

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

MONDAY, 16 JUNE 2003

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 correct about domestic Value Added Tax?
- (a) It is VAT charged on goods imported by VAT registered persons whose value is less than Shs 4 million.
 - (b) It is charged on goods imported by non-VAT registered persons whose value is Shs 4 million and above.
 - (c) It is charged on domestic investment traders.
 - (d) It is charged on only domestic supplies.
- (ii) A compulsory contribution imposed by the state on its citizens in which the incidence and impact of the tax falls on the same person is termed as:
- (a) Progressive tax.
 - (b) Regressive tax.
 - (c) Direct tax.
 - (d) Indirect tax.
- (iii) Walala is the managing director of Tulifanya Kazi Muzuri Ltd. He has been provided with a vehicle that cost the company Shs. 20,000,000 in January 2001. He uses this car for private purpose for 100 days a year. He pays no contribution to enjoy this benefit.
- Compute his car benefit for the month of January 2003. Assume that a year has 360 days. Give your answer to the nearest thousand.
- (a) Shs. 93,000
 - (b) Shs. 60,000
 - (c) Shs. 28,000
 - (d) Shs. 26,000
- (iv) The normal number of days within which a dissatisfied tax payer can object to an assessment under the Value Added Tax Statute, 1996 is:
- (a) 45 days.
 - (b) 120 days.
 - (c) 30 days.
 - (d) 60 days.

- (v) Which of the following statements is correct about the normal year of accounting as defined by the Income tax act 1997.
- (a) It is a period of 12 months commencing 1 January in any year and ending on 31st December in that year.
 - (b) It is a period of 12 months commencing 1 July in any year and ending on 30 June of the subsequent year.
 - (c) It is a period of 12 months coinciding with the tax payer's year of income.
 - (d) It is a substituted year of income.
- (vi) Seeta General Stores Ltd. has its year end as 30 March of every calendar year. When is the due date for furnishing the return for the year of income 2003?
- (a) By 30 Juuly 2003.
 - (b) By 30 June 2003.
 - (c) By 30 April 2003.
 - (d) By 31 May 2003.
- (vii) Which problems are the following tax notes associated with?
- Unemployment.
 - Loss of Revenue.
 - Environmental degeneration.
 - Un equal distribution of wealth.
- (a) Problems of Justice in Taxation.
 - (b) Problems of smuggling.
 - (c) Problems caused by Taxation.
 - (d) Problems of poor economy planners.
- (viii) Caroline is an estate owner. During the year ended 31 December 2002, her gross income was Shs. 3,000,000. What is Caroline's rental tax.
- (a) Shs. 600,000
 - (b) Shs. 480,000
 - (c) Shs. 168,000
 - (d) Nil.
- (ix) ATC Ltd is a small trader whose turnover for the year ended 31 December 2002 was Shs. 5,000,000. Advise ATC Ltd of the correct presumptive tax payable for the year ended 31 December 2002 under the Income Tax Act 1997 as amended by the Income Tax Amendment Bill 2002.

- (a) Shs. 100,000.
 - (b) Shs. 50,000.
 - (c) Nil.
 - (d) Shs. 25,000.
- (x) The threshold for a VAT registered trader to elect to account for VAT on cash basis is:
- (a) Shs. 100 million
 - (b) Shs. 200 million
 - (c) Shs. 12.5 million
 - (d) Shs. 50 million
- (xi) Which of the following combination best describes a resident company?
- (i) Incorporated under the laws of Uganda.
 - (ii) Management and control exercised in Uganda throughout the year of income.
 - (iii) Undertakes the majority of its operations in Uganda during the year of income.
 - (iv) Management and control exercised in Uganda at any time during the year of income.
- (a) (i), (ii) and (iv)
 - (b) (i), (iii) and (iv)
 - (c) (i), (ii) and (iii)
 - (d) (i) and (iv)
- (xii) Which of the following statements is correct about the primary mission of the Tax Appeals Tribunal?
- (a) Protection of the taxpayer from unfair assessment and collection methods and procedures by the Uganda Revenue Authority in an effort to maximise revenue collection.
 - (b) Ensuring that government receives the revenue due to it timely.
 - (c) Creating employment.
 - (d) Protection of taxpayer from paying taxes.

- (xiii) Which of the following statements are correct about an investment trader?
- (i) Is a trader who has been approved by Uganda Investment Authority as an investor in Uganda.
 - (ii) An investment trader whose business will only make exempt supplies will not be registered.
 - (iii) As soon as an investment trader makes taxable supplies and declares them on his/her VAT return he ceases to be an investment trader.
 - (iv) If after two years the investment trader has not made any taxable supplies, registration will be cancelled and an assessment for repayment of the total amount of the refunds you have received.
- (a) (i), (ii) and (iii)
(b) (ii), (iii) and (iv)
(c) and (ii)
(d) (i), (ii), (iii), and (iv)
- (xiv) Which of the following is a mismatch?
- (a) Employee's transport from home to place of work.
 - (b) Bonus not taxed on the employee.
 - (c) Employer's contribution to NSSF.
 - (d) Legal fees to recover company debt.
- (xv) Which of the following is/are classified under exempt supplies by the Value Added Tax Statute 1996 as amended by subsequent finance Acts?
- (i) Supply of computers, printers and accessories.
 - (ii) The supply of seeds, fertilisers and medicine.
 - (iii) The supply of education materials and the supply of printing services for educational materials.
 - (iv) The supply of educational materials.
- (a) (i), (ii) and (iv)
(b) (iv)
(c) (ii) and (i)
(d) (i) and (iv)

- (xvi) Which of the following is false?
- (a) The objective of taxation is to finance public expenditures like defence and roads.
 - (b) According to the Income Tax Act 1997, there is a difference between penalties imposed due to late furnishing of the return and under estimation of income.
 - (c) A tax payer other than a professional whose gross annual turnover is less than Shs. 5 million is exempt from presumptive tax.
 - (d) None of the above.
- (xvii) The Uganda Revenue Authority is headed by:
- (a) Hon Minister of Finance Planning and economic Development.
 - (b) Commissioner for Taxes.
 - (c) Secretary to Treasury.
 - (d) Commissioner General.
- (xviii) What do the following notes represent?
- Distribution of wealth.
 - Psychology of taxpayers.
 - Number of inhabitants.
- (a) Objectives of taxation.
 - (b) Canons of a good taxation system.
 - (c) Factors that influence taxable capacity of a country.
 - (d) Both (b) and (c).
- (xix) Victoria Ltd has acquired a new vessel named Kalangala express. Victoria Ltd has learnt that there is a provision for of wear and tear allowance under the Income Tax Act 1997 which it can take advantage of. Advise Victoria Ltd the rate to be applied in computing wear and tear.
- (a) 35%
 - (b) 30%
 - (c) 20%
 - (d) 40%
- (xx) Excise duty is also known as:
- (a) Commodity tax.
 - (b) Customs duty.
 - (c) Stamp duty.
 - (d) Domestic value added tax.

SECTION B**Question 2**

The Institute of Certified Public Accountants of Uganda (ICPAU) is planning to hold a seminar aimed at sensitising the public on the importance of taxation to Uganda's economic development.

The Secretary/Chief Executive of ICPAU has identified you as one of the potential presenters at this seminar. As part of the preparation, you have been requested to write to on the following:

1. Four reasons why the Uganda Government should impose tax on her citizens. **(6 marks)**
2. Four principles of a good taxation in Uganda. **(8 marks)**
3. The difference between tax avoidance and tax evasion. **(4 marks)**
4. Two problems associated with smuggling. **(4 marks)**

Note: Presentation will take **3 marks**

(Total 25 marks)

Question 3

- (a) James Kano is resident individual who is employed as a director of Mulungi Investments Ltd. Below are details of his monthly remuneration package:

| | Shs |
|-------------------------|-----------|
| Basic salary | 2,000,000 |
| Travelling allowance | 500,000 |
| Entertainment allowance | 900,000 |
| Medical allowance | 300,000 |
| Lunch allowance | 500,000 |

Additional information:

- (i) Mr. Kano is provided with an executive car which he uses for both official company business and for his private use. The market value of the car is Shs 40,000,000. Mr. Kano contributes Shs 200,000 per month towards fuel for this car. It is agreed that he used the car for approximately 100 days during the year for his private purposes.
- (ii) The company rents for Mr. Kano an executive mansion at Shs 2,000,000 per month.
- (iii) Telephone, electricity and water charges paid by the company amount to Shs 600,000 per month. Mr Kano contributes Shs 200,000 towards this expense.

- (iv) Mr. Kano was provided with a loan of Shs 12,000,000 by the company. He was charged an interest rate of 3% as opposed to the Bank of Uganda Treasury Bills rate of 10%

Required:

- (a) Compute Mr. Kano's annual chargeable income and the tax liability thereon. Show all your workings and state any assumptions made. **(15 marks)**

Assume a year has 360 days.

- (b) Mrs Alison Kano is the wife of Mr Kano. During the year ended 31 May 2003, Mrs Kano grossed rental income of Shs 36,000,000 from her property in Bukoto. During the year, Mrs Kano incurred the following expenses:

| | Shs |
|-------------------------|-----------|
| (i) Painting | 2,000,000 |
| (ii) Perimeter wall | 2,000,000 |
| (iii) Security expenses | 1,440,000 |

Required:

Compute chargeable rental income and tax thereon.

(5 marks)

- (c) Briefly explain how rental tax of non-resident individuals is computed.

(5 marks)

(Total 5 marks)

Question 4

Zebra (U) Limited made an accounting profit before tax of Shs. 26,000,000 for the year ended 31 May 2003.

The profit before tax was arrived at after charging the following expenses:

| | Shs |
|-----------------------------|------------|
| General expenses | 12,000,000 |
| Directors fees and expenses | 8,000,000 |
| Repairs and renewals | 9,000,000 |
| Subscriptions and donations | 2,000,000 |
| Bad debts | 3,000,000 |
| Rent | 2,450,000 |
| Legal and professional fees | 13,000,000 |
| Depreciation | 8,000,000 |

From the summaries provided, you establish that the above expenses are arrived at as follows:

| | | |
|-------|---|-------------------|
| (i) | Repairs and renewals | |
| | Purchase of a bicycle | 100,000 |
| | General repairs | 3,900,000 |
| | Purchase of office furniture | 5,000,000 |
| | | <u>9,000,000</u> |
| (ii) | Subscriptions and donations: | |
| | Registration fees to the Corporate Football League for Zebra Staff Team | 700,000 |
| | Subscription to Uganda manufacturers association | 1,000,000 |
| | X-mass donation to street children | <u>300,000</u> |
| | | <u>2,000,000</u> |
| (iii) | Bad debts | |
| | Trade debts | 2,000,000 |
| | Loan given to a sister-in-law | <u>1,000,000</u> |
| | | <u>3,000,000</u> |
| (iv) | Legal and professional fees | |
| | Audit fees | 8,000,000 |
| | Income tax deposit | 4,000,000 |
| | Payments to Multiplex Ltd for wrong parking | <u>1,000,000</u> |
| | | <u>13,000,000</u> |

Multiplex Ltd is a company which controls street parking in Kampala District.

Required:

- (a) Compute Zebra (U) Ltd's adjusted taxable profits for the year and the tax thereon. Ignore wear and tear deductions. State your assumptions clearly, if any.

(13 marks)

- (b) Advise Zebra (U) Ltd on the due date of filling the return for the year ended 31 May 2003.

(2 marks)

(Total 15 marks)

SECTION C**Question 5**

The Accountant of Boda Boda Limited has extracted the following summary from his records for the month ended 30 May 2003.

| | |
|---------------------------------------|------------------|
| (1) Sales day book | |
| Tax Invoice number | Amount Shs |
| 6015 | 800,000 |
| 6015 | 120,000 |
| 6017 | <u>400,000</u> |
| | <u>1,320,000</u> |
| (2) Materials | 650,000 |
| Advertising in the Monitor Newspaper. | 200,000 |
| Telephone expense | <u>20,000</u> |
| | <u>850,000</u> |
| (3) Petty cash book | 34,000 |
| Stationery | <u>28,000</u> |
| Sundries. | <u>62,000</u> |

The above figures include VAT and all purchases are from VAT registered suppliers.

Required

- (a) Compute the output tax, input tax and VAT payable. **(9 marks)**
- (b) When is the tax in (a) above payable) **(2 marks)**
- (c) Distinguish between zero rated and exempt supplies. **(4 marks)**
- (Total 15 marks)**

Question 6

Write short notes on the following:

- (a) Tax appeal tribunal **(5 marks)**
- (b) Self assessment. **(5 marks)**
- (c) Capital allowances. **(5 marks)**
- (Total 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 |
|--|---|
| 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 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 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 the lower |