

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 16 DECEMBER 2004

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 9.
7. Please, read further instructions on the answer book.

SECTION A

Question 1

- (i) Which of the following statements is correct about corporation tax in Uganda?
 - (a) Direct tax charged at a rate of 30% on taxable profits.
 - (b) It is an indirect tax charged at a rate of 30% on taxable profits.
 - (c) Its incidence and impact falls on different persons.
 - (d) Resident corporate taxpayers are charged at a rate of 30% and Non-Resident Corporate taxpayers are charged at 35%.
- (vii) The department which deals with public relations in the URA is called:
 - (a) Tax Payer Education.
 - (b) Public Relations.
 - (c) Answering and Publicity.
 - (d) Media.
- (viii) 'Services' under the VAT Statute means:
 - (a) An import or export of services.
 - (b) Anything other than a good.
 - (c) An intangible supply.
 - (d) Anything which is not a good or money.
- (ix) The rate of interest chargeable as a penalty under the VAT Statute is:
 - (a) Simple interest of 5%.
 - (b) Simple interest of 2%.
 - (c) 2% compounded.
 - (d) 10% compounded.
- (v) A supplier can claim for input tax on a purchase of:
 - (a) 90% telephone expenses.
 - (b) Exempt supply/purchase.
 - (c) Purchases of Insurance services.
 - (d) Purchase/payment of educational services.
- (vi) Which of the statements is false?
 - (a) There is VAT on disposal of business assets.
 - (b) Disposal of business assets is subject either to a capital gain or a capital loss.
 - (c) Trading stock is part of business assets.
 - (d) Business assets are subject to VAT on acquisition.

- (vii) Which of the following items is an allowable deduction for banks?
- (a) Specific provision for bad debts.
 - (b) Employer's contribution to NSSF.
 - (c) Depreciation computed from accounting principles.
 - (d) Income tax.
- (viii) The normal year of income under the Income Tax Act 1997 means a:
- (a) Period of 12 months ending on 30 June.
 - (b) Period commencing on 1 January and ending on 31 December.
 - (c) A Taxpayer's accounting period.
 - (d) Transitional year of income.
- (ix) Which of the following constitutes taxable gross income of a non-resident person in Uganda?
- (a) Worldwide income.
 - (b) Income from employment from all geographical sources.
 - (c) Only income derived from sources in Uganda.
 - (d) Rental and dividend income only.
- (x) In calculating the rental income of a resident individual subject to tax a deduction equivalent of the total rental income is allowed against the income.
- (a) 10%.
 - (b) 20%.
 - (c) 50%.
 - (d) 5%.
- (xi) A person is allowed start up costs at the rate of ... over a period of .. under the Income Tax Act, 1997.
- (a) 50%, 2 years.
 - (b) 10%, 10 years.
 - (c) 20%, 5 years.
 - (d) 25%, 4 years.
- (xii) An assessed loss can be carried forward to be offset against future taxable profits:
- (a) Indefinitely.
 - (b) For a period of 5 years.
 - (c) For a period of 7 years.
 - (d) For a period of 10 years.

- (xiii) Which of following countries are the 'partner states' of the East African Customs Union?
- (a) Uganda, Kenya and Tanzania.
 - (b) Uganda, Kenya, Tanzania and Rwanda.
 - (c) Kenya, Tanzania, Uganda and Zanzibar
 - (d) Uganda, Kenya, Tanzania, Burundi and Rwanda.
- (xiv) Below are summaries extracted by an ATC(U) Student:
- Annuity.
 - Natural resource payment.
 - Royalties.
 - Dividends.
- The summaries above relate to:
- (a) Exempt Income.
 - (b) Property Income.
 - (c) Zero-rated Income.
 - (a) Miscellaneous Income.
- (xv) A tax fraction per the VAT Statute means:
- (a) 10/110.
 - (b) 83/100.
 - (c) 17/117.
 - (d) 17/100.
- (xvi) A refund of VAT on bad debts is only considered if the supplier has not received payment within:
- (a) 4 years.
 - (b) 2 years.
 - (c) 3 years.
 - (d) 7 years.
- (xvii) Which of the following statements is false?
- (a) The annual VAT threshold for registration purposes is Shs 20 million.
 - (b) A trader is required to display his VAT registration certificate.
 - (c) Withholding tax is a form of an advance income tax.
 - (d) Taxation under the 'small taxpayers' category was introduced by the Income Tax Act 1997.
- (xviii) Graduated Tax and property rates are collected by:
- (a) URA.
 - (b) Banks.
 - (c) Local Authorities.
 - (d) Parastatals.

- (xix) URA uses various exchange rates for import tax and VAT purposes which are used to convert the foreign currency into local currencies. These are published daily through:
- (a) The Uganda Gazette.
 - (b) URA news magazines.
 - (c) The local newspapers.
 - (d) Ministry of Finance journals.
- (xx) An individual's rental income for 2003 was Shs. 2,000,000. Her tax payable is Shs:
- (a) Nil.
 - (b) 8,000.
 - (c) 600,000.
 - (d) 12,000.

SECTION B

Question 2

Bayise Company Limited has 6 employees and 2 directors. For the month of November 2004, the company's payroll before deduction of PAYE was as below:

NAME	GROSS PAY Shs
1. Geoffrey Mugagga	3,200,000
2. Mustapha Arigye	2,400,000
3. Benard Mugisha	390,000
4. Lisa Okotcu	283,000
5. Issa Ogowal	180,000
6. Musa Ali	100,000
7. Director 1	4,000,000
8. Director 2	<u>3,000,000</u>
Total	<u>13,553,000</u>

Required:

- (a) Compute the PAYE and NSSF deductible from each employee and director for the month of November 2004. (10 marks)
- (b) When should Bayise Co Ltd. remit the tax deducted to URA? (1 mark)
- (c) During the year, Bayise paid a lump sum payment to James Magona of Shs. 10,000,000. He had been in the company's employment for the last 12 years. This was at his retirement. Compute the tax which James Magona should pay on his lump sum receipt. (6 marks)

- (d) To what extent does P.A.Y.E. as a system of tax collection comply with the canons of a good tax system.

(8 marks)
(Total 25 marks)

Question 3

- (a) Define the following:
- (i) Value Added Tax. **(2 marks)**
 - (ii) Tax Point. **(2 marks)**
 - (iii) Simplified Tax Invoice. **(2 marks)**
- (b) Give six contents of a simplified tax invoice. **(3 marks)**
- (c) Distinguish between:
- (i) Zero rated supplies and exempt supplies. **(4 marks)**
 - (ii) Cash Basis and Invoice Basis Accounting for VAT purposes. **(4 marks)**
- (d) Biggie Enterprises is a supermarket dealing in various commodities. The following are the company's transactions for the period ended 30 November 2004.

ITEM	PURCHASES	SALES
	Shs	Shs
Beer	702,000	350,000
Soda	234,000	330,000
Sugar	819,000	460,000
Beauty products	585,000	750,000
Furniture	117,000	
Motor vehicle	5,850,000	

Notes:

- (i) The furniture was for the proprietor's home use.
- (ii) The vehicle is used both for home and business purposes on a ratio of 1:1.
- (iii) The supermarket paid telephone bills of Shs 100,000 (VAT exclusive).
- (iv) The purchase in the above table is VAT inclusive, whereas the sales were VAT exclusive.

Required:

The supermarket's products are all subject to VAT. Prepare Biggies VAT account for the period ended November 2004.

(8 marks)
(Total 25 marks)

SECTION C**Question 4**

Abby and Sam Mukiibi are wife and husband. The two formed a partnership on 11 July 2003. The partnership name was A & S Associates dealing in road construction. The business' head office is in Entebbe and the two have equal shares in the business. They acquired the following assets during the year:

	Shs '000
A computer	1,000
Construction and earth moving equipment	3,000
Motor vehicle	7,000

The partnership income statement for the period ended 30 June 2004 was as follows:

	Shs '000'	Shs '000'
Sales revenue		50,000
Interest from treasury bills		<u>2,000</u>
		52,000
Cost of sales	20,000	
Salaries	5,000	
NSSF partnership contribution	300	
Entertainment	200	
VAT penalty for late filing	10	
Provision for bad debts	2,200	
Donations	500	
Uniforms for staff	500	
Electricity and water	50	
Advertising	2,000	
Consultancy	5,000	
Private expenses for both partners	7,000	
Withholding tax	500	
Depreciation	940	
Unrealised exchange loss	1,000	
Rent	2,000	
Security	500	
Commission	<u>1,500</u>	<u>49,200</u>
Operating profit		<u>2,800</u>

Sam has a shop from which he made income subject to tax of Shs. 1,300,000.

Required:

(a) Calculate the capital allowances due to the partnership.

(4 marks)

(b) Calculate the partnership's taxable income.

(8 marks)

- (c) When is the due date of submission of tax returns and which entities are required to submit tax returns?

(3 marks)
(Total 15 marks)

Question 5

“The subjects of the state should contribute towards the government as early as possible in proportion to their respective abilities”, said a presenter at an ICPAU Tax Seminar.

Required:

- (a) Explain the underlying principle of the above statement.
(b) Discuss the difficulties encountered by tax authorities in applying the above principle.

(5 marks)
(10 marks)
(Total 15 marks)

Question 6

Write short notes on the following:

- (a) Post Importation Audit.
(b) Export Processing Zone.
(c) Non-Tax Revenue in Central Government. Give examples.

(5 marks)
(5 marks)
(5 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.