

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

MONDAY, 15 DECEMBER 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 12.
7. Please, read further instructions on the answer book.

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SECTION A

Question 1

- (i) Which of the following assets qualify for initial allowance under the Income Tax Act 1997?
- (a) Motor vehicles, plant and machinery.
 - (b) Plant and machinery, furniture and fittings.
 - (c) Computers, plant and machinery.
 - (d) Motor vehicles and commercial buildings.
- (ii) A company is liable to pay two instalments of provisional tax in a year of income and these fall due:
- (a) On or before the last day of the sixth and twelfth month of the year of income.
 - (b) On or before the fifteenth day of the sixth and twelfth month of the year of income.
 - (c) In the fourth month after the year of income and in the six month of the year of income.
 - (d) At the beginning of the year and at the end of the year.
- (iii) Tim Twenda is an estate owner. During the year ended 31 December 2002, his gross income was Shs 3,000,000. What was Twenda's rental tax?
- (a) Shs. 600,000.
 - (b) Shs. 480,000.
 - (c) Shs. 168,000.
 - (d) Nil.
- (iv) Which of the following are allowable deductions for a sole trader?
- (a) Provisions, expenses incurred and the production of income.
 - (b) Employment costs and insurance of business items.
 - (c) Contributions to National Social Security Fund, fines and penalties.
 - (d) Advertising costs and children's school fees.
- (v) Below are notes drafted by a CPA student in preparation for December 2003 examinations series:
- Social welfare
 - Fair distribution of resources
 - Economic stability
 - Raising revenue
 - Protection policy

What do the notes relate to?

- (a) The functions of the Central Bank.
 - (b) Problems of taxation in developing countries like Uganda.
 - (c) Reasons why government levies taxes.
 - (d) Functions performed by the government.
- (vi) Disposal of business assets is subject to VAT at the rate of:
- (a) 30%.
 - (b) 15%.
 - (c) 0%.
 - (d) 17%.
- (vii) A claim for a VAT refund must be made within:
- (a) The tax period in which the tax was paid.
 - (b) 3 years after the end of the tax period in which the tax was over paid.
 - (c) 15 days of the month following that of the over payment.
 - (d) 4 months after the year of income.
- (viii) Which of the following influences the taxable capacity of a country?
- (i) Number of inhabitants.
 - (ii) Distribution of wealth.
 - (iii) Level of literacy.
 - (iv) Psychology of taxpayers.
- (a) (i), (ii), (iii) and (iv).
 - (b) (i), (iii) and (iii).
 - (c) (i) and (ii).
 - (d) (i), (ii) and (iv).
- (ix) On importation, a tax payer is obliged to pay the taxes below to Commissioner Customs and Excise:
- (a) Import duty, import license commission and rental tax.
 - (b) VAT, withholding tax and corporation tax.
 - (c) PAYE, import licence commission and import duty.
 - (d) Import duty, import licence commission, VAT and withholding tax.

- (x) Peter Omoding works for Gift Ltd. He resides in a company house. When computing his employment income, the income in relation to the house shall be:
- (a) The market rent of Peter's house.
 - (b) Zero.
 - (c) 15% of the employment income.
 - (d) The market rent or 15% of employment income including the market rate of the house.
- (xi) Excise duty is also known as:
- (a) Stamp duty.
 - (b) Value Added Tax.
 - (c) Commodity Tax.
 - (d) Import commission.
- (xii) The department that oversees and monitors the operations of the other departments in the Uganda Revenue Authority is:
- (a) Auditor General.
 - (b) Special Revenue Protection Unit (SPRS).
 - (c) Internal Audit and Investigations.
 - (d) Technical and Inspectorate.
- (xiii) Which of the following banks are designated to collect tax revenue for Uganda Revenue Authority?
- (a) Stanbic Bank, Standard Chartered Bank and Barclays Bank.
 - (b) Stanbic Bank, Standard Chartered Bank, Crane Bank and DFCU Bank.
 - (c) Stanbic Bank, Barclays Bank, Allied Bank and Crane Bank.
 - (d) Barclays Bank, Stanbic Bank, Centenary Rural Development Bank and DFCU Bank.
- (xiv) The excise duty rate applicable to mobile phone airtime is:
- (a) 10%.
 - (b) 7%.
 - (c) 17%.
 - (d) 4%.

- (xv) Kasule Ltd, returned output tax of Shs. 170,000 for the month ended 30 November 2003. What is the turnover of Kasule Ltd for November 2003 exclusive of Value Added Tax?
- (a) Shs. 1,170,000.
 - (b) Shs. 1,000,000.
 - (c) Shs. 900,000.
 - (d) Shs. 1,180,000.
- (xvi) In which of the following areas are hotels and tourist lodges required to account for VAT on the supply of accommodation?
- (a) Kampala and Jinja.
 - (b) Jinja, Entebbe and Kampala.
 - (c) Kampala and Entebbe.
 - (d) Mbarara and Jinja.
- (xvii) A taxpayer can elect in writing to treat the Commissioner as having made a decision to allow an objection. This happens in instances where an objection decision has not been made by the Commissioner within after lodging an objection with the Commissioner.
- (a) 45 days.
 - (b) 30 days.
 - (c) 90 days.
 - (d) 100 days.
- (xviii) Which of the following statements are correct in respect of an investment trader?
- (i) Is approved by Uganda Investment Authority as an investor in Uganda.
 - (ii) An investment trader whose business makes only exempt supplies cannot be registered
 - (iii) As soon as an investment trader makes taxable supplies and declares them on his or her VAT return, he or she ceases to be an investment trader.
 - (iv) If after two years an investment trader has not made any taxable supplies, registration will be cancelled and an assessment for repayment of the total amount of the refunds he/she would have received.
- (a) (i), (ii) and (iii).
 - (b) (i), (ii), (iii) and (iv).
 - (c) (ii), (iii) and (iv).
 - (d) (i) and (ii).

- (xix) Which of the following is a mismatch?
- (a) Gift tax.
 - (b) Personal income tax.
 - (c) Sumptuary tax.
 - (d) Value Added Tax.
- (xx) Which of the following is false about Domestic Value Added Tax?
- (a) Domestic VAT is only paid by persons who are not VAT registered.
 - (b) It is charged on goods imported by non-VAT registered persons whose value is less than Shs 4 million.
 - (c) For domestic value added tax to be charged, the goods must not be personal effects or motor vehicles.
 - (d) It is charged on goods imported by non-VAT registered persons whose value is Shs 4 million and above.

SECTION B

Question 2

Hope General Hardware Ltd is a resident company located in Kampala. Its accounting date is 30 November of every year. Below is an extract of the company's income statement for the year ended 30 November 2003:

	Notes	Shs '000	Shs '000
Gross Profit			646,000
Profit on sale of saloon car	1		2,000
Gross interest income from treasury bills			<u>32,600</u>
			680,600
Expenses:			
Legal and professional fees	2	33,905	
Bad debts	3	25,600	
Directors' remuneration	4	208,000	
Staff costs	5	161,500	
Donations	6	9,000	
Bicycle for messenger		95	
General Expenses	7	35,600	
Depreciation		43,250	
Selling & Distribution		23,650	
Bank Charges		<u>1,830</u>	
			<u>542,430</u>
Net Profit			<u>138,170</u>

Notes:

1. A saloon car which had cost Shs 10,000,000 on 1 December 2001 was disposed off at Shs 7,000,000 on 26 November 2003.
2. Legal and professional fees:

	Shs'000
Court fines for wrongful parking	1,000
Defending a legal suit for under declaration of imported goods	5,000
Lawyers fees for suing defaulting trade debtors	10,000
Defending the Managing Directors (MD) wife for reckless driving	5,000
Other business related legal expenses	<u>12,905</u>
	<u><u>33,905</u></u>
3. Bad debts:

Provision for doubtful debts	20,000
Bad debts written off during the year	7,200
Cash stolen by dismissed cashier	1,400
Insured bad debts recovered	<u>(3,000)</u>
	<u><u>25,600</u></u>
4. Directors' remuneration:

Salaries	100,000
Bonuses (No taxes were deducted)	20,000
Housing allowances	10,000
Private entertainment	10,000
School fees for directors' children	6,000
Company contribution to NSSF	13,000
Provision of gardeners and house servants	4,000
Payment of electricity and water bills for directors	5,000
Compensation to former director for wrongful termination of contract of employment	<u>40,000</u>
	<u><u>208,000</u></u>
5. Staff costs:

Salaries and wages	140,000
Medical Scheme expenses to AAR for all staff	5,000
Staff Christmas Party.	4,000
Air passage to an expatriate employee recruited from South Africa	3,000
Transport allowances	<u>9,500</u>
	<u><u>161,500</u></u>

6. Donations:

Shs'000

Agakhan Foundation	5,000
Managing Director's sister-in-law's graduation party	<u>4,000</u>
	<u>9,000</u>

7. General Expenses:

Subscription to Uganda National Chamber of Commerce	3,000
Stationery and Printing	5,600
Telephone Expenses	6,000
Repairs and Maintenance	10,000
Electricity and Water	4,330
Sundry Expenses	<u>6,670</u>
	<u>35,600</u>

8. Non-current assets purchased during the year:

Computer	2,500
Furniture and fittings	1,000
Motor Vehicle (Pajero) for the Managing Director	40,000
Machinery and Equipment	10,000
Pick-up for delivery of goods	<u>18,500</u>
	<u>72,000</u>

9. The written down values for depreciable assets as at 1 December 2002 were:

Class	Shs '000
I	13,500
II	34,000
IV	<u>27,000</u>
	<u>74,500</u>

Required:

- (a) Compute the capital allowances due to Hope (U) Ltd for the year ended 30 November 2003.
(6 marks)
- (b) Compute the company's taxable profits and tax thereon for the year ended 30 November 2003.
(16 marks)
- (c) Distinguish between substituted year of income and transitional year of income.
(3 marks)
- (Total 25 marks)**

Question 3

- (a) Define the term resident when applied to:
- (i) an individual. **(3 marks)**
 - (ii) a partnership. **(3 marks)**
- (b) Give the case for and against Pay As You Earn (PAYE) as a system of tax collection. **(6 marks)**
- (c) Mr. John Okello is a resident individual who is employed as a Sales Executive by Webale Investment Ltd. Below are details of his monthly remuneration for the year ending 30 June 2003:

	Shs
Basic Pay	4,500,000
Bonus	500,000
Housing Allowance	1,000,000
Medical Allowance	500,000
Lunch Allowance	300,000

Additional information:

- (i) Mr. Okello is provided with a double Cabin Pick-up which he uses for both official business and for private purposes. The market value of the car acquired on 2 July 2002 is Shs. 20,000,000. Okello uses the car for approximately 150 days during the year for private purposes. He however contributes Shs. 100,000 per month towards maintenance costs of the car.
- (ii) His telephone, electricity and water bills are paid by the company as provided for in his employment contract. These together amount to Shs. 800,000 per month.
- (iii) He received a loan of Shs 10,000,000 at an interest rate of 10% per annum from his employer to purchase a piece of land on 2 July 2002. Assume that the Bank of Uganda discount rate was 18%.

Required:

Compute Mr. John Okello's chargeable annual income for the year ended 30 June 2003 and tax thereon. Assume the year had 360 days.

(13 marks)
(Total 25 marks)

SECTION C**Question 4**

- (a) Give three benefits of Value Added Tax (VAT) in the context of the principles of a good tax system. **(3 marks)**
- (b) Channel Ltd made the following purchases and sales for the month of November 2003. The prices are inclusive of VAT at the standard rate.

Date	Transaction	Unit Price Shs	Qty	Value Shs'000
1.11.2003	Purchases	56,000	4,000	224,000
4.11.2003	Sales	72,000	400	28,800
5.11.2003	Sales	72,000	800	57,600
10.11.2003	Sales	72,000	2,000	144,000
20.11.2003	Purchases	64,000	3,000	192,000
24.11.2003	Sales	87,200	800	69,760
30.11.2003	Sales	80,000	2,000	160,000

Required:

- (i) Compute the VAT payable by Channel Ltd for the month of November 2003. **(6 marks)**
- (ii) When is the VAT due payable? **(1 mark)**
- (c) Jack Kimonde, the Accountant of Channel Ltd, has instructed you to complete the November 2003 Value Added Tax Return Form using the figures in **b(i)** for his signature on 10 December 2003. The Company's TIN is X01-0000-8071-T and VAT Registration Number is 93922-Z. The address is 100 Bukoto Street, P.O. Box 12464, Kampala.

The payment will be made to the Expansion and Collection Department of URA, located at Nakawa, Jinja Road. Cheque No. 100001 drawn on Stanbic Bank from the company's Account No 013344 has been prepared.

Required:

Complete Channel Ltd's November 2003 VAT Return that you are provided with for Jack Kimonde's Signature.

(5 marks)
(Total 15 marks)

Question 5

The Institute of Certified Public Accountants of Uganda has organised a Government of Uganda Budget Proposals Seminar for the financial year 2004/2005. Mr. Akili Mingi, the Managing Director of World Tours & Travel is one of the participants. Mr. Akili Mingi has approached you, the Technical Assistant of ICPAU for explanations on some issues.

Required:

Write a letter explaining to him the following:

- (a) Self assessments. **(6 marks)**
- (b) Value Added Tax on hotel accommodation. **(3 marks)**
- (c) Taxation of Small Business Taxpayers under the Income Tax Act 1997 as amended by the subsequent Finance Acts.

(6 marks)
(Total 15 marks)

Question 6.

- (a) The Uganda National Budget 2003/2004 introduced the idea of establishing Export Processing Zones (EPZs).

Required:

Explain the term Export Processing Zones.

(5 marks)

- (b) “The Customs Union could be a positive undertaking if run properly, but can turn into a disaster for consumers and manufactures if mismanaged”, Chairman, Uganda Manufacturers Association as quoted by the Ugandan Press.

Required:

Explain what you understand by the term Customs Union and give three advantages and three disadvantages which will accrue to Uganda as a result of joining the Customs Union.

(10 marks)
(Total 15 marks)

TAX RATES
RESIDENT INDIVIDUAL INCOME TAX RATES

Chargeable Income	Tax Rate
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.

NON-RESIDENT INDIVIDUAL INCOME TAX RATES

Chargeable Income	Tax Rate
Not exceeding Shs. 2,820,000	10%
Exceeding Shs. 2,820,000 but not exceeding Shs. 4,920,000	Shs 282,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000
Exceeding Shs 4,920,000	Shs 702,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000.

SMALL BUSINESS TAXPAYERS TAX RATE

Gross Turn Over	Tax Payable
Where gross turnover of a taxpayer does not exceed Shs. 5,000,000 a year.	Nil.
Where gross turnover of a taxpayer exceeds Shs. 5,000,000 but does not exceed Shs. 20,000,000 a year.	Shs 100,000.
Where gross turnover of a taxpayer exceeds Shs. 20,000,000 but does not exceed Shs. 30,000,000 a year.	Shs. 250,000 or 1% of gross turnover, whichever is the lower.
Where gross turnover of a taxpayer exceeds Shs. 30,000,000 but does not exceed Shs. 40,000,000 a year.	Shs. 350,000 or 1% of gross turnover, whichever is the lower.
Where gross turnover of a 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.