



# UGANDA MANAGEMENT INSTITUTE

POSTGRADUATE DIPLOMA IN BUSINESS ADMINISTRATION (DBA) (WKD)

SECOND SEMESTER EXAMS 2017/2018

MODULE: BUSINESS TAXATION

Date: Wednesday 3 October 2018

Time: 09.00 AM - 12.00 NOON

## INSTRUCTIONS

1. Answer FOUR Questions.
2. Question ONE of Section A is compulsory and carries 40 marks.
3. Answer any other THREE Questions from Section B. Each question carries 20 marks.
4. Write clearly and legibly.
5. Do not write anything on the question paper.
6. Do not take Mobile Phones into the examination room.
7. Follow the instructions of the Examination Supervisor.
8. Indicate questions answered on the Answer Sheet in the column of Questions.

This paper consists of 9 printed pages.

***-GOOD LUCK-***

**SECTION A:****COMPULSORY****(40 MARKS)****QUESTION ONE****a) Case Study****Anger at Uganda's tax on social media by BBC, 2 July 2018**

Parliament approved the tax in May after President Yoweri Museveni had pushed for the changes, arguing that social media encouraged gossip. But some argue that it is a way of restricting critical comments about the government.

**Why has the government done this?**

President Museveni has spoken out about people using social media to spread gossip which he described as "opinions, prejudices, insults [and] friendly chats". In a letter to the finance minister in March, Mr. Museveni said a social media tax could boost government revenue, and so reduce borrowing and aid money. He added that he did not back a tax on the internet in general as this would affect its use for "educational, research or reference purposes".

Uganda's ICT Minister Frank Tumwebaze has also defended the tax, saying that the infrastructure". What has the reaction been?

Many say the tax is politically useful as social media is often used for critical commentary about the government, reports the BBC's Catherine Byaruhanga in the capital, Kampala.

People on Twitter are complaining that their freedom of speech is being restricted.

The government has form in this area. In February 2016, during the presidential and parliamentary elections, it cut off access to social media for security reasons. But critics argued that it restricted the ability to monitor the vote.

Ugandan internet rights activist Juliet Nanfuka is concerned that the government's move could be copied elsewhere. "When one country does one thing other countries follow suit," she says.

**Can Ugandans afford it?**

Two hundred Uganda shillings may not sound a lot, but activists argue that it represents a significant slice of what poorer people are paying for getting online.

Social media mobile phone bundles, costing 500 or 1,000 shillings have become increasingly popular, so the new tax can represent up to 40% of that cost.

As a result, some companies are withdrawing these offers, according to Ms Nanfuka.

Also, some are arguing that it is not the amount that the government is asking for but rather the principle of taxing social media that is the problem.

### **How do you pay?**

The tax targets the use of what are described as Over The Top (OTT) services, which include Facebook, WhatsApp and Twitter. These are services which offer "voice and messaging over the internet", according to a statement from the telecom companies. Users are asked to make an electronic payment before they can access the sites.

### **Are people trying to avoid the tax?**

Some Ugandans are using a VPN connection, which makes it appear as if you're accessing the internet from another country, where the tax is not imposed. But this can use more data and so could end up costing more money than the tax itself. BestVPN.com, which advises people on what services to use, has reported a 1,600% increase in traffic to its website from Uganda on the day that the tax was introduced.

### **Required:**

- i. Discuss the canons of a good tax regime that would have avoided the backlash that the social media and the mobile money tax created. **(10 Marks)**
  - ii. How is taxation different from other forms of payments that tax payers make to government? **(6 Marks)**
  - iii. Discuss any four major tasks that are included in tax administration. **(4 Marks)**
- b) Bismillah Uganda Limited (BUL) a subsidiary company of Bismillah International (BI) which is a multinational company with a number of subsidiaries across the world with its headquarters in Netherlands. Bosco Katuntu a Ugandan national, was hired as an expert to head the Finance and Administration Department of Bismillah Uganda Limited with their office situated on Plot 113, Upper Kololo. Bosco's appointment was effective 1<sup>st</sup> July 2016 for a three year term contract. In July 2016 as part of his entitlements he is availed a vehicle for use on both private and official duties. In most cases Bosco actually spends his weekends and some leave days in his home district of Fort portal in Western Uganda where he uses the vehicle to be with his close friends and family members. The vehicle is a brand new V8 Land Cruiser purchased from Toyota Uganda at a cost of Shs. 170,000,000/ in July 2016. The company charges him a monthly fee of Shs. 500,000/ for the use of the vehicle.

### **Bosco earned the following income/benefits during the year ended 30<sup>th</sup> June 2017:**

- (i) A monthly basic pay of Shs. 9,000,000/.
- (ii) A monthly entertainment allowance of Shs. 1,000,000/.
- (iii) A monthly travel allowance of Shs. 1,000,000/ for his spouse.

- (iv) He is also provided with a residential house in Nakasero. The house is part of the company houses reserved for senior managers and heads of departments. The house has a monthly market rent of US Dollars 500 but Bosco is required to make a monthly contribution of Shs. 50,000/ for the house.
- (v) He was reimbursed Shs. 1,000,000/ being transport cost incurred while on official duty monitoring some office projects upcountry in December, 2016.
- (vi) The company also paid him Shs. 1,000,000/ in December 2016 being reimbursement for his medical bills incurred while monitoring these projects.
- (vii) The employer made a monthly NSSF contribution of Shs. 900,000 towards his retirement benefit scheme during the year (NSSF employer contribution).
- (viii) The employer grants a benefit to senior employees including Bosco in the form of; chocolates, sweets, etc worth Shs. 9,800/ on a monthly basis throughout the year.
- (ix) The company pays his housekeeper Shs. 250,000/ per month.
- (x) The company has a policy of encouraging Staff especially Senior Management like Bosco to acquire loans at a lower rate to enable them acquire property. Bosco was thus given Shs. 50,000,000/ at an interest rate of 5% per annum which he fully paid back by the end of June 2017 (12 Months loan).
- (xi) The company also pays his club membership in Kampala Club to a tune of Shs. 200,000/ per month.
- (xii) Because of the insecurity in Kampala the company paid for a security guard for his home provided by Hash Security Group at Shs. 800,000/ per month.
- (xiii) He also received medical allowance of Shs. 300,000 per month.
- (xiv) Every month the company pays Bosco's life insurance premium amounting to Shs. 500,000/ to UAP Life Assurance Group Limited.

Bosco, completed most of his education from abroad and is not well versed with the Uganda's Tax Laws. He has approached BSM Consulting Group to help him comply with his tax obligations by determining his taxable income and tax payable for the year ended 30<sup>th</sup> June 2017 and provide any tax advise where necessary.

**REQUIRED:**

Assume you are a URA Accredited Tax Agent under BSM Consulting Group:

- a) Compute Bosco's gross employment income for the year ended 30<sup>th</sup> June 2017. **(16 marks)**
- b) Determine Bosco's tax liability for the year ended 30<sup>th</sup> June 2017. **(3 marks)**
- c) With the aid of Statute Law and Case Laws, give reasons for exclusion of the various benefits received by Bosco if any. **(1 marks)**

**Assume the following:**

- Exchange rate of Shs. 3,800/ to 1\$.
- Bank of Uganda average ruling rate for the year ended 30<sup>th</sup> June 2017 is 10%.

**Total (20 marks)****QUESTION TWO**

- a) Define property income and list what is included as property income as per the income tax act cap 340 of the laws of Uganda. **(4 marks)**
- b) Bosco Kataala has got seven (7) residential houses and each is rented out at 500,000/- per month. During the year ended 31/12/2017, apart from one house which was vacant for two month and another house which is near UMI that was being occupied by his children who were undertaking post graduate diplomas rent free for six months during the year. The rest of the houses had full occupancy. In managing these houses, he incurred costs that included advertising for vacant houses, 800,000/- repainting some of the houses, 1,500,000/-. Security expenses 1,300,000/-.

**Required**

- (i) Calculate Bosco Kataala's rental income for the year ended 31/12/2017. **(4 marks)**
- (ii) Calculate tax payable by Bosco Kataala for the year ended 31/12/2017. **(4 marks)**
- (iii) Assuming Bosco Kataala manages his houses under a company, what will be the tax payable? **(4 marks)**
- (iv) When will Kataala be required to file and pay his tax? **(2 marks)**
- (v) Assuming he does not file his returns, what is URA likely to do? **(2 marks)**

**QUESTION THREE**

Red Boom Ltd is a company located in Arua Uganda which is over 450 KM from Kampala the capital city. Red Boom is in the manufacturing sector targeting the markets of DR Congo and South Sudan. Below is its statement of profit or loss for the year ended 30<sup>th</sup> June 2017

**RED BOOM LTD****STATEMENT OF PROFIT OR LOSS**

FOR THE YEAR ENDED 30/06/2017

	Notes	30 June 2017 <u>(Shs '000)</u>
Revenue		7,431,537
Cost of sales	(a)	<u>(14,106,635)</u>
Gross profit		3,324,902
Other income		363,167
Administrative expenses	(b)	(1,077,085)
Selling and distribution costs	(c)	(87,708)
Other Operating expenses	(d)	<u>(965,608)</u>
Profit from Operations		1,557,668
Finance costs	(e)	<u>(204,288)</u>
Profit before income tax		1,353,380
Income tax expense		<u>(406,014)</u>
Profit for the Period		<u>947,366</u>

**Notes to the Accounts**

a) The cost of sales included the book value of a factory machine which was disposed off at 20 million and depreciation for factory machinery of 240 millions

b) Administration costs included a return air ticket for the son of the managing director for his studies in India of 4 million. He has never been an employee of the company, end of year staff party which cost the company 33 million. There was also a donation to the Area MP's victory party of 3.5 million. Depreciation for office furniture and other equipment at 21 million.

- c) Selling and distribution included fines of delivery trucks for overloading of 7 million for the entire year.
- d) Operating costs included. Included a party for all support companies of Red Boom of 17 million
- e) Finance costs included interest on a loan taken by the company to buy additional machinery.

### **Additional Notes**

At the beginning of the year the company had the following opening balances for assets

Class I 89 millions

Class II 1.5 billion

Class III 950 million

Class IV 320 million

Additions during the year

Class I 15 million

Class II 298 million

Class III 72 Million

All additions did not include furniture nor vehicles. There was a disposal of machinery in class II only of 20 million

### **Required**

Calculate Red Boom Ltd's tax payable as per the ITA of Uganda CAP 340 for the year ended 30/06/2017 **(20 Marks)**

### **QUESTION FOUR**

KL Ltd, a company involved in importation of goods, recently received a warning letter from a Tax Authority, regarding a mix-up of both its inputs and output tax in their VAT Tax returns, as well as inability to meet other tax obligations.

### **Required.**

- a) Using examples of transactions of any company of your choice provide a write up to the MD of the company clarifying on the input and output tax in filing VAT returns. **(12 Marks)**

- b) Clarify to the MD the reasons why other than VAT, the company has to pay other forms of tax on their imported goods (make reference to the relevant tax laws).

**(8 Marks)**

**QUESTION FIVE**

- a) Differentiate between a small/presumptive tax payer and other forms of tax payers.

**(3 marks)**

- b) Give four (4) advantages of being a presumptive tax payer.

**(4 marks)**

- c) Explain five (5) challenges that URA faces in collecting taxes from small tax payers.

**(5 marks)**

- d) Maama Phiona has got several businesses that are located with the divisions of Kampala. During the year ended 31/12/2017 below is how her businesses performed

Location	Type /Nature of business	Income during the year
Kansanga	Salon	20,000,000/-
Makindye	Restaurant	45,200,000/-
Kawempe	Carpentry workshop	29,000,000/-
Total		<b>94,200,000/-</b>

The following information is also available in the second schedule of the ITA CAP 340

**Kampala City and Divisions of Kampala**

Business Trade	Turnover above 35m but not exceeding 50 m	Turnover above 20m but not exceeding 35 m	Turnover above 10m but not exceeding 20 m
General Trade	500,000	400,000	250,000
Carpentry/metal workshops	500,000	400,000	250,000
Garages(Motor vehicle repairs)	550,000	450,000	300,000
Hair and Beauty/Salons	550,000	400,000	300,000



Restaurants or Bars	550,000	450,000	300,000
Drug shops	500,000	350,000	250,000
Others	450,000	300,000	200,000

### Required

Calculate Maama Phiona's tax payable for all her businesses for the year ended 31/12/2017. **(8 Marks)**

### QUESTION SIX

- (a) Explain the term "eTax System" as used by Uganda Revenue Authority. **(2 Marks)**
- (b) Explain at least five (5) advantages (benefits) and four (4) challenges (disadvantages) of using eTax system. **(9 Marks)**
- (c) Explain at least eight "E-Services" available on the eTax system that taxpayers can use while interacting with revenue. **(8 Marks)**
- (d) What do you understand by the term "Taxpayer Identification Number?" **(1 Marks)**

**Total (20 marks)**

**END**