



# UGANDA MANAGEMENT INSTITUTE

POSTGRADUATE DIPLOMA IN BUSINESS ADMINISTRATION  
(DBA) WKD

**SECOND SEMESTER EXAMS 2015/2016**

**MODULE: BUSINESS TAXATION**

**Date: Wednesday 5 October 2016**

**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 8 printed pages

**SECTION A:****COMPULSORY****40 MARKS****QUESTION ONE****Case Study: Uganda: Judges Sued for Not Paying Taxes (Observer 16<sup>th</sup> September 2016)**

For 11 years, judicial officials have not paid tax on their salaries and emoluments - and Robert Ssefunka, a Ugandan, is challenging that practice through a constitutional petition.

Filed on September 9, he contends that shielding judicial officers from paying tax on their salary, allowance or income generated in the exercise of their duties contravenes Article 21(1), (2) and (3) of the constitution.

Ssenfuka's petition, in which the attorney general and Uganda Revenue Authority (URA) are the respondents, is a direct challenge to a 2008 Supreme court judgment that shielded judicial officers from taxes.

In 2008, Justices Benjamin Odoki, John Wilson Tsekooko, Joseph Mulenga, George Wilson Kanyeihamba, Bart Katureebe, Galdino Okello and Frederick Egonda-Ntende ruled that: "It would be unconscionable and contrary to the spirit of provisions of Article 128 (7) of the Constitution to remove the tax exemption."

The ruling followed a petition filed by judicial officers led by Justice Wilson Masalu Musene. The judicial officers argued then that the application of the Income Tax Act to their salaries was inconsistent with Article 128(7) of the Constitution. The article provides that the salary or any other benefit received by a judicial officer is not to be varied to his or her disadvantage.

**NEW PETITION**

But Ssenfuka argues that levying a tax on the judicial officers' emoluments is not in any way detrimental to them. Ssenfuka claims that he has read the Constitution and has not found any provision that expressly exempts judicial officers from paying tax. He insists that the Supreme court's finding that article 128(7) exempts judges from taxation is an error.

That in my opinion, regarding payment of tax as disadvantageous to judicial officers since it makes other taxpayers in similar circumstances to consider paying tax as a punishment tainted with social inequality," Ssenfuka says.

Ssenfuka claims that exempting judicial officers from paying tax is also a violation of article 17(1) of the Constitution, which mandates all citizens of Uganda to pay taxes.

"That the failure, neglect or refusal of URA to deduct payable tax on the income of judicial officers as an act of preferential treatment and discrimination against all other tax-compliant Ugandans which contravenes article 21(1),(2),(3) and the spirit of equal treatment of all Ugandans... ," Ssenfuka says.

Through Nakachwa, partners and advocates, Ssenfuka further believes that paying taxes by judicial officers doesn't in anyway compromise their independence.

"That our society holds the judiciary in the highest esteem as an institution that is a custodian and protector of the constitution and all laws of Uganda and as such should be exemplary by meeting legal obligations upon all Ugandans such as payment of tax," he says.

### **FAILED ATTEMPT**

In 2005, the Constitutional court rebuffed an effort by Justice Julia Sebutinde to have the remuneration she was earning as chairperson of the commission which was inquiring into corruption in URA exempted from taxation.

As the chair of the commission, the tough judge was earning Shs 9 million per month but when URA moved to tax it, she argued that she was appointed to chair the commission as a High court judge and therefore, had immunity from taxation.

In their ruling, the justices found that the remuneration Sebutinde was earning as the commission's chairperson was outside her judicial work hence it must be subjected to taxation.

Currently, ordinary judges earn Shs 9m, the chief justice Shs 11.5m, deputy chief justice Shs11m, and the principal judge Shs 10m.

### **Required:**

- i) Discuss an "exempt organisation" as per Sec 2 of the Income Tax Act (1997) as amended. **(8Marks)**

- ii) Another than the income earned by a judicial officer, discuss any other six exempt income as per the Income Tax Act (1997) as amended. **(12 Marks)**

b) Kofi Olomidde is a Congolese recruited by M-A-K-E-I-T University as a trainer in Music dance and Drama in the Department of creative Arts, Faculty of Recreation. He is in Uganda solely for the purpose of fulfilling his employment tasks. He has been in the country for only the last 15 months ending 31/12/2015. The terms of his employment are:

- i. A monthly salary of Ugx 12,500,000
- ii. He stays in the University house worth a market value of Ugx 500,000 per month of which Kofi pays no consideration.
- iii. He uses a company vehicle for private and company business. Kofi uses the car valued at Ugx 15,000,000 for private work for a total of 142 days a year.
- iv. An allowance of Ugx 200,000 for his mobile phone bills for private calls per month.
- v. School fees for his children to an international school, each USD 3,500 per term. A year has three academic terms and the ruling foreign exchange rate is 1USD = 3,400.
- vi. Electricity and water bill paid at Ugx120, 000 per month of which Kofi pays 100,000 per annum in consideration for this benefit.
- vii. He took a loan from BBC Bank of Ugx 5,000,000 at 12% per annum. The statutory central Bank rate is 15% per annum.
- viii. Annual bonus of 20% of the monthly salary, payable only once in the month December.
- ix. Life insurance worth Ugx 170,000 a month.

Required: Determine Kofi's Annual taxable income and tax liability for the year of income ended 31/12/2015. **(20 Marks)**

## **SECTION B: ANSWER ANY THREE QUESTIONS FROM THIS SECTION**

### **QUESTION TWO**

a) Presumptive tax is an alternative way of assessing tax on business income.

i) What kind of businesses qualifies to be assessed using presumptive tax system?

**(4 Marks)**

ii) What kind of businesses does not qualify to be assessed using presumptive tax?

**(6 Marks)**

b) Najib is a Nigerian who has been in Uganda for the last three years and has several businesses as shown in the table below;

<b>Nature of business</b>	<b>Location</b>	<b>Annual gross amount in Ugx</b>
Garage	Nakawa division of Kampala	40,000,000
Saloon	Nateete , Rubaga division Kampala	35,000,000
General merchandise	Kabalaga, Makidye division Kampala	30,000,000
Clinics	Wandegeya Central Division, Kampala	28,000,000

**Required:**

Compute the tax liability for Najib using the presumptive tax system(Appendix attached).

**(10Marks)**

### **QUESTION THREE**

- (a) Identify any five items that constitute business income as per Sec 18(1) of the Income Tax Act. **(10 Marks)**
- (b) Central Contractors Limited, is a medium size construction company based in Kampala. The company specializes in construction of medium size high rise buildings in Central Uganda.

The company had the following balances of depreciable assets as at 31<sup>st</sup> December 2014, which is their accounting year closing date:

CLASS	AMOUNT
I	45,000,000
II	35,000,000
III	1,500,000
IV	10,500,000

During the year 2015, the company recorded the following transactions:

- (i) Acquired two trucks with load capacity of 14 tons at a cost of Shs. 120,000,000;
- (ii) Acquired a concrete mixer truck at Shs. 180,000,000.
- (iii) Purchased a Toyota Prado for the Financial Controller at Shs. 150,000,000;
- (iv) Purchased 25 computers at a cost of Shs. 25,000,000 and the relevant software at Shs. 5,000,000;
- (v) Purchase and installed furniture at the reception costing Shs. 55,000,000; and
- (vi) Purchased five wheelbarrows at a total cost of Shs. 950,000.

***The company also disposed-off the following item during the year:***

- (i) Four computers which were purchased at Shs. 1,500,000 each two years earlier. These were all sold off at Shs. 7,000,000.
- (ii) One truck of less than 7 tons at Shs. 22,000,000;
- (iii) Furniture at Shs. 2,000,000.

***Required;***

*Determine the allowed Wear and Tear deductions for year of income. (10 Marks)*

#### QUESTION FOUR

- a) According to Section 2(h) of the Income Tax Act; “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. According to 18(4) and for purposes of Capital Gains tax, some items are not business assets:
- i) What are those business assets that are excluded from capital gains tax? **(4Marks)**
  - ii) What are those business assets that are included from capital gains tax? **(4Marks)**
- b) An asset was bought for Ugx 15,000,000 in August 1998 (RPI 128.1). Enhancement expenditure was Ugx 2,000,000 in January 2001 (RPI 130.2) and Ugx 3,000,000 in June 2005. The asset was sold in July 2010 for Ugx 28,000,000 (RPI 162.6).
- Required:**  
Compute the taxable gain. (Indexation allowance is not available on the expenditure incurred in June 2005). **(12Marks)**

#### QUESTION FIVE

- a) what do the following terms mean as far as VAT Act(1996) as amended is concerned;
- i) input tax
  - ii) output tax
  - iii) taxable supply
  - iv) consideration
  - v) exempt supplies **(Each 2Marks; Total 10 Marks)**

b) Bukuku a cotton ginner sold 10 bales to Nyanza textiles at Ugx 10,000,000. Nyanza textiles produced bed sheets out of the cotton and sold them to Kiyembe Ltd (a wholesaler) at Ugx 17,500,000. Kiyembe Ltd sold to Mpolampola Ltd (a retailer) at Ugx 22,500,000. Mpolampola sold all the bed sheets to various customers and total sales were Ugx 30,000,000.

**Note:** All figures are exclusive of VAT and VAT rate applicable is 18%.

**Required:** Determine the total VAT payable through the process. **(10 Marks)**

#### QUESTION SIX

- a) Describe property income according to the Income Tax Act-Sec 20. (4 marks)
- b) Interest income is sometimes a final tax.
- i) What is the meaning of a final tax? (4 marks)
- ii) Discuss the interest incomes on which a final tax is levied. (4 marks)
- b) What is the meaning of the following terms as used in taxation?
- i) Importation
- ii) Place of mooring
- iii) Customs warehouse
- iv) Bonded warehouse (2marks each, Total 8Marks)

### Appendix

## Second Schedule Part (ii)

Where the gross annual turnover is less than Ugx 50 millions

### i)Kampala city and Divisions of Kampala

Business trade	With turnover between Shs 35m-50m	With turnover between Shs 20m-35m	With turnover between Shs 10m-20m
Generaltrade	500,000	400,000	250,000
Carpentry/ metal	500,000	400,000	250,000
Garages/ motor	550,000	450,000	300,000
Hair/ beauty	550,000	400,000	300,000
Restaurants/ Bars	550,000	450,000	300,000
Clinics	550,000	450,000	300,000
Drug shops	500,000	350,000	100,000
Others	450,000	300,000	200,000

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**END**