

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 12 DECEMBER 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 11.
7. Please, read further instructions on the answer book.

SECTION A

Question 1.

- (i) Which of the following is / are not zero rated supplies?
 - (a) The supply of educational materials.
 - (b) The supply of computers, printers and accessories.
 - (c) The supply of international transport of goods or passengers and tickets for their travel.
 - (d) The supply of milk, including milk treated in any way to preserve it.
- (ii) Which of the following does not form part of employment income?
 - (a) Transport refund from home to place of work and back.
 - (b) Payment in lieu of leave to the employee.
 - (c) Employer's contribution to NSSF.
 - (d) Employee contribution to NSSF.
- (iii) Maama Mulungi Supermarket made sales inclusive of VAT of Shs. 15,500,000 during the month of December 2002. In the same month, the supermarket made valuable purchases of Shs. 14,000,000 exclusive of VAT. The financial year-end of Maama Mulungi Supermarket is 31 December.

How will the supermarket account for net VAT at 31 December 2002?

- (a) Account for Shs. 127,863 as a current asset.
 - (b) Account Shs. 127,863 as current liability.
 - (c) Account for Shs. 217,949 as a current asset.
 - (d) Account for Shs. 217,949 as a liability.
- (iv) Value Added Tax and Sales Tax are similar in all the following aspects except that under VAT:
 - (a) Registration of taxpayers is a key feature.
 - (b) There is a threshold beyond which a person must be registered to pay tax.
 - (c) They are indirect taxes.
 - (d) They are taxes on goods and services.
- (v) The standard rate of taxable supplies made in Uganda under the Value Added Statute 1996 as amended by the subsequent Finance Acts is:
 - (a) 30%.
 - (b) 15%.
 - (c) 20%.
 - (d) 17%.

- (vi) Which of the following is correct?
- (a) The taxpayers' auditors can authorise them to change from accrual basis of accounting to cash accounting.
 - (b) There is no difference between a substituted year of income and a transitional year of income according to the Income Tax Act 1997.
 - (c) A taxpayer is free to use cash accounting for revenue and accrual accounting for expenses.
 - (d) A taxpayer whose annual gross turnover does not exceed Shs 5 million is exempt from presumption tax.
- (vii) Mulemba has been employed by one of the leading manufacturing companies in Kampala for 22 years. Due to the restructuring exercise taking place, he is to retire on 31 December 2002 because he is not computer literate. The Board has resolved to award him a package of Shs 15,000,000 as lump sum payment to recognise his contribution to the company.

Advise the Board on the tax implications of its decision.

- (a) This being a lump sum payment on retirement, it is not employment income and therefore not taxable.
 - (b) Only 75% of the lump sum payment is taxable.
 - (c) The whole lumpsum payment of Shs 15,000,000 is taxable.
 - (d) The whole lump sum of 15,000,000 is taxable but is spread over the number of years (22) he has been in employment.
- (viii) Pande is a VAT registered person. He submitted VAT returns for the month of October 2002 on 21 November 2002. What is the penal tax that Mr. Pande is likely to pay for late submission of the return?
- (a) Shs. 200,000.
 - (b) 2% of the tax outstanding for the month compounded.
 - (c) The greater of Shs. 200,000 or 2% of the tax outstanding for the month compounded.
 - (d) The lesser of Shs. 200,000 or 2% of the tax outstanding for the month compounded.
- (ix) Parapazi is a resident individual property owner. During the year ending 31 December 2002, his rental income and expenses thereof were as follows:

	Shs
Annual Gross Rental	120,000,000
Repairs and Maintenance (expense)	4,000,000
Perimeter wall	10,000,000
Security	2,000,000

What is the rental tax payable Parapazi in 2002?

- (a) 18,950,400
- (b) 18,888,000
- (c) 22,488,000
- (d) 24,000,000

(x) The accounting date of M/s Basic Concepts Ltd. is 30 September 2002. What is the date of furnishing the return of income with the Uganda Revenue Authority under Section 93 (1) of the Income Tax 1997?

- (a) By 31 January 2003.
- (b) By 31 March 2003.
- (c) By 31 December 2002.
- (d) By 30 June 2002.

(xi) Below are notes drafted by an ATC finalist:

- Economic stability.
- Raising Revenue.
- Social Welfare.
- Protection policy.
- Fair distribution of resources.

What do the notes represent?

- (a) The cannons of a good tax system.
- (b) They relate to problems of justice in taxation.
- (c) They are functions performed by Government.
- (d) The main reasons why Government imposes taxes.

(xii) One of the fundamental problems of public finance in Uganda is:

- (a) Flexibility.
- (b) Diversity.
- (c) Equality.
- (d) Economy.

(xiii) Facilitation of trade, protecting industry and society, and collection of revenue that is due falls under the ambit of department of the Uganda Revenue Authority.

- (a) Domestic Direct Taxes.
- (b) Domestic Indirect Taxes.
- (c) Customs and Excise.
- (d) Finance.

- (xiv) What is the time limit for making an objection to an income tax assessment under the Income Tax Act, 1997?
- (a) Within 30 days after service of notice of assessment.
 - (b) Within 45 days after service of notice of assessment.
 - (c) Within 90 days after service of notice of assessment.
 - (d) Within 120 days after service of notice of assessment.
- (xv) Which of the following imports is subject to withholding tax?
- (a) Cosmetics.
 - (b) Petrol.
 - (c) Plant and machinery.
 - (d) Human and animal drugs.
- (xvi) Which of the following combinations best describes a resident trust?
- (i) Established in Uganda.
 - (ii) Management and control exercised in Uganda at any time during the year of income.
 - (iii) At any time during the year the trustee of the trust was a resident person.
 - (iv) At any time during the year the trustee of the trust is a national of Uganda.
- (a) (i), (ii) and (iv).
 - (b) (i), (iii) and (iv).
 - (c) (i), (ii), (iii) and (iv).
 - (d) (i), (ii) and (iii).
- (xvii) Which of the following non-tax revenues is not collected by Uganda Revenue Authority?
- (a) Passport fees.
 - (b) Land transfer fees.
 - (c) Radio and Television fees.
 - (d) Trading Licence fees.
- (xviii) Commodity tax is also known as:
- (a) Customs duty.
 - (b) Excise duty.
 - (c) Value added tax.
 - (d) Stamp duty.

- (xix) Which of the following is/are correct about a simplified tax invoice?
- (a) It is a credit note.
 - (b) It need not bear the VAT registration number and TIN of the supplier.
 - (c) It is restricted to Shs. 100,000 per item and to a maximum of Shs. 200,000 in total as per practice notice.
 - (d) It is restricted to Shs. 50,000 per item and to a maximum of Shs. 100,000 in total as per practice notice issued by URA.
- (xx) The limit beyond which the additional taxation would produce economically harmful results and outweigh the gain to the community from public funds is known as:
- (a) Tax base.
 - (b) Absolute taxable capacity.
 - (c) Relative taxable capacity.
 - (d) Incidence of tax.

SECTION B**Question 2**

- (a) Define the term taxable capacity and explain six factors that influence it.
(12 marks)

- (b) Mr. Bob Kamukujje is the General Manager of Simbi Ltd. His remuneration package comprises the following:

	Shs
• Monthly basic pay	4,000,000
• Medical allowance	1,000,000

In addition to above, Kamukujje is provided with the following benefits:

1. A Pajero motor vehicle which he drives from home to office. The Pajero cost the company 45,000,000. It is estimated that he used the Pajero for 60 days out of the 360 days in the year for his private use.
2. Simbi Ltd rents an executive house in Kololo for the General Manager at Shs. 2,000,000 per month.
3. He retired from Simbi Ltd on 30 November 2002, after serving the company for 15 years. As **an appreciation** of his long service, Mr. Kamukujje was paid an additional Shs 20,000,000.
4. Simbi Ltd paid Shs. 2,000,000 to NSSF for the month of November as 10% employers' contribution. Shs 1,000,000 was deducted from his emoluments and remitted to NSSF.

Required:

Compute Mr. Kamukujje's taxable employment income for the month of November 2002 and the tax thereon.

Note: Explain any assumptions made and show all your workings.

(13 marks)
(Total 25 marks)

Question 3.

Below is the income statement of Kikuubo Ltd for the year ended 30 June 2002.

	Shs. '000	Shs.'000
Sales		552,000
Opening inventory	43,200	
Purchases	<u>450,000</u>	
	493,200	
Less closing inventory	<u>(5,520)</u>	
Cost of sales		<u>(487,680)</u>
Gross profit		64,320
Less Expenses:		
Salaries & wages	19,800	
Rent	10,000	
Insurance	1,500	
Legal & professional fees	1,746	
Depreciation	2,909	
Advertising	2,500	
Income tax for 2001	2,560	
Medical expenses for the Managing Director	2,000	
Interest on Bank overdraft	1,150	
Purchase of equipment	2,155	
Christmas gifts to customers	1,500	
Bad debts provision	800	
Transport expenses	2,504	
Stationery and postages	1,750	
Purchase of a bicycle for the messenger	90	
Telephone expenses	<u>3,080</u>	
		<u>56,044</u>
Net profit		<u><u>8,276</u></u>

Notes:

- (i) Included in the sales figure is a profit of Shs 3,000,000 made on the disposal of an old piece of equipment.
- (ii) Rent includes Shs. 2,000,000 for the Managing Director's residence.
- (iii) Analysis of legal and professional fees:

	Shs
- Renewal of five year lease	300,000
- Appeal to the Tax Appeals Tribunal against tax assessment	539,000
- Defending a suit for alleged breach of trading agreement	480,000
- Court fines	202,000
- Business legal expenses	<u>225,000</u>
	<u>1,746,000</u>

- (iv) Capital allowances were agreed at Shs. 1,240,000 with the Uganda Revenue Authority.
- (v) Advertising expenses include Shs. 300,000 spent on putting up a signpost at the road junction leading to the shop.
- (vi) It is estimated that 20% of the telephone expenses were for private purposes.
- (vii) Salaries and wages include Shs. 2,000,000 NSSF employer's contribution.
- (viii) Transport expenses include Shs. 500,000 paid to staff for commuting from home to office.

Required:

- (a) Compute Kikuubo Ltd's chargeable income. **(20 marks)**
 - (b) Compute tax payable and the advise on the due date of furnishing the return of income. **(5 marks)**
- (Total 25 marks)**

SECTION C

Question 4

Tax News Ltd is a VAT registered person. Its premises were raided by officials from Uganda Revenue Authority four months ago. Among the documents taken were bank statements. The URA officials have made an estimated VAT assessment of Shs. 600,000,000 basing on the company's bank statements.

Tax News Ltd, contends that it did not carry out VAT transactions to the magnitude claimed by the tax body and that the tax assessment based on bank statements is wrong, misconceived, excessive and is not in accordance with the Value Added Tax Statute No. 8 of 1996.

The tax body on the other hand claims that the estimated assessment is valid and that the methods used to arrive at the assessment are lawful and reasonable under the circumstances. You have been approached by Tax News Ltd to help them draft an objection and advise them of the likely outcome. You have ascertained the following facts:

- (i) Tax News Ltd. imported goods whose value was Shs 1,319,693,842 and paid input VAT of Shs. 185,702,729 during the period under consideration. They also paid a sum of Shs. 31,836,380 as input tax on local purchases.
- (ii) The tax body issued a demand note of Shs 360,000,000 payable within 24 hours and also issued an urgent notice demanding collection of Shs 3,130,607,742 though the pending tax was Shs. 600,000,000.

- (iii) Going by the Tax body's assessments Tax News Ltd would have realised a sale of beyond Shs 5,457,875,151 with an unbelievable make-up of 450%.
- (iv) Bank credits include collections from debtors, inter bank transfers and sales from exempt and zero rated supplies.

Required:

- (a) Draft an objection letter to Uganda Revenue Authority stating your grounds of objection.
(10 marks)
 - (b) Assume the objections raised in (a) above are rejected, advise the Tax News Ltd on the next step and comment on the likely outcome.
(5 marks)
- (Total 15 marks)**

Question 5

- (a) Explain the term initial allowance.
(5 marks)
- (b) Juice Traders Ltd commenced business on 1 January 2002. It operates in Mbale town. Its principal activities are to manufacture and process juice. It has acquired the following assets:

Assets	Amount Shs
Motor vehicle - Pajero	45,000,000
Processing Machine	200,000,000
Computers	40,000,000
Minibus to ease transport	20,000,000
Office Furniture and fittings	40,000,000
Tractors	40,000,000
Lorries (8 tons)	120,000,000

Juice Traders Ltd. year of income ends on 30 September each year.

Required:

Compute the capital allowances due to Juice Traders Ltd for the year ended 30 September 2002.

(10 marks)
(Total 15 marks)

Question 6

Explain the problems of justice in taxation.

(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 Turn Over	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