

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 24 JUNE 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) The budgets for the three E. African countries are usually read on the same day by:
 - (a) 15th of June.
 - (b) 20th of January.
 - (c) The end of July.
 - (d) The end of June.
- (ii) Which of the following incomes is exempt from tax?
 - (a) Responsibility allowance for a foreman.
 - (b) Lumpsum payment of social security contributions to a retired employee by NSSF.
 - (c) Salary of a teacher.
 - (d) Interest from treasury bills.
- (iii) The rate of Income Tax for resident companies is:
 - (a) 30%.
 - (b) 17%.
 - (c) 20%.
 - (d) 5%.
- (iv) TIN stands for:
 - (a) Total Income Number.
 - (b) Tax Identification Number.
 - (c) The Income Number.
 - (d) Tax Invoice Number.
- (v) Which of the following expenses is not allowable against a company's taxable income?
 - (a) Unrealised foreign exchange losses.
 - (b) Income tax on imports.
 - (c) Housing allowances to employees.
 - (d) End of year bonuses to employees.
- (vi) Value Added Tax is operated by the department of URA.
 - (a) VAT.
 - (b) Domestic Direct Taxes.
 - (c) Domestic Indirect Taxes.
 - (d) Customs and Excise.

- (vii) Pay As You Earn withheld by an employer should be remitted to URA within:
- (a) 30 days after the end of the month in which the salary was paid.
 - (b) 17 days after the end of month of payment of salary.
 - (c) 2 weeks of payment of salary.
 - (d) 15 days after the end of the month in which the salary was paid.
- (viii) Under the Value Added Tax (VAT) Statute a taxpayer is required to keep records required by the Commissioner for a period of:
- (a) 6 years.
 - (b) 5 years.
 - (c) 10 years.
 - (d) 7 years.
- (ix) What do the following notes relate to?
- Distribution of wealth.
 - Method of Taxation.
 - Psychology of taxpayer.
 - Inflation.
- (a) Problems of taxation in developing countries.
 - (b) Reasons why government levies taxes.
 - (c) Factors affecting the taxable capacity of a country.
 - (d) Functions of the Uganda Revenue Authority.
- (x) An individual whose accounting date is 31 December pays provisional tax in the months of:
- (a) January, April, July, November.
 - (b) March, June, September, December.
 - (c) February, May, August, December.
 - (d) January, March, July, December.
- (xi) Rats Ltd is a VAT registered person, dealing in general merchandise. The company paid a tax invoice of Shs 585,000 for telephone expenses during May 2004. What is the input tax claimable?
- (a) Shs 8,500.
 - (b) Shs 99,450.
 - (c) Shs 85,000.
 - (d) Shs 76,500.

- (xii) Which of the following statements best describes the organizations listed below under the Income Tax Act, 1997?
- European Union.
 - Agakhan Foundation.
 - International Development Associates.
 - International Monetary Fund.
 - International Bank for Reconstruction and Development.
- (a) They are international organizations which aid developing countries like Uganda.
- (b) They are donor institutions which finance part of Uganda's budget deficit.
- (c) Some of them are Institutions exempted from Tax.
- (d) They are exempt organisations.
- (xiii) A person who incurs start up costs when starting a business is allowed a deduction equal to:
- (a) The start up costs in the first year of operation.
- (b) 25% in the first year of operation and in the 3 subsequent years.
- (c) 50% in the first year and another 50% in the second year.
- (d) 100% as this is capital expenditure.
- (xiv) The system where a taxpayer determines his final tax liability is called:
- (a) Final tax assessment.
- (b) Comprehensive tax assessment.
- (c) Self assessment.
- (d) Direct tax assessment.
- (xv) Which of the following is a zero rated supply?
- (a) Import of goods and services.
- (b) The supply of educational services.
- (c) The supply of seeds and hoes.
- (d) Medical and dental services.
- (xvi) Income tax overpaid by a resident company can be carried forward to offset against future tax payable:
- (a) For a period of 5 years.
- (b) For a period of 10 years.
- (c) Indefinitely.
- (d) For a period of 6 years.

- (xvii) Uganda Revenue Authority falls under the Ministry of:
- (a) Trade, Industry and Tourism.
 - (b) Finance, Planning and Economic Development.
 - (c) Ethics and Integrity.
 - (d) Internal Affairs.
- (xviii) Which of the following statements are false about Domestic Value Added Tax?
- (i) It is charged on goods whose value is below Shs 4 million and imported by non VAT registered persons.
 - (ii) The importer must be VAT registered.
 - (iii) It was introduced on 1 March, 2004.
 - (iv) The goods must be standard rated.
- (a) (ii) and (iv).
 - (b) (iii) and (iv).
 - (c) (i).
 - (d) (i) and (iii).
- (xix) Capital gains tax is defined as the tax arising from the:
- (a) Disposal of depreciable assets.
 - (b) Transfer of shares.
 - (c) Disposal of shares and movable property.
 - (d) Disposal of non-depreciable assets.
- (xx) The Express Penalty Scheme for road traffic offenders which was introduced in 2002 is enforced by the:
- (a) Uganda Revenue Authority.
 - (b) Police.
 - (c) Uganda Taxi Owners and Drivers Association.
 - (d) High Court.

SECTION B**Question 2**

Xhosa Ltd employed Mrs Sabrina Ouko on 1 March 2003. Mrs Ouko was recruited from Malawi. Her terms of contract were as follows:

- A basic salary of Shs 2 million per month.
- A housing allowance of Shs 500,000 per month.
- Provided with servants whose worth was Shs 500,000 per month.

Air passage money to Uganda on taking up the job of Shs 600,000, thereafter leave passage money each year of Shs 600,000. Sabrina utilized her leave passage money in November 2003.

- Payment for utilities of Shs 70,000 per month.
- Dog food of Shs 100,000 per month.
- A vehicle with a market value of Shs 18 million. Sabrina used the vehicle for private purposes for 30 days. Assume that there are 360 days in a year.
- A medical allowance of Shs 1.2 million per year.
- During this period Mrs Ouko obtained an interest free loan of Shs 3,000,000. The statutory rate for this period was 15%. Sabrina is a resident.

Required:

- (a) Calculate the income subject to tax for the period of 10 months. **(16 marks)**
- (b) Calculate the tax payable for the period of 10 months i.e. 1 March to 31 December 2003. **(5 marks)**
- (c) Give four types of employment income that are tax exempt. **(4 marks)**
- (Total 25 marks)**

Question 3

New World of Beauties Ltd. is a new company in Uganda. Its shareholders are from Uganda, Kenya and Tanzania. The company deals in the sale of cigarettes. The company shall be subject to both income taxes and VAT.

The management has learnt that the government introduced tax stamps which are of benefit to both the URA and cigarette dealers and manufacturers.

The Managing Director of New World of Beauties Ltd. has contacted XYZ Certified Public Accountants where you work for advice.

Required:

Draft a letter, for the signature of the Tax Partner, advising the Managing Director of New World of Beauties Ltd. on the following issues:

- (a) The three registration numbers they have to obtain from URA in respect of income tax and VAT. (3 marks)
 - (b) The three income tax returns which they have to file with URA each year and the due dates of the returns. (5 marks)
 - (c) The monthly income tax and VAT returns to be filed with URA and the due dates for filing them. (4 marks)
 - (d) Taxation of resident individuals, non-resident individuals and resident companies under the Income Tax Act, 1997. (3 marks)
 - (e) Four benefits of tax stamps to URA. (4 marks)
 - (f) Four benefits of tax stamps to the cigarette manufacturers. (4 marks)
 - **Presentation.** (2 marks)
- (Total 25 marks)**

SECTION C**Question 4**

- (a) What is a tax point as provided under the VAT Statute? (5 marks)
- (b) Care Africa Ltd deals in the sale of Cement. It is registered for VAT. During May 2004, the company had the following taxable supplies:
 - Sales worth Shs 42,350,000 VAT Exclusive.
 - Purchases of Shs 58,200,000 VAT Exclusive.
 - Goods worth Shs 50,000 VAT Exclusive were put to own use.
 - A gift of 2 bags of cement worth Shs 25,000, exclusive of VAT was given to Busolwe Secondary School.

Required:

Prepare the VAT account of Care Africa Ltd. for the month of May 2004.

- (c) When can a Company claim for a VAT refund and under what circumstances can an offset be claimed? (6 marks)
- (4 marks)**

(Total 15 marks)**Question 5**

- (a) Distinguish between the taxation of the rental income of an individual and that of a company. **(2 marks)**
- (b) Mr. Edward Kaggwa has a shop on Luwum Street. His gross turnover from the shop for the year ended 31 December 2003 was Shs 47,200,000. In addition Mr. Kaggwa earned rental income from his properties as follows:
- Residential properties Shs 15,000,000.
 - Commercial properties Shs 23,200,000.

Required:

- (i) Calculate Mr. Kaggwa's income tax payable from rental properties. **(5 marks)**
- (ii) What is the income tax payable by Mr. Kaggwa from his business on Luwum Street? **(2 marks)**
- (c) Explain four principles of a good tax system with particular emphasis on their relationship to rental income tax. **(6 marks)**

(Total 15 marks)**Question 6**

Geez Beauty Products Ltd. is a company dealing in the manufacture of cosmetics. The company is located in Luwero. During the year ended 31 December 2002, the company purchased the following capital assets:

	Shs
• Computers	15,000,000
• Computer software	2,000,000
• A Nissan Patrol	65,000,000
• Isuzu Truck	40,000,000
• Machinery	30,000,000
• Office furniture	10,000,000

The company constructed an industrial building which was commissioned in 2002. The building cost Shs 35,000,000. The land on which it stands was bought at Shs 8,000,000 on 1 June 2001.

Required:

Compute the capital allowances due to the company for the years ending 31 December 2002 and 31 December 2003.

(15marks)

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.

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.