

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

WEDNESDAY, 12 DECEMBER 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.

SECTION A**Question 1**

- (i) Mumbai bought shares from Stanbic Bank Uganda Ltd. The bank has declared a dividend and Mumbai is excited about getting his income.

Which tax is payable on Mumbai's dividend?

- (a) Withholding tax.
 - (b) Value Added tax.
 - (c) Corporation tax.
 - (d) Stamp duty.
- (ii) Which of the following statements is correct about the term tax base?
- (a) It is the rate applicable to a particular income earned.
 - (b) It is the final resting place of a direct tax.
 - (c) It is the object upon which tax is imposed.
 - (d) It is a penal tax.
- (iii) Taxpayers are required to have proper documentation of their information. Which of the following statements is correct?
- (a) Information should be kept in any of the local languages of Uganda.
 - (b) Information in support of a taxpayer's accounts is supposed to be filed with the tax authority at the time of filing the tax return.
 - (c) Information is supposed to be maintained in the English language.
 - (d) A taxpayer can keep his/her information outside the country.

Use the following information to answer questions (iv) and (v):

Mukono Limited purchased land in 2003 at Shs 34 million. In 2004, the company constructed residential properties on the land costing Shs 55 million. They were not yet complete and the company decided to sell off the development. It was sold in November 2007 at Shs 95 million VAT exclusive.

- (iv) Mukono Limited should pay corporation tax on the capital gain of:
- (a) Shs 6 million.
 - (b) Shs 1.8 million.
 - (c) Shs 18.3 million.
 - (d) Shs 28.5 million.

- (v) Mukono Limited should account for VAT on the disposal of:
- (a) Nil.
 - (b) Shs 324,000.
 - (c) Shs 16,150,000.
 - (d) Shs 17,100,000.
- (vi) Under the VAT Act, a taxpayer can obtain a refund of VAT on bad debts. However, this can only happen when:
- (a) the taxpayer writes off the bad debts in his books irrespective of the time the debt has been outstanding.
 - (b) the debt has not been paid within two years of the supply and reasonable steps have been taken to recover the debt.
 - (c) the debt has not been paid within three years and URA issues the taxpayer with a certificate.
 - (d) the taxpayer cannot claim a refund of VAT on the bad debts.
- (vii) A person is obliged to register for VAT:
- (a) once the person commences business in Uganda.
 - (b) if the person is dealing in the supply of food.
 - (c) once the person makes taxable supplies of Shs 50 million or more in a year.
 - (d) once the person has been notified by the Commissioner General to register.
- (viii) Which of the following taxes are commonly known as direct taxes?
- (a) Licensing fees, passport fees and corporation tax.
 - (b) Stamp duty, registration fees and capital gains tax.
 - (c) Corporation tax and income tax.
 - (d) Income tax and customs duties.

Use the following information to answer questions (ix) and (x):

Kwaheri International Limited's accounting date is 30 June of every year. Kwaheri International Limited would like you to advise them on the following issues:

- (ix) The company is supposed to file its final tax return with URA by:
- (a) 30 June of every year.
 - (b) 31 October of every year.
 - (c) 30 April every year.
 - (d) 31 December of every year.

- (xi) Kwaheri International Limited can apply to the Commissioner of URA to file the tax return late.

Advise on the maximum period the Commissioner can grant for an extension to file the tax return and the reason for this request from a tax point of view.

- (a) 2 months, for the purpose of finalising the accounts.
 - (b) 3 months, so as not to be penalised for late filing of the tax return.
 - (c) 2 months, so as not to pay tax earlier but later.
 - (d) 15 days, so that it could be filed with the PAYE and VAT returns.
- (xi) While meeting His Excellency, the President of the Republic of Uganda, prospective investors expressed the desire to be exempted from paying taxes. The President responded by giving them a general overview of the use of taxes. In your view, his speech should have covered issues like:
- (a) enhancement of foreign relations, building schools and patriotism.
 - (b) contributing to the Bona Bagagawale pot and the related SACCOS.
 - (c) development of infrastructure which includes roads, electricity and hospitals.
 - (d) government building industries for the new investors.
- (xii) Which of the following statements is **FALSE**?
- (a) A taxpayer can carry forward a tax loss indefinitely.
 - (b) It is an offence for a taxpayer to use a wrong tax identification number.
 - (c) Expenses incurred for domestic/private purposes are not allowed for tax purposes.
 - (d) A taxpayer is required to file a pay as you earn (PAYE) tax return by the 30th day of the month.
- (xiii) Okema Ltd deals in construction business. During the Commonwealth Heads of Government Meeting (CHOGM) preparations, the company was contracted by the Ministry of Works to upgrade one of the roads within Kampala City and was advanced Shs 40 million on the signing of the agreement.
- Which of the following statements best explains Okema Ltd's time of supply?
- (a) The supply will be when he delivers the services.
 - (b) Time of supply will be when he raises the tax invoice.
 - (c) Time of supply was when the contract agreement was signed.
 - (d) Time of supply was when advance payment was received.

- (xiv) On which of the following earnings / benefits are employees are **NOT** taxed?
- (a) Utilities provided by the employer and share option schemes.
 - (b) Passage to Uganda on commencement of employment when one was employed outside the country.
 - (c) Medical allowances.
 - (d) Housing allowances.
- (xv) Jessica manages a small supermarket in Bugolobi. Her annual turnover is approximately Shs 35 million. What is the amount of tax that she should pay to URA?
- (a) Shs 350,000.
 - (b) Shs 360,000.
 - (c) Shs 10,800,000.
 - (d) Shs 9,870,000.
- (xvi) The supply of is zero-rated under the VAT Act.
- (a) educational services.
 - (b) financial services.
 - (c) insurance services.
 - (d) printing services for educational materials.
- (xvii) What do you understand by the term 'tax amnesty?'
- (a) Waiver of taxes.
 - (b) Waiver of interest & penalties on non-declaration and late payment of tax.
 - (c) inviting URA to a client's office for an audit.
 - (d) Burning of all tax records.
- (xviii) Black Tiger was issued an income tax assessment to which he did not agree. He decided to object to the assessment. How many days has he got to lodge the objection under the Income Tax Act?
- (a) 45 days.
 - (b) 30 days.
 - (c) 15 days.
 - (d) 10 days.
- (xix) Exports are subject to VAT at the rate of:
- (a) 18%.
 - (b) 20%.
 - (c) 15%.
 - (d) 0%.

- (xx) A tax where the incidence and impact are passed on to another person is known as:
- (a) a direct tax.
 - (b) an indirect tax.
 - (c) a regressive tax.
 - (d) a progressive tax.

SECTION B

Question 2

Kook Limited is a restaurant dealing in both continental and fast foods. The company has been in business for several years. During the year ended 31 December 2006, the company purchased the following assets; Motor van Shs 7 million; computer Shs 2 million; three gas cookers with a total cost of Shs 13 million and tables and chairs costing Shs 4 million.

The company's income statement for the year ended 31 December 2006 is as follows:

Particulars	Shs'000	Shs'000
Turnover	45,000	
Cost of sales	<u>(10,700)</u>	
Gross profit		34,300
Salaries	2,000	
Transport & fuel	4,500	
Rent	6,000	
Depreciation	1,500	
Donations	300	
Marketing	500	
Repairs and maintenance	3,600	
Profit on disposal of tables	580	
Withholding tax	440	
Fines	254	
NSSF Company contributions	200	
Provision for bad debts	550	
Unrealised exchange loss	<u>280</u>	<u>(20,704)</u>
Net profit		<u>13,596</u>

Kook Limited's opening tax written down values were as follows:

Class	Shs '000
1	3,400
2	5,785
4	23,600

Notes:

1. Several tables were disposed of during the year for Shs 700,000.
2. Withholding tax was deducted by Bank of Uganda when making payments to the company.
3. Fines were paid by the driver for ignoring a red traffic light.

Required:

- (a) Compute the capital allowances available to the company showing the tax written down values at the end of 2006.
(10 marks)
- (b) Compute the tax payable by Kook Limited for the year ended 31 December 2006.
(14 marks)
- (c) State the due date for filing the tax return for the year ended 31 December 2006.

(1 marks)

(Total 25 marks)**Question 3**

Malaika is a sole proprietor trading as Mika Hardware Enterprises. She has five employees for whom she has to account for PAYE on their salaries. For the month of November 2007, her payroll before taxes was as below:

Name	Basic salary	Transport allowance	Bonus	Leave pay	Acting allowance
	Shs	Shs	Shs	Shs	Shs
Samantha	200,000	50,000	150,000	-	50,000
Aira	150,000	50,000	90,000	-	-
Rena	190,000	50,000		29,000	-
Zoe	300,000	50,000	100,000	50,000	20,000
Trevor	90,000	50,000	20,000	-	-

Malaika got the following incomes from her hardware business during the same month of November 2007:

- Shs 200,000 for food and Shs 100,000 as fuel for her vehicle. The vehicle was mainly used to transport her from home to the office.
- Fees for ballet lessons for her two young daughters of Shs 100,000 each.
- Salaries for her domestic workers of Shs 90,000.
- The business provides her with a house where she does not contribute any rent. The market value of the house is Shs 250,000 per month.
- She obtained an interest free loan from the business for personal purposes worth Shs 4 million. The Bank of Uganda statutory rate was 5%.
- Medical insurance of Shs 200,000.

Required:

- (a) Compute the PAYE for each employee payable by Mika Hardware Enterprises for the month of November 2007. **(10 marks)**
- (b) Compute the tax payable by Malaika on the income she received in the month of November 2007 from the hardware business providing notes where any of the income may not be subject to tax. **(10 marks)**
- (c) Mention at least **five** items which may be enjoyed by an employee, but do not constitute his / her employment income. **(5 marks)**
- (Total 25 marks)**

SECTION C**Question 4**

A company dealing in cars, spares and other accessories had the following transactions for the tax period ended 30 September 2007:

	Shs '000
Sales	VAT inclusive
Cars	106,200
Spares	42,480
Accessories	21,240
Exports to Sudan	66,000
Sales to the British High Commission	<u>53,100</u>
Total sales	<u>289,020</u>
Payments	VAT exclusive
Telephone	1,500
Entertainment	500
Salaries	10,000
Repairs to MDs passenger vehicle	3,000
Imports of cars	50,000
Purchases of spares	<u>10,000</u>
Total	<u>75,000</u>

Required:

Compute:

- (a) output VAT. **(7 marks)**
- (b) input VAT. **(7 marks)**
- (c) the amount of VAT payable / claimable from the URA. **(1 mark)**
- (Total 15 marks)**

Question 5

- (a) Write short notes on “approved commercial building” and mention the rate of tax depreciation allowance available to such buildings. **(6 marks)**
- (b) Zam Zam inherited a housing estate from her late uncle. She has come to you, a consultant, to assist her in computing the tax she has to pay on the rental income from the estate. The estate comprised of 5 commercial shops and 10 residential units. She earns Shs 6million VAT exclusive per month from these commercial properties and Shs 3.5 million from the residential properties VAT exclusive per month.

Required:

- (i) Advise whether Zam Zam should account for VAT and if so how much would the output VAT be per tax period. **(3 marks)**
- (ii) Compute the rental income tax payable by Zam Zam for the year ended 30 September 2007. Assume that her accounting year runs from October to September.

(6 marks)
(Total 15 marks)

Question 6

- (a) Traders in Kikubo had an awareness seminar on the East African Customs Union and most of them did not understand why Uganda subscribes to this Union.

Required:

Briefly explain **five** advantages and **five** disadvantages of the East African Customs Union.

(10 marks)

- (b) Company Zee Limited was supposed to file its tax return by 30 September 2007. However the company's accounts had not been signed as most of the directors were outside the country.

Required:

Write a letter to URA requesting for an extension of time within which to file the return. The request should be for the maximum amount of time required under the income Tax Act.

(5 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.