

---

# Answers

---

Section B

Marks

- 1 (a) A taxpayer is required to register for value added tax (VAT) if their taxable supplies exceed K10 million per annum. The threshold for registration includes non-taxable supplies.  
A person who believes they will qualify for registration can also apply for registration.  
A taxpayer can also register if the Commissioner General believes they qualify for registration.

1  
1  
1  
3

- (b) Calculation of net VAT claimable or payable by Sasali Limited for the month of August 2017

	K	VAT 16.50%	K	
<b>Output VAT</b>				
Computers sold to local University	400,000		66,000	½
Computers sold to XYZ Limited	0		–	1
	<u>400,000</u>		<u>66,000</u>	
<b>Input VAT</b>				
Computers purchased	350,000		57,750	½
Warehouse/office building rent	165,000		27,225	½
Electricity	65,000		10,725	½
Managing director's house rent	0		–	½
Fuel	0		–	½
Salaries	0		–	½
	<u>580,000</u>		<u>95,700</u>	
Net VAT claimable			29,700	½
			<u>5</u>	

- (c) The penalties for the late submission of a VAT return are a lump sum of K20,000, plus K1,000 for each day the return is not submitted.  
The late payment of VAT incurs an interest charge which is worked out based on the bank rate plus 5% per annum.

1  
1  
2  
10

- 2 (a) The income of a club operated solely for pleasure or recreation purposes shall be liable to income tax notwithstanding that it arises from transactions with its members.  
The taxable income shall be deemed to be 6.25% of all receipts or accruals to or in favour of it from the sale of goods, cinematography, performances, stage plays and gambling machines and shall be charged at the rate applicable to companies.

1  
1  
2

- (b) The capital expenditure of a club is not considered for tax purposes and as such no capital allowances can be claimed, as income tax is not based on the profits of the club.

1

**Marks****(c) Tax payable by Jinja Golf Club for the year ended 30 June 2017**

	K	K	
Golf course fees		3,500,000	½
Membership fees		0	½
Entrance fees		0	½
Bar sales		13,560,000	½
Restaurant sales		6,500,000	½
Film shows		650,000	½
Income subject to tax calculation		<u>24,210,000</u>	
Taxable income at 6·25% of above income		1,513,125	1
Add interest receivable	400,000		½
Withholding tax deducted	<u>100,000</u>	<u>500,000</u>	½
Total taxable income		<u>2,013,125</u>	
Tax at 30%		603,938	½
Less			
Provisional tax		(375,000)	½
Withholding tax on interest earned		<u>(100,000)</u>	1
Tax payable		<u>128,938</u>	
			<u>7</u>
			<u>10</u>

**3 (a) Tax payable on current remuneration packages**

	Luke K	John K	
Salary	36,500,000	42,800,000	½
Bonus	3,650,000	4,280,000	½
Total earnings	<u>40,150,000</u>	<u>47,080,000</u>	
PAYE			
First 240,000	0	0	
Next 60,000 at 15%	9,000	9,000	½
Balance at 30%	11,955,000	14,034,000	½
Total PAYE	<u>11,964,000</u>	<u>14,043,000</u>	
			<u>2</u>

**(b) (i) Cost to Drone Limited of providing fringe benefits under new remuneration packages**

Fringe benefits tax (FBT) on car (3,500,000*15%*30%)	157,500		1
House rent	4,000,000		½
FBT on rental (4,000,000*30%)	1,200,000		½
School fees	1,850,000		½
FBT on school fees (1,850,000*50%*30%)	277,500		1
House allowance		4,340,000	½
Medical aid	450,000	—	½
Utilities	—	125,000	½
Cost of fringe benefits	<u>7,935,000</u>	<u>4,465,000</u>	
			<u>5</u>

## (ii) Revised cash salaries, pension and bonus under proposed remuneration packages

	Luke K	John K	
<b>Current package:</b>			
Salary	36,500,000	42,800,000	½
Pension (at 10%)	3,650,000	4,280,000	½
Bonus (as in (a))	3,650,000	4,280,000	
Total cost	<u>43,800,000</u>	<u>51,360,000</u>	
<b>Revised cash salary, pension and bonus</b>			
((43,800,000 – 7,935,000)*100/120)	29,887,500		1
((51,360,000 – 4,465,000)*100/120)		39,079,166	
Pension (at 10%)	2,988,750	3,907,917	½
Bonus (at 10%)	2,988,750	3,907,917	½
		<u>3</u>	
		<u>10</u>	

**Tutorial note:** Including the fringe benefit values with the revised cash salary, pension and bonus figures maintains the total cost set by Drone Limited as follows:

	Luke K	John K
Cash salary	29,887,500	39,079,166
Pension	2,988,750	3,907,917
Bonus	2,988,750	3,907,917
Cost of fringe benefits	<u>7,935,000</u>	<u>4,465,000</u>
Total cost	<u>43,800,000</u>	<u>51,360,000</u>

## 4 (a) Capital gains tax payable by Peter Mbedza for the year ended 30 June 2016

	K	K	
<b>Sale of Miracle Limited shares to Alfred:</b>			
Sales proceeds (250,000*K10)		2,500,000	½
Less cost			
Cost of shares in February 2008 (250,000 shares*K2.5)	625,000		½
Index to date of sale 1 January 2016 (206,343.66/61,718.17)	<u>3.3433</u>		½
Indexed cost		(2,089,563)	
Capital gain		<u>410,437</u>	
<b>Sale of Miracle Limited shares to son:</b>			
100,000 shares sold (market value) (100,000*K10)		1,000,000	½
Less cost			
Cost of shares in February 2008 (100,000*K2.5)	250,000		½
Index to date of sale 1 May 2016 (203,551.58/61,718.17)	<u>3.2981</u>	(824,525)	½
Capital gain		<u>175,475</u>	
Total gain on the shares		585,912	
Capital gains tax at 30%		175,773	1
As the son is a related party to Peter, the sales price of the shares will be replaced by market value.			1
			<u>5</u>

**(b) Chargeable gain of Mustang Limited for the year ended 31 December 2016**

	K	K	
<b>Sale of house:</b>			
Sales proceeds		36,000,000	½
Less cost			
Cost of house at 1 April 2010	8,500,000		½
Indexed to date of sale 1 June 2016 (200,759·50/71,051·81)	<u>2·8255</u>	(24,016,750)	½
Capital gain		<u>11,983,250</u>	
		<b>K</b>	
<b>Sale of factory:</b>			
Sales proceeds		12,000,000	½
Less tax written down value		(2,361,666)	1
Balancing charge		<u>9,638,334</u>	
Less trading loss		(1,300,000)	1
Net to be added to trading income		<u>8,338,334</u>	
<b>Chargeable gain calculation on sale of house:</b>			
		<b>K</b>	
Capital gain		11,983,250	
Less capital loss		(165,000)	1
Chargeable gain		<u>11,818,250</u>	
			<u>5</u>
			<b>10</b>

**5 (a) Taxable income of Masinga Dental Clinic for the year ended 30 June 2017.**

	K	K	
Profit before taxation		600,000	½
Add items not allowed for taxation			
John Masinga's salary	850,000		½
Rental for John's house	950,000		½
Depreciation	233,300		½
Subscription to Dentist's Association	0		½
Donations to a local church	26,500		1
Private use of motor vehicle (1/3*262,500)	87,500		1
Withholding tax on interest (44,500*100/80*20%)	<u>11,125</u>	2,158,425	1
		<u>2,758,425</u>	
Less items allowed/adjustments to profit			
Capital allowances			
Dental surgery equipment	322,600		½
Motor vehicle (2/3*115,800)	<u>77,200</u>	(399,800)	1
Taxable income		<u>2,358,625</u>	<u>7</u>

**Marks**

**(b) Tax payable by John Masinga for the year ended 30 June 2017**

		K	
Practice taxable income		2,358,625	1/2
Director's fee		100,000	1/2
House rentals		860,000	1/2
Less deductions			
Donations to Save the Children		0	1/2
Mortgage payments (440,000*40%)		(176,000)	1
Repairs to house		(15,800)	1/2
		<u>3,126,825</u>	
Tax			
First 240,000	0%	0	
Next 60,000	15%	9000	1/2
Balance K2,826,825	30%	848,048	1/2
		<u>857,048</u>	
Total tax charged			
Less tax credits			
Withholding tax rent (860,000*15%)		(129,000)	1
Withholding tax interest (44,500*100/80*20%)		(11,125)	1/2
Withholding tax directors fees (100,000*10%)		(10,000)	1
PAYE			
Salary 850,000			
First 300,000	9,000		1/2
Balance 550,000 at 30%	<u>165,000</u>	<u>(174,000)</u>	1/2
Tax payable		<u>532,923</u>	
			<u>8</u>
			<u>15</u>

**6 (a) Taxable income of Bullman Limited for the year ended 31 December 2016**

	K'000	K'000	
Profit before taxation		24,595	
Add items not allowed for taxation:			
Administrative expenses	0		1/2
Depreciation	6,800		1/2
Salaries and wages	0		1/2
Donations	0		1/2
Interest paid	0		1/2
Advice re issue of new share capital	550		1/2
Debt collection	0		1/2
Rent	0		1/2
Management fees	0		1/2
Impairment of investments	1,500		1/2
Provision for stock losses	2,800		1/2
Balancing charge (working)	<u>2,750</u>	<u>14,400</u>	
		38,995	
Less items allowed/adjustments to profit			
Fair value of investments	2,000		1/2
Dividends received	1,700		1/2
Profit on sale of fixed asset	950		1/2
Interest received	0		1/2
Capital allowances	<u>5,650</u>	<u>(10,300)</u>	1/2
Taxable income		<u>28,695</u>	

		Marks
<b>Working: Balancing charge/allowance</b>		
	<b>K'000</b>	
Cost	8,500	
Capital allowances claimed	(7,500)	1
	<hr/>	
Tax written down value	1,000	
Sales proceeds	3,750	1
	<hr/>	
Balancing charge	2,750	
	<hr/>	
		10
<hr/>		
(b) Withholding tax is payable on the management fees and on the dividend paid by Bullman Limited.		1
Withholding tax on management fee:		
15%*K985,000 = K147,750		1
Withholding tax on dividend paid:		
10%*K1,200,000 = K120,000		1
		<hr/>
		3
<hr/>		
(c) Balance of tax payable by 30 March 2017		
	<b>K'000</b>	
Taxable income	28,695	
Tax at 30%	8,609	½
Minimum quarterly payments	2,152	½
90% of tax should have been paid	7,748	½
Less provisional tax already paid	(4,350)	½
	<hr/>	
Balance to pay	3,398	2
	<hr/>	
		<b>15</b>
		<hr/>