

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 20 JUNE 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 9.
7. Please, read further instructions on the answer book.

SECTION A

Question 1

- (i) Which of the following is odd?
 - (a) Equitable.
 - (b) Certainty.
 - (c) Simplicity.
 - (d) Number of inhabitants.
- (ii) Which of the following is correct about a substituted year of income?
 - (a) Ends on 30 June
 - (b) Relates to government operation
 - (c) A taxpayer is required to apply for it in writing
 - (d) Is defined by the VAT Act.
- (iii) Value Added Tax (VAT) is a form of:
 - (a) direct tax.
 - (b) indirect tax.
 - (c) excise duty.
 - (d) import duty.
- (iv) Which of the statements below is false?
 - (a) Commercial buildings are subject to straight line tax allowance at a rate of 5%.
 - (b) Passenger vehicles are subject to capital allowances.
 - (c) Residential houses get initial allowances.
 - (d) Plant and machinery is subject to capital allowances.
- (v) Which of the statements below is correct about a simplified tax invoice?
 - (a) Issued for income tax purposes.
 - (b) Its total value should not exceed Shs 100,000.
 - (c) Does not bear the words 'Tax invoice'.
 - (d) Is issued by an investment trader.
- (vi) Pay As You Earn (PAYE) is to individuals as is to corporations.
 - (a) corporation tax.
 - (b) double taxation.
 - (c) graduated tax.
 - (d) rental tax.
- (vii) Which of the following best describes a Customs Union?
 - (a) It is a union of states for free movement of labour
 - (b) It has been operational in East Africa since the 1940s.
 - (c) An agreement for enhancing economic, social & political relations
 - (d) Is a political union of member states.

- (viii) Which of the supplies below is an exempt supply under the VAT Act?
- (a) Educational materials.
 - (b) Drugs & medicines.
 - (c) Exported goods from Uganda.
 - (d) Financial services.
- (ix) Which of the following is correct about income tax imposed on a resident individual?
- (a) Summed up with other income before subjecting the individual to income tax.
 - (b) Taxed at a rate of 20%.
 - (c) Has no threshold.
 - (d) It suffers tax at 30%.
- (x) Which of the following relates to post importation audit?
- (a) Done after importation, to confirm that the appropriate taxes were declared to Uganda Revenue Authority.
 - (b) Conducted by Auditor General's office.
 - (c) Should be conducted before goods are brought into the country.
 - (d) Done at entry points.
- (xi) Start up costs are granted tax allowances at the rate of:
- (a) 25% per annum over a period of four years.
 - (b) 20% per annum over a period of five years.
 - (c) 0%.
 - (d) 30%.
- (xii) Which of the items below is not an allowable deduction under income tax?
- (a) Farm works.
 - (b) Tax losses.
 - (c) General provisions.
 - (d) Employer's contribution to NSSF.

Use the following information answer questions (xiii) to (xvi).

J.J Uganda Ltd imported services in Uganda which are subject to VAT. J.J is not registered for VAT in Uganda. The company paid the foreign suppliers Shs 25 million (VAT exclusive) on 27 May 2006.

- (xiii) When should this VAT be accounted for to the Uganda Revenue Authority?
- (a) 30 May 2006.
 - (b) By 15 June 2006.
 - (c) 27 May 2006.
 - (d) None of the above.

- (xiv) How much VAT is payable on the imported services above?
- (a) Shs 0.
 - (b) Shs 4,250,000.
 - (c) Shs 4,500,000.
 - (d) Shs 2,500,000.
- (xv) In line with the Income Tax Act J.J should account for:
- (a) withholding tax.
 - (b) stamp duty.
 - (c) customs duties.
 - (d) PAYE.
- (xvi) The amount of tax payable excluding VAT is:
- (a) Shs 2,500,000.
 - (b) Shs 6,570,000.
 - (c) Shs 250,000.
 - (d) Shs 3,750,000.
- (xvii) Which of the following is correct about payment of provisional tax for companies? It is payable:
- (a) within four months after year end.
 - (b) annually.
 - (c) in two installments.
 - (d) in four installments.
- (xviii) Rejesh is a non-resident who owns property in Uganda. He earned Shs 70 million during the year ended 31 December 2005. The tax payable on this income is:
- (a) Shs 10,500,000.
 - (b) Shs 21,000,000.
 - (c) Shs 10,888,000.
 - (d) Shs 14,000,000.
- (xix) Under the Income Tax Act, records should be kept for a minimum period of:
- (a) 10 years.
 - (b) 7 years.
 - (c) 5 years.
 - (d) 2 years.
- (xx) Which of the statements below is false about Banks?
- (a) Specific provisions for bad debts computed in line with BOU guidelines are tax allowable.
 - (b) Interest earned from agricultural loans is exempt from tax.
 - (c) Their income is taxable at 20%.
 - (d) They are taxed for income under the Income Tax Act, Cap 340.

SECTION B**Question 2**

Nord Uganda Ltd made the following transactions during the year ending 30 April 2005:

	Shs million
General Provision for liabilities	20
Pension contributions	2
Salaries and wages	30
Penalties to customs	4
Management fees to its holding company in the United Kingdom	50
Entertainment to children	2
Donations to disabled children	4
Staff party	2
Profit on disposal of a commercial building	5

The building which was disposed of was purchased in year 2000 at Shs 58 million and disposed of at Shs 70 million (VAT exclusive). The building did not qualify for industrial buildings allowance.

Required

- Compute the capital gain/loss on the disposal of the building
(2 marks)
- Compute the VAT due on the disposal of the building
(2 marks)
- Classify the above into allowable and non allowable expenses for income tax purposes.
(6 marks)
- Compute capital allowances arising on the assets below purchased by the company during the year:

	Shs million
Plant and machinery used in farming	30
Three pickups each costing	35
Computers	20
Computer software	3
Farm works	5

6 marks

- Koma Ltd had the following position for the year ended 31 December 2004:
 - TIN B96-1000-4536-T, Income Tax No. 2345, VAT No 123T, Box 32 Kampala and Telephone 035-23145, located at plot 5 Dewinton Road.
 - Income as adjusted for tax purposes for the year ended Dec 2004, Shs 5 million.
 - Tax loss brought forward from 2003 Shs 2 million.

The company is subject to the following penalties:

- Late submission of the tax return. The penalty is 2% of the tax payable or Shs 20,000 per month for the period the return is outstanding.
- Penalty for under declaration on provisional tax, which is 20% of 90% of the final tax. A provisional tax return was not filed.
- Interest on late payment of tax at the rate specified in the Act. Assume that tax is paid at the end of June 2006.
- The company had not yet paid any tax.

Required:

Compute the tax payable with the related penalties and then complete the company's self assessment tax return for the year ended 31 December 2004 on the URA self assessment return provided.

(9 marks)

Total 25 marks)

Question 3

Mukisa has set up a company, Bagende Uganda Limited dealing in various commodities. The company employs 10 people. It has been in operation for two years but has never paid or deducted PAYE for any of its employees. All the employees were massively recruited on the same day. The monthly salaries for employees are:

Name of employee	Shs
Joseph Mukwaya	1,000,000
Janet Buza	500,000
Zoe Okot	210,000
George Ohio	150,000
Mutawe J	320,000
Anita Hope	120,000
John Kude	310,000
Oyita Jack	250,000
Mary Jowe	130,000
Alex Miti	180,000

Required:

- (a) Compute the company's PAYE arrears for the last two years without penalties.

(11 marks)

- (b) Write a letter to the Uganda Revenue Authority requesting them not to impose penalties

(4 marks)

- (c) Advise Bagende Uganda Limited on the due date for filing PAYE returns with the Uganda Revenue Authority.

(1 mark)

- (d) Mukisa, the managing director had the following income for the year ended 31 December 2005.

Salary from Bagende Uganda Limited	10,000,000
Housing allowance	4,000,000
A company vehicle which was used for private purposes two days in a month worth	55,000,000
Commission	1,000,000
Cost of living allowance	500,000
Compensation package	20,000,000
10% employer contribution to NSSF	1,000,000

During the year Shs 5,000,000 was deducted from his salary as contribution towards the vehicles maintenance.

Required:

Compute the tax payable by Mukisa for the year ended 31 December 2005?

(9 marks)

(Total 25 marks)

SECTION C

Question 4

Ganges construction Ltd deals in construction of houses, offices and related items. During the tax period of February 2006 the company made the following transactions:

Certificates received (VAT exclusive)	Shs million
Namanve Office Block	20
Sanyu Babies Home	5
Kyotera Housing Estate	200
Malaba Border Post	400
Expenses incurred (VAT exclusive)	
Cement	250
Iron sheets	50
Beds	5
Computers	8
Transport from Mombasa	15

Required:

- (a) Prepare a VAT account of Ganges construction for February 2006. (11 marks)
 - (b) Under what circumstances may the Commissioner General cancel a taxpayer's VAT registration? (4 marks)
- (Total 15 marks)

Question 5

Write short notes on the following:

- (a) Factors that determine the taxable capacity of an individual with practical examples. (10 marks)
 - (b) State and explain five sources of non-tax revenue. (5 marks)
- (Total 15 marks)

Question 6

Jonathan is the Managing Director of Wisecracks Ltd. His employees have been disgruntled about the tax they suffer on their employment income.

Required:

- (a) Give reasons why Government levies taxes with particular reference to PAYE. (6 marks)
 - (b) To what extent does PAYE meet the cannons of a good tax system? (4 marks)
 - (c) Jonathan's wife, Julie, has a real estate business, where she earned Shs 30 million during 2005. In addition, she operates a supermarket whose turnover during 2005 was Shs 43 million. Compute the tax payable by Julie for 2005. (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.

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.