month after his graduation he got a job with Kay Kay Micro finance (KKM), a company based in western Tanzania. KKM has its funding from three major sources that is; capital contribution by owners, government of Tanzania and USAID.

During the month of October 2019, USAID introduced exchange program between all USAID funded micro finance within East Africa for a period not exceeding six (6) months. On 1 January 2020, Mr. Mosh was sent to Uganda for the initial period of 6 months ending 30 June 2020.

Due to COVID- 19 pandemic, Mr. Mosh was unable to go back to Tanzania instead he decided to remain in Uganda without a job.

On 2 February 2022, Mr. Mosh got appointment from Jamug Enterprises a Ugandan based company that deals in plastic fabrication as a Senior Accountant. The terms of his employment contract and what transpired during the year is as below:

1. His appointment into employment is effective 1^h March 2022.
2. He is entitled to a monthly basic salary of Shs 3 000,000.
3. Entitled to a monthly housing allowance equivalent to 5% of his annual basic pay.
4. Entitled to an annual gratuity equivalent to 33% of his annual basic salary payable at the completion of twelve (12) months effective the time of redemption of duties.
5. He is entitled to 30 days annual leave once a year with leave facilitation equivalent to a return air ticket to and from Tanzania worth Shs 6,000,000 to enable him visit his family in Tanzania. His leave was due and taken during the month of December 2022. However, due to Covid-19 second wave, he did not make it to Tanzania but he was paid the above leave facilitation.
6. He is entitled to medical services for self and other four immediate family members in hospitals and clinics approved by the company. On 15 December 2022, one of his sons in Uganda fell sick and was taken to Mulago referral hospital, one of the company approved hospitals. The treatment cost was Shs 2,100,000.

7. He is provided with four security guards; two at the office and two at home. The monthly cost of each guard is Shs 478,000 VAT inclusive.
8. He is entitled to 200 shares at Shs 3,000 each under employee share acquisition scheme. At the time of the acquisition and payment for the above shares on 3 December 2022, the market price of these shares was Shs 4,500 per share.
9. He is allocated a brand new pick-up that was purchased on 1 July 2022 at the cost of Shs 220,000,000. He uses the pick-up for private work only on weekends and public holidays.
10. On 1 December 2022, Mr. Mosh was given housing advance of Shs 18,000,000 payable in 12 months period starting immediately with December 2022. In the same month he completed a three months advance of Shs 5,000,000. The bank of Uganda interest as at 01/07/2022 was 15%.
11. During the month of December 2022, the company paid school fees for his two children at Buddo Junior School worth Shs 1,550,000 per child.
12. On 23 December, the company paid Shs 5,000,000 for his life insurance premium for the year 2022.

Required:

- (a) Compute Mr. Mosh's chargeable employment income and tax liability for the month of December 2022.

(15 marks)

- (b) Explain to Mr. Mosh:

- (i) The term employment as defined by the Income Tax Act (ITA), Cap 340, laws of Uganda.

(2 marks)

- (ii) Whether he is required by the Income Tax Act, Cap 340 to file returns.

(4 marks)

- (c) Mention at least four employment incomes that are exempted from income tax in line with the Income Tax Act (ITA), Cap 340.

(4 marks)

(Total 25 Marks)

Question 2

Three Ps enterprises is a company that deals in the supply and distribution of agricultural products in all parts of the country. The company has its headquarters in Jinja with 4 other branches across the country. The company has been filing all tax returns since incorporation in the year 2000.

During the month of November 2022, the Chief Finance Officer (CFO) of Three Ps enterprises received a letter from Uganda Revenue Authority (URA) informing him that:

1. The company has not been filing their tax returns on time.
2. The URA's tax assessment for the year ending 31 December 2021 is not the same as the return filed by the company when compared with the available 3rd party data obtained by URA. URA is seeking clarification from the CFO over the above matters. However, due to his busy work schedules, he has not been able to respond to the above URA letter.

After one month, the company received another letter from URA requiring the company to pay more tax by Shs 27,000,000 as additional tax assessed using the 3rd party data. The CFO is wondering how URA arrived at its figures because Three Ps enterprises has on several occasion supplied posho and beans to Uganda Prisons and always a portion of the money was withheld and remitted to URA. URA has never paid the refund of this withheld portion of the money to the company.

The Board of Directors is also considering setting up a small business of tree nursery bed in Soroti, Soroti City, Eastern Uganda as an alternative source of income for the company. However, they are fearing that substantial revenues from the sale of the above seedlings may be taken by URA in form of taxes.

Required:

(a) Advise the CFO on:

- (i) The tax returns the company should have filed and the due dates for each.

(2 marks)

- (ii) The tax procedures to be taken to object against the tax assessment made by URA and the appeals procedure against the tax decision by URA up to the high court.

(7 marks)

(b) Under what circumstances will the Commissioner be prevented from making an additional tax assessment to the taxpayer.

(2 marks)

(c) Explain to the CFO in line with the Income Tax Act, the tax implications of:

- (i) Failure to withhold tax by the withholding agent.

(2 marks)

- (ii) Having withholding tax as a final tax.

(4 marks)

(d) Explain to the CEO what the small business tax system is, who qualifies and those excluded from using the small business tax system as per the Income Tax Act, in relation to the proposed business line by the Board of Directors.

(8 marks)

(Total 25 Marks)

Question 3

Naboth, Alex and Caleb are partners trading as NAC dealers. The partnership has been trading for many years sharing profits in the ratio of 1:1:1 with the reporting period being 31 December. The capital contribution of the partners as at 31/12/2018 is detailed below

S/N	Partner	Capital as at 31/12/2018 (Shs)
1	Naboth	130,000,000
2	Alex	130,000,000
3	Caleb	130,000,000
Total		390,000,000

During the end of the year meeting of 30 December 2020, the partners agreed to make additional contribution to the partnership starting 01/01/2021 as follows:

S/N	Partner	Asset detail	Value (Shs)
1	Naboth	Vehicle	80,000,000
2	Alex	Land	60,000,000
3	Caleb	House	100,000,000
Total			240,000,000

After the additional contributions, the partnership profit sharing ratio changed to 4:3:5 effective the year of additional contribution.

The partnership has been making profit for the last years except for the year ending 31/12/2022. The details of profits for the last 4 years is as below:

S/N	Date	Profit/loss (Shs)
1	31/12/2019	21,000,000
2	31/12/2020	18,000,000
3	31/12/2021	24,000,000

4 31/12/2022 (36,000,000)

Required:

- (i) Explain the tax implication of the partners' contribution to the partnership.
(2 marks)
 - (ii) Compute the tax paid by the partners for each year.
(10 marks)
 - (a) Explain the following terms as defined by the Income Tax Act Cap 340, laws of Uganda and state why it is important to determine the residence status of a person for tax purposes.
 - (i) Resident Trust.
(2 marks)
 - (ii) Resident Partnership.
(2 marks)
 - (b) Distinguish between Tax avoidance and Tax evasion by giving at least two examples of each.
(2 marks)
 - (c) Discuss the circumstance under which the accounting profit may not be the same as the taxable profit.
(7 marks)
- (Total 25 Marks)**

Question 4

Kateraho, Balya and Kirya are all employees of Uganda Peoples Defense Forces (UPDF) at ranks of Major, Colonel, and Lt. Colonel respectively. In the year 2019 they were sent to Somalia to command the various divisional groups. While in Somalia, the three officers met and agreed to start a business as soon as they return back to Uganda. They returned on 15 December 2020. They then conducted another meeting at Barbie hotel in Masaka city to operationalize the idea. The resolutions of the meeting were as below:

1. Hire an advocate firm to assist in the registration of the business. The cost of registration is Shs 30,000,000. The cost includes the fees and charges payable to the authorities. The registration was concluded by 31 August 2021 with business name "KKB Limited" with the registered office in Masaka town, Masaka city, central Uganda.
2. The company to be fully operational by 1 January 2022.
3. Hire of office and storage space at Shs 2,500,000 and Shs 4,700,000 per annum respectively.
4. To hire General Manager and other 5 officers at total monthly salary of Shs 5,100,000 effective 1 January 2022. The proprietors conducted the

recruitment process and got the required personnel who assumed duties immediately.

5. The employees formed a trade union to assist negotiate with management. The employees are contributing 10% of their gross pay toward the management of the union.
6. The company won a tender to supply treated poles to Transmi, a government leading parastatal that is mandated to transmit and distribute electricity in all parts of the country. It is Transmi's policy to make payments within four days after delivery. The details of the supply are as below:

Supplier	Supply	Delivery date	Gross Amount of goods supplied VAT inclusive (Shs)
KKB Limited	40mm treated poles 12m high	14/02/2022	125,000,000
KKB Limited	40mm treated poles 12m high	02/05/2022	129,500,000
KKB Limited	45mm treated poles 12m high	09/07/2022	143,000,000
KKB Limited	30mm treated poles 10m high	08/10/2022	117,000,000

7. During the year, the company also sold 1,000 treated poles to Kusinda bar guest house at Shs 55,000 each (VAT inclusive).
8. Due to increasing business demand, proprietors expanded through purchase of land at Shs 100,000,000, construction of ware house at Shs 250,000,000. The ware house construction was completed and ready for use by 30/06/2022.
9. The company borrowed Shs 20,000,000 from Jalie, a leading commercial bank in Uganda at an interest rate of 25% per annum. The loan was disbursed on the KKB bank account on 01/07/2022. However, the proprietors agreed and used only 50% of the loan for period to 31/12/2022 till the review of the performance for the year ending.
10. On 01/04/2022 the company bought trailer for the transportation of poles to the clients at Shs 500,000,000.

11. Other company expenses for the year were:

	Shs
Administration expenses	19,000,000
Marketing and distribution	8,100,000
Cost of goods sold	79,000,000

Required:

For the year ended 31 December 2022, determine KKB's Limited:

(i) Chargeable income **(22 Marks)**

(ii) Tax liability **(3 Marks)**

(Total 25 Marks)

Question 5

(a) Mataaka Limited operates in Mbarara city, western Uganda. it deals in property and event management. Mataaka's year of income ends on 30 June. During the year ending 30 June 2021, the following transactions took place:

1. Sold one acre of undeveloped land located in Makenke at Shs 120,000,000. The piece of land was acquired 5 years ago at Shs 70,000,000. The company paid 5% of the purchase cost to brokers and incurred additional Shs 8,000,000 to transfer the title into company names, this includes Shs 1,000,000 facilitation to principal land officer to quicken the process.
2. Mataaka Limited has a piece of land in kakiika measuring approximately 100 feet by 100 feet. This land was bought 3 years ago from Twine at Shs 60,000,000. During the Uganda National Roads Authority survey for southern by pass, this piece of land was mapped and Mataaka was compensated with Shs 115,000,000 on 21/06/2021. The company used the money received to buy another piece of land within the same year at Shs 120,000,000.
3. During the month of July 2020, Mataaka made an extension to the existing hotel in Nyamitanga at a cost of Shs 450,000,000. The hotel is seated on a 2 acres piece of land that was bought 10 years ago at Shs 30,000,000. In the same year of purchase of the land, the company constructed a hotel on that piece of land at Shs 100,000,000. After the extension in December 2020, the company realized that the business had gradually reduced and decided to sell of the land and the existing structures. Mataaka successfully got a buyer and sold the property at Shs 980,000,000 on 30/06/2021.

4. Mataaka bought land with fish pond and attendants house along river Rwizi in July 2009 at Shs 62,000,000. Due to heavy rains during the year 2020, the ponds and attendants house were washed away by the floods. The company received insurance compensation of Shs 50,000,000 that the company used to buy a replacement at Shs 75,000,000. During the month of May 2021, Mataaka sold the recently acquired property at Shs 94,350,000.

Required:

Compute the capital gain/loss on each of the above transactions and the tax obligation thereon. Ignore initial allowance.

(12 marks)

- (b) Explain the circumstances under which a taxpayer is deemed to have disposed of an asset as per the Income Tax Act Cap 340, laws of Uganda.

(5 marks)

- (c) Mataaka Limited wants to expand its business to Kenya, Ethiopia and Zambia by either opening up branches or registration of subsidiaries. The CEO is puzzled on the next step of action and he has approached you for advice.

Required:

In reference to the Ugandan laws, explain to CEO the difference between a branch and subsidiary and the tax matters you may consider before taking a final decision.

(8 marks)

(Total 25 marks)

TEST PAPER 10

CTA 3 - MAY 2024

Question 1

Sevo is a limited company involved in the civil works and general engineering Services. Sevo has decided to change its financial year from 30 September, to 31 December. The Statement of Comprehensive Income for the fifteen months' period ending 31 December, 2023 is as below:

Item	Notes	Amount (Shs)
Gross Profit		612,000,000
Expense		
Wages and salaries	1	107,000,000
Entertainment	2	30,000,000
Electricity	3	17,000,000
Contribution to NSSF	12	10,050,000
Cleaning materials		5,000,000
Property rates		2,500,000
Bank Charges		800,000
Donations	4	32,000,000
Bad and doubtful debts	5	6,600,000
Electricity	13	6,000,000
Telephone and communication	6	8,000,000
Stationery		2,000,000
Repair and maintenance	7	70,000,000
Motor vehicle expenses	8	90,000,000
Legal and professional fees	9	58,000,000
Depreciation charge for the year		120,000,000
		564,950,000
Operating Profit		
Other Income	10	30,000,000
Interest Payable	11	(38,000,000)
Net Profit		9,050,000

Notes:

- Sevo is owned by Brian and Cain, who work full-time in the company. Wages & salaries include Brian and Cain's salary of 60,000,000.
- Entertainment expenses includes the following:

	shs
Staff Christmas party	15,000,000
Christmas Gifts for Suppliers	10,000,000
Contribution to Directors wedding	5,000,000
Total	30,000,000

3. Savo sublets 20% of its building to TM Limited. 20% of the electricity is attributable to the let portion of the building.

4. Donations comprise of:

	Shs
Donation to Green Party	8,000,000
Donation to ICPAU	10,000,000
Donations to SANYO babies' home	12,000,000
Total	30,000,000

5. The bad and doubtful debt charge is made up of the following:

	Shs
Increase in specific bad debt provision	6,000,000
Reduction in general bad debt provision	(4,000,000)
Bad debt written off	4,600,000
Total	6,600,000

6. Included in the telephone and communication charge is Brian's mobile phone bills, amounting to 6,000,000. 50% of his calls are private.

7. Repairs and maintenance are made up of the following:

	Shs
Extension to trading premises	45,000,000
General Repairs	15,000,000
General Provision repairs to be carried out next year	10,000,000
Total	70,000,000

8. Motor expenses include the following:

	Shs
Lorry running expenses	42,000,000
Running costs of executives' cars note (a)	40,000,000
Running costs of Jussy car note (b)	8,000,000
Total	90,000,000

- (a) Sevo leases Mercedes cars for its executives on short term basis (in any case not exceeding 3 years). During the period ending 31 December 2023, the company leased 2 cars. Each car had a market value of 300,000,000. Payment of 30,000,000 for each car was made in the same period.

- (b) Jussy has a company car. The car was leased in September 2022. It had a Market Value of 60,000,000. Lease payment of 10,000,000 was made in the period. Jussy was not previously provided with a company car. The car is used for only private work. The lease payments were treated as normal business expense in statement of comprehensive incomes.

9. Legal & professional fees are made up of the following:

	Shs
Legal claim by staff for unfair dismissal	40,000,000
Legal fees for bad debt collection	<u>18,000,000</u>
	58,000,000
10. Other Income is the rental income received by the company for sub-letting the property.	
11. Interest payable is made up of the following:	
	Shs
Mortgage Interest on property loan (note a)	18,000,000
Bank Interest on company overdraft	12,000,000
Interest on late payment of VAT	4,200,000
Lease Interest (note b)	3,800,000
Total	38,000,000
(a) This is a mortgage on the business property.	
(b) Lease payments (capital & interest) paid by the company for the period ended 31 December, 2023 were Shs 3,000,000. Shs 1,200,000 of this relates to the car leases referred to in note 8 (b) above and relates to Jussy's car.	
12. Contribution to NSSF is 15% of the gross wages and salaries.	
13. 20% of the electricity relates to sub rented property. The rented property constitutes 20% of the entire property. The cost of all the buildings is Shs 860,000,000. This building was constructed 10 years ago.	
14. The WDV at 1 October, 2022 of plant and machinery is detailed below.	
Class	WDV
1	48,000,000
11	120,000,000
111	65,000,000
Total	233,000,000

Required:

- (a) Calculate the tax liability of Sevo for the accounting period ended 31 December, 2023.
- (b) As a tax expert, explain to directors of Sevo enterprises why they should pay taxes in the developing economy like Uganda.

(20 marks)

(5 marks)

(Total 25 marks)

Question 2

- (a) Global ventures international (GVI) was formed by 3 directors namely; Liz, Liaz, and Luez in the year 1980 under the laws of United States of America (USA) as on-Government Organisation (NGO) with the major objective of evangelism across the world. GVI attracted a number of investors and has since accumulated multi-million United States dollar (USD) assets. In the year 2006, GVI bought land along River Nile to establish an office in Uganda at a cost of Shs 100,000,000. Construction commenced immediately, the office was completed and was occupied on 1 January 2007. The cost of construction to completion was Shs 800,000,000. In the year 2021, Mr Luez who was running the Ugandan office turned 95 years and the directors during the special sitting in Washington (USA), decided to close off the Ugandan office and Mr Luez goes back to USA.

The directors of GVI agreed to transfer the building to Global Ventures Uganda (GVU), a local charitable NGO that was formed under the laws of Uganda. The directors of GVI informed Commissioner General of Uganda Revenue Authority of their intension to close off Ugandan office as the way of preparing for old age.

On 1 June 2023, GVI invited the chief government valuer to ascertain the value of the property being transferred and it was valued at Shs 1,200,000,000. As the procedure of closure, the directors of GVI and GVU were not sure of the taxes applicable on the transaction and they have approached you for advice.

Required:

In reference to relevant provisions of the Income Tax Act (ITA), laws of Uganda and case law, advise the directors on the applicable taxes and duties applicable if any and who is liable. Assume,

- (i) GVU paid cash consideration for the property received at fair value. **(6 marks)**
- (ii) GVU received the property at zero cash consideration. **(4 marks)**

- (b) Super wax enterprises (super wax) is operating a wholesale business in kikubo Kampala. Super wax does not maintain proper books of accounts, and does not file timely and accurate VAT returns (his tax compliance record is bad). During the conversation with the director, he revealed the following information relating to purchases and sales for the month of March 2023 as detailed below.

Date	Purchases Shs.'000 (VAT inclusive)	Sale Shs.'000 (VAT exclusive)	Notes
1	50,000		10% of purchases are from non VAT registered supplier.
2		11,000	
3	60,000	5,000	
12		27,000	All sales were to VAT non registered buyers
14		10,000	
15	110,000		
16	85,000	65,000	20% of sales were made to VAT designated tax withholding agents.
20		17,000	
21		32,000	
22	125,000	68,000	50% of sales were made to VAT designated tax withholding agents.
23		52,000	
24		44,000	
28	130,000	10,000	
29		12,000	This amount declared is only 40% of the goods that went out of stores. The balance of the items were taken for own use.
30		15,000	
Total	415,000	368,000	

Required:

Compute the VAT payable/claimable for the month of March, 2023 and advise the directors of super wax enterprises regarding the penalties the business is likely to suffer due to non-compliances above.

(15 marks)
(Total 25 marks)

Question 3

- (a) Discuss the circumstances under which an individual is regarded to be Ugandan resident, and how the tax treatment of a resident individual differs from non-resident individual.

(6 marks)

- (b) David, Danson and Denis have been in business for 35 years sharing profits and losses in the proportion of 2:2:4. They prepare their accounts on 30 June every year.

The profit and loss account for the year ending 30 June, 2023 showed the following

	Shs '000'	(Shs) '000'
Gross profit		312,000
Less expenditure		
Staff salary	13,500	
Partner's salaries		
David	24,500	
Danson	6,500	
Dennis	11,000	
Interest on capital		
David	28,000	
Danson	23,000	
Denis	18,000	
Interest on drawing (Denis)	10,000	
Stationary	8,000	
Professional fees	16,000	
Travel expenses	<u>11,500</u>	
		170,000
Net Profit		142,000

Required:

Compute the partners' share of profits and tax payable, stating any assumptions made.

(11 marks)

- (c) Mr. Kiiza is a form five graduate and he runs three different businesses in different locations of the country. Kiiza is helped by his wife to run one of the businesses and two other attendants who are paid monthly salary in addition to lunch and transport refund. Mr. kiiza does not prepare full records of business transactions claiming that it's expensive and that records guide Uganda Revenue Authority to over tax him. During your discussion with Mr. Kiiza, the following information for the 12 months period ending 31 December 2023 was discovered.
1. He pays transport and lunch refund of Shs.15,000 and Shs.6,000 to his wife and each attendant respectively daily for five days a week. None of them has missed work during the current year.

2. Included in the sales figure of first quarter, is the phone accessories valued at Shs.5,000,000 that were spoilt during transit and customers returned them.
3. He pays rent for electronics, metal works and hair and beauty at Shs 12,000,000, 6,000,000 and 9,200,000 respectively.
4. During the year Mr. Kiiza imported second hand phones and hair dress from Kenya and he was charged withholding tax of Shs.100,000 at Malaba border. The value of phones and hair dress are equal.
5. He took away 2 mobile phones for himself and his wife for personal use. The total cost of the phones is 1,500,000.
6. Kiiza does not have track records of his performance but he estimated to have performed as follows:

Sn	Sales Category	Period			
		Quarter 1	Quarter 2	Quarter 3	Quarter 4
1	Electronics	15,500,000	6,000,000	9,200,000	0.00
2	Metal works	8,400,000	20,000,000	0.00	16,000,000
3	Hair and beauty salon.	8,000,000	5,400,000	4,800,000	10,500,000

Required:

Compute the tax payable by Mr. Kiiza for the year ending 31 December, 2023.

(8marks)

Question 4.

Bashaija is former employee of Mijimati a public company with branch offices across the country. Mijimati's employee transfer policy states that any staff can be transferred on promotion, demotion or at the same level to any branch at the discretion of management. While Bashaija was in employment he was deployed in Gulu, and later transferred to Mbale, Arua and Masaka. Due to company's employee transfer policy he decided to resign for self-employment.

Bashaija lives in own self-contained residential house located in Busabala kampala. The total cost of construction to completion is Shs 800,000,000 and if he is to rent out the house it fetches monthly rentals of Shs 2,000,000

Whenever he was transferred, Bashaija could construct a residential house where he resides and then he rents out to the public whenever he is transferred and earns rental income.

During the year ended 30 June, 2023 he earned the following from his apartments:

Location	Shs.
Gulu	45,000,000
Mbale	54,000,000
Arua	26,000,000
Masaka	14,000,000

On retirement he received his terminal package worth Shs 450,000,000 that he decided to invest as detailed below. Bashaija receives the return on investment directly on his centenary bank account twice every year that is December and June.

Investment	Shs.
Plot of land (Luzira not yet developed)	70,000,000
Treasury bills 5years (12%)	200,000,000
Treasury Bonds 20 years (15.6%)	150,000,000
Personal domestic expenses	30,000,000
Total	450,000,000

During the year 2019 he bought 2,500 shares each at Shs.10,000 from Zigido limited a resident company listed on stock exchange

During the Annual General Meeting held on 31 March 2023, the company declared dividends to its shareholders of Shs.1,000 per share however the company paid only 80% by cash and the balance was converted into additional shares.

During the year ended 30 June 2023, Bashaija revisited his note book and it revealed that he earned the following from brokerage.

Month	Shs
November	3,000,000
December	1,800,000
April	1,560,000
June	4,920,000

(a) As a tax consultant, advice ,Bashaija on:

(i) Whether he is required to file returns of tax and why.

(5 marks)

- (ii) His tax obligation(s) if any and tax payment due dates.

(20 marks)

(Total 25 marks)

Question 5.

Gusto Jazmin is a young Ugandan entrepreneur who is developing his talent in the music industry. In the year 2018, Gusto joined his colleagues for training coaching and mentorship on how to develop and produce the excelling product in the competitive environment. During his stay in the last 4 years, Gusto has been moving with the mentors in different parts of the country for concerts where the bouncers were collecting money at the entrance before entering.

During the last concert, he saw two gentlemen with Uganda Revenue Authority (URA) uniform verifying the issued-out tickets and on enquiry he was informed that every time they collect, a reasonable percentage goes to URA in form of tax. A week later, Gusto went for an evening with the colleagues and he was cited saying he wants to context for presidency in the next general election and abolish such taxes, after all the general public is not benefiting from the payments, musicians are not given any say in decision making through special seat in parliament and taxes paid are always abused through corruption tendencies. He further informed his friends that when bouncers were notified of the visit by URA officials, they hide some tickets to under declare the total collections. Also, it's the norm that approximately 40% of the tickets are not disclosed to URA staff.

Required:

Gusto has approached you as a tax consultant to help him understand the following.

- (a) The rights of a taxpayer, in reference to domestic tax laws of Uganda.

(9 marks)

- (b) What causes an increase in tax evasion in developing countries like Uganda despite technological advancements?

(8 marks)

- (c) How to reduce tax evasion rate in Uganda.

(8 marks)

(Total 25 marks)

TEST PAPER 11
CTA 3 - DECEMBER 2024

Attempt any four of the five questions

Question 1

Yvonne is a young graduate with skills and expertise in handling public relations. She responded to the job advert for the position of compliance manager in the newspapers with Mafuta Ltd, a company that was contracted by the government of Uganda to transport crude oil to Mombasa port for processing. She underwent the recruitment process and she accepted a one-year contract effective 1 January 2023 with the possibility of renewal based on assessed performance. Her terms of engagement are detailed below.

1. The contract will run from 1 January to 31 December, 2023.
2. Work duty station is Kampala main office with frequent field visits across the East African countries along the crude oil pipeline.
3. Monthly basic salary Shs 4 million payable with other benefits and entitlements as detailed below.
 - (i) Medical cover for self and one spouse in the clinic(s) and hospital(s) approved by the employer.
 - (ii) Leave transport allowance equivalent to 50% of the annual basic pay once a year upon taking annual leave.
 - (iii) Gratuity equivalent to 60% of the annual basic pay upon completing twelve months of service.
 - (iv) housing allowance at the end of every Quarter equivalent to 1% of the annual basic salary.
4. During the year the following took place:
 - (a) Went out of the country on official duty for seven days in every beginning month of the quarter excluding the first quarter of the calendar year. Every day Yvonne was out of the country, she was paid an accountable advance of Shs 500,000 to cater for all the expenses incurred while on official duty. However, Yvonne only spent Shs 200,000 per day and kept the balance to herself.
 - (b) Yvonne's husband fell sick on 14 February 2023 while in Kigali, Rwanda for Valentine with another fiancée. He was rushed to one of the approved hospitals within Kigali where he paid Frw¹ 2 million. On return, he gave the receipts to the wife who presented them to the finance manager for a refund. On 1 May 2023, she was paid Shs 10 million in respect to the refund of medical expenses incurred by her husband while in Kigali.

¹ Frw is the currency symbol for Rwanda

- (c) Yvonne went on her annual leave during the month of July 2023, in line with her employment contract and the organization's policy.
- (d) Because of her good performance track record, Yvonne was invited by Wagaga PLC, a Tanzanian company to guide in the development of good compliance systems. She was paid an amount equivalent to Shs 28 million. The company also took care of her meals and accommodation while in Tanzania worth Shs 1.5 million that was paid by this company directly to the service provider.
- (e) During the contract period, Yvonne used her personal motor vehicle for both private and business journeys. She was reimbursed by the employer at the rate of Shs 1,500 per kilometer traveled. She moved a total distance of 36,000km. (Assume the journeys are evenly distributed throughout all the months of the year, and half the journey traveled throughout the year was private). In addition, Yvonne was given 20 liters of fuel every week at the company's pump station. The fuel was valued at Shs 5,000 per liter throughout the year.
- (f) During the month of September, Yvonne took her car to the garage for repair and she incurred Shs 6 million. The company reimbursed her the total expenditure on 15 October 2023.
- (g) Throughout the year she was allowed to use two mobile company telephones. The telephones had each cost Shs 1.7 million when purchased by the company in March 2023. The telephones are loaded with monthly airtime of Shs 100,000 each. She uses approximately 10% of the airtime loaded to conduct personal business.
- (h) The company paid her monthly life insurance premium of Shs 1 million.
- (i) Due to cash flow constraints, gratuity was paid on 15 February 2024 in full.
- (j) The company operates a loan scheme for staff. Yvonne took a loan of Shs 75 million for 60 months on 1 July 2023 at an interest rate of 12% per annum. The rate of interest ruling in the market was 22% per annum and the statutory rate was 17%.
- (k) In addition to her salary, Yvonne was paid the following bonuses:

No.	Shs '000'	Date of payment	Date of entitlement	In respect of quarterly period ended
(i)	4,000	25 April 2023	1 April 2023	31 March 2023
(ii)	3,600	20 August 2023	5 July 2023	30 June 2023
(iii)	4,500	3 February 2024	7 January 2024	31 December 2023

Required:

- (a) Compute Yvonne's chargeable income and tax liability for the year ended 31 December 2023. Clearly state the due dates for filing and paying the taxes withheld from Yvonne. **(16 marks).**
- (b) Explain the following in relation to the Income Tax Act and Tax Procedures Code Act Provisions:
- (i) Penalties relating to taxation of employment income. **(3 marks)**
 - (ii) Pay as you earn (PAYE) system. **(3 marks)**
- (Total 25 marks)**

Question 2

Kavuyo owns supermarkets in all the cities of Uganda. He delegated the general accountant who sits in Gulu to approve and oversee all financial transactions of the supermarkets across the country.

Kavuyo supervises and visits all the branches at least once a month. Whenever he visits the Gulu branch, he finds at least one new receipt with a bank stamp for the payment of taxes. On inquiry, he was informed that the supermarket pays different taxes which are due monthly. Kavuyo was not convinced by the explanation from the general accountant and he thinks it is a way the employees are extorting money from him. Kavuyo has approached you for advice.

Required:

Citing relevant provisions of the tax laws of Uganda, explain to Kavuyo:

- (a) The legal rights of a taxpayer. **(8 marks)**
 - (b) Challenges associated with the enforcement of taxpayers' rights. **(5 marks)**
 - (c) The importance of the Tax Appeals Tribunal (TAT) in enforcing taxpayers' rights. **(8 marks)**
 - (d) The distinction between tax base and tax revenue. **(4 marks)**
- (Total 25 marks)**

Question 3

Charlie is a young university graduate with a Bachelor of Vocational Training from a public university in Uganda. 2 years after graduation, Charlie lost his father who was the sole breadwinner for the family. After the burial, his late father's close friend read the will that Charlie's father had written before his death. Charlie was given cattle and land as part of his share. Six months later, Charlie decided to sell off his inherited share and invest in other ventures. The details of the investments are as below.

1. On 1 July 2021, he bought treasury bonds (TB) Shs 200 million with a maturity period of 20 years. He also acquired a 5-year TB on 1 July 2023 Shs 50 million. The interest rate payable at the date of acquisition was 18% and 13.5% respectively. Charlie receives interest from the investments by midnight through his Cent Bank account at the end of every six months.
2. On 10 August 2023, he participated in sports betting with one of the prominent betting companies located in Wandegaya. He invested Shs 500,000 and he was paid Shs 6.8 immediately at the end of the game.
3. On 5 February 2022, he purchased 200,000 shares at Shs 10,000 per share in Vibes Limited, a Ugandan resident company listed on the Uganda stock exchange. On 31 December 2023 during the annual general meeting, the shareholders approved payment of dividends of Shs 80 per share. Charlie received his dividend payment after 3 weeks through his bank account.
4. Charlie Acquired 10 acres of land at Mabale located in the western part of the country. The place has beautiful scenery with hot springs in it and it is regularly visited by tourists from different parts of the world. Charlie rented this land to Momo, a prominent Local Council (LC) V councilor of the area. He is paid monthly rentals of Shs 15 million. Momo pays the rentals without fail. Charlie makes monthly visits to ensure the sites are up to standard. The day he travels to the site he incurs the following monthly expenses:
 - (a) Meals prepared and served from the site Shs 1 million.
 - (b) Accommodation Shs 1.2 million.
 - (c) Fuel and other car maintenance Shs 1.8 million.

Charlie is not sure how to treat the above payments received from Momo for tax purposes and whether it should be subject to tax under the Income Tax Act and if so, how much tax he should be paying annually.

5. He constructed 3 apartments each with 5 units in Bondo, a Kampala suburb. Each unit fetches him Shs 1.2 million per month. It was revealed that since construction, only 2 units had never been occupied. He incurs the following monthly charges to maintain the apartments:

	Shs '000'
Security expense	1,000
General cleaning	2,000
Garbage collection	200

Required:

- (a) With reference to the relevant sections of the Income Tax Act, advise Charlie on the tax treatment of the situations above and tax payable/paid, if any, for the period 1 July 2023 to 30 June 2024.

(16 marks)

- (b) As a fresh tax consultant, write short notes to a proprietor of a small business explaining the concept of withholding tax (WHT) as final tax and its tax implications.

(9 marks)**(Total 25 marks)****Question 4**

Jam Jam and Fasalira are spouses who at the same time own Twezimbe Enterprises Limited, incorporated on 1 July 2021 and based in Kampala. The following assets were acquired and put to use immediately after incorporation.

Asset	Shs '000'	Date of acquisition
Land (acquisition)	400,000	1 July 2021
Title processing	5,000	1 July 2021
Land surveying	10,000	1 July 2021
Squatter relocation	45,000	1 July 2021
Building	800,000	1 July 2021
Extension constructions	450,000	1 July 2022
Container mounted trailer	600,000	1 July 2021
Tourist van	75,000	1 July 2021
Residential house 1	120,000	1 December 2023
Residential House 2	135,000	1 December 2023

In the year 2023, the spouses unanimously agreed to stay apart and resolved as follows:

1. Dispose of all the assets and share the proceeds equally. The following amounts were received upon disposal:

Asset	Proceeds Shs '000'
Land	540,000
Building	1,200,000
Container mounted trailer	250,000
Tourist van	20,000

2. Jam Jam took residential house 1 while Fasalira took residential house 2.

Note: All assets were sold on 31 December 2023.

One month after the sale, Jam Jam received a tax assessment from Uganda Revenue Authority in respect to capital gain on the disposal of the assets. He was not in agreement with the assessment, claiming that the capital invested was from the sale of his share of inheritance from his late father.

Required:

- (a) Determine, for Jam Jam, whether there was a capital gain or loss on the disposal of assets in Question 4 part 1. above and the tax thereon, if any. **(10 marks)**
 - (b) Explain the factors a taxpayer should consider in determining whether a capital gain or loss is taxable under the Income Tax Act. **(3 marks)**
 - (c) Describe the circumstances under which a taxpayer is deemed to have disposed of assets in line with the Income Tax Act provisions. **(3 marks)**
 - (d) Describe the factors affecting tax administration in Uganda. **(9 marks)**
- (Total 25 marks)**

Question 5

Machismo Enterprises Ltd (MEL) is a sole proprietorship business located at Nanginanga Shopping Centre in Kampala City. The business is owned by Joel Mange, a prominent businessman around town. MEL deals in the sale of various commodities and supplies to customers within Uganda and neighbouring countries. MEL is registered for value-added tax and is compliant. You have been provided with the following information from MEL's cashbook for the month of May 2024.

Date	Debit		Credit	
	Details	Shs '000'	Details	Shs '000'
1/5	Bal b/ f	1,500		
7/5	Bad debts on standard rated goods written off 3 years recovered	4,500	Purchase of assorted fruits	16,000
12/5	Sales to walk-in customers	60,000	Purchase of sanitary towels & tampons	7,000
12/5	Exports to DRC ²	82,000	Rent paid	12,000
18/5	Exports to South Sudan	43,000	Fuel	7,600
19/5	Sale of exempt goods	8,000	Car repairs	2,800
19/5	Sale of zero-rated goods	12,000	Purchase of general stock	120,000
19/5	Sales to government ministries	28,000	Purchase office cleaning materials (MD took 50% for personal use)	20,000

² DRC is Democratic Republic of Congo in full.

Date	Debit		Credit	
	Details	Shs '000'	Details	Shs '000'
19/5			Salaries paid	24,000
20/5			Purchase of hot plate	800
20/5			Purchase of furniture	4,000
21/5			Telephone invoices paid	5,400
21/5			Transport to DRC	4,800
22/5			Transport to South Sudan	5,200
28/5			Return of standard-rated goods sold April 2024.	7,200
30/5		-	Bal c/ f	2,200
	Total	239,000		239,000

Note:

1. All the transactions were made with VAT-registered suppliers.
2. Both sales and expenses are VAT exclusive.

Required:

- (a) Determine the VAT payable/ claimable by MEL for the month of May 2024 and advise the director on the tax payment due date.
(10 marks)
- (b) Clarify for MEL the distinction between place of incorporation and place of management as applied in international taxation.
(3 marks)
- (c) Explain to the director of MEL the difference between cash basis and invoice basis methods of accounting for VAT, clearly explaining the merits and demerits of each and which taxpayers are not authorized to use the cash basis method.
(7 marks)
- (d) Explain the circumstances under which VAT adjustments may apply when filing a return.
(5 marks)

(Total 25 marks)

RATES OF TAX**Resident Individuals**

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 10,000,000 pm) 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



Answers

ANSWERS TO TEST PAPER 1

CTA JUNE 2018

Solution 1:

(a) BUTIMA'S TAXABLE INCOME		
Business income		
Profit before tax		145,000,000
Add back		
Depreciation	1,200,000	
Provisions for bad debts	5,000,000	
Drawings	20,194,000	
Christmas gifts	500,000	
		26,894,000
Deductions		
Minor capital	(900,000)	
Wear & tear	(6,040,000)	(6,940,000)
Taxable business income		164,954,000
Taxable Consultancy income		10,000,000
Employment income		
Salary	9,000,000	108,000,000
Motor vehicle benefit		5,850,000
Housing benefit	1,500,000	18,000,000
Bonus		10,000,000
Less		
Local service tax		(100,000)
Taxable income		141,750,000
Housing benefit = lower of Rent and 15%* (141,850,000)	21,262,500	
Medical insurance is not a taxable benefit to the employee		
Per diems are not taxable as they are the cost accommodation & meal in the course of travel while under taking duties of employment		
Rental income		24,000,000
Taxable amount		19,200,000
Total taxable income		335,904,000
(b) Tax payable		
PAYE		113,505,600

Less WHT paid		(600,000)
Income tax payable		112,905,600
Rental tax payable		3,276,000
Total tax payable		116,181,600

Solution 2

Mr Kagoro		
(a)		Shs
Rental income		108,000,000
Taxable amount		86,400,000
Rental tax payable		16,716,000
(b) Company Rental		
Income statement		Shs
Gross rental income		108,000,000
Total Expenses		50,100,000
Rental Profit		57,900,000
Add back		
Wedding contribution		3,600,000
Facilitation occupancy permit		1,000,000
Entertainment - Party		4,000,000
Less		
IBD on Commercial building (800 million * 5%)		(40,000,000)
Taxable rental income		26,500,000
Rental tax payable		7,950,000

(c) Due dates of the final returns

The final income tax return for Mr. Kogoro and the company will be due on 31 December 2017.

(d) VAT treatment of rental income & computation

No VAT is applicable on the Residential rental income as it is a VAT exempt supply, while commercial rental income is subject to VAT at 18% being a taxable supply.

Output VAT computation		VAT
Residential income (exempt supply)	24,000,000	0
Commercial income	84,000,000	15,120,000

Solution 3

Kantu Enterprises Limited

(a) Computation of VAT payable		
	Sales	Output VAT
Vatable Sales 18%	920,000,000	165,600,000
Zero rated sales	70,000,000	
Exempt Sales	150,000,000	
Bad debts (inclusive)	(18,000,000)	(2,745,763)
Total	1,122,000,000	162,854,237
	Purchases	Input VAT
Computers and accessories (VAT exclusive)	12,500,000	2,250,000
Computer servicing	1,600,000	244,068
Office stationary (VAT inclusive)	1,800,000	274,576
Meals for staff (VAT inclusive)	4,500,000	686,441
Repair of Company's M/V	1,600,000	
Airtime (VAT inclusive)	1,000,000	137,288
Rent (VAT exclusive)	50,000,000	9,000,000
Audit fees (VAT inclusive)	5,000,000	762,712
Trading stock (VAT inclusive)	650,000,000	99,152,542
Total	728,000,000	112,507,627
Input VAT apportionment		
Standard rated sales /total sales	87%	
Input VAT claimable		97,503,219
VAT payable		65,351,018

(b) Zero rated supplies & exempt supplies

Zero rated supplies are taxable supplies that attract VAT at a rate of 0% and are listed in the third schedule of the VAT act.

Exempt supplies are supply of good or services where no VAT is applicable and are specified in the second schedule of the VAT act.

Solution 4

(a) Computation of Zhoghi Limited Uganda branch's remittance tax

Branch remittance tax	
	$A + (B - C) - D$
A	Total cost base of assets, net liabilities of the branch at commencement of the year of income
B	Net profit of the branch for the year of income in accordance with generally accepted accounting principles
C	the Ugandan tax payable on the chargeable income of the branch of the year of income
D	the total cost base of assets, net of liability of the branch at the end of the year of income
A	21,660,000,000
B	1,800,000,000
C	200,000,000
D	22,310,000,000
Branch remittances	950,000,000
Branch remittance tax (15%*(A+(B-C)-D))	142,500,000

(b) What constitutes a branch of a non-resident company in Uganda

- (i) a place where a person is carrying on business through an agent, other than an agent of independent status acting in the ordinary course of business as such
- (ii) a place where a person has, is using, or is installing substantial equipment of substantial machinery for 90 days or more.
- (iii) A place where a person is engaged in a construction, assembly, or installation project for 90 days or more, including a place where a person is conducting supervisory activities relation to such a project.
- (iv) The furnishing of services, including consultancy services, by person through employees or other personnel engaged by the person for such purpose, but only if activities of that nature continue for the same or a connected project for a period aggregating more than 90 days in any 12 month period.

(c) Under provisioning penalty	
20%*(90%*200,000,000-0)	36,000,000

Solution 5

(a) Resident person

(i) Individual

A resident individual is a person who meets the following criteria:

- Has a permanent home in Uganda
- Has been present in Uganda for a period or periods amounting in aggregate to, 183 days or more in any twelve month period that commences during the year of income
- Has been present in Uganda for periods averaging more than 122 days during the year of income and in each of the two preceding years of income.
- An employee or official of the government of Uganda posted abroad during the year income.

(ii) Company

A resident company for a year of income is:

- A company incorporated or formed under the laws of Uganda
- Has its management and control exercised in Uganda at any time during the year.
- Undertakes the majority of its operation in Uganda during the year of income

(iii) Trust

A Trust is a resident trust for a year of income if:

- The trust was established in Uganda
- At any time during the year of income, a trustee of the trust was a resident person, or
- The trust has its management and control exercised in Uganda at any time during the year of income.

(iv) Partnership

A partnership is a resident partnership for a year of income if;

- at any time during that year, a partner in the partnership was a resident person.

(v) Retirement Fund

A retirement fund is a resident retirement fund for a year of income if it:

- Is organised under the laws of Uganda
- Is operated for the principal purpose of providing retirement benefits to resident individuals, or
- Has its management and control exercised in Uganda at any time during the year of income.

-

(b) Non-resident person

A person not resident for a year of income is a non-resident person.

(c) Taxes and tax rates applicable:

- Income tax - 30%
- Value added tax - 18%
- Excise duty – 10%
- Import duty – 25%

ANSWERS TO TEST PAPER 2

CTA NOVEMBER 2018

Solution 1

(i) Capital allowance on an industrial building

- The cost of commercial building that qualifies for commercial building deduction should not include the cost of acquiring land.
- The cost of land of Shs 120 million and compensation of squatters (Shs 75m) relate to land acquisition therefore do not qualify for commercial building deduction.
- Facilitation of approvals of construction plans of Shs 10 million was probably a bribe and is not a tax allowable cost and is therefore excluded.
- The construction cost of Shs 730 million would qualify for commercial building deduction at a rate of 5% per annum on straight line basis.
- For the year ended 30 June, 2018, IBA of Shs 32.75m $(730m - 75) \times 5\%$ should be claimed for the year.

(ii) Capital allowances in respect to depreciable assets

The Income Tax Act grants capital deduction for depreciable assets based on specified rate for different classes of assets. Class I (40%), Class II (35%), Class III (30%) and Class IV (20%). Motor vehicles acquired at cost exceed Shs 60 million are restricted to a depreciable value of Shs 60 million and are classified under class II. Items of kitchen ware and equipment are depreciable assets that fall under class IV. Disposal proceeds of the motor vehicle should be deducted in the wear and tear schedule. See wear & tear schedule below:

	Class I 40%	Class II 35%	Class IV 20%	Total
TWDV 1 Jul 17	21,000,000	15,600,000	80,000,000	116,600,000
Additions		60,000,000	65,000,000	125,000,000
Disposal		(5,000,000)		(5,000,000)
	21,000,000	70,600,000	145,000,000	236,600,000
Wear & tear	(8,400,000)	(24,710,000)	(29,000,000)	62,110,000
TWDV 30 Jun 18	12,600,000	45,890,000	116,000,000	174,490,000

Kitchen ware and equipment would qualify for initial allowance at 50%, thus the company should deduct initial allowance of 65 million.

(iii) Capital gain on land and buildings

Land will attract a capital gain where the proceeds on disposal exceed the cost of acquisition. Commercial building disposed also could result in capital gains where the proceeds on disposal exceed the residual values at the 1 July, 2017. Capital gains should be included in the chargeable income of LSSL for the year ended 30 June, 2018. See workings below.

Capital gain	Shs	
Proceeds on building (120m/140m * 215m)	184,285,714	
TWDV of commercial building at 01.07.2017	(108,300,000)	120m less 5%*120m less 5%*120m
Gain on building (184.28m - 108.3m)	75,985,714	
Deemed Proceed for land (20m/140m*215m)	30,714,286	
Cost base of land	(20,000,000)	
Gain on disposal (30,714,286- 20,000,000)	10,714,286	

(iv) Bad debts

Bad debts written off Shs 36 million are deductible expenses for income tax purposes where the debt was initially included in gross income of the LSSL and all reasonable steps had been taken to recover the debt.

(v) Stamp duty paid of Shs 15 million is not a tax deductible expense as it relates to increase in share capital and is not incurred in the generation of income included in gross income. It is capital in nature.

(vi) Interest of Shs 10 million earned on treasury bills is subject to withholding tax at 20% as a final tax and not to be included in chargeable income. Similarly, any expenditure incurred in earning this interest income is not deductible for tax purposes.

Solution 2

(a) Mr. McCain's tax payable

(i) Spent 150 days	Non resident	
		3,600
Incomes	USD	Shs
Salary	120,000	432,000,000
Taxable: Uganda portion 40%	$(432m \times 40\%)$	172,800,000
PAYE	$582000 + (172,800,000 - 4920000) \times 30\% + (172,800,000 - 120,000,000) \times 10\%$	56,226,000
(ii) Has permanent home	Resident	Sec. 9: taxed on worldwide income
Incomes	USD	Shs
Salary	120,000	432,000,000
Gain on sale of shares	17,000	61,200,000
Shares options	10,000	36,000,000
		529,200,000
PAYE	$300000 + (529,200,000 - 4920000) \times 30\% + (529,200,000 - 120000000) \times 10\% = 198,504,000$	198,504,000
Property income: Rent	20,000	72,000,000
Taxable rental income (80%):	$72,000,000 \times 80\% = 57,600,000$	57,600,000
Rental tax payable	$(57,600,000 - 2,820,000) \times 20\% = 10,956,000$	10,956,000
Total tax payable	$(198,504,000 + 10,956,000) = 209,460,000$	209,460,000

(b) Relevance of residence / non residence status

Residence / non residence status determines whether income from all geographical sources or from sources in Uganda will be subject to tax in Uganda.

Resident persons in Uganda are taxed on their worldwide income.

Non-resident persons are taxed only on incomes sourced in Uganda.

Solution 3

(a) VAT implications of transactions

1. The company can claim input of Shs 1,098,305 invoice for the electricity as it was used in the manufacturing operations
2. Printers are company assets, so Kasumba Limited is entitled to claim input VAT of Shs 381,336 on the purchase of printers
3. A Toyota double cabin is a dual purpose vehicle and can be used for both passenger and goods transportation, input VAT amounting to Shs 6,864,407 should therefore be claimed as the input VAT restriction is only on passenger vehicles.
4. Input VAT of Shs 2,593,220 is claimable on purchase of office furniture
5. Soap exported to South Sudan is a zero rated supply thus the company should charge VAT at 0% and declared a zero rated supply in the VAT returns
6. VAT of Shs 61,016,949 incurred on importation of materials is claimable as input VAT during the year.
7. Input VAT of Shs 1,922,034 incurred on legal fees is not claimable by Kasumba Limited as it was private in nature and not used for business purpose.
8. Input VAT of Shs 1,098,305 incurred on staff meals is claimable as is for business purposes and excluded from part entertainment when granted to staff on an equal basis.
9. Input VAT of Shs 274,576 incurred on meals relating to customers is not creditable as it is for entertainment.
10. Output VAT of Shs 54,000 is payable having been computed on the market value of the soap given out to staff as this amounts to an application to own use.
11. No output VAT should be applied on trade sample worth Shs 26.5 million.
12. Only 90% of input VAT incurred on telephone can costs be claimed by the company for the period. The company will there for claim input VAT of Shs 658,983.
13. Security deposit received is not subject to VAT as there is no supply made by the company and it will be refunded to the customers at the end of their business relationship with the company.
14. Output VAT of Shs 4,500,000 previously declared on the returned goods should be creditable by the company as a credit note would be issued to the customer reversing the earlier invoiced amounts
15. The company is entitle to claim a refund of output VAT of Shs 6,480,000 previously declared on supplies made to Bad debtor as two year have lapsed and all necessary steps where take to recover the debt

(b) Taxable value of a taxable supply

- (i) The taxable value of a taxable supply is the total consideration paid in money or in kind by all persons for the supply.

- (ii) The taxable value of –
 - (a) a taxable supply of goods by way of an application to own use;
 - (b) a taxable supply for reduced consideration; or
 - (c) a taxable supply of the goods on hand where a person whose registration has been cancelled is the fair market value of the goods and services at the time the supply is made.
- (iii) Where a taxable supply is made without a separate amount of the consideration being identified as a payment of tax, the taxable value of that supply is the total the consideration paid excluding tax.
- (iv) The taxable value of a taxable supply of goods under a rental agreement is the amount of the rental payment due or received.
- (v) The taxable value of a taxable supply of goods or services where the government has provided a subsidy is the consideration paid in money or in kind by all persons for the supply less the subsidy.
- (c) Mixed supplies
 - (i) A supply of services incidental to the supply of goods is part of the supply of a good.
 - (ii) A supply of goods incidental to a supply of services is part of the supply of services.
 - (iii) A supply of services incidental to the import of goods is part of the import of goods.

Solution 4

- (a) The nature of accounts and records
 - Every tax payer shall maintain in English language record including in electronic format as may be required to determine the taxpayer's tax liability under a tax law
 - Maintain the record so as to enable the taxpayer's liability under the tax law to be readily ascertained
 - Retain record for 5 years after the end of the tax period to which it relates or other period as specified in the tax law
 - Where at the end of 5 years a record is necessary for a proceeding commenced before the end of 5 year period, the person shall retain the document until all proceedings have been completed
 - The mode of record keeping shall contain sufficient transaction information and, in the case of a record in electronic format shall be capable of being retrieved and converted to a standard record format equivalent to that contained in an acceptable paper record
 - The commissioner may allow a tax payer upon application to keep records in different language or currency other than English or Uganda Shillings.

- An application to keep record in different language or currency other than English or Uganda Shillings shall state clearly the reasons for such application.
 - If records are not in English, the commissioner may require the person keeping the records to provide a translation into English or a translator approved by the commissioner.
 - Returns shall be filed and other correspondences with the commissioner shall be provided in English even where the tax payer is granted permission to keep record in another language than English.
- (b) Extension of time to furnish a tax return
- A person required to furnish a tax return may apply in writing to the Commissioner for an extension of time to furnish the return
 - An application shall be made by the date on which the return is required to be furnished
 - Where the commissioner is satisfied that the person is unable to furnish the tax return by the due date because of any reasonable cause, the commissioner may, by notice in writing, grant the person an extension of time to furnish the return
 - The extension of time granted shall not exceed an aggregate period of 90 days
 - An extension of time granted does not change the date for payment of the tax due as specified in the tax law.
 - The commissioner may allow an application for the extension of time after the expiry of the due date if the commissioner is satisfied that the failure to furnish a tax return was due to exceptional circumstances
- (c) A provisional tax return should be filed on or before the last day of the sixth month and twelfth month of the year of income. A person who fails to furnish a provisional tax return by the due date is liable to a penal tax equal to 2% of the tax payable or Shs 200,000 per month, whichever is higher, for the period the return is outstanding.

Solution 5

- (a) Use and interpretation of categories of tax statutes

Primary legislation

The constitution of the Republic of Uganda provides for taxation by Acts of Parliament. These tax Acts include Income Tax Act, Value Added Tax Act, Excise Duty Act, etc. The tax Acts provide the legal basis for the imposition and collection of the respective tax and any other purposes connected to the tax. The tax Act takes precedence over any other Act on matters pertaining to the tax.

Secondary legislation

This constitutes Statutory Instruments and Regulations. They draw their authority from the Act of Parliament under specific section enshrined therein. The Minister of Finance is mandated to provide regulations for the better carrying into effect of the provisions in the Act. Where a provision of a regulation is contrary to the provisions in the Act in respect to a subject matter, the provision of the Act takes precedence.

Practice notes

The Commissioner General of URA is mandated to issue practice notes in accordance with an Act for the guidance of URA officers and the public. Practice notes are binding on the commissioner and not on the tax payer until revoked by the commissioner.

Private rulings

Upon application in writing, a tax payer may request the Commissioner for a private ruling to a transaction entered or proposed to be entered in. Private rulings are binding on the commissioner and not on the tax payer. Where a private ruling is inconsistent with an existing practice note, the private ruling has priority to the extent of the inconsistency. A private ruling is not a tax decision.

Double taxation agreements

Double taxation agreements (DTAs) are important for the avoidance of double taxation and prevention of tax evasion. DTAs that are in force take precedence over local domestic tax Acts on matters pertaining to avoidance of double taxation of a resident of a treaty state. However, where tax avoidance schemes are entered into, or where local legislation provides for limitation of treaty benefits, the local/domestic Act's provisions would take precedence over double taxation treaties.

(b) Implication of amendments

The amendment of the regulation in 2011 was of no effect on the claim of input VAT as the main Act had not been amended in the same regard until 1 July 2012. This implies that the ABB Company limited could still claim for VAT on imported services between 1 July 2011 to 30 June 2012. However, following the exclusion of the claim in Section 28 of the VAT Act, the claim was no longer granted in the Act, thus a tax payer would no longer have basis on which to claim VAT on imported services.

ANSWERS TO TEST PAPER 3

CTA JUNE 2019

Solution 1

(a) Tax implication of the board retreat matters

Capital allowances

Capital allowance should be claimed on industrial building, property, plant and machinery which have been put to use during the year as the accounting depreciation on capital expenditure is disallowed for tax purposes.

Land: The purchase of land worth Shs 1.5billion gives rise to a non-depreciable asset and thus does not qualify for wear and tear deductions.

New factory building:

- The cost of compensating squatters of Shs 100m is deemed to be part of the purchase cost for acquiring land thus does not qualify for industrial building deduction.
- The payment to city council officials (Shs 50m) is most likely a bribe which is not an allowable expense and should therefore be excluded from the cost of industrial building.
- Taking the above into consideration, the qualifying expenditure for industrial building deduction is Shs 1.05 billion (1.2 bn - 100m - 50m).
- Since the building was commissioned on 1 October 2018, it also qualifies for initial allowance of 20% (s.27A (4) of ITA) amounting to 210 million (1.05bn * 20%).
- IBA of 5% per annum (straight line method) is computed after deducting the initial allowance (s.29 of ITA). IBA for the year ended 31 December 2018 is Shs 10,586,301 ($840m \times 5\% \times 92/365$ days) should be claimed as it was only used for 3 months from 1 October 2018 to 31 December 2018. (Appendix i)

Industrial building deduction		Appendix i	Marks
		Shs	
Total cost		1,200,000,000	
Less		(1
Squatters	100,000,000	M	1
City Council payment	50,000,000	150,000,000	
Qualifying expenditure		1,050,000,000	
Initial allowance (1.05bn *5%)		210,000,000	
Balance for IBD (1.05bn -210m)		840,000,000	
IBD (5%) * 92/365 days		10,586,301	1
Residual value (840m - 10.586m)		829,413,699	1
		M	

Capital allowances furniture and machinery & motor vehicles

MUL qualifies for wear and tear allowance as per the provisions of s.27 of ITA on furniture, machinery and motor vehicles. In addition, Initial Allowance (IA) of 50% as per s.27A (1) ITA should also be claimed on Machinery as it qualifies to be eligible property being put to use in Masaka which is over 50 kilometer radius from Kampala. Furniture and motor vehicles do not qualify for initial allowance as they are not eligible properties.

The qualifying cost of Motor vehicle for wear and tear purposes is 60 million shillings, thus the Shs 250m motor vehicle cost is not fully deductible. Proceed on disposal of motor vehicles should be deducted from the tax written down values before computing for wear and tear of class II assets.

MUL will claim wear and tear allowance of Shs 618 million and initial allowance of Shs 150 million (Appendix ii).

Appendix ii	Wear & Tear				
	40%	35%	30%	20%	
	Class I	Class II	Class III	Class IV	Total
WDV 1 Jan 2018	350,000,000	150,000,000	800,000,000	550,000,000	1,850,000,000
Addition		60,000,000	300,000,000	100,000,000	460,000,000
Initial allowance 50%			(150,000,000)		(150,000,000)
Sub Total	350,000,000	210,000,000	950,000,000	650,000,000	2,160,000,000
Disposal proceeds		(30,000,000)			(30,000,000)
Total	350,000,000	180,000,000	950,000,000	650,000,000	2,130,000,000
Wear & Tear	(140,000,000)	(63,000,000)	(285,000,000)	(130,000,000)	(618,000,000)
WDV 31 Dec 2018	210,000,000	117,000,000	665,000,000	520,000,000	1,512,000,000

Minor capital deduction; binding machine

Binding machines qualify for minor capital deductions of Shs 2,250,000 since each costs less than Shs 1,000,000, is capable of independent use and don't form part of a set of assets.

Capital gains tax on disposal of commercial building

The disposal of commercial building gives rise to capital gains which should be included in gross income of the business. The capital gain on disposal of old building amounts to Shs 375million. (Appendix iii)

Appendix iii	Capital gain Shs	Mark
Cost at 1 January, 2008	250,000,000	
Accumulated IBD (250m * 5%)* 10 years	(125,000,000)	1
Residual value 1 January, 2018	125,000,000	1
Capital gain		
Disposal proceeds	500,000,000	
Residual value 1 January, 2018	(125,000,000)	
Capital gain	375,000,000	2

- (b) The first provisional income tax return of MUL was due on **30 June ,2018** / within 6 months from the start of the year of income, which return may be revised **by 31 December, 2018**. The self-assessment return of MUL for the year ended 31 December, 2018 is due on **30 June ,2019** i.e. 6 months after the year end.

Payment of 50% of the estimated tax for the year of income is due on **30 June 2018** and the balance due on **31 December 2018**. Payment of final self-assessed tax is due **30 June 2019**.

Solution 2

(a) Computation of VAT payable / refundable for the month of June 2018

	Amount	Output
Sales	Shs	Shs
Local sales	950,000,000	144,915,254
Export sales	400,000,000	-
Clothes to children & wife	1,500,000	270,000
Total Output		145,185,254
Purchase		Input VAT
Import of 400 bales	100,000,000	22,500,000
Rent	1,000,000	180,000
Salaries (2 *1,000,000)	2,000,000	-
Hire of trucks	5,000,000	900,000
Telephone bill (90%)	500,000	81,000
Stationery (Non registers supplier)	16,500,000	-
Christmas hampers	50,000,000	-
Pick up motor vehicle	45,000,000	6,864,407
Sofa set, carpet and curtains	20,000,000	-
Repairs & maintenance	6,000,000	-
Staff meals	600,000	108,000
Total input		30,633,407
VAT payable		114,551,847

(b) Roles of the tax agents as per the Tax Procedures Code Act (TPCA) 2014

- Preparation, certification, and filing of tax returns
- Preparation, certification, and filing of information returns
- Preparation, certification, and filing of any other statements or reports required by URA
- Preparation of requests for ruling,
- Preparation of petitions for reinvestigation,
- Preparation of tax protests
- Preparation of objections,
- Preparation of requests for refund or tax certificates,
- Preparation of compromise statements and / or abatement of tax liabilities and other official papers and correspondences with URA.

- Attending meetings and hearings on behalf of the tax payer in all matters relation to tax payer rights, privileges, or liabilities under the laws and regulations administered by URA.

Solution 3

Computation of each partner's chargeable income and income tax payable for the year ended 30 June, 2018

BBB General Traders			
Income tax computation			
Net Profit before tax			283,980,000
Add Back			
Depreciation		73,020,000	
School fees		9,000,000	
MV Repairs and maintenance		4,100,000	86,120,000
Less			
Unrealised exchange gains		(17,250,000)	
Wear & Tear		(53,775,000)	(71,025,000)
Chargeable income			299,075,000
Wear & Tear Schedule			
	35%	20%	
	Class II	Class IV	Total
WDV 1 Jul 2017	82,500,000	124,500,000	207,000,000
Wear & Tear	(28,875,000)	(24,900,000)	(53,775,000)
WDV 30 Jun 2018	53,625,000	99,600,000	153,225,000
		Ratio 2:2:1	
Chargeable income			
Incomes	Brian	Ben	Benjamin
Salaries	70,000,000	70,000,000	130,000,000
Business profits 2:2:1	119,630,000	119,630,000	59,815,000
Chargeable income	189,630,000	189,630,000	189,815,000
Income tax	62,676,000	62,676,000	62,750,000

Rent income	-	-	45,000,000
Chargeable rental income (80% * 45m -2,820,000)	-		33,180,000
Rental tax payable @ 20% * 33.18m	-	-	6,636,000
Total income tax payable	62,676,000	62,676,000	69,386,000
Income subject to WHT as a final tax			
Dividends from a listed company (net)	4,000,000	2,500,000	3,000,000
Interest on savings account (net)	10,000,000	-	560,000
Interest on fixed deposit account (net)	12,000,000	10,000,000	-

Solution 4

(a) Forms of transactions the attract withholding tax and applicable rates

No	Forms of transaction	WHT Rate
1	Payment for local supplies of goods and services above 1 million to a non-withholding tax exempt supplier by a person designated by the minister of finance (withholding tax agent) or government entity	6%
2	Payment for local professional fees to a non-withholding tax exempt supplier	6%
3	Payment for a purchase of assets from a non-resident by a resident person	10%
4	Payments for winnings of sport betting and pool betting by a person	15%
5	Payment of premiums for re-insurance service to a non-resident person by a resident person	10%
6	Payment of interest to a resident person, except to financial institutions or interest paid by a natural person, by a company to an associated company or exempt interest income	15%
7	Payment of dividends to resident shareholders. (10% applies for payments by a listed company to individual shareholders)	15% / 10%
8	Payment of commission for airtime and mobile money by a telecommunication company	10%
9	Payment to non-residents for dividends, interest, Rent, royalties, natural resource payments, management fees, from sources in Uganda	15%

10	Payment to non-resident contractor or professionals deriving income sources on Uganda	15%
11	Payment to non-resident providing shipping, air transport, or telecommunication services giving rise to income sourced in Uganda	2%/5%
12	Payment of interest on government securities	20%
13	Payment for agricultural supplies in excess of one million shillings	1%
15	Pay as you earn deducted on employment income	Per Third schedule

(b) Circumstances and the implication of withholding tax as final tax.

Circumstances where withholding tax is a final tax include:

- (i) Withholding tax suffered on payment of interest on treasury bills and government securities
- (ii) WHT on interest paid by a financial institution to a resident individual
- (iii) Withholding tax to dividends to resident individual shareholders.
- (iv) WHT on international payments made to non-resident persons by a resident person

Implications of withholding tax as a final tax

- (i) No further tax liability is imposed on the tax payer in respect of the income
- (ii) The income is not aggregated with other income for purposes of ascertaining chargeable income
- (iii) No deduction is allowed for expenditure or losses incurred in deriving the income.
- (iv) No refund of tax shall be made in respect of the income

(c) Obligations of a withholding agent and the consequences of failure to withhold a tax

Obligation

A withholding agent is required to pay to the commissioner any tax withheld within 15 days after the end of the month in which the payment subject to withholding tax was made.

Consequences

A withholding agent who fails to withhold a tax is personally liable to pay the amount of tax which has not been withheld, but is entitled to recover it from the payee.

Late payment of withholding tax will lead to imposition of interest at 2% per month on the amount outstanding.

Solution 5

(a) Explanation of what constitutes

(i) Exempt income, giving 5 examples

- The income of a listed institution.
- Income of an organization or person entitled to privileges under the diplomatic Privileges Act to the extent provided in the regulations and orders under that Act.
- The official employment income of a person in the public service of the government of a foreign country; if – the person is a non-resident or a resident individual solely for performing such services; - the income is payable from the public funds of that country and the income is subject to tax in that country.
- An allowance payable outside Uganda to a person working in a Uganda foreign mission.
- The income of any local authority.
- Income of an exempt organization, other than – property income, except rent received by an exempt organization in respect of immovable property and the rent is used by the lessor exclusively for the activities of the organization; - business income that is not related to the function constituting the basis of the organization's existence.
- Any education grant which the commissioner is satisfied has been made bona fide to enable or assist the recipient to study at a recognized educational or research institution.
- An amount derived by way of alimony or allowance under any judicial order or written agreement of separation.
- The value of any property acquired by gift, bequest, devise, or inheritance that is not included in business, employment or property income.
- Any capital gain that is not included in business income, other than capital gains on sale of shares in a private limited liability company or that sale of a commercial building.
- Employment income derived by an individual to the extent provided for in a technical assistance agreement.
- Foreign source income derived by short term resident of Uganda.
- A pension

- A lump sum payment made by a resident retirement fund to a member or dependent of a member of the fund.
- The proceeds of a life insurance policy paid by a person carrying on a life insurance business.
- The official employment income of a person employed in the Uganda People's Defense Forces, the Uganda Police Force, the External Security Organization, the internal Security Organization, or Uganda Prisons Service, Other than a person employed in civil capacity.
- The employment income of a person employed as a member of parliament, except salary.
- The income of the Government of the Republic of Uganda and the Government of any other country.
- The income of Bank of Uganda.
- Income of a collective investment scheme to the extent of which the income is distributed to participants in the collective investment scheme.
- Emoluments payable to employees of the East African Development Bank with effect of 1 July, 1997.
- Income of an investor compensation fund established under Section 81 of the Capital Markets Act.
- Income of a person derived from the operation of aircraft in domestic and international traffic or the leasing of aircraft.
- Income of a person derived from the exportation of finished consumer and capital goods for a period of 10 years subject to fulfilling certain condition under the ITA.
- The income of a person for a year of income derived from agro processing subject to fulfilling certain condition under the ITA
- A reward received by a sports person as a reward for winning or participating in a sports competition.
- The income of Bujagali Hydro Power Project up to 30 June, 2022
- The income of a saving and credit cooperative society up to 30 June, 2027.

(ii) A branch

- A place where a person is carrying on business through an agent, other than a general agent of independent status acting in the ordinary course of business as such.
- A place where a person has, is using, or installing substantial equipment or substantial machinery for ninety days or more

- A place where a person is engaged in a construction, assembly, or installation project for ninety days or more, including a place where a person is conducting supervisory activities in relation to such a project
- The furnishing of services, including consultancy services, by a person through employees or other personnel engaged by the person for such purpose, but only if activities of that nature continue for the same or a connected project for a period aggregating more than ninety days in any twelve month period.

(b) Difference between practice notes and private rulings

(i) Practice notes

The Commissioner General of URA is mandated to issue practice notes in accordance with an Act for the guidance of URA officers and the public. Practice notes are binding on the commissioner and not on the tax payer until revoked by the commissioner.

Private rulings

Upon application in writing, a tax payer may request the Commissioner for a private ruling to a transaction entered or proposed to be entered in. Private rulings are binding on the commissioner and not on the tax payer. Where a private ruling is inconsistent with an existing practice note, the private ruling has priority to the extent of the inconsistency. A private ruling is not a tax decision.

(ii) Distinguish between a business asset and depreciable asset.

Business Asset is an asset which is used or held ready for use in a business, and includes any asset held for sale in a business and any asset of a partnership or company.

Depreciable asset is any plant and machinery, or any implement, utensil or similar article, which is wholly or partly used or held ready for use, by a person in the production of income included in gross income and which is likely to lose value because of wear and tear, or obsolescence.

ANSWERS TO TEST PAPER 4
CTA DECEMBER 2019

Solution 1

Computation of income tax payable by Excel Senior Secondary School

Profit before tax		319,300,000
Add back		
Depreciation	75,000,000	
Stamp duty	22,500,000	
Dividends (30m - 5m)	25,000,000	
Entertainment	4,500,000	
Donations (20m - (85.7m*5%))	15,715,000	
Provisions for Bad debts	95,000,000	
Fictitious Invoice	3,500,000	241,215,000
Deductions		
wear & Tear	(377,500,000)	
Commercial building deduction	(25,000,000)	
Farm works deduction	(74,600,000)	
Minor capital equipment	(2,000,000)	(479,100,000)
Chargeable income		81,415,000
Income tax (30%)		24,424,500

	40%	35%	30%	20%	
	Class I	Class II	Class III	Class IV	Total
TWDV 1 Jan 2018	215,000,000	150,000,000	-	450,000,000	815,000,000
Additions					-
School Bus			300,000,000		300,000,000
Laboratory equipment				70,000,000	70,000,000
Bio gas plant				120,000,000	120,000,000
Motor Vehicle (Prado)		60,000,000			60,000,000
	215,000,000	210,000,000	300,000,000	640,000,000	1,365,000,000
Wear & Tear	(86,000,000)	(73,500,000)	(90,000,000)	(128,000,000)	(377,500,000)
TWDV 31 Dec 2018	129,000,000	136,500,000	210,000,000	512,000,000	987,500,000

Farm works deductions	20%
TWDV 01 Jan 18	180,000,000
Additions	
Fence	95,000,000
Labour Quarters	60,000,000
Water & Electricity supply works	38,000,000
	373,000,000
Farm works deduction	(74,600,000)
TWDV 31 Dec 18	298,400,000

	Cost	CBD 5%	Residual Value	
Dormitory	1,550,000,000	-	1,550,000,000	No CBD, residential accommodation
Dining Hall	500,000,000	25,000,000	475,000,000	
	2,050,000,000	25,000,000	2,025,000,000	

Solution 2

- (a) Computation of Mr Shankar's Employment and Income tax payable for the month ended 31 December, 2018

Income	Exempt	Taxable
Salary		62,000,000
Medical insurance	5,000,000	-
Air ticket to Uganda from India	18,500,000	-
Housing benefit		25,000,000
Electricity (600,000 - 100,000)		500,000
Motor vehicle benefit (W(i))		2,776,802
Health club (2m - 0.5m)		1,500,000
Return air ticket		5,000,000
Loan benefit (w (ii))		133,333
Security guard	800,000	
Airtime		300,000
Household items		60,000,000
Relocation allowance		20,000,000
Total taxable employment income		177,210,136
		Total

(b) Tax Liability		69,786,054.31
Working (i)		
Motor benefit		
Cost 30 Nov 2017	250,000,000	
Less: Depreciation	87,500,000	
Market value	162,500,000	
Annual MV benefit	33,321,629	
Monthly MV benefit	2,776,802	
Working (ii)		
Loan Benefit		
Loan amount	40,000,000	
Interest benefit (9%-5%)	1,600,000	
Monthly interest benefit	133,333	
Working (iii)		
Housing benefit		
Employment income including rent	177,210,136	
Housing benefit (15% *177,210,136)	26,581,520	
Lower of rent (25m) and 15% of Employment income including rent	25,000,000	

(b) Due date of paying Mr. Shankar's income tax by JPUL

JPUL would be required to pay Mr., Shankar's income tax by 15 January, 2019.

Solution 3

(a) Primex Limited VAT payable/refundable

Sales	VAT inclusive	VAT	Comment
Tracking devices to MTA	10,000,000	1,525,424	
Tracking devices to KenTech	70,000,000	-	Zero rated (export)
Tracking services MTN	45,000,000	6,864,407	
Tracking services KenTech	210,000,000	-	Zero rated (export)
Tracking devices to Total E&P	20,000,000	-	VAT deemed paid
Imported Services	100,000,000	18,000,000	Imported services
Total output VAT		26,389,831	
Purchases			
Import of tracking devices	500,000,000	90,000,000	
Service office space (80% * 9.5m)	7,600,000	1,159,322	
Telephone (20% * 9.5)	1,900,000	260,847	Restricted to 90%
Land Cruiser Prado	175,000,000	-	Restricted VAT
Customer meals	5,000,000	-	Restricted VAT
Medical insurance	6,500,000	-	Exempt supply
Internet services	7,800,000	1,189,831	
Security services (70% * 2.8m)	1,960,000	298,983	
Security services (30% * 2.8m)	840,000	-	not a business expense
Accounting services	3,600,000	549,153	
Car rental	2,700,000	-	Proforma is not a tax invoice
Total Input VAT		93,458,136	
Vat claimable		(67,068,305)	
Vat offset b/f		(24,500,000)	
Vat refundable for Dec 2018		(91,568,305)	
			Total marks

(b) Conditions for an export of service to qualify as zero rated supply

Supply of goods

- (i) The goods were supplied to a foreign person in another country
- (ii) The goods are delivered to a port of exit for export

- (iii) The tax payer has documentary proof for the export (e.g. Bill of entry or export, Bill of lading, invoice to foreign person)
- (iv) The goods are removed from Uganda within 30 days of delivery to a port of exit.

Supply of services

- (v) The supply of service should be made to a foreign person(s)
- (vi) The service should be consumed outside Uganda
- (vii) There should be a supplier contract with a foreign person(s) indicating that the services were consumed outside Uganda

Solution 4

(a)

Teleco Limited	
Airtime Scratch card value	100,000,000
(i)	
Taxable value (VAT) $(100/118 \times 100,000,000)$	84,745,763
VAT payable $(84,745,763 \times 18\%)$	15,254,237
(ii)	
Taxable value (Excise duty) $(84,745,763 \times 100/112)$	75,665,860
Excise duty payable $(75,665,860 \times 12\%)$	9,079,903

- (iii) VAT and Excise duty are payable by the 15th March 2019. Similarly, the VAT and Excise duty returns are due for filing by 15th March 2019
- (b) Stamp duty is payable on transfer of land at a rate of 1.5%.
Stamp duty due is Shs 22,500,000 i.e. $(1.5\text{bn} \times 1.5\%)$.
- (c)
 - (i) Mobile money transfer is a financial service that is an exempt supply under the second schedule of the VAT Act. Thus no VAT should be charged on the mobile money transfer fees.
 - (ii) Non tax Revenues collectable by Uganda revenue authority
 - Traffic fines and penalties,
 - Government fees such as immigration fees for work permits, special passes, dependent passes, passport application and renewal fees
 - Driving permit application and renewal fees.
 - Trading license
 - Company registration fees
 - Licensing fees for brokers and dealers, for investment advisors. Replacement or certification of license by Capital Markets Authority
 - Tender fees

- Finger prints, certificate of good conduct and security, escort duties, certificate of motor vehicle verification, private security organization licenses, police reports, naturalization and registration fees, gun rental fees, gun dealer fees, fire arm licensing fees.
- Tuition fee for government universities
- Court fees, Document search fees

Solution 5

(a) Tax assessments raised by URA

(i) Default assessment

The commissioner may, at any time make a default assessment where a person fails to furnish a self-assessment return for a tax period as required under a tax law. Default assessments include; the amount of assessed loss by a tax payer, the amount of excess input tax credit of a tax payer for a period, the tax payable by the tax payer for the period.

A default assessment should be served on the tax payer by the commissioner in writing.

(ii) Advance Assessment

This applies if a tax payer has died, has become bankrupt, wound up, or goes into liquidation, a tax payer is about to leave Uganda permanently, or the commissioner otherwise considers it appropriate and where the commissioner is satisfied that there is a risk that the a tax payer may delay, obstruct, prevent, or render ineffective payment or collection of tax that has not become due.

An advance assessments include; the amount of assessed loss by a tax payer, the amount of excess input tax credit of a tax payer for a period, the tax payable by the tax payer for the period.

An advance assessment also applies if the taxpayer has not submitted a return before its due date as required by the commissioner.

An advance assessment is usually made before the date the return is due but should be in accordance with the tax laws at the date the assessment was made.

An Advance assessment should be served on the tax payer by the commissioner in writing.

An advance assessment does not relieve a taxpayer from being required to furnish a return to which the assessment relates.

(iii) Additional assessment

The commissioner may make an additional assessment to amend a tax assessment made for a tax period so as to correct an assessed tax loss, excess input tax credit or amount of tax payable.

It should be made within 3 years after the date the tax payer furnished the self-assessment return or the commissioner served notice of the original assessment. However, in the event of fraud or any gross or willful neglect committed by or on behalf of the tax payer or new information has been discovered, an additional assessment may be made at any time.

(b) The process of objections and appeals as provided for in Part VII of the Tax Procedure Code Act.

A person who is dissatisfied with a tax decision/tax assessment may lodge an objection with the commissioner within forty five (45) days after receiving the notice of the tax decision/ tax assessment.

An objection should be in the prescribed form and should state the grounds upon which it is made and contain sufficient evidence to support the objection.

Where a taxpayer has lodged an objection to a tax assessment for a tax period, the commissioner may consider the objection if the tax payer;

- (i) Has furnished the return to which the assessment relates in the case of a default or an advance assessment.
- (ii) Has paid the tax due under the return to which the assessment relates together with any penalty or interest.

The commissioner should serve notice of an objection decision on the person's objection within ninety (90) days from the receipt of the objection.

Where an objection decision has not been served within 90 days, the person objecting may, by notice in writing to the commissioner, elect to treat the commissioner as having made a decision to allow the objection. And the person is treated as having been served by with a notice of objection decision on the date the election is lodged with the commissioner.

The time limit for making an objection decision is waived where a review of a tax payer's records is necessary for settlement of the objection and the taxpayer is notified.

A person dissatisfied with an objection decision, may within 30 days after being served with a notice of the objection decision, lodge an appeal with the Tax Appeals Tribunal for review of the objection decision.

A person dissatisfied with a decision of the Tax Appeals Tribunal may, within 30 days after being served with a notice of the decision, lodge an appeal with the High Court for review of the decision.

ANSWERS TO TEST PAPER 5

CTA DECEMBER 2020

Solution 1

- (a) SCUL's chargeable income and corporation tax payable for the year ending 31, December 2019.

Sucrose Company Uganda Limited (SCUL)
Computation of corporation tax for the year ended 31.12.2019

Particulars	Amount (Shs'000)	Amount (Shs'000)	Explanatory Notes
Profit Before Tax (PBT)		212,136	
Add Back Non-allowable deductions			
Depreciation and amortization	66,300		
WHT Credit on imports	89,000		
Donation to KCCA City festival	13,000		
Fines for expired products	4,000		
Unrealized foreign exchange loss	18,000		
PAYE for directors' salary	12,000		
Expenses related to treasury bills	18,000		
Bad debts written off	-		Practice Notes 2001 Part (2)(a)
		-	
Less: Allowable deductions			
Interest earned on treasury bills	164,000		S. 122(a) of ITA - Final Tax
Unrealized foreign exchange gains	22,900		
10 data storage devices @ 800	8,000		
Initial allowance (Building Extension)	110,000		
Initial allowance (Eligible Property)	226,500		
Industrial Building Deduction (IBD/IBA)	45,680		
Wear & tear allowance	343,100		
Assessed loss brought forward	18,000		
		(938,180)	
Assessed loss for the year ending 31st December, 2019		(450,744)	
Withholding tax (WHT) deducted at source			
WHT on imports	89,000		

WHT on local supplies	44,500			
Overpayment of tax to URA (Claimable)		(133,500)		
CAPITAL DEDUCTIONS	Old Building	New Building	Total	
(a) Industrial Building	Old Building	New Building	Total	
	Amount (Shs'000)	Amount (Shs'000)		
Qualifying Cost Old Building	592,000	550,000		
Initial Allowance (20%)	118,400	110,000	110,000	
Cost after Initial Allowance	473,600	440,000		
Industrial Building Deduction (IBD) 5%	23,680	22,000	45,680	

Particular	Cost	Initial Allowance (50%)	Class I (40%)	Class II (35%)	Class III (30%)	Class IV (20%)	Total
	Amount (Shs'000)	Amount (Shs'000)	Amount (Shs'000)	Amount (Shs'000)	Amount (Shs'000)	Amount (Shs'000)	Amount (Shs'000)
Opening WDV (01/01/2019)			24,000	40,000.0	324,000	142,000	530,000
Additions							
Factory machinery	440,000	220,000			220,000		220,000
2 tractors	156,000				156,000		156,000
Water truck	66,000				66,000		66,000
Furniture and fittings	31,000					31,000	31,000
10 data storage devices	Individual Cost below 1 Million		-				-
3 Nissan pickups (5 tons)	156,000			156,000.0			156,000
Other machinery	13,000	6,500				6,500	6,500
Disposals							
Office old furniture						(4,000)	(4,000)
Total Before Depreciation		226,500	24,000	196,000.0	766,000	175,500	1,161,500
Depreciation for the year			9,600	68,600.0	229,800	35,100	343,100
Closing WDV (31/12/2019)			14,400	127,400.0	536,200	140,400	818,400

- (b) The due dates for filing and paying a provisional and final income tax return for SCUL and the tax implications for late filing if any.

The applicable time frame for lodging a return:

- (i) Every taxpayer shall furnish a return of income for each year of income not later than six months after the end of that year 30 June 2020.
- (ii) In the case of a return of income, every taxpayer shall furnish a return of income for each year of income of the taxpayer not later than six months after the end of that year 30 June 2020;
- (iii) A provisional taxpayer's estimate shall be in the form prescribed by the Commissioner and shall be furnished to the Commissioner by the *due date for the payment of the first instalment of provisional tax for the year of income 30 June 2019*;
- (iv) A person who derives or expects to derive any income during a year of income which is not or will not be subject to withholding tax at the source under Section 116, 117, or 118 is liable or subject to pay provisional tax under this Section 30 June 2019.
- (v) A provisional taxpayer, other than an individual, is liable to pay two instalments of provisional tax, on or before the last day of the sixth and twelfth months of the year of income, in respect of the taxpayer's liability for income tax for that year.
- (vi) A person who fails to furnish a tax return by the due date, or within a further time allowed by the Commissioner under this Act is liable to pay a penal tax equal to 2 percent of the tax payable under the return before subtracting any credit allowed to the taxpayer on his or her tax return or ten currency points per month, whichever is higher, for the period the return is outstanding.

Solution 2

(a) VAT payable or claimable by BUL for the month of April 2020.

Particulars	Notes	Amount before VAT	VAT
INPUT VAT			
Purchased fuel	Exempt	90,000,000	
Telephone expenses	10% Non-Claimable	3,813,559	686,441
AK Transporters	International transport - Zero rated	270,000,000	-
Repair of its truck in Kiseka market	Non claimable due to lack of Tax Invoice.	8,000,000	N/A
Imported electronics and other appliances	(i) CIF Mombasa + Insurance Kampala. (ii) Transport Mombasa - Kampala is Zero Rated	587,180,000	105,692,400
Total Input VAT			106,378,841
OUTPUT VAT			
Exported goods	All exports are zero rated	360,000,000	-
Disposal of a Toyota Fortuner	Passenger automobile is a non-claimable credit	50,000,000	N/A
Electronics sold locally	Standard rated sales	711,864,407	128,135,593
Total Output VAT			128,135,593
Output VAT - Input VAT	VAT Payable for April 2020		21,756,753

(b) Advice to BUL on the process of obtaining a VAT refund from URA.

VAT Refund Section 42 VAT Act

- (1) If, for any tax period, a taxable person's input tax credit exceeds his or her liability for tax for that period, the Commissioner General shall refund him or her the excess within one month of the due date for the return for the tax period to which the excess relates, or within one month of the date when the return was made if the return was not made by the due date.
- (2) Notwithstanding subsection (1), the Commissioner General –
 - (a) shall, where the taxable person's input credit exceeds his or her liability for tax for that period by less than five million shillings, except in the case of a licensee or person providing mainly zero rated supplies, offset that amount against the future liability of the taxable person; and
 - (b) may, with consent of the taxable person, where the taxable person's input credit exceeds his or her liability for tax for that period by five million

shillings or more, offset that amount against the future liability of the taxable person, or apply the excess in reduction of any other tax not in dispute due from the taxpayer.

- (3) A person may claim a refund of any output tax paid in excess of the amount of tax due under this Act for a tax period.
 - (4) A claim for a refund under subsection (3) shall be made in a return within three years after the end of the tax period in which tax was overpaid.
 - (5) Where a person has claimed a refund under subsection (3) and the Commissioner General is satisfied that the person has paid an amount of tax in excess of the amount of tax due, the Commissioner General shall refund immediately the excess to the taxable person.
 - (6) Where a person claiming a refund is required by the Commissioner General to provide accounts or records to substantiate the claim and fails to do so in a manner satisfactory to the Commissioner General within seven days of being requested, the time period specified in subsection (1) for making the refund shall not be binding on the Commissioner General.
 - (7) The Commissioner General shall serve on a person claiming a refund a notice in writing of a decision in respect of the claim.
 - (8) A person dissatisfied with a decision under subsection (6) may only challenge the decision under Part IV of the Tax Appeals Tribunal Act.
 - (9) No refund shall be made under subsection (5) in relation to a taxable supply that has been made to a person who is not a taxable person, unless the Commissioner General is satisfied that the amount of the excess tax has been repaid by the taxable person to the recipient, whether in cash or as a credit against an amount owing to the taxable person by the recipient.
- (c) Management has also asked you for advice on the meaning of the following concepts as used in the VAT Act.
- (i) Taxable supplies excluded from input VAT credit (with examples).
 - Passenger automobile, and the repair and maintenance of that automobile, including spare parts, unless the automobile is acquired by the taxable person exclusively for the purpose of making a taxable supply of that automobile in the ordinary course of a continuous and regular business of selling or dealing in or hiring of passenger automobiles;
 - ✓ “passenger automobile” means a motor vehicle designed solely for the transport of persons with a seating capacity of not more than eight persons;
 - Entertainment unless the taxable person –
 - (i) is in the business of providing entertainment; or

- (ii) supplies meals or refreshments to his or her employees in premises operated by him or her, or on his or her behalf, solely for the benefit of his or her employees; or
 - ✓ “entertainment” means the provision of food, beverages, tobacco, accommodation, amusement, recreation, or hospitality of any kind;
- Telephone services, to the extent of 10 per cent of the input tax on those services.

(ii) Circumstances under which a taxpayer may issue a simplified tax invoice.

Simplified Tax Invoices

Notwithstanding the basic requirements in respect of tax invoices, as specified in the Fourth Schedule to the VAT Act, registered persons with a taxable turnover below 100 million shillings per annum may issue a simplified tax invoice for taxable supplies made to another registered person, provided the value of any individual item on the invoice does not exceed 50,000/= and the total invoice does not exceed one hundred thousand shillings.

(iii) Records kept by a VAT registered person.

Records to be kept by a registered person

- (1) A registered person shall keep records and accounts of all supplies received or made by that person in the course of business, including zero-rated and exempt supplies.
- (2) For the purpose of accounting for input tax and output tax, the following records shall be kept by a registered person –
 - (a) tax accounts and records, which shall include total output tax and input tax in each period and net tax payable or the excess credit of tax refundable at the end of the tax period;
 - (b) purchase records, showing details of all local purchases on which tax has been paid, on all imports on which tax has been paid, and of all purchases made without payment of tax, including original tax invoices for all local purchases from registered suppliers, invoices for local purchases from unregistered suppliers and certified customs entries of all imports;
 - (c) sales records showing exempt and taxable sales and, where tax is chargeable, the rates of tax applicable for each sale, including copies of tax invoices and receipts issued in respect of sales;
 - (d) exports records showing details of goods and services exported from Uganda, including, in the case of goods, certified copies of customs export documents and evidence of exportation;
 - (e) debit and credit notes issued and received;
 - (f) cash records including cash books, petty cash vouchers and other accounts records showing daily takings such as till rolls or copy receipts;
 - (g) computer records;

- (h) in the case of a person making exempt and taxable supplies, details of input tax calculations;
 - (i) transitional relief claims and all related documents and records;
 - (j) stock records showing movements of goods into or out of stock including, in the case of a manufacturer, manufacturing stock records.
- (3) In addition to the records kept under paragraph (2), a registered person with a taxable turnover exceeding 100 million shillings per annum shall keep the following records –
 - (a) orders and delivery notes;
 - (b) relevant business correspondence;
 - (c) appointment and job books;
 - (d) annual accounts including trading, profit and loss accounts and balance sheet; and
 - (e) bank statements and pay-in-slips.
- (4) All records shall be kept by the taxpayer for a period of six years and shall be available to the Commissioner General for audit or inspection if required.

Solution 3

- (a) Computation of Mr. Kamau's tax liability for the month of July 2019.

Particulars	Note	Amount (Shs)	Amount (Shs)
Basic salary	Taxable - S.19(1)	6,000,000	
Reimbursement for air ticket to Uganda for himself & wife	Not taxable - S.19(2)	-	
Medical Insurance for him and dependants	Not taxable - S.19(2)	-	
Driver (Chauffer)	Taxable - S.19(1)	400,000	
Security guard	Not taxable - Practice Note 2001	-	
Annual membership for golf club	Taxable - S.19(1)	4,000,000	
Employee Share Acquisition Scheme	Taxable - S.19(1)	1,000,000	
Housing allowance	Taxable - S.19(1)	2,000,000	
Transport from home to office re-imbursed	Taxable - S.19(1)	540,000	
Lunch allowance (meals not on equal basis for all staff)	Taxable - S.19(1)	1,330,000	
Dividends earned in Kenya. (Income of a Short-Term Resident)	Not taxable - S.21(1)(m)	-	
Gross monthly employment income			15,270,000
Less Local Service Tax		(100,000)	
Taxable monthly employment income			15,170,000
Tax payable for month of July 2019			5,245,000

- (b) Advice to Mr. Kamau on the meaning of employment.

Employment as per Section 2(1)(z) means –

- (i) the position of an individual in the employment of another person;
- (ii) a directorship of a company;
- (iii) a position entitling the holder to a fixed or ascertainable remuneration; or
- (iv) the holding or acting in any public office;

- (c) Under what circumstances is employment income exempt from tax as provided by section 19 and 21 of the Income Tax Act?

Employment income of an employee is exempt under the following circumstances –

- (a) the cost incurred by the employer of any passage to and from Uganda in respect of the employee's appointment or termination of employment where the employee –
 - (i) was recruited or engaged outside Uganda;
 - (ii) is in Uganda solely for the purpose of serving the employer; and
 - (iii) is not a citizen of Uganda; or
 - (b) any reimbursement or discharge of the employee's medical expenses;
 - (c) any amount paid as a premium for insurance on the life of the employee and which insurance is for the benefit of the employee or any of his or her dependants;
 - (d) any allowance given for, and which does not exceed the cost actually or likely to be incurred, or a reimbursement or discharge of expenditure incurred by the employee on –
 - (i) accommodation and travel expenses; or
 - meals and refreshment,
 - while undertaking travel in the course of performing duties of employment;
 - (e) the value of any meal or refreshment provided by the employer to the employee in premises operated by, or on behalf of the employer solely for the benefit of employees and which is available to all full-time employees on equal terms;
 - (f) any benefit granted by the employer to the employee during a month, where the total value of the benefits provided by the employer to the employee for the month is less than ten thousand shillings; or
 - (g) any contribution or similar payment by the employer made to a retirement fund for the benefit of the employee or any of his or her dependents.
 - (h) the value of a right or option to acquire shares granted to an employee under an employee share acquisition scheme.
- (i) Where the amount to which subsection (1)(d) applies is paid by an employer to an employee who has been in the employment of the employer for ten years or more, the amount included in employment income is calculated according to the following formula –
- $A \times 75\%$
- where, A is the total amount derived by the employee to which subsection (1)(d) applies.
- (j) the official employment income derived by a person in the public service of the government of a foreign country if –
 - (i) the person is either a non-resident person or is a resident individual solely by reason of performing such service;
 - (ii) the income is payable from the public funds of that country; and
 - (iii) the income is subject to tax in that country;
 - (k) any allowance payable outside Uganda to a person working in a Ugandan foreign mission E.g. Ambassadors.
 - (g) any education grant which the Commissioner is satisfied has been made bona fide to enable or assist the recipient to study at a recognised educational or research institution;
 - (h) any amount derived by way of alimony or allowance under any judicial order or written agreement of separation;
 - (l) employment income derived by an individual to the extent provided for in a technical assistance agreement where –

- (i) the individual is a non-resident or a resident solely for the purpose of performing duties under the agreement; and
 - (ii) the Minister has concurred in writing with the tax provisions in the agreement;
 - (m) foreign-source income derived by a "short-term resident of Uganda";
 - (n) a pension;
 - (o) a lump sum payment made by a resident retirement fund to a member of the fund or a dependent of a member of the fund;
 - (p) the proceeds of a life insurance policy paid by a person carrying on a life insurance business;
- (d) Distinguish between an employee and an independent contractor as per the Income Tax Act.

Distinction between an employee and an independent contractor:

The principle test of an employment as opposed to self-employment is the existence of a contract of service compared with a mere contract for services.

- ❖ A contract of service is an agreement between an employer and an employee.
- ❖ In a contract for service, an independent contractor, such as a self-employed person is engaged for a fee to carry out an assignment or a project or a specific contract.

The determination of whether an individual is an employee or independent contractor will for example involve considering whether the hirer has the legal right to control the manner in which the work is performed and the degree of integration of the activities of the persons hired within the hirer's business.

However, in the absence of a contract of service, if the answers to the following are in the affirmative then it is likely that the arrangement is that of employment as opposed to self-employment. These questions/principles have been handed down to us by case law.

- Does the employer control the manner and method of the work?
- Is the employee entitled to benefits normally provided to employees such as sick leave and leave pay?
- Is the employee committed to working for a specified number of hours at certain fixed times e.g 8am to 5pm?
- Is the engagement for a long time? Is the person hired on a continuous basis? This should be studied together with other factors.
- Does the individual provide their own tools/equipment in furtherance of their work assignments e.g laptops?
- Is the individual obliged to work personally and exclusively for the employer and cannot therefore hire his/her own helpers?
- Is the work performed by the individual an integral part of the business of the employer and not a mere accessory to it? e.g. is determination of tax liability an integral part of officers in URA or a mere accessory to its business?
- Is the economic reality of self-employment missing- i.e. the financial risk arising from not being paid an agreed, regular remuneration? Or better put is the individual ascertained of a regular and agreed remuneration?
- Is the employer under obligation to offer work and the employee under obligation to undertake work offered/? An employee would not normally be in a position to decline work when offered.

- Income from employment will be treated as employment income under S.19 whereas income from an independent contractor will be treated under S.18, and therefore takes the character of business income.

Solution 4

(a) Partnership's chargeable income for the year ending 30 June 2019.

Particulars	Notes (Amount Shs'000')	Amount Shs'000')	Amount (Shs'000')
Profit before Tax (PBT) for the year			122,000
Add Back Non-allowable deductions			
Depreciation and Amortization		9,000	
Timothy's holiday in Dubai		5,000	
Partners' drawings deducted:			
James		3,000	
Edson		2,000	
Interest charged on partners' drawings:			
James	3,000	360	
Edson	2,000	240	
Partner compensation - James' Salary			
James		8,000	
Edson		9,000	
Timothy		12,000	
Interests on partners' opening capital:			
James	40,000	6,000	
Edson	30,000	4,500	
Timothy	20,000	3,000	62,100
			184,100
Less: Allowable deductions			
Capital Allowance (W & T) (Working 1)			23,100
Partnership chargeable Income for the year ending 30 June 2019			161,000

Working 1					
Particular	Class I (40%)	Class II (35%)	Class III (30%)	Class IV (20%)	Total
	Amount (Shs'000')	Amount (Shs'000')	Amount (Shs'000')	Amount (Shs'000')	Amount (Shs'000')
Opening WDV (01/01/2019)	15,000	18,000		32,000	65,000
Additions					
Furniture and fittings				22,000	22,000
Total before depreciation	15,000	18,000	-	54,000	87,000
Depreciation for the year	6,000	6,300	-	10,800	23,100
Closing WDV (31/12/2019)	9,000	11,700.0	-	43,200	63,900

(b) Partners taxable profits and tax payable by each partner for the year ending 30 June 2019.

	Notes	Amount (Shs'000)	Amount (Shs'000)	Amount (Shs'000)	Amount (Shs'000)
Chargeable income		161,000			
Less: Partners interest on capital		(13,500)			
Less: Partner's salary		(29,000)			
Less: Partners' drawings deducted		(5,000)			
Amount to be apportioned to partners			113,500		
Apportionment of profit	Ratio: 4:3:2	James	Edson	Timothy	Total
		50,444	37,833	25,222	113,500
Total chargeable income for the partners will include:		James	Edson	Timothy	
Apportioned tax profit		50,444	37,833	25,222	113,500
Add: Interest on partners' opening capital		6,000	4,500	3,000	13,500
Add: Partner's salary already paid		8,000	9,000	12,000	29,000
Add: Partners' drawings deducted at source		3,000	2,000		5,000
Less: Interest on Partners' drawings		(360)	(240)		(600)
Partners' chargeable income for the year	Total	67,084	53,093	40,222	160,400

Tax payable by each Partner	Using PAYE Brackets	18,949	14,752	10,891	
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(c)

- (i) Advice on the tax implications of transfer of James' Mercedes Benz to the partnership to meet the growing transport needs of the partnership.

Tax implications of the above transaction (S. 68 ITA):

- ❖ A contribution to a partnership by a partner of an asset owned by the partner is treated as a disposal of the asset by the partner to the partnership for a consideration equal to –
 - (a) the cost base of the asset to the partner at the date on which the contribution was made where all the following conditions are satisfied –
 - (i) the asset was a business asset of the partner immediately before its contribution to the partnership;
 - (ii) the partner and partnership are residents at the time of contribution;
 - (iii) the partner's interest in the capital of the partnership after the contribution is twenty-five per cent or more;
 - (iv) an election for this paragraph to apply has been made by the partners jointly;
 - (v) the interest in the partnership received by the partner in return for the contribution equals the market value of the asset contributed at the time of the contribution; or
 - (b) The market value of the asset at the date the contribution was made.
- (ii) tax treatment of items taken by partners during the year.

Tax treatment of items taken by partners during the year:

- The gross income of a resident partner for a year of income includes the partner's share of partnership income for that year.
- Any item taken from the partnership by the partner during the year must first be added back to determine the true position of the partnership chargeable income for the year.
- Then before the chargeable income is shared by the partners, the above items or amount must be removed from the chargeable income to be shared since these items or amount are already allocated to the respective individual partners and are not available for sharing by all partners in the profit sharing ratios.
- Having determined the chargeable amount to be shared by the partners and shared it by the partners according to their profit sharing ratios, the individual partner's taxable amount is then computed by adjusting their incomes and expense for the period.
- When computing the individual partner's chargeable income, the already taken items or amount is added to their share of partnership profit and it is taxed under the individual partners.
- Individual partners therefore, pays the tax relating to the items or amount taken from the partnership during the year.

Solution 5

(a) The due dates for;

(i) filing a return of income.

Due dates for filing a return of income

- ❖ Due date for filing a return of income for the year ended 30th June 2016 is 31st December 2016, for the final income tax return.
- ❖ The due date for filing a return of income for the year ended 31st December 2016 is 30th June 2017, for the final income tax return.

(ii) paying the tax arising from the returns of income filed.

Due dates for payment of taxes arising from a return of income

- ❖ The due date for paying the tax arising from the return of income filed for the year ended 30th June 2016 is 31st December 2016, for payment of the final income tax return filed.
- ❖ The due date for paying the tax arising from the return of income filed for the year ended 31st December 2016 is 30th June 2017, for payment of the final income tax return filed.

(b) Advice to Mrs. Edna Nsubuga on the:

(i) penalties if the tax return for the year ending 30 June, 2016 was filed in March 2020 as per the ITA - (Computations not required).

Penalties for late return submission past the return due date

- ❖ A person who fails to furnish a tax return by the due date, or within a further time allowed by the Commissioner under this Act is liable to pay a penal tax equal to 2 percent of the tax payable under the return before subtracting any credit allowed to the taxpayer on his or her tax return or ten currency points (200,000) per month, whichever is higher, for the period the return is outstanding. – Section 48 TPCA.

(ii) objections and appeals procedure to the additional assessment issued for the year ending 31 December, 2017.

Objections and appeals procedure – Section 24 – 26 TPCA:

Objection to a tax decision

- (1) A person who is dissatisfied with a tax decision may lodge an objection with the Commissioner within forty-five days after receiving notice of the tax decision.
- (2) An objection shall be in the prescribed form and shall state the grounds upon which it is made and contain sufficient evidence to support the objection.
- (3) Where a taxpayer has lodged an objection to a tax assessment for a tax period, the Commissioner may consider the objection if the taxpayer –
 - (a) has furnished the return to which the assessment relates in the case of a default or advance assessment;
 - (b) has paid the tax due under the return to which the assessment relates together with any penalty or interest due.
- (4) A person may apply in writing to the Commissioner for an extension of time to lodge an objection and the Commissioner may, if satisfied with the

grounds upon which the application is made, grant an extension for such period as the Commissioner determines.

- (5) The Commissioner may make a decision on an objection –
 - (a) to a tax assessment, affirming, reducing, increasing, or otherwise varying the assessment to which the objection relates; or
 - (b) to any other tax decision, affirming, varying, or setting aside the decision.
- (6) The Commissioner shall serve notice of an objection decision on the person objecting within ninety days from the date of receipt of the objection.
- (7) Subject to subsection (9), where an objection decision has not been served within the time specified under subsection (6), the person objecting may, by notice in writing to the Commissioner, elect to treat the Commissioner as having made a decision to allow the objection.
- (8) Where a person makes an election under subsection (7), the person is treated as having been served with notice of the objection decision on the date the person's election is lodged with the Commissioner.
- (9) The time limit for making an objection decision is waived where a review of a taxpayer's records is necessary for settlement of the objection and the taxpayer is notified.
- (10) Where the Commissioner reviews the taxpayer records under subsection (9), the Commissioner shall within the time specified in subsection (6) notify the taxpayer of the review.

Review of an objection decision (Appeal to objection decision)

- (1) A person dissatisfied with an objection decision may, within 30 days after being served with a notice of the objection decision, lodge an application with the Tax Appeals Tribunal for review of the objection decision.
- (2) A person dissatisfied with a decision of the Tribunal may, within 30 days after being served with a notice of the decision, lodge an application with the High Court for review of the decision.

Burden of proof

In any proceeding under this Act –

- (a) for a tax assessment, the burden is on the taxpayer to prove that the assessment is incorrect; or
- (b) for any other tax decision, the burden is on the person objecting to the decision to prove that the decision should not have been made or should have been made differently.

(c) Differentiate between:

- (i) a private ruling and a Practice not as provided in the Tax Procedures Code Act.

A "private ruling" refers to the tax position issued by the Commissioner to the taxpayer setting out the position of the Commissioner regarding the application of a provision in a tax law to a transaction entered into or proposed to be entered into by the taxpayer, upon application in writing by a taxpayer.

Whereas

A "practice note" on the other side, refers to a publication in the Gazette by the Commissioner setting out the Commissioner's understanding of the application of a provision in a tax law – S. 44(1) TPCA.

- A practice note issued under this Act is binding on the Commissioner until it is altered or revoked by the Commissioner.

- (ii) A business asset and a depreciable asset as provided in the Income Tax Act.

A "business asset" means an asset which is used or held ready for use in a business, and includes any asset held for sale in a business and any asset of a partnership or company;

Were as;

A "depreciable asset" means any plant or machinery, or any implement, utensil or similar article, which is wholly or partly used, or held ready for use, by a person in the production of income included in gross income and which is likely to lose value because of wear and tear, or obsolescence;

- (d) Explain the circumstances under which the commissioner may reject a private ruling.

The Commissioner may reject an application for a private ruling if–

- (i) the Commissioner has already decided the matter that is the subject of the application in a tax assessment;
- (ii) the Commissioner is of the opinion that an existing practice note adequately covers the matter that is the subject of the application;
- (iii) the application relates to a matter that is the subject of a tax audit or an objection;
- (iv) the application is frivolous or vexatious;
- (v) the transaction to which the application relates has not been carried out and there are reasonable grounds to believe that it will not be carried out;
- (vi) the applicant has not provided the Commissioner with sufficient information to make a private ruling; or
- (vii) in the opinion of the Commissioner, it would be unreasonable to comply with the application having regard to the resources needed to comply.
- (viii) Where the Commissioner rejects an application for a private ruling, the Commissioner shall notify the taxpayer in writing.

ANSWERS TO TEST PAPER 6

CTA OCTOBER 2021

Solution 1

(a) Legal basis for taxation in Uganda. There is no taxation without an enabling law. In Uganda, taxation is embedded in;

- (i) The Constitution of the Republic of Uganda. Article 152 (i) says "No tax shall be imposed except under the authority of an Act of Parliament".
- (ii) The Acts of Parliament; for example: Income Tax Act, 1997, VAT Act, 1996, TPC Act, 2014, EACCMA, 2004, East African Community Customs Regulations, 2010, Excise Act, 1954, Traffic and Road Safety Act, 1998, Uganda Public Finance Management Act, 2015, URA Act, 1991, The Tax Appeals Tribunal Act, 1997, The Gaming and Pool Betting (Control & Taxation) Act Cap 292, etc.
- (iii) Case law. These are precedents/rules set by court (court decisions on matters of dispute or uncertainty) and bind URA on interpretation of the various sections of the law. Decisions made by the Supreme Court are binding on all lower courts- the doctrine of Stare decisis.
- (iv) Subsidiary legislations which result from Parliament's delegated authority to the minister to make rules, policies, regulations, etc.

(b) Employment income:

Computation of Mr. Oundo Kelvin's chargeable employment income for the year ended 31/12/2020.

Item		Amount (Shs)
	Workings	
Basic salary	11,000,000 x 12	132,000,000
Passage cost reimbursement	Not taxable benefit as per S.19(2) (a) - ITA	-
Pension from previous employment	Not taxable benefit as per S.21(1) (n) - ITA	-
Company car - Toyota Hilux Double Cabin	$20\% \times 150,000,000 \times \{(52 \times 2) / 365\} - 0$	8,547,945
Part-time University income	Secondary Employment to be aggregated	24,000,000
Life insurance premium	Not taxable benefit as per S.19(2) (c) - ITA	-
School fees reimbursement		12,000,000
Medical insurance cover	Not taxable benefit as per S.19(2) - ITA	-
Toyota Prado free vehicle as reward		3,500,000
Interest free loan	$\{40,000,000 \times (12.5\% - 0\%)\} \times 6/12$	2,500,000
Employee of the month gift	Not taxable benefit as per S.19(2) (f) -	-

	ITA: Below 10,000.	
Night security guard	Not taxable benefit as per S.19(2) & Practice Note 2001 - ITA	-
Entertainment	500,000 x 12	6,000,000
Share acquisition scheme	200 shares X (2,000 - 1,500)	100,000
Christmas Bonus	11,000,000/2	5,500,000
Accommodation	1,200,000*12	14,400,000
Gross income		<u>208,547,945</u>
Less: Local Service Tax		(100,000)
Chargeable income		<u>208,447,945</u>
Tax	(A+B)	<u>70,563,178</u>
Tax working	300,000 + (208,447,945 - 4,920,000) x 30% = 61,358,384	61,358,384
	10% x (208,447,945 - 120,000,000) = 8,844,795	<u>8,844,795</u>
	Total Annual Employment Tax.	<u>70,203,179</u>
Workings		
Tax payable		
Computed PAYE Less		70,203,179
PAYE on Part time job	at 30%	<u>7,200,000</u>
		63,003,179

Circumstances where a benefit is derived in respect of employment income. (*Fifth Schedule (2)*).

- ❖ When a benefit is provided by an employer or by a third party under an arrangement with the employer or an associate of the employer
 - ❖ When the benefit is provided to an employee or to an associate of an employee and;
 - ❖ When the benefit is provided in respect of past, present, or prospective employment.
- (c) Differences between contract for service and contract of service.
- ❖ A contract of service creates an employer-employee relationship in which an employee agrees to work for another as an employee. Whereas in a contract for service, the person agrees to work as an independent consultant.
 - ❖ Tools and resources: In a contract for service, a person uses his own tools to execute work while in a contract of service an employee is provided with tools and resources.

- ❖ Training: In a contract for service, a person does not receive training from the employer while for employee under contract of service, the company provides training.
- ❖ Supervision & requirements: In a contract for service a person does not receive supervision or work hours and requirements while in a contract of service, an employee adheres to company policy and requirements.
- ❖ Filing returns: In a contract for service a person is required to file returns while as for an employee, it's not mandatory
- ❖ Compensation: Independent consultant as per project executed while employee as per hour or salary
- ❖ Under a contract for service, a person is subjected to withholding tax at 6% (or 15%) whereas under contract of service an employee is subjected to withholding tax using PAYE system

Solution 2

(a) Circumstances giving rise to a disposal (Sec 51).

- (i) When the asset is sold, exchanged, redeemed, distributed. An asset is treated as having been disposed of when there has been a change in ownership of the asset whereby one person loses title to the asset and another person obtains title to the asset
- (ii) When the asset is transferred by way of gift. This provision considers a disposal when the asset has been transferred by way of gift
- (iii) When an asset has been destroyed or lost (involuntary disposal)
- (iv) When there is a partial disposal of an asset. This involves sale of a proportion of an asset for example selling one floor of a stored building
- (v) Conversion of an asset from a taxable to a non-taxable use constitutes a disposal. This gives rise to a deemed disposal of a business asset for an amount equal to the market value of the asset at the time of disposal
- (vi) Conversion of an asset from non-taxable to taxable use constitutes a disposal. This gives rise to a deemed disposal but of a non-business asset and therefore no gain or loss is computed for tax purposes.
- (vii) When there is change of residence from non-resident to resident. In this case the person is deemed to have acquired all assets, other than taxable assets owned by the person at the time of becoming a resident for their market value.
- (viii) When there is change of residence from resident to non-resident. In this case the person is deemed to have disposed of all assets, other than taxable assets owned by the person at the time of becoming a non-resident for their market value at that time.

(b) Income tax treatment of the following transactions:

- (i) Sale of its old office building;

ZUL Uganda should compute a gain or loss on disposal. The gain should be included in business income and taxed, the loss should be included in allowable deductions

Gain or loss on disposal	Shs'000'
Consideration received	960,000
Less:	
Cost base	<u>550,000</u>
Gain on disposal	<u>410,000</u>

(ii) Eviction by The Roads Authority;

The eviction gives rise to an involuntary disposal. The gain on involuntary disposal is deferred provided ZUL has reinvested the proceeds from the disposal in an asset of a similar kind within one year. Sec 54.1

Gain or loss on disposal	Shs'000
Consideration received	300,000
Less:	
Cost base	210,000
Gain on disposal	90,000

(c) Implications of change of residence to its buildings/Business Assets

(i) Buildings in Uganda

No tax implication as the buildings in Uganda are treated as taxable assets irrespective of the person's residence status

(ii) Buildings in Tanzania

Deemed to have acquired all assets for a consideration equal to the fair market value at the time of becoming a resident in TZ.

(d) Non-recognition of gain or loss

A disposal of a business asset includes circumstances where there is change of ownership or there is change of status of the asset. However, there are circumstances where the gain on disposal is not recognized but deferred until when the asset is subsequently sold. Sec 54.1

These include;

(i) Transfer of an asset between spouses.

(ii) Transfer of an asset between former spouses as part of divorce settlement or bona fide separation agreement.

(iii) An involuntary disposal of an asset to the extent to which the proceeds are reinvested in an asset of a like kind within one year of the disposal.

(iv) Transmission of an asset to a trustee or beneficiary on the death of a taxpayer.

(e) Discuss the tax treatment of a finance lease as provided in the Income Tax Act Cap 340.

Section 59 (ITA) – Finance Leases:

(1) Where a lessor leases property to a lessee under a finance lease, for the purposes of this Act –

- (i) the lessee is treated as the owner of the property; and
 - (ii) the lessor is treated as having made a loan to the lessee, in respect of which payments of interest and principal are made to the lessor equal in amount to the rental payable by the lessee
- (2) The interest component of each payment under the loan is treated as interest expense incurred by the lessee and interest income derived by the lessor respectively.
- (3) A finance lease of property is a lease where: –
 - (i) the lease term exceeds seventy-five per cent of the effective life of the leased property;
 - (ii) the lessee has an option to purchase the property for a fixed or determinable price at the expiration of the lease; or
 - (iii) the estimated residual value of the property to the lessor at the expiration of the lease term is less than twenty per cent of its fair market value at the commencement of the lease.
 - (iv) the lease term includes any additional period of the lease under an option to renew.
- (4) Tax treatment of the different kinds of leasing
 - (i) Under the operating lease, the lessor is the owner of the leased item and accounts for the plant and machinery in their books and enjoys the asset depreciation resulting from the use of the plant and machinery during the year
 - (ii) Under the finance lease, the lessee is the economic owner of the leased plant and machinery and accounts for it in their books. They enjoy the asset depreciation resulting from the use of the plant and machinery during the year.

Solution 3

INTELEX (Practice question)

- (a) Advise on VAT issues for INTELEX
- (1) Transfer of business as a going concern.
A transfer of business as a going concern is exempt from tax under the VAT Act provided these conditions are satisfied:
 - (i) The supplier disposes of any part of a business which is capable of separate operation. In this case, this branch is capable of separate operation
 - (ii) Both the seller and the buyer must be taxable persons for VAT purposes. The wheat out growers are not taxable persons
 - (iii) Activities of the business must continue after the business is transferred to the purchaser for at least 2 years
 - (iv) The transferor and the transferee shall within 21 days of the transfer, notify the commissioner general in writing of the details of the transfer.
 - (v) Considering the above factors, INTELEX's sale of its branch is not a transfer of business as a going concern and not exempt from VAT,

therefore INTELEX should have charged VAT of $(600m \times 18/118)$ Shs 91.5 million.

- (2) VAT on imported services;
- (i) The scope of VAT under the VAT Act, includes the supply of imported services by any person other than an exempt service, this implies that every person who imports services whether registered for VAT or not must charge VAT on the said services and remit it to URA.
 - (ii) Training of staff is not an exempt supply for VAT purposes
 - (iii) VAT on imported services is included in output tax and no corresponding input tax should be claimed
 - (iv) VAT on imported services is paid by the recipient of the service
 - (v) INTELEX was required to account for VAT by the 15th day of April 2020
 - (vi) INTELEX is required to account for VAT when the performance of the service is completed, or when payment for the service is made or when the Tax invoice is received from the foreign supplier.
 - (vii) Therefore, INTELEX is liable to pay VAT of $(89m \times 18\%) = \text{Shs } 16.02$ million with cumulative interest to URA.
- (3) Meaning of VAT deferment and conditions for approval of VAT deferment by the Commissioner General (VAT Regulations 2013).
- (i) Deferment means postponement of payment of the VAT under the VAT Act in respect of imported plant and machinery.
 - (ii) An importer of plant and machinery may apply to the Commissioner General (CG) to defer the payment of tax due in respect of imported plant and machinery.
 - (iii) An application for deferment shall be in the form prescribed by the CG and shall be accompanied with a declaration by the applicant that the goods are for use in the business of the applicants and shall not be disposed of during the deferment period without prior approval by the CG
 - (iv) Subject to regulation 5, the CG may if satisfied that the imported plant and machinery is for use in the manufacture of goods or provision of value-added services defer the payment of the tax to a specified period.
 - (v) Conditions for approval of VAT Deferment on P & M include:
 - ❖ The CG shall not approve an application for deferment unless –
 - (a) The applicant is registered for VAT under Part III of the Act;
 - (b) The Plant and Machinery in respect of which the application is made is imported for the use in the business of the applicant;
 - (c) The tax due and in respect of which a deferment is sought is at least USD 4,000; and
 - (d) The applicant has complied with section 31A (returns) of the VAT Act Cap, 349.
 - ❖ The CG may require the applicant to furnish security for the tax proposed to be deferred before approving the deferment.

- (4) Bad debts: INTELEX may seek a refund of VAT on bad debts of (72 million x 18/118) Shs 10.98 million from URA provided these conditions are satisfied:
- (a) The VAT amount must have been included in output VAT which appears to be the case since INTELEX was using invoice method of accounting.
 - (b) INTELEX must have not received payment within 2 years from the date of the supply.
 - (c) INCAN must have taken all reasonable steps to the satisfaction of the Commissioner General to recover the debt amount.
 - (d) The bad debts were written off on year ago, and so INTELEX cannot claim VAT on such debts since two years' time period has not yet elapsed
- (5) Goods returned/Credit note.
- (a) Where the previously invoiced amount exceeds the actual amount, person is expected to issue a credit note reducing the consideration charged previously
 - (b) The credit note issued will reduce the sales amount and hence reduce Output VAT previously charged
 - (c) INTELEX is expected to issue a credit note for the goods returned
 - (d) The credit note will be included in the VAT return for the tax period when it was issued
 - (e) A credit note can also be issued where the supply is cancelled, goods are returned, consideration is altered, a discount is granted
 - (f) The credit note will reduce output tax of INTELEX by (28m x 18/118) Shs 4.3 million.
- (b) Mixed supply.
- A supply can either be a supply of a good or a service under the VAT Act. However, sometimes a supply of good involves a supply of a service or vice versa. This is called a mixed supply, where this happens, the supply will be regarded as:
- (i) A supply of services incidental to the supply of goods is part of the supply of goods.
 - (ii) A supply of goods incidental to the supply of services is part of the supply of services.
 - (iii) A supply of services incidental to the import of goods is part of the import of goods.
 - (vi) Therefore, the supply of freight service is incidental to the supply a good (plant and machinery) so the whole supply is considered a supply of a good and Vat is deferred.
- (c) Cash accounting and invoice accounting.
- Under the cash basis method of accounting, the taxable person does not account for VAT until he has received payment for supplies made. In addition, the person cannot claim input tax until he has paid for the supplies made to him/her.

Invoice accounting requires the taxable persons to issue tax invoices and account for the VAT thereon at the end of the tax period whether payment has been received or not.

Cash basis method is only allowed to a taxable person whose taxable supplies does not exceed Shs 500 million.

A taxable person who chooses to use cash basis of accounting for VAT shall make an election in writing to the Commissioner General

Once a person is granted cash basis method, it remains in operation not until two years elapse.

Advantages of cash accounting basis.

- Cash basis solves temporary cash flow problems common with most small firms.
- Taxpayer avoids paying tax on bad debts, unlike taxpayers on invoice basis that would have to prove a bad debt to get a refund of VAT paid on bad debts.
- Less book keeping is involved.
- Easy to use

(d) Explain the various sources of government revenue other than Taxes

While taxation is the primary source of income for the government, government also earns some recurring income other than tax, which is called non-tax revenue (NTR). Examples of NTR include;

- ❖ Fees such as permit fees, registration fees (Birth, death), movement permit fees, land fees, etc.
- ❖ Grants from foreign governments (donor funds)
- ❖ Grants from international organizations (international institutional donors like World Bank & IMF).
- ❖ Borrowings from foreign bodies and organizations
- ❖ Borrowings from local bodies and organizations such as through Bank of Uganda (Treasury bills and Bonds) and NSSF.
- ❖ Other social contributions
- ❖ Funds received from government investments and parastatals
- ❖ Government share of Oil revenue
- ❖ Funds from penalties and fines.

Solution 4

(a) Meaning and relevance of International Taxation.

Meaning of International Taxation:

Kevin Holmes defines International Taxation as the body of legal provisions of different countries that covers the tax aspects of cross - border transactions.

It is taxation of transactions across borders.

Relevance of international taxation include:

- Globalization - Borderless Global Economy especially by use of Internet

- Movement of People – Concurrent Earnings across borders
 - Growing Opportunities – Cross Border Mergers & Acquisitions
 - To Define Taxing Rights among the States (Which state has the right)
 - To Avoid Double Taxation Conflicts between states.
 - To Avoid Non Double Taxation between states (Not taxing the income).
- (b) Benefits of exchange of information (EOI) for tax purposes with tax authorities in other jurisdictions:
- (i) Illicit financial flows (IFFs) is one of the key contributing factors to lower tax revenues in developing countries. As most IFFs from African countries end up in financial institutions outside Africa, intergovernmental cooperation aiming at enhancing transparency and exchange of information (EOI) for tax purposes is a key ingredient of any solution to tackling international tax evasion.
 - (ii) Exchange of information (EOI) is about achieving global tax co-operation through the implementation of international tax standards and other instruments to put an end to bank secrecy and tackle tax evasion.
 - (iii) The process of exchange of information generally deals with the exchange of specific taxpayer information as well as information from any other person that may possess such information.
 - (iv) Revenue Administrations maintain taxpayer information and have the necessary legislative powers to collect information from the taxpayer or any other person.
 - (v) The process of exchange of information works in conjunction with audit, investigations and collection functions e.g. *transfer pricing audits cannot function effectively without the exchange of information (EOI) process*.
 - (vi) The globalization of large organizations and wealthy taxpayers will continue unabated if an exchange of information process is not in place.
 - (vii) Information received from treaty partners can often provide additional evidence or confirm investigations into a taxpayer's affairs that can lead to a tax liability being raised.
 - (viii) It is important to differentiate between raising assessments and collecting taxes. The exchange of information process may only result in the amendment of an assessment; the assistance in collection agreements will allow a foreign jurisdiction to collect outstanding taxes on behalf of a revenue administration.
 - (ix) The use of the EOI and automatic exchange of tax information could create a wide scope of benefits to the Continent, if correctly used. In particular, it could give Africa access to the following benefits:
 - (x) Tax transparency: availability of reliable and up-to-date information within the jurisdiction on ownership (legal and beneficial), accounting records, banking information, and on account holders which may stimulate improvements or introduction of similar reporting for resident taxpayers.
 - (xi) Effectiveness of tax administration: access of tax authorities to the essential tax-relevant data by:

- eliminating incompatible restrictions, e.g. bank and other professional secrecy, often also for domestic purposes and
- addressing potentially ineffective procedures, e.g. no sanctions.
- (xii) Exchange of information: setting up a wide international framework for EOI, improving responsiveness and quality of requests, and setting up processes on access to and handling of sensitive information.
- (xiii) Digitalization of tax administration: assessment of confidentiality and data safeguards brings benefits for the tax administration as a whole; handling AEOI data develops systems, skills and expertise and may improve the quality and handling of domestically available tax data
- (xiv) Taxpayers' discipline: third-party reporting has a proven record of enhancing tax compliance through the threat of prosecution for fraud.

Three types of information are at heart of the EOIR standard:

- Legal and beneficial ownership information
- Accounting records and
- Bank information.

Without access to this type of information, countries cannot effectively enforce their own laws or provide, on request, 'foreseeably relevant information' for the administration or enforcement of the domestic tax laws of another tax authority.

(c) Explain the concepts of source jurisdiction and residence jurisdiction in international taxation

- Residence jurisdiction:
 - This gives right to taxing the income of residents irrespective of where it is earned – worldwide income – Sec 17(2) ITA.
 - A residence country has the primary right to tax the income/gains of its residents; that is, a residence country is usually not restricted to tax income of its residents under general international tax law. Sec 17 (2)(a)
 - It should, however, have ways of providing tax reliefs to its residents on income sourced abroad to save them from double taxation. Note that residence status in tax law may not mean nationality or citizenship. Residence status varies depending on the legal status of the taxpayer from a tax perspective.
- Source Jurisdiction:
 - Taxing income arising/earned in the country (earned from sources in Uganda).
 - A source country can only tax income arising or earned in that country. There could be restrictions under international tax norms on the taxation of some income by the source and others. Sec 17 (2) (b)
 - Without tax treaties, for example, income from international transport vessels, aircraft arising in its state. Usually a source

country has the right to tax income sourced or arising in its state. Usually a source country would have no obligation to provide any tax relief in case of double taxation caused by an overlap of the residence and source jurisdictions (where a taxpayer is resident in more than one country).

- It is even bigger problem when they are overlaps of residence/residence jurisdiction or source/source jurisdiction (tie breaker situations) particularly in absence of double tax treaties.

(d) Residence tie-breaker rules according to OECD.

Tax treaties apply to persons who are residents of one or both of the contracting states. The OECD has come up with tie-breaker rules to determine the residence of an individual where such an individual is a resident of both contracting states.

Consider a country in which he has a permanent home available to him.

Where the individual has a permanent home in both states or in none, consider the individual's centre of vital interests (ie where his economic and personal relations are closer

Where the centre of vital interests is in both states and none, consider the individuals place of abode.

Where the place of abode fails, consider the individuals nationality.

Where the individuals nationality is in both states or none of them, then the matter is resolved through the Mutual Agreement Procedure (MAP)

(e) Required:

Explain to Mr. Alex Bwambale,

- (i) what withholding tax (WHT) is all about, what rate was used to withhold from his rental income payment by the bank and determine the amount withheld by the bank.
- (ii) the tax implications of withholding tax (WHT) being a final tax

Withholding tax (WHT)

- Withholding Tax (WHT) is tax withheld from every person who is paid by a Withholding Agent (WA).
 - (i) It can be described as a method of collecting tax at source or point of payment.
 - (ii) It's sometimes referred to as an advance tax collection but also a final tax in some cases.
 - (iii) Its tax withheld on payments by withholding agent to the Payee. Payee is any person receiving payments from which tax is required to be withheld
 - (iv) Withholding Agent (WA) is any person obliged to withhold tax by law
 - (v) Withholding Agent is under obligation to withhold tax before payment to any Payee at the rates prescribed in parts V, VII, VIII of the Third Schedule of ITA Cap 340
 - (vi) These rates may vary from partner state to another due to Double Taxation Agreements (DTAs) between two or more partner states.

- (vii) Tax rates range from 0 to 20%
- (viii) The rate for international payments to UK is 15% as prescribed Section 83 and part IV of the Third Schedule. – Rent paid abroad.
- (ix) Mr. Alex being a non-resident for tax purpose as per S.14 of the ITA, the bank deducted WHT of 15% on the Shs. 180 million.
- (x) WHT deducted at source by the bank on Alex's rental income is 15% X 180,000,000 = 27,000,000. This is paid by the bank to URA by the 15th day following the month of deduction.

Tax implications of withholding tax (WHT) being a final tax – (S.122 ITA)

- Tax Implication:
 - (i) No further tax liability is imposed upon the taxpayer in respect of the income to which the tax relates;
 - (ii) That income is not aggregated with the other income of the taxpayer for the purposes of ascertaining chargeable income;
 - (iii) No deduction is allowed for any expenditure or losses incurred in deriving the income; and
 - (iv) No refund of tax shall be made in respect of the income.

Solution 5

Abmal (U) Limited (AUL) on the:

- (a) Chargeable income and tax liability and amount payable for the year ended 30th June 2020.

Item	Shs	Shs
Net profit before tax		3,347,500,000
Add: Non allowable Deductions		
Depreciation-Delivery Van	77,000,000	
Depreciation-Laptops	500,000	
Local service tax	63,678,150	
General office expenses	15,000,000	
Capital Expenditure-Partitioning	67,500,000	
Capital Expenditure-Tiling part of the office	35,175,000	
Compensation for Baluku	17,250,000	
General Provisions	33,000,000	
Penalty for non-conformity	15,000,000	
Tip for good service	9,765,000	
Laptops for marketing staff	30,000,000	
Marketing manager - Education	18,000,000	
Donations - Football fans	345,225,000	
Donations - King Birthday run	8,000,000	
Loan Interest-Non business use		

(7%*750M)	52,500,000	
Delivery vans (2 vans)	840,000,000	
GPS car tracker software	45,000,000	
Loan guarantee-Staffs	35,250,000	
	1,707,843,150	5,055,343,150
Less: Allowable Deductions		
Capital Allowance- wear and Tear		2,442,000,000
Initial allowance		37,500,000
Chargeable income after allowing donations		2,575,843,150
Tax @ 30%		772,752,945

WEAR AND TEAR SCHEDULE						
	Class I (Shs'000)	Class II (Shs'000)	Class III (Shs'000)	Class IV (Shs'000)	Total (Shs'000)	
WDV-B/F	225,000	1,750,000	3,800,000	1,385,000	7,160,000	
Additions						
Partitioning				67,500	67,500	
Delivery Van (8 at 105M each)		840,000			840,000	
GPS Car Tracker Installation Software	22,500				22,500	
Laptops	15,000				15,000	
Disposals	-	-	-	-	-	
Sub total	262500	2,590,000	3,800,000	1,452,500	8,105,000	
Depreciation charge	105,000	906,500	1,140,000	290,500	2,442,000	
WDV-C/F	157,500	1,683,500	2,660,000	1,162,000	5,685,500	

Initial Allowance

GPS Software 45,000,000
Laptops 30,000,000

IA (50%)

22,500,000
15,000,000
37,500,000

- (b) Due dates for filing and paying the provisional tax.
 - (i) Due date for filing AUL's provisional return for the year ended 30th June 2020 is 31/12/2019 (Section 92A - ITA)
 - (ii) Due date for payment of AUL's provisional return for the year ended 30th June 2020 is 31/12/2019 for first installment and 30/06/2020 for second installment (Section 111 - ITA).
- (c) Meaning of an exempt organization as per the provisions of the Income Tax Act Cap, 340.

"Exempt organization" means any company, institution or irrevocable trust –

 - (1) Which is –
 - (A) an amateur sporting association;
 - (B) a religious, charitable or educational institution of a public character; or
 - (C) a trade union, employees' association, an association of employers registered under any law of Uganda or an association established for the purpose of promoting farming, mining, tourism, manufacturing, or commerce and industry in Uganda;
 - (D) a body established by law for the purpose of regulating the conduct of professionals; and
 - (2) Which has been issued with a written ruling by the commissioner currently in force stating that it is an exempt organization; and
 - (3) None of the income or assets of which confers, or may confer, a private benefit on any person;
 - (4) Or the National Medical Stores (NMS).

ANSWERS TO TEST PAPER 7

CTA JUNE 2022

Solution 1

Computation of Mark Roberts chargeable income for the year ended 31 December 2021 and tax liability.

MARK ROBERTS

CALCULATION OF MARK ROBERTS' CHARGEABLE INCOME FOR THE YEAR ENDED 31 December 2021

		Shs
Basic salary (Shs 12 m x 10 months)	Notes	120,000,000
Transport allowance (Shs 500,000 x 12)		6,000,000
Electricity		1,900,000
Water		1,700,000
Fees for his children (Shs 4 m x 2 x 3 terms)		24,000,000
Health club subscription		3,500,000
Annual practice fees - ULS	1	-
Short-term trainings	2	250,000
Interest loan benefit (Shs 180 m x (12.5%-5%)x8/12)	3	9,000,000
Accommodation and meals at Appa ((Sec 19.2.d))	4	-
Income from South Sudan (Salary & Hardship Allowance) ((Sec 80))	5	-
NSSF	6	-
Dividends on Shares with NVL	7	-
House allowance (Shs 2 m x 2 months)		4,000,000
Accommodation benefit	8	15,000,000
Chargeable income		185,350,000
PAYE Computation		
On Normal rates (300,000+(185,350,000 - 4,920,000)x30%)		54,429,000
On Income above Shs 120 m (10% x (185,350,000 - 120,000,000))		6,535,000
Total PAYE for the year ended 31/12/2020		<u>60,964,000</u>

WORKINGS

Accommodation Benefit

Market Value of Rent (2mx10 months)	20,000,000
Less: Employee contribution (500,000 x 10 months)	5,000,000
Net Market Value	<u>15,000,000</u>

Compared to:

15% of employment income	<u>27,802,500</u>
Thus the lower of the two is	<u>15,000,000</u>

Notes:

1. Not taxable on Mark since this is in line with his profession and job
2. Taxable because it is not directly relevant to Mark's job
3. The BoU rate was higher than company lending rate and loan was for only 8 months in the current year.
4. Not taxable as he was performing the Employer's duty. (Sec 19.2.d)
5. Foreign sourced employment income is exempt from tax so long as Mark paid income tax in the source country. (Sec 80)
6. Company is a tax paying employer and so does not tax the staff tax on retirement. (Sec 19.2.g)
7. Money was paid after subtracting WHT at 10% as the final tax (Sec 118).
8. Lower of market value of rent and 15% of chargeable income including market value of accommodation. (5th Schedule para 10)

**CALCULATION OF MARK ROBERT'S CHARGEABLE RENTAL INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Shs	Shs
Gross rental income		175,000,000
Less: 20% allowable expenses (Sec 22.1.c)	35,000,000	
Interest on mortgage (Sec 22.1.ca) - 6 months	6,300,000	
Personal non-taxable income (4 months = 235,000*4)	940,000	
		<hr/>
Total deductions		42,240,000
		<hr/>
Chargeable rental income		132,760,000
		<hr/>
Rental Tax for the year ended 31/12/2021 (20%)		26,552,000
		<hr/>
Total		<hr/>

Solution 2

MTK Ltd chargeable income and tax liability for the year ended 30 June, 2020.

CALCULATION OF CHARGEABLE INCOME FOR THE YEAR ENDED 30 JUNE 2020

Particulars	<u>Shs 000</u>	<u>Shs 000</u>	
Net accounting profits		93,830	
Add back:			
Provisional tax	126,000		
Depreciation	459,820		
Provision for bad debts	183,000		
Capital expenditure - Fork lift	97,000		To be Capitalised
Christmas party	45,300		
Professional fees - survey of land	60,000		To be Capitalised
5% NSSF Contribution	77,198		
		1,048,318	
Adjusted profits		1,142,148	
Less: Allowable deductions			
Foreign exchange gains (10%*240,500)	24,050		
Gain on disposal of truck	52,300		
			Minor Capital Deduction
4 Toilet seats - Minor Capital Deduction	3,920		
Balancing deduction on sale of Prado	2,150		
Initial allowance on factory (IA)	189,000		
Industrial Building Allowance (IBD)	64,800		
Wear and Tear Allowance	440,640		
		776,860	
Chargeable Income		365,288	
Income Tax (30%)		109,586	
Less: 2% for persons with disabilities		2,192	
Adjusted Chargeable Income (271,458-1,629)		363,096	
Income Tax (30%) on Adjusted Chargeable Income		108,929	
Less: Provisional Tax		126,000	
Income tax payable		17,071	
Initial Allowance (IA) on factory	Shs 000		
Cost	945,000		
Rate applicable (IA on Industrial Building)	20%		
Initial Allowance on factory	189,000		

Industrial Building Allowance	Cost Shs 000	IBD Shs 000
New Building after IA Deduction (5%)	756,000	37,800
Old building on Original Cost (5%) Since 1 July 2017 had no IA Deduction	540,000	27,000
		64,800

WEAR AND TEAR SCHEDULE

	CLASS I	CLASS II	CLASS III	CLASS IV
Rate of Depreciation	40%	35%	30%	20%
	Shs 000	Shs 000	Shs 000	Shs 000
Written Down Value 1 July 2019	175,000	245,000	463,500	329,100
Add: Assets bought during the year				
Heavy duty fork-lift	-	-	97,000	-
Elevators	-	-	-	45,000
Computers	152,000	-	-	-
Furniture	-	-	-	71,000
	327,000	245,000	560,500	445,100
Less: Assets sold during the year				
Proceeds from sale of truck			74,800	
Sale of MD Prado		30,400		
	327,000	214,600	485,700	116,000
Wear and Tear Allowance (Depn Charge)	130,800	75,110	145,710	89,020
WDV at 30 June 2020	196,200	139,490	339,990	356,080
Total WTA for 2020	440,640			

Sale of MD's Prado		Depreciable	Business
	Shs 000	Shs 000	asset
Cost of the car	75,000	60,000	Shs 000
Sale proceeds	38,000	30,400	15,000
			7,600
Cost base of business asset			9,750
Capital loss/Balancing Deduction (Balancing Allowance)			-2,150

Solution 3

- (a) A letter to the CEO of Mukwasi Enterprises Ltd advising him on the appropriate VAT treatment of the transactions.

To: The CEO
Mukwasi Enterprises Ltd

From: XXXX
Tax Consultant

Date: (Date of the exam)

Dear Sir,

RE: APPROPRIATE VAT TREATMENT FOR THE TRANSACTIONS BELOW

Item	Treatment
VAT on goods supplied to Mr. Kamwesigye who passed on in November 2020	Such a sale constitutes a bad debt if all necessary steps were taken to collect the money and the taxpayer failed. However, for VAT purposes, VAT on bad debts can only be refunded if two years have elapsed from the debt of the sale.
VAT on building materials to Zim Construction which was construction for an aid-funded project.	VAT charged to a contractor of an aid-funded project is deemed to have been paid, however, it must be reflected in the VAT return and declared (Deemed VAT treatment).
VAT on importation of Toyota Prado	VAT paid on the purchase of a passenger automobile is not claimable (Sec 28(5)VATA)
Payments to non-registered VAT landlords	VAT on such payments is not claimable since the persons are not registered (S. 28(1) VATA).
VAT apportionment	Where a taxpayer deals in both taxable and exempt supplies, the person is required to apportion input VAT using the Standard Method or Standard Alternative Method (SAM) (S.28(7) VATA).
Not charging VAT to an NGO – Watoto Church	VAT is charged on taxable supplies made by a taxable person regardless of whether the purchaser is registered for VAT or not. The only exception is where the supply is VAT exempt.

Yours Faithfully
xxxxxxxxx

- (b) A memo to the director of RK Ltd explaining the conditions that must be fulfilled for a sale of business as a going concern to be treated as an exempt supply.

To: The Director
RK Ltd
From:xxxxxxx
Tax consultant

Date: (Date of the exam)

Subject: Conditions that must be fulfilled for a sale of a business as a going concern to qualify as an exempt supply for VAT purpose (Paragraph 1(k) Second Schedule, VATA & Practice Note of 2008:

1. The supplier disposes of any part of a business capable of separate operation (e.g. a branch)
2. Both the seller and buyer must be registered persons for VAT purposes.
3. The agreement of sale must specify that the property is a whole or part of the seller's business that is being sold as a going concern.
4. Activities of the business must be able to continue after the transfer for a period of at least two years.
5. The seller transfers to the buyer all facilities necessary for the continued operation of the enterprise being sold.
6. The supplier carries on the business until the day of the supply and that the nature of the business will not change after the transaction.
7. The transferor and transferee must notify the Commissioner General in writing about the details of the transfer.

Solution 4

- (a) Calculate the capital gains or loss on the above transactions for the year ended 31 March 2021.

BABATUNDE UGANDA LIMITED

Disposal of commercial property

Land cost	250,000,000	
Building cost	853,600,000	
Proceeds	3,630,000,000	
Acquired		01-Apr-15

Disposal of Benz

Cost	135,000,000	
Proceeds	80,000,000	
Acquired		01-Apr-18

Disposal of lorry

Cost	75,000,000	
Proceeds	50,000,000	
Acquired		01-Apr-18

Section 53(3) Apportionment of consideration where two or more assets are disposed of in a single transaction

Disposal of commercial property

Share of disposal proceeds between land and buildings

Land	$(250,000,000/1,103,600,000) \times 3,630,000,000$	822,308,808
Building	$(853,600,000/1,103,600,000) \times 3,630,000,000$	2,807,691,192

Calculation of capital gains/losses

On disposal of land

Sale proceeds	822,308,808
Cost base	250,000,000
Capital gain	<u>572,308,808</u>

On disposal of building

Sale proceeds	2,807,691,192
Cost base	
Original cost	853,600,000
Capital allowances claimed	$(853,600,000 \times 5\% \times 5\text{yrs})$
	213,400,000

Cost base at time of disposal	640,200,000
Balancing charge/Taxable gain	<u>2,167,491,192</u>

Disposal of MD's Benz

Share of sale proceeds between depreciable and non-depreciable asset		
Proceeds for depreciable asset		
	$(60,000,000/135,000,000) \times 80,000,000$	35,555,556
Proceeds for non-depreciable asset		
	$(75,000,000/135,000,000) \times 80,000,000$	44,444,444
Capital gains on disposal of non-depreciable business asset		
Sale proceeds		44,444,444
Less cost base of the business asset		
Original cost	75,000,000	
Notional depreciation		
2019		
$(75,000,000 \times 35\%)$	26,250,000	
2020		
$(48,750,000 \times 35\%)$	17,062,500	
Cost base at time of disposal		<u>31,687,500</u>
Capital gains		<u>12,756,944</u>

WEAR & TEAR COMPUTATION

	Class II 35%	Class III 30%	
	Shs	Shs	
Written Down Values at 1-4-2020	346,000,000	538,000,000	
Additions Lorry		50,000,000	
Disposals Benz	(35,555,556)		
Lorry		(50,000,000)	
	<u>310,444,444</u>	<u>538,000,000</u>	Total WTA
Wear & Tear Allowance	108,655,556	161,400,000	270,055,556
Written Down Values at 31-3-2021	<u>201,788,889</u>	<u>376,600,000</u>	

Section 54(1)(c) where an asset is disposed of through involuntary disposal, and the proceeds from such disposal are reinvested in an asset of a like kind within one year of the disposal, no gain/loss is recognized in calculating chargeable income of the person for that year of income. Therefore, the gain on disposal of the Lorry that was involved in an accident (involuntary disposal) shall not be recognized as a gain or loss.

- (b) Explain circumstances under which a disposal is said to have taken place.
- Section 51(1)(2)(3) & (5) of ITA an asset is treated as having been disposed by the taxpayer under the following circumstances:
- where an asset has been sold, exchanged, redeemed, or distributed by the taxpayer or destroyed/lost;
 - transferred by the taxpayer by way of gift;
 - destroyed or lost;

- where the asset has been converted from a taxable to a non-taxable use or from a non-taxable to a taxable use;
 - where a resident person becomes non-resident, he/she is deemed to have disposed of all the assets owned by a non-resident person at the time of becoming resident.
 - Where a resident person becomes non-resident, he/she is deemed to have disposed of all the assets owned by the resident person at the time of becoming non-resident.
- (c) Outline circumstances under which gains or losses on disposal of a business asset are not taken into account in determining chargeable income of a person.

no gain or loss is recognized in determining the chargeable income of the taxpayer during the year under the following circumstances):

- i. Guided by ITA: S.54.1 of the Income Tax Act.
- ii. where the asset is transferred between spouses;
- iii. where an asset is transferred between former spouses as part of a divorce settlement or a bona fide agreement of separation;
- iv. an involuntary disposal of an asset to the extent that the proceeds are reinvested in the asset of a like kind within one year of disposal.
- v. the transmission of an asset to a trustee or beneficiary on the death of the taxpayer.

Solution 5

- (a) Calculate the income tax payable by Avia Beauty Parlor for the year ended 31 December 2020
- Avia Beauty Parlor is categorized as a small business taxpayer who qualifies for presumptive tax.
 - A small business taxpayer is one whose gross turnover for a year of income derived from carrying on business is less than one hundred fifty million shillings.
 - In this case Avia Beauty Parlor annual gross income is Shs 137,210,000, which falls within the limit set by the ITA Sec 4.5.
 - A taxpayer under that category pays income tax at the rates prescribed in Part I of the second schedule.
 - The income tax is based on Avia Beauty Parlor's gross turnover for the year.
 - The income tax so charged is a final tax on the business income of Avia Beauty Parlor.
 - Avia Beauty Parlor shall not be given any deductions for expenses or losses incurred in the production of business income.
 - Avia Beauty Parlor shall be allowed deductions for provisional tax paid and withholding tax paid on importation of synthetic hair from Kenya.

- According to the Second Schedule Part I, Avia Beauty Parlor's gross income falls in the 4th band (exceeding Shs 125 million but not exceeding Shs 150 million)
- In this case Avia Beauty Parlor's Tax payable is Calculated as below:

Calculation of Avia Beauty Parlor income tax payable for the year ended 31 December 2020

	Shs
Gross Income	137,210,000
Applicable Rate of Tax	1.5%
Income Tax	<u>2,058,150</u>
Comparison	<u>2,062,500</u>
Therefore the lower figure is	2,058,150
Less: Provisional Tax	640,000
Withholding tax on import of hair	900,000
	<u>1,540,000</u>
Income Tax Payable	<u>518,150</u>

(b) Write short notes about the following

(i) Electronic Tax System:

- Electronic Tax System (E-tax) is an automated system used by Uganda Revenue Authority (URA) to assist in registration, assessment, filing returns and payment of taxes in Uganda.
- The system was introduced in 2009 as part of the URA's modernization process in order to provide a 24 hour service to taxpayers.
- E-tax enables taxpayers to lodge their online applications through a web portal, from anywhere on the globe as long as they are connected to the internet. Upon uploading the application on the web portal, the system will generate an auto-acknowledgement receipt with a code in it, which code a taxpayer can use in case they would like to retrieve the data about the same application or return.
- The typical features of E-tax include:
 - ✓ E-registration: for registering new taxpayers
 - ✓ E-filing: for filing tax returns
 - ✓ E-payment: for generating payment slips which the tax payers takes to the bank to effect payment.
 - ✓ E-services: a set of instructions and information material which the taxpayer can use to operate the system.

(ii) Digital Tax Stamps:

According to the Statutory Instruments 2018 No. 53 of the TPCA, a digital tax stamp is a paper, digital stamp or mark approved by the Uganda Revenue Authority to be printed and affixed to prescribed goods.

The prescribed goods include the manufacture or import of excisable goods like water, beer, cigarettes, wine and others.

Sec 19A of the TPCA requires every taxpayer dealing in goods, whether locally manufactured or imported to affix a tax stamp on any goods manufactured or imported as prescribed by the Minister.

Taxpayers who abuse this provision are penalized heavily at the higher of double the tax due on the goods or fifty million. (TPCA Sec 19B.1)

(iii) Reverse charge mechanism of VAT.

This occurs on the person who imports a service other than an exempt service (VAT on Imported Service).

Sec 5.1.c of the VATA requires a person who imports a service other than an exempt service to pay the tax due on the supply received.

Under Statutory Legislations regulation 13, the taxpayer shall account for tax payable at the earliest of; when performance of the service is completed, or when payment for the service is made or when the invoice is received from the foreign supplier.

The value on which the tax is calculated is the taxable value of the imported service

The taxpayer is required to enter both the taxable value and tax calculated in his return for the period.

No credit for input VAT is allowed to the taxpayer at importation of a taxable service.

ANSWERS TO TEST PAPER 8

CTA MAY 2023

Solution 1

1(a) Compute the income tax payable by MIT for the year ended 31 December, 2021.

MARO INSTITUTE OF TECHNOLOGY		
COMPUTATION OF TAX PAYABLE		
FOR THE YEAR ENDED 31 DECEMBER, 2021		
	Shs 000	Shs 000
Profit as per accounts		291,095
Add back		
Staff wedding and other social events	189,700	
Life insurance	348,000	
Depreciation of property	1,440,500	
Land purchase	578,000	
Bad debts provision on tuition	104,450	
Loss on disposal of computers	26,500	
Rental property expenses (allowable)	61,608	
Construction (Work-in-Progress)	487,500	
Loan repayment - principal	1,250,346	
		<u>4,486,604</u>
		4,777,699
Less:		
Other sources	146,000	
Treasury bills net of Withholding tax	156,000	
Unrealised foreign exchange gains	45,900	
Income from rent of property	199,000	
Industrial Buildings Allowance	1,789,465	
Wear and Tear Allowance	443,315	
		<u>2,779,680</u>
Chargeable Income		1,998,020
Income Tax (30%)		599,406
Less: Provisional Tax		<u>34,945</u>
		564,461
Add: Under provisioning penalty		100,904
20% \times ((30% \times (90% \times 1,998,020)) - 34,945)		<u>100,904</u>
Tax Payable		665,365

TAX ON RENTAL PROPERTY

Gross Rental Income	199,000
Less: Allowable rental expenses	<u>61,608</u>
Chargeable income	<u>137,392</u>

Rental Tax (30%)	<u>41,218</u>
------------------	----------------------

TOTAL TAX LIABILITY

Business Income Tax liability	665,365
Rental Tax Liability	<u>41,218</u>
	<u>706,583</u>

Notes**Note 1: Industrial Buildings Allowance**

Deduction based on existing buildings only, WIP is not considered.

	Shs 000
Cost of the building	35,789,300
Rate of depreciation	5%
Deduction for the year	1,789,465

Note 2: Wear and Tear Allowance

	Total Cost	Initial Allowance	Class I	Class II	Class III	Class IV	TOTAL
			40%	35%	0	20%	
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Written Down Values at 01.01.2021	-	-	96,235	170,630	348,000	791,500	1,406,365
Additions during the year							
Furniture	240,000	-	-	-	-	240,000	240,000
Computers	135,000	-	135,000	-	-	-	135,000
	375,000	-	231,235	170,630	348,000	1,031,500	1,781,365
Disposals during the year	-	-	49,000	-	-	-	49,000
	375,000	-	182,235	170,630	348,000	1,031,500	1,732,365
Depreciation			72,894	59,721	104,400	206,300	443,315
Written Down Values at 31.12.2020			109,341	110,910	243,600	825,200	1,289,051

1(b.i). The due date for MIT filing of income tax return for the year ended 31 December 2021.

- TPCA 16 every taxpayer is required to file a return of income for a year of income by the last day of the sixth month after the end of the year of income.
- MIT year of income ended 31.12.2021.
- The due date for provisional income tax return is by 30th June, 2021.
- Therefore their final income tax return must be filed by 30 June, 2022.

1(b.ii) Advise MIT on available alternatives in case the Institute has no funds available to pay income tax when due.

- TPCA (Tax procedures Code Act) Sec 27, a tax owing to the taxpayer must be paid by the due date specified in the law.
- Where MIT is unable to pay the tax by the due date, they can apply to the Commissioner for an extension of time within which to pay tax. (TPCA Sec 28)
- The application must be made by the due date for payment of the tax to which the application refers.
- The Commissioner may grant the taxpayer and extension requested or require the taxpayer to pay in instalments.

Solution 2

2(a). Explain the circumstances under which a disposal of a business asset occurs.

- Under Sec 51 of the Income Tax Act;
- A taxpayer is treated as having disposed of the assets when the assets has been sold, exchanged, redeemed, or distributed by the taxpayer; transferred by the taxpayer by way of gift; or destroyed or lost.
- Where the Commissioner is satisfied that an asset has been converted from a taxable to a non-taxable use and vice versa, the taxpayer is deemed to have disposed of the asset at the time of the conversion.
- A non-resident person who becomes a resident is deemed to have disposed of the assets, other than taxable assets, at the time of becoming resident.
- A resident person who becomes non-resident is said to have disposed of all the assets, other than taxable assets, at the time of becoming non-resident.

2(b) M

aja Consultants Ltd (MCL)

Advise MCL the amount of capital gains/losses arising to the company and the capital gains tax payable (if any)

**MAJA CONSULTANTS LTD
CALCULATION OF CAPITAL GAINS/LOSSES
FOR THE YEAR ENDED 31 DECEMBER, 2021**

Shs 000 Shs 000

2(b)(i) Sale of 10 acres of land located at Matugga

Consideration received on sale

540,000

Less: Cost base of the land:

- Purchase cost 62,000
- Land Title 5,000
- Stamp duty 12,500

79,500

Capital gain

460,500

2(b)(ii) Sale of one acre of land at Namugongo

Consideration received on sale

400,000

Less: Cost base of the land

85,000

Capital gain

315,000

2(b)(iii) Sale of a commercial building

Consideration received on sale

890,000

Apportionment of the received sales proceeds of Shs.890,000

Building = $890,000 \times (475,000/675,000)$ 626,296

Land = $890,000 \times (200,000/675,000)$ 263,704

Total (Land & Building) **890,000**

Determination of Capital gain on sale of land & building:

Capital gain on land disposal:

Consideration received on land sale	263,704
Less: Cost base of land	<u>200,000</u>
Capital gain	<u>63,704</u>

Capital gain on disposal of Commercial Building:

Consideration received on sale	626,296
Less cost base of the building	
Cost of purchase	475,000
Depreciation (10 years)	237,500
	<u>237,500</u>
Capital gain	<u>388,796</u>

- The van being stolen amounts to involuntary disposal
- Sec 54(1)(c) where an involuntary disposal takes place and proceeds reinvested in asset of same nature within one year;
- No capital gain or loss to be recognised.

2(b)(v) Disposal of 100,000 shares in Nation Media Group

Disposal of shares can lead to either a gain or loss at disposal taxable or allowable deduction under S. 18 of ITA: Business Income

Computation of capital gain on disposal of company shares:

- No. of shares disposed = 100,000
- Cost per share at acquisition = 3,500
- Cost per share at disposal = 540
- Loss on disposal per share $(540 - 3,500) = (2,960) * 100,000$
= (296,000,000)

2(b)(vi) Transfer of 50 acres for Esau Estate

- Transfer of property to the beneficiary of a trust
- Sec 54.1.d the transmission of an asset of the trust to the beneficiary on the death of a taxpayer

- No capital gain or loss to be recognised.

2(c) Transfer two acres of land to his wife, Clara.

- Sec 54 ITA Non Recognition of gain or loss
- Sec 54(1) provides that No gain or loss is recognised when determining chargeable income in relation to:
 - Transfer of property between spouses or
 - Between former spouses as a process of divorce settlement.
- The transfer of 2 acres of land from Eng. Brown to his wife Clara will not attract any capital gain or loss.

Solution 3

3(a) Advise James on the rental tax payable for the year ended 31st December 2021.

Please Note:

- James uses a substituted year of income with year-end being 31st December.
- There was an amendment in Rental Income Tax effective 1st July 2021, however, when calculating James Rental Tax Payable for the year ended 31st December 2021, we shall use the rental tax rate applicable for the period before 1st July 2021.
- James will start using the new amendment of 1st July 2021 in the following year starting 1st January 2022.

ADIKI RENTAL TAX

Calculation of Rental Tax payable for the year ended 31 December 2021

	Rent per month	No. of months	Amount Shs 000
Gross rental income			
JA001 (USD 10,000 x 3,655)	36,550	12	438,600
JA002 {(Grossed up) = (20,000/0.94)}	21,277	15	319,155
JA003			
Agaba Nicholas			8,400
Yarem Enterprises			10,800
Cozy Nazziwa			10,800
Mukwasi Sulaiman			9,800

JA004 - Residential building – Not taxable		-
Total		797,555
Less: Prepaid rent on JA002 (3 months)		63,831
Gross rental income		733,724
Less:		
• Allowable expenses (Sec 22.1.c)	20%	146,745
• Interest on loan (Sec 22.1.ca). Only mortgage interest is allowed & it's assumed this is a construction mortgage loan		56,000
• Individual's non-taxable income (Part VI of 3rd Schedule)		2,820
Total deductions		205,565
Chargeable rental income		528,159
Rental tax (Part VI of 3rd Schedule)	20%	105,632
Less: Tax withheld by Jing Qu = $\{(21,277 \times 12 \text{ months}) \times 6\%\}$		15,324
Rental tax payable		90,308

3(b) Advise Mark & Raymond on the rental tax payable for the year ended 31 December, 2021 by each partner

Please Note:

- Mark & Raymond uses a substituted year of income with year-end being 31st December.
- There was an amendment in Rental Income Tax effective 1st July 2021, however, when calculating Mark & Raymond partners' Rental Tax Payable for the year ended 31st December 2021, we shall use the rental tax rate applicable for the period before 1st July 2021.
- Mark & Raymond will start using the new amendment of 1st July 2021 in the following year starting 1st January 2022.

MARK & RAYMOND PARTNERSHIP**CALCULATION OF RENTAL TAX PAYABLE FOR THE YEAR 31 DECEMBER 2021**

	Shs 000	Shs 000
Gross rental income		145,000

Share between Partners: Mark & Raymond

Mark's share of Rent	87,000
Raymond's share of Rent	58,000

145,000

Rental Tax calculations

	Mark	Raymond
	Shs	Shs
Share of Rental income	87,000	58,000
Less: 20% for allowable expenses	17,400	11,600
Individual non-taxable income	2,820	2,820
Chargeable rental income	66,780	43,580

Rental Tax payable (20%)

13,356

8,716

3(c) Citing the relevant sections of the Income Tax Act, explain the tax treatment of the following transactions:

3(c)(i) Rental income earned by Jimtex, a company resident in India, from properties located at Buganda Road, Kampala.

- Jimtex being a non-resident company is subjected to withholding tax from the gross rent paid to them under Sec 83.
- The tax withheld is a final tax and this implies such income is not aggregated with Jimtex's other incomes subject to income tax in Uganda and no deductions or tax credits are allowable on such income.
- The rate of tax withheld is 15%. However, since Uganda has a Double Taxation Agreement with India, the rate applicable is 10% of gross rent paid to Jimtex.

3(c)(ii) Rent earned by Zadok Ltd, a resident company in Uganda, from properties located in Denmark.

- Rent earned by a resident person from properties located outside Uganda is treated as property income (Sec 20).
- Zadok Ltd will include that gross rental income in their gross income for the year it is earned.
- Since Uganda has a Double Taxation Agreement with Denmark, Zadok Ltd will claim a foreign tax credit in case the Revenue Authority charged tax in Denmark (Sec 81)
- The rate of foreign tax credit allowed to Zadok Ltd, however, shall not exceed the tax payable on the same income, had that income been earned in Uganda.

Solution 4

4(a) and 4(b)

Memo

To: The Director Motox Ltd

From: Tax Consultant

Date: Date of the Exam

Subject: Benefits of EFRIS and responsibility of Motox Ltd

4(a.i) Benefits of EFRIS to the Business and the Tax Authority

- Refund claims using e-receipts or e-invoices shall be fast-tracked given that the information shall be available in the system.
- Simplifying, in the long term, VAT reporting obligations for businesses by pre-filling returns.
- This is a step in enabling URA avail taxpayers with prefilled tax returns in future to minimize delays and costs involved in filling tax returns.
- Reducing costs to businesses related to paper invoices.
- The electronic format allows simpler and faster management and archiving of invoices.
- Anti-fraud measure.
- Minimizes the possibility of non- remittance of VAT collected
- Minimizes the possibility of non-issuance of tax receipts / invoices.
- Eliminated the challenges of unverifiable claims by taxpayers due to loss of records.
- Suppression of sales.
- Non issuance of tax receipts / invoices.

- False refund and offset claims.
- Fictitious Purchases with no physical movement of goods.
- Matching of input tax and output tax hence paying minimal Tax liability. (Gross profit liability is maintained between 0.1% to 1%)
- Unverifiable claims by taxpayers due to loss of records.
- Limited access to taxpayers' records - Some taxpayers selectively provide records for tax administration purposes.
- Non-remittance of VAT collected.
- Invoice Trading-Unscrupulous Individuals (employees of Companies, accountants and tax agents) selling previously issued invoices to final customers to third parties to claim false input tax credit hence abusing the VAT mechanism.
- Using multiple sets of business records.
- A large informal sector- 51% of GDP

4(a.ii) Responsibility of Motox Ltd.

- The Tax Procedures Code (E-invoicing and E-receipting) Regulations, 2020.
- Regulation 9.1 of the EFRIS
- Maintaining stable power and internet connectivity at the place of business;
- Security of the EFRIS device;
- Procuring and installing fiscal devices;
- Notifying the supplier in case a need for repairs and maintenance services arises.
- Making full disclosure of information and correct declaration of all transactions at all time;
- Ensuring compliance with EFRIS regulations.

4(b) Explain any four (4) mandatory and discretionary powers of the commissioner of Uganda Revenue Authority when executing their duties.

POWERS AND DUTIES OF THE COMMISSIONER INCLUDE:

Mandatory powers:

- Impose tax on every person who has chargeable income derived from business, employment, property income other than exempt income.
- Collect tax by using varying rates of tax depending on whether the person is an individual, company, trustee and retirement funds
- Grant taxpayer's allowable deductions in form of expenditure and losses incurred in generating income included in gross income.

Discretionary powers:

- May grant or approve the method of accounting to be used by tax payer E.g. Accrual or cash basis
- Re -characterize income that was split by taxpayer to reduce tax payable to URA
- Commissioner may approve or reject a request to file returns beyond statutory dates
- Power to raise additional assessment for a taxpayer who has under declared income
- Extend time to lodge an objection,
- Commissioner may allow the objections in whole or in part and amend the assessment or disallow the objections in totality.
- Allow for payment of taxes in instalments

4(c) Calculate VAT payable/claimable by Jordan Enterprises for the month of February 2021.**Jordan Enterprises Ltd****(i)Calculation of VAT claimable for February, 2021**

DATE	PARTICULARS	AMOUNT Shs	STATUS	VAT Shs
OUTPUT VAT				
	Sales to Tanzania	36,000,000	Zero	0.00
	Sales to Rwanda	29,600,000	Zero	0.00
	Local Sales			
	Standard	89,680,500	Standard	16,142,490
	Exempt	13,600,000	Exempt	-
	Zero-rates	33,850,000	Zero	0.00
	Face masks	5,230,000	Exempt	-
		<u>207,960,500</u>		<u>16,142,490</u>

INPUT VAT

PARTICULARS		Amount (Shs)	Status	VAT (Shs)
01/02/2021	Bought the following assets			
	Computers	15,000,000	Standard	2,700,000
	Furniture	7,500,000	Standard	1,350,000
05/02/2021	Bought stationery	4,520,000	Standard	813,600
06/02/2021	Bought phones	32,450,000	Standard	5,841,000
09/02/2021	Paid staff salary for the month	6,000,000	Outside VAT	-
12/02/2021	Imported a Toyota Marc X	22,000,000	Unclaimable	-
13/02/2021	Paid tithe to the Church	2,500,000	Outside VAT	-
18/02/2021	Bought cleaning materials	720,000	Standard	129,600
19/02/2021	Bought phones	600,000	Standard	108,000
22/02/2021	Repair of Marc X	1,873,000	Unclaimable	-
24/02/2021	Imported furniture for personal use	2,500,000	Unclaimable	-
25/02/2021	Bought phone accessories	19,700,000	Standard	3,546,000
26/02/2021	Bought phones	1,200,000	Standard	216,000
28/02/2021	Transporting phones to Rwanda	13,000,000	Zero rated	0.00
		<u>129,563,000</u>		<u>14,704,200</u>
Input VAT credit (as apportioned)				13,717,782
Input VAT payable				<u>2,424,708</u>

Apportionment: Standard method
 (Taxable Sales/Total Sales) x 100

<u>189,130,500</u>	90.95%
207,960,500	

Since the value of taxable sales is less than 95%, the input VAT credit shall be apportioned as below

A x B/C

Whereby

A = Input VAT for the month

B= Taxable Sales (Exclusive of VAT)

C = Total Sales, including exempt, Exclusive of VAT)

Input VAT Credit Claimable

$$\frac{14,704,200 \times 189,130,500}{202,730,500} = 13,717,782$$

OR

$$\frac{14,704,200 \times 90.95\%}{1} = 13,717,782$$

Therefore, VAT payable:

Output VAT – Input VAT

$$\text{Shs } 16,142,490 - \text{Shs } 13,717,782 = \mathbf{2,424,708}$$

4(c.ii) Difference between place of incorporation and place of management as applied in International Taxation.

(02 marks)

- International taxation refers to tax laws across jurisdictions.
- Under International Tax laws, a company is taxed in a jurisdiction where it is resident.
- The Residence test of a company under international tax laws is based mainly on the place of incorporation and place of effective management.
- The place of incorporation is a place where the company was registered as a company. The place of incorporation of a company is determined by the state where the company was formed or registered regardless of the nationality of its stakeholders.

On the other hand;

- A place of effective management refers to the jurisdiction where key management and commercial decisions that are necessary for the conduct of an enterprise's business are in substance made.
- A place of effective management is where the most senior person or group of persons makes its decisions.
- It's the place where the actions to be taken by the enterprise as a whole are determined.

Solution 5

5(1)(i) Meaning incidence of a tax as applied in tax theory.

Tax incidence refers to a person who finally bears the burden of paying taxes. Under direct taxes the incidence and burden fall on the same person. While for indirect tax, the incidence is shifted from the seller/producer to the consumer.

Tax incidence is separated between two types: statutory incidence and economic incidence. In statutory incidence the person who collects tax is the same person that pays it to government.

Under economic incidence, the person who suffers the tax is different from the one who pays it to government. Eg under VATA, VAT is collected and paid by the seller but it the consumer that actually suffers the burden.

5(a)(ii) Distinguish between tax base and taxable capacity.

Tax base refers to the various activities/objects on which taxes are levied
Whereas

Taxable capacity is the ability of individuals and entities to pay taxes.

5(b) Indicators of whether an activity being carried on constitutes a business.

MEMO

From: Student Name

To: Hon. Jack Bob

Date: Date of the Exam

Subject: Indicators of whether an activity being carried on constitutes a trading

Reference is made to your communication to me on the above subject. The Income Tax Act requires every person who has chargeable income during the year of income to pay tax on that income (Sec.4). The income can be categorised as employment, business or property (Sec 17.1). To determine

whether an activity constitutes trading can be done using a combination of the principles below, also known as badges of trade.

- i. Profit seeking motive. Where the taxpayer acquired the asset with a primary goal of selling it at a profit rather than holding it as an investment.
- ii. Number of transactions. Where the transaction is conducted systematically and repeatedly. This is especially true whether the operations involved in the transaction are of the same kind or character and also carried on in the same way as those carried on by persons trading in the same line of business.
- iii. Nature of property. Where the asset acquired is capable of producing income to the owner by virtue of holding it.
- iv. Existence of similar trading transactions or interests. The similarity of a transaction with an existing trade of a person may be a pointer that the transaction has a trading character.
- v. Changes or alterations made to the asset. Where the asset is repaired, modified or improved to make it saleable. It can even be broken down into smaller units to make it easy to sell.
- vi. The way the sale was carried out. Whether the taxpayer arranged the sale of the asset in the same way the dealers in that same businesses do.
- vii. Source of finance. Where the taxpayer got money to buy the asset may also be a pointer to a trading activity. For example the taxpayer could have borrowed money and the only way of paying back the money is to sell the asset bought.
- viii. Period of ownership. Short intervals between purchase and sale of the asset usually suggest trading activity. This is so because usually a taxpayer would want to recover his investment sooner and make profit.
- ix. Method of acquisition. Some assets are acquired through inheritance or by way of gifts. Such assets once sold may not be showing trading as opposed to a situation where the taxpayer acquired the asset through purchase, with the view of resale of the asset.
- x. Memorandum and articles of association. The Memorandum and Articles of Association list down the activities a company is mandated to deal in. If the transaction under review is among the line of activities a company is mandated to carry out, it may be a pointer to a trading activity.

a) Reply Rose's email clearly explaining;

- i. **circumstances under which a company is treated as a resident company in Uganda, according to the Income Tax Act. (03 marks)**
- ii. **the importance of residence principle in determining the tax liability of a company. (02 marks)**

Reply to: rosenyamaizi@gmail.com

From: student@icpau.co.ug

Subject: Resident Company and the importance of residence

5(c)(i) Sec. 10 of the Income Tax Act of Uganda;

A company is a resident company in Uganda for a year of income only if is;

- incorporated under the laws of Uganda;
- has its management and control exercised in Uganda at any time during the year of income; or
- undertakes majority of its operations in Uganda during the year of income.

5(c)(ii) the residence principle is important because:

- A resident person is subjected to tax on income from all his/her geographical sources (worldwide income) while a non-resident is taxed on income derived from within Uganda only.
- There are some benefits and deductions given to resident persons as opposed to non-resident person. Eg the tax threshold of Shs 235,000 per month for resident individual does not apply to non-resident individuals.
- In some cases, tax rates applicable to resident and non-resident persons differ. Eg withholding tax.

5(d) According to the Income Tax Act, what are the circumstances under which a trust is regarded as a resident trust in Uganda?

Section 11 of the Income Tax Act.

A trust is a resident trust for a year of income only if;

- The trust was established in Uganda;

- At any time during the year of income a trustee of the trust was a resident person; or
- The trust has its management and control exercised in Uganda at any time during the year of income; or

5(e) As a Certified Tax Advisor (CTA) student, explain any four (4) customs valuation methods developed by the World Trade Organization (WTO) and adopted by the East African Community Customs Management Act (EACCMA) 2004, for determining the value of goods for computation of customs tax purpose.

There are six international methods for the valuation of imported goods stipulated in the World Trade Organization Agreement on Customs Valuation. They are applied in sequential order as explained below:

Method 1: Transaction Value

Method 2: Transaction Value of identical goods

Method 3: Transaction Value of similar goods

Method 4: Deductive Method

Method 5: Computed Method

Method 6: Fall-back Method

The primary method of valuation is the **transaction value**, which is the price actually paid or payable for the goods when sold for export to the country of importation. A number of conditions must be met to use the transaction valuation method and it can involve deductions or additions such as commissions or royalties.

When the transaction value cannot be used, one of the alternative methods will be used to determine the customs value (methods of valuation) in sequential order

- Identical goods value method - Transaction value of identical goods previously cleared through Customs. Identical goods mean goods that are same in all aspect except minor difference such as color, size. Must be of the same brand and country of export.
- Similar goods value method - Transaction value of similar goods previously cleared through Customs. Similar goods are goods that have like characteristics and are commercially interchangeable; if a customer doesn't find the exact product he/she wanted can choose an alternative

e.g. Colgate and Close up. For goods to be regarded as similar, the brand must be of the same reputation e.g. LG and Samsung; and from the same country of export.

- Deductive value method – The basis for the Customs value is the price at which the greatest aggregate quantity of the imported goods is sold in Uganda. Post importation costs and taxes are deducted to arrive at the Customs value.

The deductible costs include:

- Taxes such as VAT, Import Duty, Excise Duty
 - Profits and general expenses e.g. rent, labour etc; associated to the distribution and sale of the goods. As a Mark Up.
 - Post importation Costs associated with the logistics and transportation of the goods to the bonded warehouse.
- Computed value method – this is based on the direct cost of producing the goods like raw materials, consumables, general expenses, other costs and profits relating to the production and sale of the imported goods. This method requires to get information for the country of production.
 - Fall-back value – where no other methods are suitable, the customs value can be derived based on one of the five methods reasonably adjusted. The method is not used on its own but relies on the sequential flexible interpretation of the 1st to the 5th method until the value of the goods is determined.

Customs will determine the value by considering the above valuation methods and any other relevant information.

TEST PAPER 9 SOLUTIONS

CTA 3 - DECEMBER 2023

Solution 1.(a)

Mr. Mosh

PAYE Computation for the month of December 2022

S/ N	Details	Computation	Chargeable income
1	Basic salary		3,000,000
2	Housing allowance	$3,000,000 \times 12 \times 5\%$	1,800,000
3	Gratuity	Not yet due	-
4	Leave pay/Air Ticket facilitation	Taxable since it was due & paid	6,000,000
5	Medical Expenses	Exempted	-
6	Security guard	(Non taxable benefit as per the Practice Notice of 2006)	-
7	Shares	$200 \times (4,500 - 3,000)$	300,000
8	Car benefit	$20\% \times 220,000,000 \times 9/365$ Or $20\% \times 220,000,000 \times 10/365$	1,084,932 Or 1,205,479
9	Advance loan (3 month advance)	5,000,000 Exempted: (Considered to be 3 months salary advance)	-
10	Advance loan (12 month Housing loan advance)	$15\% \times 18,000,000 / 12$	225,000
11	School fees	$1,550,000 \times 2$	3,100,000
12	Life insurance	Exempted	-
	Total chargeable income		15,509,932 Or 15,630,480

Tax Liability

$$\text{PAYE} = 25,000 + (15,509,932 - 410,000) \times 30\% + (15,509,932 + 10,000,000) \times 10\% = 5,105,973$$

Or

$$\text{PAYE} = 25,000 + (15,630,480 - 410,000) \times 30\% + (15,630,480 + 10,000,000) \times 10\% = 5,154,192$$

1(b) (i) Section 2 (Z) of Income Tax Act Cap 340 defines employment as

- The position of an individual in the employment of another person,
- Directorship of a company
- A position entitling the holder to a fixed or ascertainable remuneration
or
- The holding or acting in any public office

(ii) determine whether the employee is supposed to file returns.

Tax from employment is administered using PAYE system. PAYE system mandates employer to withhold tax from employment income and remits the tax to URA by the due date. The tax deducted is final. Therefore no further returns are required. The obligation to file returns lies with the employer.

(c) Exempted employment income

- Employment income of staff of East African development bank
- Medical expense refund (medical reimbursement)
- Employers contribution to retirement fund e.g NSSF
- Low cost benefit of less than Shs 10,000 per month
- Employment income of employees of Uganda Peoples Defence Force (UPDF) other than those in civilian capacity
- Income of members of Parliament other than salary
- Reimbursement of expenses incurred on behalf of employer

Solution 2. (A)

(i) Tax returns and their due dates.

- i) **PAYE:** By the 15th day of the following month
- ii) **Provisional income tax:** By the last day of the sixth month of the current year
- iii) **Final income tax:** Within six months after the end of the financial year

(ii) Objection and appeals procedures to the URA tax decision Sec 24-26 TPCA

- i) A person dissatisfied with a tax decision may lodge in an objection with the commissioner within 45 days after the receipt of the notice.
- ii) The objection shall be in the prescribed form and shall state the grounds upon which it is made and contain sufficient evidence to support the objection.
- iii) The commissioner may upon application in writing by the taxpayer, extend the time for lodging an objection where the commissioner is satisfied with the grounds upon which the application is made.

- iv) The commissioner may consider the objection if the taxpayer has furnished a return in respect of default or advance assessment and has paid the tax due under the return together with the penalty or interest due.
- v) After consideration of the objection, the commission may allow the objection in whole or in part and amend the assessment accordingly.
- vi) The commissioner has to serve the notice of an objection decision to the person objecting within 90 days from the date of receipt of the objection.
- vii) Where the objection decision has not been made by the commissioner within 90 days after the taxpayer lodged the objection with the commissioner, the taxpayer may by notice in writing to the commissioner, elect to treat the commissioner as having made a decision to allow the objection.
- viii) The time limit for making an objection decision is waived where a review of the taxpayer's records is necessary for the settlement of the objection and the taxpayer is notified. In this case the commissioner is required to notify the taxpayer of the review within 90 days.
- ix) Appeal to the Tax Appeals Tribunal (TAT) within 30 days from the date of receipt of notice of objection decision by URA, for review of the objection decision.
- x) Appeal to the High Court and court of appeal within 30 days from the date of receipt of notice of the TAT decision, for a review of the TAT decision by the High court.
- xi) The burden of proof is on the taxpayer when objecting to the assessment or appealing to ADR & TAT for the tax decision made by URA. However, when appealing to high court or other courts of appeal, the burden of proof is on the party appealing against the tax decision to prove that the decision should not have been made or should have been made differently.

b) The commissioner shall not make an additional assessment amending an assessment in respect of an amount, if any previous assessment for the year of income in question has in respect of that amount has been amended or reduced pursuant to an order of the High Court or Court of Appeal.

c) (i) Tax implication of not withholding tax. Sec 122 ITA

- A withholding agent who fails to withhold tax is personally liable to pay to the commissioner the amount of tax which has not been withheld, but the withholding agent is entitled to recover this amount from the payee.

ii) Implication of withholding as final tax

- No further tax liability is imposed upon tax payer in respect of the income to which the tax relate.
 - That income is not aggregated with the other income of the taxpayer for the purposes of ascertaining chargeable income.
 - No deduction is allowed for any expenditure or losses incurred in deriving the income
- No refund of tax shall be made in respect of the income.

d) Small business tax system

Section 4 subsection 5 & 7 relates to the taxation of small businesses & the exclusions as per the ITA as explained below;

- Small businesses relates to resident taxpayers whose annual gross turnover is less than Shs 150,000,000 but this does not include professional services. The tax is computed in accordance with the Second Schedule to the ITA, unless the taxpayer elects by notice to the commissioner.
- The tax shall be a final tax on the business income of the taxpayer.
- No deduction is allowed for the expenditure or losses incurred in the production of business income.
- No tax credits allowed to reduce the tax payable on the business income of the taxpayer.
- No refund of tax shall be made in respect of the income considered under the small business.

Below are persons who qualifies & those excluded from using the small business tax system:

Who is included;

- Taxpayers whose gross turnover from businesses does not exceed 150 million shillings. S.4(5)
- Only resident taxpayers who have carried on a business/businesses during the year of income.
- Only applicable to resident taxpayers.

Who is excluded;

- Persons in employment/Income from employment. Note that it is levied only on persons carrying on a business or businesses.
- Non-resident taxpayers are excluded. S.4(5) ITA.
- All persons in the business of professional services (e.g. construction, medical etc.), public entertainment services, public utility, or construction services. S.4(5 & 7) ITA.

Solution 3

(a) (i) implication of partners contribution:

The partners' contribution of assets to the partnership is treated as disposal of the asset by the partner to the partnership for consideration.

(ii) Partners profit/ loss sharing

Years/Sharing ratio	Naboth	Alex	Caleb	Total
2019 (1:1:1)	7,000,000	7,000,000	7,000,000	21,000,000
2020 (1:1:1)	6,000,000	6,000,000	6,000,000	18,000,000
2021 (4:3:5)	8,000,000	6,000,000	10,000,000	24,000,000
2022 (4:3:5)	(12,000,000)	(9,000,000)	(15,000,000)	(36,000,000)

Partners' Tax liability Computation

Partner	Year	2019	2020	2021	2022
Naboth	Profit share	7,000,000	6,000,000	8,000,000	-12,000,000
	Threshold	4,920,000	4,920,000	4,920,000	-
	Taxable Amount	2,080,000	1,080,000	3,080,000	-
	Tax (30%)	624,000	324,000	924,000	-
	Add: Constant	300,000	300,000	300,000	-
	Tax Payable	924,000	624,000	1,224,000	-

Partner	Year	2019	2020	2021	2022
Alex	Profit share	7,000,000	6,000,000	6,000,000	-9,000,000
	Threshold	4,920,000	4,920,000	4,920,000	-
	Taxable Amount	2,080,000	1,080,000	1,080,000	-
	Tax (30%)	624,000	324,000	324,000	-
	Add: Constant	300,000	300,000	300,000	-
	Tax Payable	924,000	624,000	624,000	-

Partner	Year	2019	2020	2021	2022
Caleb	Profit share	7,000,000	6,000,000	10,000,000	-15,000,000
	Threshold	4,920,000	4,920,000	4,920,000	-
	Taxable Amount	2,080,000	1,080,000	5,080,000	-
	Tax (30%)	624,000	324,000	1,524,000	-
	Add: Constant	300,000	300,000	300,000	-
	Tax Payable	924,000	624,000	1,824,000	-

(b) **Residence;**

(i) **Resident trust:** Trust is resident trust for the year of income if;

- The trust was established in Uganda.
- At any time during the year of income, a trustee of the trust was resident person

And

- The trust has its management and control exercised in Uganda at any time during the year of income.

(ii) **Partnership:** A partnership is resident partnership for the year of income if at any time during that year, a partner in the partnership was a resident person.

Residence status is important in determining chargeable income of the taxpayer. A resident person is taxed on worldwide income while non-resident person is taxed only on the income sourced in Uganda.

(c)

Tax avoidance is where the taxpayer uses provisions of the existing law to avoid or reduce the tax liability.

Example

- Re-characterize the transaction.
- Dis regard the transactions with substance negative tax impact

Tax evasion is deliberate refusal to pay tax

- Smuggling
- Failure to keep accounting records
- Fraudulent transaction

(d) Accounting profit and tax profit

Accounting profit is the profit earned by the entity in a given accounting period and it is arrived at after consideration of IASs/IFRSs.

Tax profit on the other hand is chargeable income arrived at by the taxpayer after consideration of the deductions as per the existing tax laws.

The following circumstance give rise to the difference between accounting profit and tax profit:

- Treatment of depreciation/amortization/ Wear and Tear.
- Carry forward losses
- Startup costs
- Treatment of bad debts
- Treatment of minor capital expenditure
- Allowance for initial allowances

- Charitable donations
- Provisions and amortizations/revaluations.
- Unrealized gains and losses.

Solution 4:(a)(i)

KKB LIMITED

CORPORATION TAX Computation

For the YEAR ENDING 31 December 2022

Corporation tax computation			
Particulars	Note	Amount	Amount
Sales	1		482,627,119
Less allowable deductions			
cost of sales		79,000,000	
Administration expense		19,000,000	
Marketing		8,100,000	
Salaries		61,200,000	
Rent expense		7,200,000	
Start up cost	2	7,500,000	
Capital allowances	3	72,602,740	
Initial allowance	3	121,866,438	
IBD		6,267,123	
interest expenses	4	1,250,000	
		383,986,301	383,986,301
Chargeable income			98,640,817
4(a)(ii)			
Tax Liability			
Total chargeable income			98,640,817
Corporation tax rate 30%		29,592,245	
WHT deducted during the year		26,161,017	
Tax payable		3,431,228	

	Working			
Sales 1				

Items	Dates	sales VAT iclusive	Net VAT	WHT Charged
40mmTreated poles 12m high	14/02/2021	125,000,000	105,932,203	6,355,932.20
40mmTreated poles 12m high	02/05/2021	129,500,000	109,745,763	6,584,745.76
45mmTreated poles 12m high	09/07/2021	143,000,000	121,186,441	7,271,186.44
30mmTreated poles 10m high	08/10/2021	117,000,000	99,152,542	5,949,152.54
			-	-
sales to kusinda		55,000,000	46,610,169	
Total		569,500,000	482,627,119	26,161,017

Start up cost 2	30,000,000
sec 30 ITA Only 25% allowed in this year	7,500,000

Initial allowance		
Land	100,000,000	-
ware house	250,000,000	121,866,438
Trailer	500,000,000	-
Total		121,866,438
Industrial Building Allowance (IBD)		
Ware house	250,000,000	6,267,123.29
Wear and Tear (Depreciation Allowance)		
Trailer (01/04/2022) Class III =20%	$(500m \times 265/365) \times 20\%$	72,602,740

Interest expenses 4	
Loan borrowed	20,000,000
Loan utilized 50% *20,000,000	10,000,000

Interest rate 25% p.a	2,500,000
loan received and used for only 6 months $62,500,000 \times 6/12$	1,250,000

Solution 5:.

Capital gain/loss arise on the disposal of non-depreciable asset referred to as business asset.

Gain is when proceeds are in excess of cost base

Loss is when proceeds are less than cost base

a) Computation of gain/loss and tax on disposal

1. Sale of undeveloped land in Makenke

		Amount
Disposal proceeds/consideration received		120,000,000
Cost base		
Purchase	70,000,000	
Add: Brokerage 5%	3,500,000	
Transfer fees	8000,000	
Less: Bribe to land officer	1000,000	
Total cost base		80,500,000
Capital gain		39,500,000
Capital gain tax (30%)	$39,500,000 \times 30\%$	11,850,000

2. Disposal proceeds/ consideration received. There is no gain/loss recognized on forceful or involuntary disposal as per the Income Tax Act provision below:

Section 54 subsection (1) (c) of the Income Tax Act (ITA) Cap 340 provides as below:

"No gain or loss is taken into account in determining chargeable income in relation to an involuntary disposal of an asset to the extent to which the proceeds are reinvested in an asset of a like kind within one year of the disposal".

Therefore, there will be no gain/loss to be recognized in this scenario.

3. Nyamitanga

		Amount
Disposal proceeds/consideration received		980,000,000
Cost base		
Acquisition of land	30,000,000	
Add: extention	450,000,000	
Hoel construction	100,000,000	
Total cost base		580,000,000
IBD for constructed hotel	$5\% \times 100,000,000 \times 11$	55,000,000
IBD for extension	$5\% \times 450,000,000 \times 1$	77,500,000
Net cost base		502,500,000
Capital gain		477,500,000
Capital gain tax (30%)	$477,500,000 \times 30\%$	143,250,000

4. Disposal of a fish pond

Disposal proceeds/ consideration received		94,350,000
Cost base		
Initial cost	62,000,000	
Replacement	75,000,000	
Less: Insurance compesation	50,000,000	
Total cost base		87,000,000
Capitai gain		7,350,000
Capitai gain tax	$7,350,000 \times 30\%$	2,205,000

- b) A tax payer is treated as having disposed of an asset when the asset has been ; (refer Sec 51 ITA).**

Under Sec 51 of the Income Tax Act;

- A taxpayer is treated as having disposed of the assets when the assets has been sold, exchanged, redeemed, or distributed by the taxpayer; transferred by the taxpayer by way of gift; or destroyed or lost.
- Where the Commissioner is satisfied that an asset has been converted from a taxable to a non-taxable use and vice versa, the taxpayer is deemed to have disposed of the asset at the time of the conversion.
- A non-resident person who becomes a resident is deemed to have disposed of the assets, other than taxable assets, at the time of becoming resident.
- A resident person who becomes non-resident is said to have disposed of all the assets, other than taxable assets, at the time of becoming non-resident.

c) Difference between branch and subsidiary defined;

S/n	Branch	Subsidiary
1	Taxable only on income sourced in Uganda	Taxable on its worldwide income
2	Liable to 15% tax on repatriated branch profits	Required to charge 15% final WHT on management fees and dividends.
3	Easy and much faster to register	The registration process is longer
4	No restriction on profit repatriation	No restriction on dividend payment or management fees
5	Interest on loan from head office are not allowed as deduction	It can obtain loan from parent company and deduction is allowed notwithstanding thin capitalization rule
6	Head office costs are allowed as deductions only to the extent that they are directly incurred in earning income taxed in Uganda	Can claim deductions on interest on loans given by the parent, management fees and head office expenses.

Tax planning matters to consider before taking a final decision on whether to open a branch or register a subsidiary as an option for business expansion.

1. **Structure of business set up** e.g branch v subsidiary, partnership v sole proprietor, or limited company different business structures have different tax regimes.

2. **Location of business.** Different countries have different tax regimes with some with tax havens (very low tax rate)
3. **Sector where to set up business.** Some sectors may have tax incentives during given period of time.

TEST PAPER 10 SOLUTIONS

CTA 3 - MAY 2024

Solution 1

Calculate the Tax liability of Sevo for the accounting period ended 31 December 2023

Adjusted Profit Computation Amount (Ushs)

Net profit per Accounts 9,050,000

Add back non allowable deductions

Entertaining – Staff Christmas party 15,000,000

Contribution- Director's wedding 5,000,000

Electricity (20%) 3,400,000

5 % Employee Contribution to NSSF (5/15 * 10,050,000) 3,350,000

Donations to Green party 8,000,000

Private Telephone expenses 3,000,000

Extension to trading premises 45,000,000

General provision – Repairs next year 10,000,000

Motor vehicle expense for Jussy 8,000,000

Lease rental for Jussys car 10,000,000

Legal fees on penalty (This is an allowable deduction for Business Purposes) -

Depreciation 120,000,000

Interest on late VAT 4,200,000

Interest on loan 20% rented 3,600,000

Lease Interest 1,200,000

Total Additions:

239,750,000

Deductions:

Reduction in general provision for bad debts	4,000,000	
Other income	30,000,000	
Wear and Tear	68,200,000	
IBD on an existing building for the	43,000,000	
IBD (Deferred to next year as per Sec.29(1a) Effective 01/07/2021)	-	
Initial allowance on Building	9,000,000	
Total Deductions:		154,200,000
Adjusted Profit		94,600,000
Profit for 12 months (Year-end) 30 September 2023	75,680,000	
Profit for 3 months Period ended 31 December 2022	18,920,000	94,600,000
		28,380,000
Corporation Tax (30% X 94,600,000)		
Rental Tax for Non-Individuals		30,000,000
Gross income		
	3,400,000	
Less Allowable Rental Deductions 50%		(15,000,000)
Chargeable income		15,000,000
Rental Tax (30% x 15,000,000)		4,500,000
		32,880,000
Total Tax Payable by Savo		

Working		
Initial allowance:		
Initial allowance at 20% (Extension Note 7)	45,000,000 X 20%	9,000,000
IBD initial cost	860,000,000	
IBD (5% of Initial Cost for 20 years)	(860,000,000*5%)	43,000,000
Add building extension	45,000,000	
Less initial allowance	(9,000,000)	
Qualifying expenditure for IBD	36,000,000	
IBD at 5% on building extension put to use during the year of income.		1,800,000

1,800,000 deferred to next year as per Sec.29 (1a) Effective 01/07/2021

Wear and Tear:				
Details	Class 1	Class 11	Class 111	Total
Balance b/f	48,000,000	120,000,000	65,000,000	233,000,000
Rate of charge	40%	30%	20%	
Charge for the year	19,200,000	36,000,000	13,000,000	68,200,000

b) Why pay taxes

- Taxes fund public infrastructure and services like road networks.
- Taxes are a source of funds used for social development and welfare programs.
- Taxes pay the principal and interest on government debt hence reducing the debt burden of the country.
- To regulate and stabilize the economy.
- Taxes fund the government's law-enforcement agencies, like the police force.

Solution 2:

(a)

- Cash payment
- A resident person who purchases a business or business assets from a resident person shall withhold tax on the gross amount of the payment at the rate of 6% as prescribed by Section 118 B(2)) and Part VIII(3) of the Third Schedule of the ITA.

GVU is therefore required to withhold 6% of the gross payment being
1,200,000,000

$$6\% \times 1,200,000,000 = 72,000,000$$

Tax on capital gain on disposal of business asset by GVI to GVI

GVI pays tax on capital gain on disposal (18 (a))

Capital gain = consideration received less the cost base of the asset

$$\begin{aligned} \text{Capital gain} &= 1,200,000,000 - (800,000,000 + 100,000,000) \\ &= 1,200,000,000 - 900,000,000 \\ &= \mathbf{300,000,000} \end{aligned}$$

Capital gains are taxed at 30%

$$\begin{aligned} \text{Capital gain tax} &= 300,000,000 \times 30\% \\ &= \mathbf{90,000,000} \end{aligned}$$

Tax payable is Capital gain tax less WHT on disposal

$$= 90,000,000 - 72,000,000$$

Tax payable = Shs 18,000,000

- Non cash transfer
- The transfer without cash consideration becomes a gift. Section 18 (e) guides that the total value of the gift is included in business income and tax paid by the recipient (GVU) of the gift at a rate of 30%

$$=1,200,000,000 \times 30\% = 360,000,000.$$

Stamp duty

- Regardless of the mode of payment, the transferee must pay Stamp duty on the transfer of the business asset at a rate of 1.5% on the value of the property.

$$=1,200,000,000 \times 1.5\% = 18,000,000$$

Relevant case law – The Registered Trustees of Freemason Hall vs URA, TAT 2019

b)

Date	Purchases of '000 (VAT inclusive)	In Put VAT	Sale '000 (VAT exclusive)	Output VAT	Withheld VAT	working
1 st	50,000	6,864				
2 nd	-		11,000	1,980		
3 rd			5,000	900		
12 th			27,000	4,860		
14 th			10,000	1,800		
15 th	110,000	16,780		-		
16 th		12,966	65,000	11,700	780	13,000
20 th			17,000	3,060		
21 st			32,000	5,760		
22 nd	125,000	19,068	68,000	12,240	2,020	34,000
23 rd			52,000	9,360		
24 th			44,000	7,920		
28 th	130,000	19,831	10,000	1,800		

29 th			12,000	2,160		
30 th			15,000	2,700		
Total	560,000	84,661	368,000	66,240	2,820	

Total input VAT	84,661
Total Output VAT	66,240
Net VAT for the month of March	(18,421)
Advance payment (withheld)	<u>(2,820)</u>
VAT Refund Claimable from URA	21,241

Penalties relating to non-compliance below;

a) Maintaining proper records - Sec 65(5) VAT Act

A person who fails to maintain proper records in a tax period in accordance with the requirements of this Act is liable to pay a penal tax equal to double the amount of tax payable by the person for the tax period.

b) Failure to furnish returns - Sec 65(2) VAT Act

A person who fails to lodge a return within the required time under this Act is liable to pay a penal tax amounting to whichever is the greater of the following:

- two hundred thousand shillings; or
- an interest charge for the period the return is outstanding calculated according to the formula specified in the Fifth Schedule.

c) Failure to pay tax on time - Sec 65(3) VAT Act

A person who fails to pay the tax imposed under this Act on or before the due date is liable to pay a penal tax on the unpaid tax at a rate specified in the Fifth Schedule for the tax which is outstanding (2% per month compounded).

Solution 3.

a) Determination of the residence status of the individual

- treatment of a short term Has a permanent home in Uganda.
- Is an employee or official of the Government of Uganda posted abroad during this year of income
- Present in Uganda for the period of, or periods amounting to in aggregate to, 183 days or more in any twelve months period that commence or ends during the year of income

- During the year of income and in each of the two preceding years of income for the periods averaging to more than 122 days in each such year of income.
- Tax Treatment Difference:
- A resident is a person who is subject to tax in Uganda on all worldwide incomes
- While Non-residents pay taxes in Uganda only on income earned from sources within Uganda.
- They have different income thresholds e.g. employment income.
- Different WHT rates.
- Sec 21(M)(i) & 21(2)(a) provides the tax residence.

b) Partnership taxation

Details		Amount '000(Shs)	
Net profit		142,000	
Add back			
Interest on drawing (Denis)	10,000	10,000	
Partner's salaries			
David	24,500		
Danson	6,500		
Dennis	11,000	42,000	
Interest on capital			
David	28,000		
Danson	23,000		
Denis	18,000	69,000	
Total		263,000	
Taxable profits attributable to each partner			
Partnership chargeable income			263,000
Less:			
Partners' salaries	42,000		
Interest on capital	69,000	111,000	
Residual profit to be shared		152,000	
Partnership Distributable Profit			152,000

David	2	38,000	
Danson	2	38,000	
Dennis	4	76,000	
Total	8	152,000	

CHANGEABLE INCOME AND TAX PAYABLE				
Item / Partner	David	Danson	Denis	Total
Apportioned Tax Profit	38,000	38,000	76,000	152,000
Add: Interest on capital	28,000	23,000	18,000	69,000
Add: Partners salaries	24,500	6,500	11,000	42,000
Less: Interest on Drawings			(10,000)	
Partners' Changeable income	<u>90,500</u>	<u>67,500</u>	<u>95,000</u>	<u>263,000</u>
Tax rate 30%	25,974	19,074	27,324	72,372
300+0.3x(chargeable income less threshold)				

Assumption:

- All expenses related to business are therefore allowable as income tax deductions.

c) Taxation of small business taxpayers

Sn	Sales Category	Period				Total
		Quarter 1	Quarter 2	Quarter 3	Quarter 4	
1	Electronics	15,500,000	6,000,000	9,200,000	0.00	30,700,000
	Less returns	(5,000,000)				(5,000,000)
	Add: Personal Use 2 Phones	1,500,000				1,500,000
	Net sales for Electronics					27,200,000
2	Metal works	8,400,000	20,000,000	0.00	16,000,000	44,400,000
3	Hair and beauty salon.	8,000,000	5,400,000	4,800,000	10,500,000	28,700,000
						100,300,000

1	Item/ Business	Electronics	Metalworks	Hair and beauty salon.	Total
	Gross sale	27,200,000	44,400,000	28,700,000	100,300,000
	Tax bracket	✓ Sales between 20 to 30 m	✓ Sales between 30 to 50 m	✓ Sales between 20 to 30 m	✓
	Tax liability	✓ 80,000	✓ 200,000	✓ 80,000	✓ 360,000

Solution 4

(i)

- YES, he is required
- Section 93 ITA, stipulates cases where tax returns are not required as follows;
- Where the gross income of a tax payer for the year of income is exclusively from single employer. Sec 4 (4)
- When the tax imposed on non-resident was recovered in accordance with sec 83, 84, 85, and 86(i) and its final tax.
- A person whose total chargeable income for the year of income is subject to the zero rate of tax.
- Bashaija does not belong to any categories above and therefore should file returns to income tax.

(ii) Tax Obligation

a) Rental income

Location		Amount (Shs)
Gulu		45,000,000
Mbale		54,000,000
Arua		26,000,000
Masaka		14,000,000
Total		139,000,000
LESS: Rental income tax Threshold		2,820,000
Chargeable Income		136,180,000
	Tax rate is 12%	
Rental income Tax	12% x136,180,000	16,341,600

b) Investment in TB and Bond

Investment In TB and Bond Item	5 years Treasury bill (12%)	20 years Treasury bond (15.6%)	Total
Amount invested	200,000,000	150,0,000	350,000,000
Annual interest	12% X 200,000,000	15.6% X 150,000,000	
Interest earned	24,000,000	23,400,000	47,400,000
WHT	20%	10%	
	4,800,000	2,340,000	7,140,000
Net received	19,200,000	21,060,000	40,260,000

c) Investment in shares.

Tax on dividends is 10% for companies listed on the stock exchange market (Sect 118 ITA)

No. of shares 2,500

Dividend per share 1,000

Dividend declared $2,500 \times 1,000 = 2,500,000$

WHT at 10 % = $2,500,000 \times 10\%$

= 250,000

d) Tax on brokerage income

Month's	Amount (Shs)
November	3,000,000
December	1,800,000
April	1,560,000
June	<u>4,920,000</u>
Total	✓ 11,280,000

Annual threshold 4,920,000

Tax ✓ $300,000 + 30\% (11,280,000 - 4,920,000)$

Tax liability ✓ 2,208,000

Due Dates

- Income tax each year not later than 6 months after year-end
- Rental not later than 6 months from 30/06/2023

- Interest on Treasury Bills and bonds, bonds. This is a final tax by an individual and not aggregated by any other taxable income as per Sec. 112 ITA provisions.
- Provisional returns by; last day of the 6th and 12th month period.

Solution 5.

Rights of taxpayer

- Reimbursement and refund of the duly paid amount. SEC 42,43,44 VAT ACT
- Right to offset their debits with credits.
- Right to amend the tax returns
- Right to object to the assessment sec 24TPCA
- Right to appeal against the objection decision Sec 25 TPCA.
- Right to understand the tax computation by the tax officer
- Right to information regarding their tax matters.
-

Causes of tax evasion in developing countries like Uganda

- poor governance/tax laws
- Inconsistence of the application of the tax laws.
- Poor record keeping by the taxpayer.
- poor accountability and transparency
- inadequate human resource capacity
- limited data about taxpayers
- ICT Governance and infrastructure deficiencies
- Equitability of tax system. It discourages tax compliance

How to reduce tax evasion rate in Uganda:

- ✓ Massive taxpayer registration.
- Taxpayer education service and communication
- Enforcement of timely and accurate filing
- Intensification of tax audits.
- Investigation and enforcement
- Acceleration of dispute resolution
- Improvements in processing of tax refunds.

TEST PAPER 11 SOLUTIONS

CTA 3 - DECEMBER 2024

SOLUTION 1

(a) Yvonne's chargeable income for the year ending 31 December 2023.

Detail	Note	Computation	Chargeable Income	Remark
Basic salary	3	$4,000,000 \times 12$	48,000,000	
Excess facilitation	4 (a)	$(500,000 - 200,000) \times 7 \times 3$	6,300,000	
Medical expenses	4 (b)	10,000,000		Exempt
Leave pay	4 (c)	$4,000,000 \times 12 \times 50\%$	24,000,000	Leave pay
Management charge	4 (d)		28,000,000	
Mileage	4(e)(i)	$(1,500 \times 36,000) \times 50\%$	27,000,000	Mileage
	4(e)(ii)	$(5,000 \times 20) \times 52 \text{ weeks} \times 50\%$	2,600,000	Fuel
Repair expenses	4 (f)	$6,000,000 \times 50\%$	3,000,000	
Airtime	4 (g)	$(100,000 \times 2 \times 10) \times 10\%$	200,000	
Life insurance	4 (h)			Exempt
Gratuity	4 (i)	$4,000,000 \times 12 \times 60\%$		Not paid within the year
Loan benefit	4 (j)	$(17\% - 12\%) \times 75,000,000 \times 0.5$	1,875,000	
Bonus	4(k)(i)	$4,000,000 + 3,600,000$	7,600,000	
	4(k)(ii)	4,500,000		Not paid
Housing Allowance		$4,000,000 \times 12 \times 1\% \times 4$	1,920,000	
Total Chargeable income			150,495,000	

Tax for the year =

47,022,000

The due date for filing tax returns and payment is by the 15th day of the following month following the month of payment/withholding of PAYE by the employer

(b) Explain the following in relation to the ITA and TPCA Provisions

(i) Penalties related to taxation of employment income include:

- ✓ **Late Filing Penalty:** If employers fail to submit the required tax returns within the stipulated time, they may incur a penalty. The amount of the penalty depends on the delay period.
- ✓ **Failure to File Penalty:** If employers fail to furnish the required tax returns to which the offense relates commits another offense and is liable on conviction to a fine not exceeding 100 currency points
- ✓ **Underpayment Penalty:** If an employer withholds less tax than required from an employee's income, they may face penalties.
- ✓ **Interest on Late Payment:** If an employer delays paying the withheld tax, they may be liable for interest charges.
- ✓ **Failure to Withhold Penalty:** If an employer fails to withhold tax from an employee's income, they can be penalized. Proper compliance with withholding tax obligations is crucial.
- ✓ **Non-Compliance Penalties:** Employers who engage in tax evasion, provide false information, or intentionally avoid their tax obligations.

(ii) PAYE System:

For an individual in employment, the PAYE system operates as follows:

- The employer deducts tax in accordance with the different PAYE brackets from the pay cheque of the employee before the payment in line with Sec 116 and the Third Schedule of the Income Tax Act.
- The deducted tax is remitted to tax authority by the by every 15th day of the month following month of payment or month of withholding the PAYE.
- PAYE is therefore a system of withholding tax applicable to employment income of an individual in employment whereby tax is deducted at source by the employer on all employees per month where applicable.
- PAYE returns must be filed by every 15th day of the month following month of payment or month of withholding the PAYE indicating the different employees and their salary declared for verification purpose by URA.

For an individual in business, the PAYE system operates as follows:

- PAYE is applied on the chargeable income earned by an individual in business for a year of income using the appropriate rates in the Third Schedule of the ITA.

For an individual in partnership, the PAYE system operates as follows:

- PAYE is applicable when determining tax payable by the partners for a year of income using the appropriate rates in the Third Schedule of the ITA.

SOLUTION 2

i) TAXPAYERS' RIGHTS

The URA Taxpayer charter spells out the rights and obligations of the taxpayer, guides URA in upholding these rights and facilitates the taxpayer to meet his or her obligations

Taxpayer's rights are not specifically provided in the Uganda Constitution of 1995.

They are implied and based on the constitutional provisions with respect to general rights. These rights tend to occur at an interface between the tax authorities and taxpayers and below are some of them:

- ✓ **Right to certainty:** The right to certainty is a primary legal right. It requires that taxpayers' rights and obligations be clearly stated by law. That is tax laws and obligations must be brought to the attention of taxpayers
- ✓ **Right to equality:** The Constitution of Uganda provides that all persons are equal before and under the law and should enjoy equal protection of the law.
- ✓ **Right to pay no more than the correct amount of tax:** URA is required to ensure that each taxpayer's tax payments are accounted for accurately at all times, tax records are maintained up to date and tax credits are processed promptly and properly accounted for.
- ✓ **Right to tax refunds (ITA 113):** The Income Tax Act gives a right to a taxpayer to apply to the CG for tax refund in respect of any year of income of any tax paid by withholding, instalments or excess payment of tax. URA is required to process tax refunds within six months (Sec 113(4c) from the date of the application.
- ✓ **Right to privacy (Sec 47 of TPCA):** The Constitution of Uganda 1995 (Article 27) provides that no person shall be subjected to unlawful search of the person, home or other property of that person, or unlawful entry by others of the premises of the person. It further provides that no person shall be subjected to interference with the privacy of that person's home, correspondence, communication or other property.
- ✓ **Right to facilitation of tax compliance:** The Taxpayer's Charter requires URA to facilitate the taxpayer in order for him or her to comply with tax obligations. URA officials are supposed to exercise professionalism in the administration of all taxes including income tax. They should provide taxpayers and their authorised agents with clear, precise and timely information;
- ✓ Right of access to tax information
- ✓ Right to representation (TPCA Sec 14)
- ✓ Right to object to a tax decision (TPCA Secs 24)
- ✓ Right to appeal against a tax decision (TPCA Sec 25)

ii) CHALLENGES ASSOCIATED WITH THE ENFORCEMENT OF TAXPAYERS' RIGHTS

- ✓ **Lack of professional experts**

Since tax law is a developing area in Uganda, few experts on tax matters exist. As a result, taxpayers do not get timely advice on their tax obligations and do not know when and how their rights are violated.

✓ **Ignorance of Taxpayers about their rights**

Most taxpayers are unaware of their tax obligations and rights due to a lack of massive tax education. Most taxpayers are not aware of their tax rights and obligations.

✓ Inefficient Investigation Procedures

✓ Corruption and preferential treatment among taxpayers.

✓ Limited access to tax information

iii) THE IMPORTANCE OF TAT IN ENFORCING TAXPAYERS' RIGHTS

- TAT is a tax court, which gives the taxpayer an opportunity to resolve tax disputes with URA on matters arising under the taxing Acts
- TAT protects the taxpayer from the possible unfair assessment and collection methods and procedures by URA in their effort to maximize revenue collection.
- TAT is empowered to review any tax decision of URA hence protecting taxpayers from unfair tax decisions by URA Officials.
- TAT being an independent body outside URA, its decisions are neutral and enables taxpayer an independent hearing of the matter and make unbiased opinion accordingly.
- The proceedings before the Tribunal are conducted with as little formality and technicality as possible
- TAT enforces equality in tax administration by the tax authority.
- TAT's decisions have the effect as decisions of a court and are enforceable as if it were a decision of a court.
- The decisions of the TAT are appealable to the High Court but only on questions of law
- TAT gives an opportunity for unbiased interpretation of the law to protect taxpayer's right.
- TAT's decisions have acted as a basis for tax law amendments.

iv) THE DISTINCTION BETWEEN TAX BASE AND TAX REVENUE:

Tax Base:

- ✓ **Refers** to the **total value of assets, income, and economic activity** that is subject to taxation by a government or tax authorities.
- ✓ It encompasses various components, such as individual income, corporate income, property, capital gains, and sales.

Tax Revenue:

- ✓ **Tax revenue** refers to the **actual amount of money collected by the government from taxpayers**.
- ✓ It results from the application of tax rates to the tax base.
- ✓ Different types of taxes contribute to overall tax revenue, including individual income taxes, business and corporate taxes, excise taxes, and customs duties.
- ✓ Therefore the **tax base** represents what gets taxed, while **tax revenue** is the actual amount collected by the government based on that tax base.

SOLUTION 3

1. WHT ON TBS

- ✓ TB > 10 Years, WHT @ 10% y
- ✓ TB < 10 Years, WHT @ 20% y

WHT ON TB	Investment	Annual return
20 Year TB @ 18%	200,000,000	36,000,000
WHT on 20-year TB @ 10%	36,000,000 X 10% y	3,600,000 y
5 Year TB @ 13.5%	50,000,000	3,375,000 y
WHT on 5 year TB @ 20%	6,750,000 X 20% y	675,000 y
Total Tax on TBs		4,275,000 y

Note: 5 year TB had run for only six months

2. TAX WITHHELD ON 10TH AUGUST 2023, FOR WINNING BETTING

Section 118c a person who makes a payment for winning of betting shall withhold tax on the gross amount of the payment at a rate of 15%. Y y

Payment received	6, 800,000
Gross amount	6,800,000/(100-15) % or 6,800,00/(0.85)
	8,000,000
Tax withheld	1,200,000

3. WHT ON PAYMENT OF DIVIDENDS TO RESIDENT SHAREHOLDERS

Section 118: A resident company listed on the Uganda Stock exchange which pays dividends to a resident shareholder shall withhold tax on the gross amount of the payment at a rate of 10%.

- ✓ The dividend declared 80 shillings per share.
- ✓ He holds 200,000 shares
- ✓ Total declared $200,000 \times 80 = 16,000,000$ y
- ✓ WHT tax = $16,000,000 \times 10\% = 1,600,000$.

However, by close of the year, the dividend was not yet paid therefore no WHT till payment.

4. TAXATION OF INCOME EARNED BY CHARLIE FROM MOMO:

The income being earned by Charlie is considered to be commercial rental income which is covered under Section 5 of the Income Tax Act, Cap 340. y

Section 5 provides that; tax shall be charged for the year of income and is imposed on every person who has rental income for the year of income. The tax payable by Charlie shall be calculated by applying the relevant rates of tax determined under section 6(2) to the rental income derived by the individual for the year, in this case being 12% on the chargeable rental ome for the year as prescribed in Part VI of the Third Schedule to the Act.

Rental Income

Monthly rate $15,000,000 \times 12 \text{ months} = 180,000,000$

The tax rate on individuals is 12% on gross income, no deduction is allowed except the annual non-taxable threshold of 2,820,000

Also, it's important to note that the income earned by Charlie is commercial rental income and since the annual amount is above the VAT threshold, there should be VAT charged. However, the income earned by Momo on tourism activities is exempt from VAT.

Therefore, all the expenditures incurred by Charlie towards earning the rental income from Momo is ignored and we only allow him the annual threshold of Shs. 2,820,000.

Computation of rental tax payable by Charlie for the year

Monthly Rental Income	15,000,000
Total Annual Rental Income	180,000,000
Less annual threshold	(2,820,000)
Taxable Rental Income	177,180,000
Rental Tax Payable	21,261,600

Computation of VAT payable by Charlie on commercial rental income earned:

Monthly Rental Income	15,000,000
Total Annual Rental Income	180,000,000
VAT payable @ 18%	32,400,000

5. PAYMENT OF TAX ON RENTAL INCOME FROM THE APARTMENTS.

Section 5, tax shall be charged for the year of income and is imposed on every person who has rental income for the year of income. The tax payable by an individual person is calculated by applying a tax rate of 12% on the chargeable rental income for the year. γ γ

This means that all the expenditures incurred by Charlie towards earning the rental income from the 3 apartments in Bondo, a Kampala suburb will be ignored and we only allow him the annual threshold of Shs. 2,820,000. γ

Monthly Rental Income	18,000,000
Total Annual Rental Income	216,000,000
Subtract 2 rooms not in use	(28,800,000)
Less annual threshold	(2,820,000)
Taxable Rental Income	184,380,000
Rental Tax Payable	22,125,600

Also note that since the 3 apartments are used for residential purposes, though Charlie's annual total rental income is above the VAT threshold, there will be no VAT charged since residential commercial rent is exempt for VAT purposes as per the VAT Act 2nd Schedule.

CONCEPT OF WHT AS FINAL TAX

- ✓ WHT is money withheld/retained at source before payment is done. The withheld tax is supposed to be remitted to the tax authority by the due date. The due date and tax rates vary depending on the nature of the tax.

Examples where WHT is treated as final tax.

- ✓ Payment of interest on TB or other securities by BOU
- ✓ Payment of interest by a financial institution to a resident individual other than in the capacity of a trustee, resident retirement fund or to the exempt organization.
- ✓ Payment of commission for airtime distribution or provision of mobile money services to a resident individual.
- ✓ Payment of dividend to resident individual.
- ✓ Payment to an employee who is employed by a single employer who withholds tax (PAYE)

Tax Implication of WHT as a final tax:

Where WHT is the final tax there is;

- ✓ No further tax liability is imposed upon the taxpayer in respect to the income to which the tax relates.
- ✓ The income received is not aggregated with other income of the tax payer for the purpose of ascertaining chargeable income.
- ✓ No deduction is allowed for any expenditure or losses incurred in deriving the income
- ✓ No refund is made in respect of the income.

SOLUTION 1

(a) Computation of capital gain or loss on asset disposal and tax thereafter:

Details	Land
At the acquisition July 2021	400,000,000
Additions	
Title processing	5,000,000
Land Surveying	10,000,000
Squatter reallocation	45,000,000
Total cost June 2022	460,000,000
Cost Base at 31/12/2023	460,000,000
Proceeds from Sale	540,000,000
Capital gain	80,000,000
Details	Building
At acquisition July 2021	800,000,000
Total cost June 2022	800,000,000
Capital allowances	
IBD rate	5%
IBD	40,000,000
WDV July 2022	760,000,000

Addition (extension)	450,000,000
Total	1,210,000,000
Capital allowances	
IBD	62,500,000
WDV July 23	1,147,500,000
Cost Base at 31/12/2023	1,147,500,000
Proceeds from Sale	1,200,000,000
Capital gain	52,500,000
Details	Trailer
At acquisition July 2021	600,000,000
Capital allowances	
W & T Rate	20%
W & T	120,000,000
WDV July 2022	480,000,000
W & T	96,000,000
WDV July 23	384,000,000
Cost Base at 31/12/2023	384,000,000
Proceeds from Sale	250,000,000
Capital gain	(134,000,000)
Details	Tourist Van

At acquisition July 2021	75,000,000
Additions	
W & T	15,000,000.0
Total cost June 2022	60,000,000
Capital allowances	
W & T Rate	20%
W & T	12,000,000
WDV July 2022	48,000,000
W & T	9,600,000
Cost Base at 31/12/2023	38,400,000
Proceeds from Sale	20,000,000
Capital gain	(18,400,000)

Chargeable Income

Balancing charge	132,500,000
	-
Balancing deduction	152,400,000
Capital loss	(19,900,000)

NB: For details, refer to Excel workings.

(b) **Factors the taxpayer should consider to determine whether capital gain or loss is taxable or not under the Income Tax Act.**

- ✓ A Taxpayer should identify the transaction or event giving rise to the capital gain.
- ✓ The taxpayer then calculates the capital gain or loss arising by comparing the proceeds from sale and cost base of the asset.
- ✓ The taxpayer considers whether any concessions like exceptions and exemptions that may apply to the event.

- ✓ Determine the amount of the net gain or loss to be included in or deducted from business income.

(c) Circumstances under which a taxpayer is deemed to have disposed of assets.

- ✓ Sold, exchanged, redeemed, or distributed by the payer
- ✓ Transferred by the taxpayer by way of a gift
- ✓ Destroyed or lost
- ✓ Conversion of an asset from taxable to non-taxable use
- ✓ Conversion of an asset from non-taxable to taxable use
- ✓ A resident person upon becoming non-resident
- ✓ A non-resident person upon becoming resident

(d) Factors affecting Tax Administration in Uganda

- ✓ Small size of the economy hence low tax base
- ✓ High level of unemployment and under-employment
- ✓ Inadequate logistics to enforce the law.
- ✓ High level of illiteracy that results into poor record-keeping
- ✓ Inadequate taxpayer education
- ✓ Poor ethical standards of officers that result into corruption.
- ✓ Professional standards of the officer's inadequate knowledge in areas like transfer pricing.
- ✓ Adoption of modern technology in tax administration that do not match the economy e.g. most places don't have access to the internet.
- ✓ Political interference
- ✓ Big size of the informal sector
- ✓ Poor tax-paying culture
- ✓ Unfair distribution of income.

SOLUTION 5

- (a) Calculate VAT payable/ claimable by MEL for the month of May 2024 and advise the Director of MEL on the tax payment due date.

OUTPUT VAT	Sales Amount	Classification	Output VAT
Bad debt recovered	4,500,000	Standard	810,000
Sales to walk in customers	60,000,000	Standard	10,800,000
Exports to DRC	82,000,000	Zero	0
Export to Southern Sudan	43,000,000	Zero	0
Sale of exempt goods	8,000,000	Exempt	-
Sale of zero-rated goods	12,000,000	Zero	0
Sales to government ministries	28,000,000	Standard	5,040,000
Total	237,500,000		16,650,000
Total Taxable supplies	229,500,000		
INPUT VAT			
Bought assorted fresh fruits	16,000,000	Exempt	-
Sanitary towels and tampons	7,000,000	Zero	0
Rent payment	12,000,000	Standard	2,160,000
Fuel	7,600,000	Exempt	-
Repair of cars	2,800,000	Standard	504,000
Purchased general stock	120,000,000	Standard	21,600,000
Office cleaning materials. MD took 50% for personal use	20,000,000	Standard	1,800,000
Paid salaries	24,000,000	Out of scope	-
Bought hot plate	800,000	Standard	144,000
Bought furniture	4,000,000	Standard	720,000
Paid for telephone invoices	5,400,000	Standard	874,800
Transportation of goods DRC	4,800,000	Zero	0
Transportation of goods to Southern Sudan	5,200,000	Zero	0
Return of standard rate goods that were sold in April 2024	7,200,000	Standard	1,296,000
Total Input VAT			29,098,800

Calculation of VAT Claimable			
Output VAT			16,650,000
Input VAT			29,098,800
VAT Claimable for the period			(12,448,800)
<i>Standard Method of Apportionment Testing</i>			
A X B/C			
A = Total input tax in the period			29,098,800
B = Total taxable sales in the period			229,500,000
C = Total sales (both taxable + exempt)			237,500,000
B/C =	97%		

(b) The distinction between place of incorporation and place of management as applied in International Taxation.

- ✓ **The place of incorporation** refers to the location where a company is legally registered. It is the principal address of the corporation in the state or country where it is incorporated.
When a company is formed, it must choose a specific jurisdiction for its incorporation. This decision determines the legal framework under which the company operates.
The articles of incorporation contain essential details about the company, including its place of incorporation.
- ✓ The place of management is where key management and commercial decisions necessary for the conduct of the corporation's business are made. Unlike the place of incorporation, which is a legal concept, the place of management focuses on practical aspects.
- ✓ A corporation's residency for tax purposes is often determined by its place of management. If a foreign corporation's place of effective management is in a particular country, it may be considered a tax resident of that country.
- ✓ The location of central management control plays a crucial role in determining corporate residency. Even if a company is incorporated elsewhere, it can be deemed a resident where its place of effective management is situated.
- ✓ Therefore place of incorporation is a legal address, the place of management reflects where critical business decisions occur

(c) Cash basis and invoice basis methods of accounting for VAT clearly explaining the merits and merits of each.

Section 26 of VAT Act.

Cash basis:

- ✓ **Cash basis means** that both Input and output VAT is paid or claimed when cash is paid or received.
- ✓ This method is used on application to CG
- ✓ It applies to business with annual turnover not exceeding Ushs 500m

Advantages

- ✓ Output is payable only on cash sales/receipt hence taxpayer maintains sound cash flow position
- ✓ Where customers fail to pay, the taxpayer never pays tax to URA

Disadvantages

- ✓ Input is not claimed until payment is done.

Invoice basis:

- ✓ This is the default method of accounting for VAT. Tax is accounted for in the period it relates to whether cash has been received/paid or not.

Advantages

- ✓ Taxpayer can claim input tax before payment is made. This improves businesses' cash flow.

Disadvantages

- ✓ Output payment made before receipt from customers affects cash flow.
- ✓ If a customer fails to pay and the debt becomes bad, it takes a longer time to claim relief from URA

URA may not grant relief hence a loss to the business.

NB: Only taxpayers with turnover not exceeding Shs. 500 million can apply to the commissioner to use a cash basis to account for their transactions.

(d) Explain the circumstances under which VAT adjustments apply when filing a return.

VAT Act Section 22 – VAT Adjustments:

- The supply is cancelled;
- The nature of the supply has been fundamentally varied or altered;
- The previously agreed consideration for the supply has been altered by agreement with the recipient of the supply, whether due to an offer of a discount or for any other reason; or

- The goods or services or part of the goods or services have been returned to the supplier, and the taxable person making the supply has –
- Provide a tax invoice in relation to the supply and the amount shown in the invoice as the tax charged on the supply is incorrect as a result of the occurrence of any one or more of the above-mentioned events; or
- Filed a return for the tax period in which the supply occurred and has accounted for an incorrect amount of output tax on that supply as a result of the occurrence of any one or more of the above-mentioned events.