

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

MONDAY, 17 JUNE 2002

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Sections **A** and **B**, and any **two** questions in Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **two** compulsory questions of 25 marks each.
5. Section **C** has **three** questions and only **two** questions are to be attempted. Each question carries 15 marks.
6. Some tax rates are provided on page 10.
7. Please, read further instructions on the answer book.

SECTION A

Question 1

- (i) Which of the following is NOT an exempt supply according to the 2nd schedule to the VAT Statute 1996?
 - (a) The supply of milk.
 - (b) The supply of betting, lotteries and games of chance.
 - (c) The supply of social welfare services.
 - (d) The supply of land.
- (ii) Which of the following is a mismatch?
 - (a) Value Added Tax.
 - (b) Sales Tax
 - (c) Commercial Transactions Levy.
 - (d) Stamp Duty.
- (iii) Which of the following is exempt income under the Income Tax Act 1997?
 - (a) An amount paid by a tax-exempt employer as a premium for insurance on the life of the employee.
 - (b) Total amount of any contributions made to a retirement fund during a year by a tax-exempt employer.
 - (c) The proceeds of a life insurance policy paid by a person carrying on life insurance business.
 - (d) Rent derived by a person whose business is wholly or mainly the holding or letting of property.
- (iv) Under the VAT Statute 1996, the threshold above which a person must register is
 - (a) Shs. 20 million.
 - (b) Shs. 50 million.
 - (c) Shs. 200 million.
 - (d) Shs. 100 million.
- (v) The Commissioner of Income Tax, may make an additional assessment amending an assessment previously made within a period of:
 - (a) 2 years.
 - (b) 3 years.
 - (c) 5 years.
 - (d) 7 years.

- (vi) Which of the following does not form part of Employment Income under the Income Tax Act 1997?
- (a) Compensation for termination of Employment Contract.
 - (b) Amount received as consideration for employee's agreement to any conditions of employment.
 - (c) Allowance for accommodation and travel expenses on employment duties.
 - (d) Transport allowance.
- (vii) Which of the following is not an allowable deduction in computing chargeable income under the Income Tax Act 1997?
- (a) Any income carried to a reserve fund or capitalized in any way.
 - (b) A bad debt written off in a person's financial statements.
 - (c) Repairs of property used in production of income.
 - (d) Depreciation of machinery used in manufacturing.
- (viii) Which of the following persons is NOT required to submit a return of income?
- (a) A resident individual whose income is rental income earned from properties abroad.
 - (b) A sole trader whose annual turnover is Shs. 20 million.
 - (c) A resident accountant earning employment income and consultancy fees from a firm where he is a partner.
 - (d) A non-resident company operating business in Uganda.
- (ix) Under the VAT Statute, simplified tax invoices may only be issued by persons whose annual taxable turnover is below:
- (a) Shs. 100,000.
 - (b) Shs. 200 million.
 - (c) Shs. 100 million.
 - (d) Shs. 50,000.
- (x) A person who fails to furnish a return of income is liable to a penal tax equal to:
- (a) 2.5% of the tax payable for the year per month.
 - (b) 2% of the tax payable for the year.
 - (c) One currency point per month.
 - (d) 2% of the tax payable for the year or one currency point per month, whichever is the greater.

(xi) The current rate of withholding tax applicable on importation of goods and services is

- (a) 5%.
- (b) 15%.
- (c) 2%.
- (d) 4%.

(xii) Mebo Company Ltd returned output tax of Shs. 261,538 for the month ended 31 May 2002.

What is the total turnover of Mebo Company Ltd for May 2002, including VAT?

- (a) Shs. 1,456,650.
- (b) Shs. 1,799,997.
- (c) Shs. 2,106,000.
- (d) Shs. 1,740,884.

(xiii) What is the maximum registration period allowed for an intending trader during which he is expected to commence making taxable supplies and become registered under the normal VAT registration?

- (a) 3 years.
- (b) 2 years.
- (c) 1 year.
- (d) 6 years.

(xiv) Trinity Co. Ltd acquired coffee processing machinery from Jobo Coffee Factory at a cost of Shs. 200,000,000 on 1 May 2002. Jobo had imported the machinery from India in 1996 at a cost of Shs. 500,000,000. Trinity Co. Ltd plans to install the machinery in Kasese.

Advise Trinity Co. Ltd on the correct tax decision.

- (a) Trinity Co. Ltd will claim Shs 250,000,000 as initial allowance.
- (b) Trinity Co. Ltd will be entitled to initial allowance of Shs 375,000,000 notwithstanding the fact that Jobo had claimed it.
- (c) Trinity Co. Ltd will be entitled to an initial allowance of Shs 150,000,000.
- (d) Trinity Co. Ltd will be entitled to Shs 100,000 as initial allowance.

- (xv) Which of the following statements is true?
- (a) Rental income is imposed on every person who has rental income for the year of income.
 - (b) The rental income of an individual is included in the gross income of the individual for any year of income.
 - (c) The rental tax payable by a resident individual shall be reduced by any tax credits allowed under the Income Tax Act 1997.
 - (d) Rental income is imposed on every individual who has rental income exceeding Shs 1,560,000 for the year of income.
- (xvi) The effective date of compulsory registration for VAT is:
- (a) The beginning of the accounting year in which application has been made.
 - (b) The beginning of the tax period immediately following the period in which the duty to apply for registration arose.
 - (c) The beginning of the tax period immediately following the period in which the person applied for registration.
 - (d) The actual date of registration.
- (xvii) Which of the following is not an industrial building?
- (a) Farm house on Kisozi Ranch.
 - (b) Factory building for Mukwano Industries.
 - (c) Hotel building approved by the Minister of Finance.
 - (d) Hospital buildings approved by the Minister of Finance.
- (xviii) Mr. Mukasa is a sole trader based in Kikuubo, Kampala. Which of the following will not form part of his Gross Income?
- (a) Profits earned in his shop in Kikuubo.
 - (b) Rent from his house located on Muyenga Hill.
 - (c) Income from a commercial mini bus in the New Taxi Park.
 - (d) Sales of milk from his commercial farm in Luwero.
- (xix) Which of the following statements is false?

A person becomes a taxable person under the VAT Statute 1996:

- (i) From the time he begins to deal in taxable supplies.
- (ii) When his taxable turnover reaches the stipulated threshold limit.
- (iii) From the time his registration takes effect.

- (a) (i) and (iii).
 - (b) (i) and (ii).
 - (c) (i).
 - (d) (iii).
- (xx) A person who has registered voluntarily for VAT is expected to:
- (a) Submit his returns only when he has made taxable supplies.
 - (b) Abide by all the obligations of a registered person.
 - (c) Stay on the register with no option of being deregistered.
 - (d) Use only the cash basis in accounting for VAT.

SECTION B

Question 2

John Mutabaazi is the General Manager of General Implements Ltd., a company dealing in the importation and distribution of agricultural implements.

He is paid a salary of Shs 3,000,000 per month.

Other benefits include the following:

- A free company vehicle - Corona 1989 model whose value is Shs. 6,000,000.
- The company provides him with a free house at Kansanga. The open market value for the house is Shs. 500,000 per month.
- He gets free medical treatment for self and immediate family at the company clinic.
- Entertainment allowance of Shs. 200,000 per month.
- Consolidated allowance to cater for domestic helpers and utilities of Shs. 200,000 per month.
- He is not a member of the Workers Union but contributes Shs. 100,000 to the Union to maintain good industrial relations.
- He is also a part-time lecturer in the Agriculture Department at Makerere University. He earned Shs. 18,000,000 during the year and paid tax under PAYE system amounting to Shs. 4,470,000.
- His wife is a Commissioner in the Ministry of Education where she earns a gross salary of Shs. 2,200,000 and pays tax of Shs. 582,500 per month.

- John Mutabaazi also owns a retail shop near his residence. The shop made a loss of Shs. 256,906 during the year.
- He also owns a building in Mbarara town from which he earns rental income of Shs. 500,000 per month.
- He earned interest from Barclays Bank on his Savings a/c of Shs. 200,000. Withholding tax of Shs. 20,000 was deducted.
- He bought a lottery ticket and won Shs. 1,000,000 and his daughter who lives in United Kingdom sent him a gift worth UK £ 1,000 (UK £ 1 = U Shs 2,500).

Required:

- (a) Compute Mr. John Mutabaazi's gross income and tax payable for the year 2001.
- (b) Explain clearly why some income may have been omitted in (a) above.

(25 marks).

Question 3

- (a) You have obtained the following information from the records of Mwaka Ltd a registered VAT tax payer:

JUNE 2001

- 1 Sold goods on credit to Lima Ltd Shs. 2,000,000.
- 4 Sold goods on credit to Tema Ltd Shs. 2,700,000.
- 10 Bought goods on credit from Panga Ltd. Shs. 4,500,000.
- 14 Bought goods on credit from Panga Ltd. Shs. 2,400,000.
- 15 Sold goods on credit to Lima Ltd Shs. 1,900,000.
- 16 Sold goods for cash Shs. 1,000,000.
- 20 Bought goods on credit from Panga Ltd. Shs. 1,100,000.
- 30 Sold goods for cash Shs. 1,300,000=.
- Mwaka Ltd., deals in only standard rated goods.
- By the 25 July 2001, the company had not yet filed its VAT return.

Required:

- (i) Calculate the VAT payable and prepare the VAT account. **(7 marks)**
- (ii) Comment on the VAT compliance by this company and penalty due if any. **(3 marks)**
- (b) Jinja Fish Processors Ltd., based at Masese, Jinja started operations of processing and packaging fish on 1 January 2001.

The following initial expenditures were incurred:-

	Shs
Cost of land	4,000,000
Cost of buildings	54,000,000
A new processing plant installed in the building	19,000,000
Packing machine	8,250,000
Weighing scale	750,000
Loose tools & Implements	500,000
2 Vans each costing Shs. 3,300,000	6,600,000
Saloon Car	4,200,000
Furniture & Fittings	1,250,000
Computers	10,000,000

Required:

Calculate the capital deductions due to the company for the year 2001 under the Income Tax Act 1997.

(15 marks)
(Total 25 marks)

SECTION C

Question 4

- (a) What is smuggling? (2 marks)
 - (b) In what forms does smuggling occur? (7 marks)
 - (c) What are the problems associated with smuggling? (6 marks)
- (Total 15 marks)**

Question 5

- (a) What is a tax invoice? (2 marks)
 - (b) Why are tax invoices important? (3 marks)
 - (c) What must a tax invoice show? (10 marks)
- (Total 15 marks)**

Question 6

- (a) Distinguish between a direct tax and an indirect tax giving three examples of each.
- (b) State the arguments for and against each type of tax in (a) above. (15 marks)

TAX RATES

Resident Individual Income Tax Rates

Chargeable Income	Rate of Tax
Not exceeding Shs. 1,560,000	Nil
Exceeding Shs.1,560,000 but not exceeding Shs 2,820,000	10% of the amount by which chargeable income exceeds Shs 1,560,000
Exceeding Shs. 2,820,000 but not exceeding Shs 4,920,000	Shs 126,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000
Exceeding Shs 4,920,000	Shs 546,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000

Presumptive Tax Rates

Gross Turnover	Tax
Where the gross turnover of the taxpayer does not exceed Shs 20,000,000 per annum	Shs 100,000
Where the gross turnover of the taxpayer exceeds Shs 20,000,000 but does not exceed Shs 30,000,000 per annum	Shs 250,000 or 1% of gross turnover, whichever is the lower
Where the gross turnover of the taxpayer exceeds Shs 30,000,000 but does not exceed Shs 40,000,000 per annum	Shs 350,000 or 1% of gross turnover, whichever is the lower
Where the gross turnover of the taxpayer exceeds Shs 40,000,000 but does not exceed Shs 50,000,000 per annum	Shs 450,000 or 1% of gross turnover, whichever is the lower