

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 23 JUNE 2005

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 10.
7. Please, read further instructions on the answer book.

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SECTION A

Question 1

- (i) Expenditure incurred on scientific research in order to develop a person's business is, under the Income Tax Act.
 - (a) Not a deductible expense.
 - (b) Claimed on a straight-line basis over the useful life of the intangible asset.
 - (c) Fully deductible in the year in which it is incurred.
 - (d) A depreciable asset.
- (ii) The current rate of resident withholding tax is:
 - (a) 4%.
 - (b) 5%.
 - (c) 6%.
 - (d) 15%.
- (iii) The limit, beyond which the additional taxation would produce economically harmful results and exceed the gain to the community from public funds is known as:
 - (a) Incidence of tax.
 - (b) Taxable capacity.
 - (c) Absolute taxable capacity.
 - (d) Relative taxable capacity.
- (iv) Registered taxpayers are obliged to display certificate at their business premises.
 - (a) Income Tax Clearance.
 - (b) Customs.
 - (c) License and road safety.
 - (d) VAT.
- (v) The rate of interest charged as a penalty under the VAT Statute is:
 - (a) 2% simple interest.
 - (b) 5%.
 - (c) 2% compounded.
 - (d) None of the above.
- (vi) A compulsory contribution imposed by the state upon its citizens whereby both the incidence and burden fall on the same person is called:
 - (a) Progressive tax.
 - (b) Regressive tax.
 - (c) Indirect tax.
 - (d) Direct tax.

- (vii) The minimum period in which a trader can claim for a refund of VAT on bad debt is:
- (a) 2 years.
 - (b) 1 month.
 - (c) 5 years.
 - (d) 1 year.

Use the following extract to answer questions (viii) – (ix):

Joe & Jack Ltd is a company resident in Uganda. During the company's year ended 31 December 2004, the company contracted Boo & Boo Company Limited of United Kingdom to train its staff in various fields. The training was conducted in Uganda over a period of two months. Boo & Boo's gross fees were Shs 25 million.

- (viii) Which taxes would the services of Boo & Boo be subject to in Uganda?
- (a) Corporation tax and customs dues.
 - (b) Withholding tax and VAT on imported services.
 - (c) PAYE and withholding tax.
 - (d) Import duty and excise duty.
- (ix) Boo & Boo Company Limited:
- (a) is subject to tax under small taxpayers' rates.
 - (b) is a resident company of Uganda for tax purposes.
 - (c) has to pay withholding tax in Uganda of Shs 3,750,000.
 - (d) would not suffer any taxes in Uganda.
- (x) According to the VAT Statute, a taxable person must provide a to another taxable person at the time of sale or within 14 days of being requested to do so by another taxable person to whom goods or services have been supplied.
- (a) taxable clearance.
 - (b) receipt.
 - (c) tax invoice.
 - (d) proforma invoice.
- (xi) Naomi is a full time employee of Golden Bank Uganda Limited with no other sources of income. The Bank deducts and remits PAYE on her salary. Which of the following statements is correct about Naomi's tax affairs?
- (a) The PAYE deducted by Golden Bank is a final tax for Naomi.
 - (b) Naomi has to file a tax return at the end of the year of income.
 - (c) Golden Bank is deducting PAYE wrongly from Naomi's income.
 - (d) Naomi should be subject to withholding tax at the rate of 15%.

Use the following information to answer questions (xii) – (xiii):

Mukasa is a resident individual who owns commercial rental properties at Nsambya in Kampala. For the year ended 30 April 2005 he received Shs 35,000,000 (VAT inclusive).

- (xii) Calculate the rental tax due from Mukasa.
- (a) Shs 5,000,000.
 - (b) Shs 4,474,325
 - (c) Shs 4,734,400
 - (d) Shs 5,768,000
- (xiii) How much is Mukasa's rental income exclusive of VAT?
- (a) Shs 29,050,000.
 - (b) Shs 35,000,000.
 - (c) Shs 29,914,529.
 - (d) Shs 30,000,000.
- (xiv) What do the following notes relate to?
- Time savings.
 - User friendly.
 - Transparent.
 - Penalties lower.
- (a) Post importation audit.
 - (b) Merits of East African Customs Union.
 - (c) Advantages of Express Penalty Scheme.
 - (d) Advantages of the Tax Appeals Tribunal.
- (xv) Which of the following statements are false about Value Added Tax on hotel accommodation?
- (i) It is exempt outside the towns of Kampala and Jinja.
 - (ii) It is not exempt in Kampala and Entebbe.
 - (iii) It is exempt outside the towns of Kampala and Entebbe.
 - (iv) It is zero-rated.
- (a) (i) and (iv).
 - (b) (ii) and (iv).
 - (c) (iii) and (iv).
 - (d) (ii)

- (xvi) X and Y are in partnership, trading as XY & Co, Certified Public Accountants. Who is liable to pay tax on the partnership income?
- (a) XY & Co., Certified Public Accountants.
 - (b) X and Y in their individual capacities.
 - (c) Either X or Y, whoever has other income.
 - (d) X, Y and XY & Co, Certified Public Accountants.
- (xvii) Which of the following is false about the Tax Appeals Tribunal?
- (a) It possesses all the powers of the High Court.
 - (b) It is independent of the Uganda Revenue Authority.
 - (c) It discharges its functions under the direction and control of the Minister of Finance, Planning and Economic Development.
 - (d) It is empowered to review any tax decision of the Uganda Revenue Authority.
- (xviii) Where a Government institution is paying a supplier, withholding tax has to be deducted if the payment is in excess of Shs:
- (a) 50,000,000.
 - (b) 1,000,000.
 - (c) 20,000,000.
 - (d) 4,000,000.
- (xix) Which of the following are odd?
- (i) Protectionist policies.
 - (ii) Provisions of social services.
 - (iii) Micro and macro economics stability.
 - (iv) Distribution of wealth.
 - (v) Number of inhabitants.
- (a) (i), (ii) and (v).
 - (b) (iii) and (iv).
 - (c) (iv) and (v).
 - (d) (ii) and (v).
- (xx) Which of the following is mismatch?
- (a) Passport fees.
 - (b) Mining fees.
 - (c) Land transfer fees.
 - (d) Rental fees.

SECTION B**Question2**

(a) Define the following terms used in the Income Tax Act, 1997:

- (i) Short term resident. **(2 marks)**
- (ii) Employment. **(2 marks)**
- (iii) Person. **(2 marks)**

(b) Jojo Company Limited has five employees. It commenced business in the July 2003. Its Accountant resigned from the company on 30 April 2005 and has not yet been replaced. Jojo has approached you today, the 23 June 2005 to guide the company in calculating the PAYE which is due to URA for May 2005. The employees' salaries had been paid on 25 May 2005 but PAYE returns were not submitted to URA.

Below are the cash emoluments received by employees in May 2005:

No	Name of employee	Basic salary	Lunch allowance	Transport allowance	Overtime	Total
1	Sam Okello	240,000	30,000	500,000	200,000	970,000
2	Susan Wanga	100,000	30,000	20,000	40,000	190,000
3	Joseph Mumbya	180,000	30,000	40,000	80,000	330,000
4	Stella Young	400,000	50,000			450,000
5	Jonathan Magezi	450,000	50,000	200,000		700,000

Additional information:

- (i) Stella Young was provided with a company car, which cost Shs 9 million. She used it for private purposes for only 2 days during the month.
- (ii) Jonathan Magezi was provided with a company house whose annual market value was Shs 2 million.

Required:

- (i) Compute the PAYE which is due from Jojo Company Ltd for all its employees for the month of June 2005. **(14 marks)**
- (ii) State the due date for submission of PAYE returns to URA for the month of May 2005 and the consequences of late submission, if any. **(3 marks)**
- (c) List four sources of employment income other than those in (b) above, under the Income Tax Act, 1997. **(2 marks)**

(Total 25 marks)

Question 3

- (a) Define the term resident when applied to a company. **(3 marks)**
- (b) Under what circumstances are donations incurred by a taxpayer allowed for income tax purposes. **(3 marks)**
- (c) Mukisa Company Limited is located in Kasese. The company's operations for the year ended 31 December 2004 were as below:

Mukisa Company Ltd Income Statement for the period ended 31 December 2004	
Sales	250,000,000
Cost of sales	<u>156,000,000</u>
Gross profit	94,000,000
Expenses:	
Salaries and wages	26,700,000
Employees' NSSF contribution	2,000,000
Depreciation	4,000,000
Motor vehicle	10,000,000
Withholding tax	400,000
Penalty for under declaring VAT	350,000
Provision for bad debts (Not specific)	3,700,000
Start up costs	500,000
Donations	70,000
Rent	5,000,000
Staff training	768,000
Directors fees	9,000,600
Computer	<u>15,000,000</u>
	<u>77,488,600</u>
Net profit	<u>16,511,400</u>

Capital allowances:

Particulars	Computers	Motor Vehicles	Equipment	Furniture & Fittings
	Shs	Shs	Shs	Shs
	Class 1	Class 2	Class 4	Class 4
Tax written down values b/f	3,500,000	4,000,000	2,000,000	4,000,000

In addition to the above information, the company purchased the following assets during the year ended 31 December, 2005:

- Computers of Shs 3,000,000.
- Commercial vehicles worth Shs 20,000,000.

- Plant & equipment for Shs 4,500,000.
- Furniture & fittings for Shs 1,500,000.

Required:

- (i) Compute the applicable capital allowances. **(7 marks)**
 (ii) Compute the tax payable by Mukisa Company Ltd. **(12 marks)**
(Total 25 marks)

SECTION C**Question 4**

- (a) Distinguish between cash basis and invoice basis of accounting for VAT. **(4 marks)**
 (b) Rosie Enterprises Ltd is registered for VAT. It claims VAT offsets instead of refunds where the input tax exceeds the output tax in any particular tax period. Below are its standard rated transactions for January to March 2005:

January	Shs '000
Sales VAT Inclusive	380,000
Purchases VAT Exclusive	950,000

February	
Sales VAT Inclusive	690,000
Purchases VAT Exclusive	400,000

March	
Sales VAT Inclusive	720,000
Purchases	0

Required:

Prepare Rosie Enterprises VAT account for the three months.

- (6 marks)**
 (c) Mrs Rosie Okello is a housewife with rental properties which she inherited from her father. For the year ended 31 December 2004 she received Shs 7,300,000 from the properties.

Required:

Calculate the income tax payable by Mrs Rosie Okello.

(5 marks)
(Total 15 marks)

Question 5

- (a) Distinguish between direct and indirect taxes. (3 marks)
- (b) Give three advantages and three disadvantages of:
- (i) Direct taxes. (6 marks)
 - (ii) Indirect taxes. (6 marks)
- (Total 15 marks)

Question 6

- (a) Distinguish between:
- (i) Tax Evasion and Tax Avoidance. (3 marks)
 - (ii) Incidence of tax and impact of tax. (3 marks)
- (b) Define capital gains tax and give two examples of capital gains. (3 marks)
- (c) Give two examples of transfer of chargeable business assets that do not give rise to a capital gain. (2 marks)
- (d) Kabale Co. Ltd sold a residential property in 2004 at Shs 35 million. The property had been acquired in 2002 at Shs 29 million. The property was valued at Shs 25 million on 31 March 1998.

Required:

Compute the capital gain on disposal of this property. (4 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.

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.