

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### PRINCIPLES OF TAXATION – PAPER 10

**THURSDAY, 15 DECEMBER 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 9.
7. Please, read further instructions on the answer book.

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## SECTION A

### Question 1

- (i) A tax whereby the incidence and impact is born by the same person is known as:

- (a) a progressive tax.
- (b) a regressive tax.
- (c) a direct tax.
- (d) an indirect tax.

- (ii) A discussion group had the following points:

- Re-distribution of income.
- Micro and macro economics stability.
- Higher employment levels.
- Optimisation of resource allocation.

The above points refer to:

- (a) factors which determine taxable capacity of Uganda.
- (b) the basis of a good tax system.
- (c) the reasons why the Uganda Government imposes tax.
- (d) the difficulties associated with the ability to pay theory.

- (iii) Jojo Company Limited's year end is 30 September. The company is obliged to file its tax returns with the URA by end of:

- (a) October of every year.
- (b) March of each year.
- (c) September of each year.
- (d) January of each year.

- (iv) Mukisa company Ltd deals in the supply of sugar and is VAT registered. The company utilised some of the sugar in its offices. This supply is:

- (a) subject to VAT at 18%.
- (b) not within the scope of the VAT Act.
- (c) exempt.
- (d) a mixed supply.

- (v) Exports from Uganda are:

- (a) Zero rated supplies.
- (b) Mixed supplies.
- (c) Exempt supplies.
- (d) None of the above.

- (vi) Rita has invested Shs 6,000,000 in Bank of Uganda treasury bills for one year. At the end of the year, she is to receive interest of Shs 350,000. How much withholding tax will Rita suffer on her investment?
- (a) Nil.
  - (b) Shs 600,000.
  - (c) Shs 35,000.
  - (d) Shs 52,500.
- (vii) The subjects of the state should contribute towards public revenue as nearly as possible according to the principle of:
- (a) Certainty.
  - (b) Convenience.
  - (c) Equality.
  - (d) Diversity.
- (viii) Sheila has a shop in Wandegaya and employs her daughter Cissy who works in the shop during daytime. Cissy is paid a salary of Shs 80,000 per month. What is the amount of tax under PAYE, payable to the URA on Cissy's employment income?
- (a) Shs 80,000.
  - (b) Shs 2,000.
  - (c) Zero.
  - (d) Shs 5,000.
- (ix) During the month of July 2005, Joshua & Sons Limited had tax invoices on telephone worth Shs 450,000 VAT inclusive. How much VAT on this invoice can the company claim from the URA?
- (a) Shs 61,779.
  - (b) Shs 58,846.
  - (c) Shs 76,500.
  - (d) Shs 68,850.
- (x) Which of the following can be categorised together for income tax purposes?
- (i) Dividend.
  - (ii) Royalty.
  - (iii) Interest.
  - (iv) Natural resource payment.
  - (v) Rent.
  - (vi) Annuity.

- (a) (i), (ii) and (iv).  
(b) (iii), (iv) and (vi).  
(c) (i) and (iii).  
(d) (i), (ii), (iii), (iv), (v) and (vi).
- (xi) James Matsiko a Ugandan resident earned Shs 5,345,000 in 2004 from the rent of his house. The rental tax payable is Shs:
- (a) 543,200.  
(b) 605,600.  
(c) 1,069,000.  
(d) 673,500.
- (xii) A tax period under the VAT Act runs for a:
- (a) period of 15 days.  
(b) period of 12 months.  
(c) calendar month.  
(d) period of 28 days.
- (xiii) A company is obliged to register for VAT if it has a turnover of Shs ..... over a period of three months.
- (a) 12,500,000.  
(b) 50,000,000.  
(c) 35,000,000.  
(d) 10,000,000.
- (xiv) Magezi jotted down the following:
- Method of taxation.
  - Number of inhabitants.
  - Purpose of taxation.
  - Psychology of tax payers.
- Which of the following statements best summarises Magezi's points?
- (a) They are non-tax revenue sources.  
(b) They relate to taxable capacity of Uganda.  
(c) They justify the creation of the East African Customs Union.  
(d) They were factors considered when suspending graduated tax in July 2005.
- (xv) On objection to an income tax assessment pending final resolution of the matters, a taxpayer could be requested by the URA to pay ..... of the tax.
- (a) 50% or that part which the Commissioner insists on.  
(b) 15%.  
(c) 30% or that part of the tax not in dispute, whichever is the greater.  
(d) 20% or that part as agreed by the Tax Appeals Tribunal.

- (xvi) A taxpayer can claim a refund of VAT on bad debts when:
- he feels that the debt has gone bad.
  - 2 years have gone by and reasonable steps to the satisfaction of the commissioner have been undertaken to recover the debts.
  - 1 year after the death or relocation to another country of the debtor.
  - he makes a provision.
- (xvii) Julian has a shop on Kampala Road dealing in sports gear. Julian's turnover for the year ended 30 June 2005 was Shs 37 million. What is the income tax payable by Julian?
- 350,000.
  - 10,170,000.
  - 5,608,000.
  - 370,000.
- (xviii) Caroline Limited makes both exempt and standard supplies for the month of November 2005, the company made the following supplies:
- |                | Shs million |
|----------------|-------------|
| Exempt sales   | 10          |
| Standard sales | 30          |
| Total tax      | <u>40</u>   |
| Input tax      | 10          |
- How much input tax should the company claim for the month of November 2005 using the apportions method?
- Shs 10,000,000.
  - Shs 7,500,000.
  - Shs 2,500,000.
  - Shs 1,350,000.
- (xix) Reynolds was given a company car by his employer for his private use. The car was valued at Shs 24 million at the time when it was first offered to him. Compute Reynolds car benefit for one month. Assume that a year has 365 days.
- Shs 200,000.
  - Shs 4,800,000.
  - Shs 400,000.
  - Shs 2,000,000.
- (xx) Which of the following is not a non-tax revenue source?
- Passport fees.
  - Migration fees.
  - Penal tax.
  - Radio and television fees.

**SECTION B****Question 2**

Rwenzori Steel Limited manufactures steel related products. These include building materials like; iron sheets, angle bars, window and door frames, etc. In addition the company manufactures kitchen utensils like saucepans, kettles, mugs, etc. The company is located at Nakaseke in Nakaseke District.

The company's year end is 30 June. This is the company's first year of operation.

The company acquired the following non-current assets during the year.

	Shs million
Factory buildings	40
Plant & machinery for manufacturing purposes	20
Computers	4
Furniture and fittings	2
2 pick up vehicles each costing	7

The company's Income Statement for the 12 months to 30 June 2005 was as follows:

	Shs '000
Sales	30,000
Cost of sales	<u>19,000</u>
Gross profit	11,000
Expenses:	
Transport	2,000
Salaries	3,000
Start up costs	4,000
NSSF	350
Depreciation	2,000
Telephone	3,700
Donations	500
Entertainment	300
VAT penalties	450
Loss on sale of plot of land	3,000
Stamp duty	500
Corporation tax -first instalment	1,500
Uniforms	2,000
Canteen expenses	1,600
Provision for bad debts	<u>2,000</u>
<b>Net Loss</b>	<b><u>(15,900)</u></b>

**Required:**

- (a) Compute the capital allowances due to the company. (7 marks)
- (b) Compute the company's corporation tax for the year ended 30 June 2005. (7 marks)
- (c) Write a letter to the company explaining the case for and against corporation tax in Uganda, in light of a good tax system. (11 marks)
- (Total 25 marks)**

**Question 3**

Mukasa is a self employed person dealing in the distribution of beer in Mbale Town. He commenced business on 1 January 2004. During the year ended 31 December 2004, Mukasa's turnover from this business was Shs 44,000,000.

During the year, Mukasa was also employed by Tororo Cement Industries. He had accumulated leave of 3 months. He took leave on 1 October 2004 and resigned from employment with effect from 31 December 2004 in order to concentrate on his business. Mukasa received the following emoluments from his employer during the year:

	Shs '000
Basic salary	32,005
Servants	1,000
Telephone	320
Water	230
Electricity	680
Leave pay	500

In addition, Tororo cement provided him with the following benefits:

1. Car valued at Shs 25 million, he uses it for private purposes for 2 days in a week.
  2. A house with a market value of Shs 5 million per annum.
  3. An interest free loan of Shs 4 million. The statutory rate as at 1 July was 8%.
  4. Tororo Cement Industries paid PAYE on Mukasa's account worth Shs 11,600,000.
- During the year, Mukasa got rental income from rent of his houses in Kampala of Shs 17,850,000.

**Required:**

- (a) Compute the tax payable from Mr Mukasa's beer distribution business for the year. (2 marks)

- (b) Compute the tax payable from Mukasa's employment income. (13 marks)
  - (c) Compute the tax payable from the rental income. (5 marks)
  - (d) Explain five reasons why government levies taxes. (5 marks)
- (Total 25 marks)

### SECTION C

#### Question 4

- (a) Solome trades as Bugisu Enterprises. During the month ended 30 November 2005 she had the following transactions:

Purchases:

Beer worth Shs 25,000,000

Soda worth Shs 10,000,000

Clothes worth Shs 15,000,000

Various items worth Shs 10,000,000

The above are all VAT exclusive.

The sales VAT exclusive were as follows:

Beer Shs 30,000,000

Soda Shs 8,000,000

Clothes Shs 20,000,000

Various items worth Shs 10,000,000

**Required:**

Draw up Bugisu Enterprises VAT account for the November 2005. Show your workings for the VAT computations.

- (b) What are the features of a simplified tax invoice? (10 marks)
  - (5 marks)
- (Total 15 marks)

#### Question 5

Write short notes on the following:

- (a) Investment Trader. (5 marks)
  - (b) Domestic VAT. (5 marks)
  - (c) Exempt supplies. (5 marks)
- (Total 15 marks)

#### Question 6

- (a) Explain the term Customs Union. (5 marks)
  - (b) List five advantages and five disadvantages of a Customs Union. (10 marks)
- (Total 15 marks)



## **TAX RATES**

### **RESIDENT INDIVIDUAL INCOME TAX RATES**

<b>Chargeable Income</b>	<b>Tax Rate</b>
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**

<b>Gross Turn Over</b>	<b>Tax Payable</b>
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.