

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

WEDNESDAY, 13 DECEMBER 2006

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.

SECTION A**Question**

- (i) XYZ Ltd is unable to submit the final tax return for the year ended 30 June 2006. The company has decided to apply for an extension of the time to furnish the return as provided for under the Income Tax Act. The company may be granted an extension by the URA for a maximum period of:
- (a) 30 days.
 - (b) 45 days.
 - (c) 90 days.
 - (d) 100 days.
- (ii) Which of the following best describes the term business under income tax law?
- (a) An activity carried on with a view of making profit.
 - (b) An activity which includes any trade, profession, vocation, or adventure in the nature of trade, but does not include employment.
 - (c) An activity carried on from a commercial outlet and involves employing various people.
 - (d) An activity carried out with a view of making profit but sometimes might make losses.
- (iii) A currency point is equivalent to Shs:
- (a) 20,000.
 - (b) 50,000.
 - (c) 100,000.
 - (d) 120,000.
- (iv) Computer software qualifies for capital allowances under the Income Tax Act under class:
- (a) II.
 - (b) III.
 - (c) I.
 - (d) IV.
- (v) Which of the following is correct in relation to VAT cash accounting?
- (a) The taxpayer's annual taxable supplies should not exceed Shs 200 million.
 - (b) The taxpayer should be offering medical services.
 - (c) The taxpayer should be in the areas of Jinja, Namanve and Kampala.
 - (d) The taxpayer should be dealing in mixed supplies.

- (vi) The annual VAT registration threshold is Shs:
- (a) 20,000,000.
 - (b) 30,000,000.
 - (c) 1,250,000.
 - (d) 50,000,000.
- (vii) Direct taxes are whereby the:
- (a) incidence and impact are borne by the same person.
 - (b) incidence falls on one person and the impact on another person.
 - (c) trader applies for an exemption from the Ministry of Finance.
 - (d) tax payer's obligations are determined by the VAT Act.
- (viii) In September 2006, Parliament debated the issue of revising the individual income tax threshold in Uganda. The current threshold is Shs:
- (a) 235,000.
 - (b) 410,000.
 - (c) 150,000.
 - (d) 130,000.
- (ix) Mr. Hakim received an assessment from the Uganda Revenue Authority which was excessive for his rental business. The assessment was of Shs 410 million and it had been issued by the URA on 10 December 2006. In how many days has he got to object to this assessment?
- (a) 15.
 - (b) 30.
 - (c) 45.
 - (d) 50.
- (x) Anastansia is an accountant with Kalita Limited earning a monthly basic salary of Shs 390,000 and telephone allowance of Shs 100,000 which she uses for private purposes. Compute her monthly Pay As You Earn (PAYE).
- (a) Shs 69,500.
 - (b) Shs 58,000.
 - (c) Shs 41,500.
 - (d) Shs 147,000.

- (xi) A taxable person under the VAT Act is not allowed a tax credit on:
- (a) 10% of the telephone expenses and entertainment when he is not in entertainment business.
 - (b) Capital items purchased.
 - (c) Imported goods.
 - (d) Education services.

Use the extract below to answer questions (xii) – (xiv).

James has a hair salon in Kampala. During the year ended 30 September 2006, his total turnover was Shs 34,000,000. He incurred expenses totaling Shs 28,000,000 and this ranged from personal to business related. he incurred VAT on the rental of his shop totaling Shs 5,000,000. He is not VAT registered. He imported machinery for his business and incurred withholding tax of Shs 500,000.

- (xii) The income tax payable by James for the year is Shs:
- (a) 340,000.
 - (b) 130,000.
 - (c) 200,000.
 - (d) 350,000.
- (xiii) Which of the following statements is true about James' business?
- (a) James can claim his input VAT from the URA.
 - (b) James can claim his expenses when computing his taxable income.
 - (c) James is taxable under the rates of small taxpayers.
 - (d) James can claim a credit for withholding tax paid.
- (xiv) In how many installments is James obliged to pay his income tax?
- (a) 2.
 - (b) 1.
 - (c) 3.
 - (d) 4.

Use the following extract to answer questions (xv) and (xvi):

The Express Limited Company which deals in VAT taxable supplies, made sales equivalent to Shs 12,000,000, VAT inclusive, for the month ended 30 November 2006. The purchases made for the same month were worth Shs 15,000,000, VAT inclusive.

- (xv) The company should file its VAT return for the above mentioned tax period by:
- (a) 10 December 2006.
 - (b) 15 December 2006.
 - (c) 30 March 2007.
 - (d) 15 November 2007.
- (xvi) The company's VAT position at the end of the November 2006 tax period is Shs:
- (a) 457,627.
 - (b) 540,000.
 - (c) (457,627).
 - (d) (540,000).
- (xvii) Which of the following supplies are exempt from VAT?
- (a) Milk, sugar, soap and cooking oil.
 - (b) Books, clothes, music and exports.
 - (c) Financial and education services.
 - (d) Computers and cement.
- (xviii) Which of the statements below is false?
- (a) PAYE is deducted by the employer.
 - (b) VAT is payable at the rate of 17% in Uganda.
 - (c) The East African countries have different VAT rates.
 - (d) Companies in Uganda are under the Self Assessment Regime.

Use the following extract to answer questions (xix) and (xx).

Musoke has a hardware shop which sales a variety of items all of which are taxable supplies for VAT purposes. During the month of August 2006, Musoke started construction of his warehouse and he took materials from his shop for own use. The materials taken were worth Shs 1,200,000 at cost.

- (xix) Which of the following statements is correct about the goods used for own construction of the warehouse?
- (a) They are subject to VAT.
 - (b) They are not subject to VAT since Musoke never paid anything for them
 - (c) They are subject to VAT at a zero rate since they were not actually sold.
 - (d) They are not subject to VAT since they are deductible from purchases in the calculation of profit.

(xx) The VAT payable on the materials taken is Shs:

- (a) 204,000.
- (b) 130,000.
- (c) 216,000.
- (d) 0.

SECTION B

Question 2

Mr. Muyita Ahmed is a Ugandan resident whose sources of income for the year ended 30 June 2006 included the following:

- Rental income from commercial property worth Shs 22,000,000 per annum.
- Partnership income from the consultancy business he owns with his wife. They share profits equally. His share of partnership income was Shs 12,000,000 as adjusted for tax purposes.
- Mr. Muyita is a part time employee at Makerere University.
- Mr Muyita is employed as a development executive by a local NGO called ISN and he received the following emoluments:
 - (i) A car costing Shs 15 million. He did not contribute anything towards its cost. Assume that there were 365 days in the year of income. The car was used for private purposes.
 - (ii) A housing allowance of Shs 500,000 per month.
 - (iii) A salary of Shs 5,000,000 per month.
 - (iv) A bonus of Shs 2,000,000 for the year.
 - (v) His children (2 in number) received an allowance of Shs 400,000 each
 - (vi) He obtained an interest free loan of Shs 10,000,000. The statutory rate of interest for that year was 8%.
 - (vii) Medical insurance of Shs 2,000,000 for the year.
 - (viii) Leave and travel allowances for the year for the family of Shs 2,000,000 and Shs 1,000,000 respectively.

Required:

- (a) Compute the annual rental tax payable by Mr. Muyita. (6 marks)
- (b) Compute the tax payable by Mr. Muyita on his income from the partnership and the employment of ISN. (14 marks)
- (c) Explain how Mr. Muyita's income from Makerere University should be treated for tax purposes. (3 marks)

- (d) Comment on whether Mr. Muyita should file a tax return and obtain tax thresholds on the computation of tax from the various sources of income.

(2 marks)

(Total 25 marks)

Question 3

KK Company limited produces plastic containers as packaging materials for a variety of items. The company is located in Nyabushozi. During the year ended 30 September 2006, the company had the following operations:

Income Statement

	Shs '000	Shs '000
Sales	45,000	
Cost of sales	<u>(29,000)</u>	
Gross profit		16,000
Other costs		
Salaries	(5,000)	
NSSF (Employer)	(300)	
Entertainment	(200)	
Furniture	(2,000)	
Donations	(60)	
Alimony	(1,000)	
Loss on disposal of machinery	(400)	
Provisions (General)	(2,300)	
Goodwill amortization	<u>(300)</u>	<u>(11,560)</u>
Net profit		4,440
Dividends		2,500

Included in the sales figure is a figure of bad debts recovered worth Shs 3,500,000.

In addition the company purchased the following assets at the beginning of the year:

	Shs (million)
Computers	4
Machinery to be used in production	13
Passenger motor vehicle	34

The tax written down values from last year were as follows:

Class	Shs'000
I	23,340
II	12,100
III	4,500
IV	13,000

Required:

- (a) Compute the capital allowance which KK Limited is entitled to for the year ended 30 September 2006. **(8 marks)**
- (b) Compute the tax payable by KK Limited for the year ended 30 September 2006. **(12 marks)**
- (c) KK Limited has been issued with an amended assessment for the year ended 30 September 2005. KK limited is not in agreement with the assessment; a self assessment return was filed by the company at the appropriate time. The company does not even know how the URA has arrived at the figures in the amended assessment. The company has contacted you, Mzee Consultancy Services, as their tax adviser.

Required:

Write a letter to the URA objecting to the assessment.

(5 marks)**(Total 25 marks)****SECTION C****Question 4**

Yusuf Enterprises Ltd deals in the selling and distribution of household merchandise. For the tax period ended 31 July 2006, the company conducted the following transactions:

	Purchases	Sales
	Shs '000	Shs '000
Bed sheets	12,000	9,000
Utensils	7,000	5,000
Jerry cans	1,200	3,000
Mattresses	3,600	3,700
Educational materials	500	300

The figures provided above are VAT exclusive.

Required:

- (a) Work out Yusuf Enterprises Ltd's VAT position at the end of July 2006. **(6 marks)**
- (b) You have been provided with further information relating to Yusuf Enterprises Ltd:
 TIN B04-1006-2005-X
 VAT Registration: 28779-J
 File No. 35778

Income Tax District – Kampala Central

Required:

Use the computations in (a) above to complete the VAT returns form for the company for the tax period ended 31 July 2006.

(6 marks)

- (c) How much would the company pay to URA if the above return was filed one month after the due date?

(3 marks)

(Total 15 marks)

Question 5

Write notes on the following:

- (a) The problems of justice in taxation.

(7 marks)

- (b) Composition of employment income.

(8 marks)

(Total 15 marks)

Question 6

Write brief explanatory notes on the following:

- (a) **Four** factors that determine the taxable capacity of a country.

(4 marks)

- (b) Resident individual and resident company.

(6 marks)

- (c) Any **three** principles of a good taxation system.

(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.