

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

WEDNESDAY, 20 JUNE 2007

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.

Question 1

- (i) Another name for commodity tax is:
- (a) import duty.
 - (b) excise duty.
 - (c) value added tax.
 - (d) withholding tax.
- (ii) Prosperity for All Ltd had a tax loss of Shs 30 million for the year ended 31 March 2007. Which of the following statements is/are correct?
- (i) Prosperity for All Ltd can carry forward the tax loss.
 - (ii) Prosperity for All Ltd can pass on the tax loss to its sister company.
 - (iii) Tax at the rate of 30% is payable on the loss.
- (a) (i).
 - (b) (ii).
 - (c) (iii).
 - (d) (i) and (ii).
- (iii) Which of the following statements is correct?
- (a) 10% of telephone expenses are not claimable for input VAT.
 - (b) A tax invoice should not bear the physical location of the supplier.
 - (c) An investment trader cannot claim any input VAT.
 - (d) A person only registers for VAT on the supply of goods for export.
- (iv) What do you understand by the term post importation audit?
- (a) It is a comprehensive audit by the URA.
 - (b) It is done at the point of importation.
 - (c) It is a follow up by the URA on imports for specific purposes.
 - (d) It is a customs union.
- (v) A refund of VAT on bad debts can be made when one shows that reasonable steps were taken to recover the debts. The refund application can only be made after:
- (a) 5 years.
 - (b) 3 years.
 - (c) 4 years.
 - (d) 2 years.

- (vi) In how many days can a taxpayer make an objection after receiving a VAT assessment?
- (a) 45 days.
 - (b) 30 days.
 - (c) 15 days.
 - (d) 5 days.
- (vii) Which of the following expenses are tax-deductible in the computation of taxable income of a company?
- (a) Salaries and wages, bad debt write offs, foreign exchange gains.
 - (b) Rent, directors allowances, pension contributions.
 - (c) Property rates, capital gains, entertainment.
 - (d) Donations to charitable organizations which exceed 5% of one's chargeable income.
- (viii) Start up costs are:
- (a) not allowable deductions under the Income Tax Act.
 - (b) capitalized and treated as depreciable assets.
 - (c) allowed a deduction of 25% of the expenditure incurred over a period of four years, for income tax purposes.
 - (d) written off over their useful lives and the amount written off is an allowable deduction for income tax purposes.
- (ix) Which of the following incomes is exempt from tax?
- (a) Income of a local authority.
 - (b) Income from a private school.
 - (c) Income from disposal of land by a company.
 - (d) Income from normal trading activities.
- (x) Withholding tax at 15% on is **NOT** a final tax.
- (a) Interest received by a resident individual from financial institutions.
 - (b) Receipt of dividends by a resident individual from a resident company.
 - (c) Interest received from treasury bills by a resident financial institution.
 - (d) Rental income of a resident company.

- (xi) Komuntale is planning to set up a business in Kampala with expected turnover of Shs 70 million per annum. Which of the following will she apply for to the URA in order to be tax registered?
- (a) Tax Identification Number, Income Tax File Number and Value Added Tax Number.
 - (b) Tax Identification Number; Value Added Tax Number and NSSF Number.
 - (c) Income Tax File Number, Employee Number and Bank Account Number.
 - (d) KCC Number, Ministry of Finance and VAT Number.
- (xii) A business located in Lugazi would be entitled to initial allowances at the rate of:
- (a) 50%.
 - (b) 30%.
 - (c) 40%.
 - (d) 75%.
- (xiii) A short term resident under the Income Tax Act, is a person who:
- (a) is a resident individual, other than a citizen of Uganda, present in Uganda for a period or periods not exceeding two years.
 - (b) in Uganda for less than 183 days in a year of income.
 - (c) a citizen of the United States.
 - (d) a Ugandan leaving abroad for short periods of time.

Use the information provided below to answer questions (xiv) - (xv).

Joster and Jaja Advocates issued an invoice to Kaplan Ltd, a resident private company for the supply of legal advice. Both entities are resident in Uganda for tax purposes. The agreement between the two parties shows fees of Shs 5,500,000 VAT exclusive.

- (xiv) Which of the following statements is correct about the above transaction?
- (a) Kaplan Ltd would have to account for withholding tax on the above supply at the rate of 6%.
 - (b) The VAT due on the transaction is included in the principal price.
 - (c) Joster and Jaja Advocates would have to charge VAT on the transaction.
 - (d) The withholding tax is accounted for on the VAT inclusive amount.

- (xv) The withholding tax due on the transaction is:
- (a) Nil.
 - (b) Shs 220,000.
 - (c) Shs 330,000.
 - (d) Shs 825,000.
- (xvi) A taxpayer who has 30 April 2007 as his / her accounting year end must file a final return by:
- (a) 31 August 2007.
 - (b) 30 September 2007.
 - (c) 30 June 2007.
 - (d) 31 October 2007.
- (xvii) Which of the following are merits of the Express Penalty Scheme?
- (i) Lower penalties.
 - (ii) User friendly.
 - (ii) Saves time.
 - (iv) Transparent.
- (a) (i), (ii) and (iii).
 - (b) (ii), (iii) and (iv).
 - (c) (i), (iii) and (iv).
 - (d) (i), (ii), (iii) and (iv).
- (xviii) Which of the following statements is **FALSE** about the reasons for collectng of taxes?
- (a) Raise revenue for government.
 - (b) Fight terrorism in the world.
 - (c) Bridge income inequalities.
 - (d) Protect infant industries.
- (xix) Which of the following is a mismatch?
- (a) Corporation tax.
 - (b) Withholding tax.
 - (c) Pay As You Earn.
 - (d) Passport fees.
- (xx) Self assessment is applicable to:
- (a) companies.
 - (b) partnerships.
 - (c) trustees.
 - (d) local governments.

SECTION B**Question 2**

Bob Draku is an employee of Kwoga Company Ltd. During the month of May 2007, he earned the following income and benefits:

1. Salary Shs 5 million.
2. A fully furnished house with a market value of Shs 2 million per month.
3. Utilities which were paid for by the company amounting to Shs 800,000.
4. A hammer car worth Shs 40 million which is used for both private and business purposes. Each month, he contributes Shs 10,000 towards the maintenance of the car. Bob enjoys visiting his upcountry home every weekend. The total mileage travelled using the car for private purposes amounts to 10 days per month, including the month of May 2007.
5. A loan of Shs 3 million at an interest rate of 5%. The Bank of Uganda rediscount rate applicable during the period was 8%.
6. An entertainment allowance of Shs 200,000 of which Shs 100,000 was for official duties and Shs 100,000 for domestic purposes.

Bob has worked with Kwoga Company Ltd for eleven years and he is retiring on 31 May 2007. The company has given him a retirement package of Shs 10 million.

During the month of May 2007, he was issued 20,000 shares by the company at a price of Shs 900 each. The market price of the shares was Shs 1,000. He promptly paid for the shares.

Required:

- (a) Compute the tax payable by Bob Draku for the month of May 2007.
(Show all your workings).

Note: Assume that there are 360 days in a year.

(20 marks)

- (b) Explain to Bob the circumstances under which a resident individual is not required to file a Return.

(5 marks)

(Total 25 marks)

Question 3

Bank Delight Limited is a bank which has been operating in Jinja, Uganda for a number of years. For the year ended 31 December 2006, the bank had the operations below:

Income Statement

	Shs'000'	Shs'000'
Income		100,000
Expenses		
Depreciation	5,300	
Salaries	33,000	
Provision for bad debts	15,000	
Entertainment	3,000	
Donations	4,000	
Loss on asset disposal	6,000	
School fees	14,700	
Accommodation	7,900	
Penalties	<u>800</u>	
		<u>(89,700)</u>
Net profit		<u><u>10,300</u></u>

Asset additions

	Shs'000'
ATM Machines	10,000
Computer software	7,000
Fittings	5,000
Furniture	2,000
Bullion van	45,000
Toyota Rav 4	38,000

Additional notes:

1. The bank disposed of a vehicle at Shs 5.5 million.
2. Included in the bank's income is interest from treasury bills of Shs 10 million which suffered withholding tax on receipt from Bank of Uganda.
3. Included in the provision for bad debts are general debts worth Shs 5 million.
4. Bank Delight is located in Jinja town.

Required

- (a) Compute the capital allowances due to Bank Delight Ltd. for the year ended 31 December 2006. Opening capital allowances from 2005 were as follows:

	Shs'000'
Class I	5,000
Class II	7,000
Class III	-
Class IV	2,000

(9 marks)

- (b) Compute the tax payable by Bank Delight Ltd for the year ended 31 December 2006.

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

Joy Traders deal in general wholesale and have an outlet in Kikuubo, Kampala. They sell to both traders within Uganda and traders from Sudan – Juba, who collect the goods from Kikuubo.

For the month of May 2007 tax period, the company's accountant made the following entries in the books of account:

Sales	Shs million
Bob of Masaka	12
Ken Joy of Najjanankumbi	10
Joshua from Sudan	7
Pastor Jude of Lugazi	4
Rachael	6

Purchases

Imported from Dubai	32
From Hassan, Kikuubo	3

- The goods shown as sold to Rachael were actually just given to her without payment. Rachael is the wife to the director, while the goods purchased from Hassan were acquired without accounting for VAT. Hassan is not VAT registered.
- Ken Joy returned some of the items to Joy Traders. Ken Joy was then issued with a credit note of Shs 2 million.
- The above sales figures are VAT exclusive, while the purchases are VAT inclusive where applicable.

Required

- (a) Prepare the VAT account for Joy Traders for the month of May 2007. (12 marks)
 - (b) List any **three** requirements of a valid credit note under the VAT Act. (3 marks)
- (Total 15 marks)**

Question 5

- (a) Job is a young man who has just obtained his professional qualifications in accounting. He has decided to teach taxation to ICPAU students. He was motivated to do so, because he enjoyed reading taxation and there were limited resources in this area. His first lecture is today and he is to talk about the reasons why governments levy taxes.

Required

Assume that you are Job; prepare material to share with your students on the reasons why governments levy taxes.

(10 marks)

- (b) Job was left with a housing estate by his late father Isaac. For the year ended 31 December 2006, the estate produced income of Shs 33 million. Job used part of the receipts to repair a septic tank and re-roof the servants' quarters for one of the houses. These cost Shs 2 million and Shs 1 million respectively.

Required:

Compute the rental tax payable by Job on the income from the housing estate.

(5 marks)

(Total 15 marks)

Question 6

Explain the following:

- (a) Classification of taxes in Uganda. (5 marks)
 - (b) Resident trust. (4 marks)
 - (c) Normal year of income. (2 marks)
 - (d) Substituted year of income. (2 marks)
 - (e) Transitional year of income. (2 marks)
- (Total 15 marks)**

TAX RATES**Resident Individual Income Tax Rates**

Annual chargeable Income	Rate of Tax
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

Annual chargeable Income	Rate of Tax
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 Rates

Gross Turnover	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 a year.	Shs 450,000 or 1% of gross turnover, whichever is the lower.