

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 19 JUNE 2008

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) The East African Community comprises of the following countries:
 - (a) Uganda, Tanzania and Kenya.
 - (b) Uganda, Kenya, Tanzania and Rwanda.
 - (c) Kenya, Tanzania, Uganda and Burundi.
 - (d) Uganda, Kenya, Tanzania, Rwanda and Burundi.
- (ii) Non-tax revenue collected by the URA include:
 - (a) passport fees, stamp duty and company registration fees.
 - (b) income tax and VAT.
 - (c) customs dues and PAYE.
 - (d) customs duties and VAT.
- (iii) The annual threshold for VAT registration is:
 - (a) Shs 60 million.
 - (b) Shs 12.5 million.
 - (c) Shs 50 million.
 - (d) Shs 100 million.

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

Kojja had a commercial rental property in Jinja Municipality. He earns Shs 60 million per annum from the building exclusive of any taxes.

- (iv) How much output VAT should Kojja account for on the income from the building per annum?
 - (a) Shs 10.8 million.
 - (b) Shs 10.2 million.
 - (c) Shs 12 million.
 - (d) Shs 18 million.
- (v) What is the annual rental tax payable by Kojja?
 - (a) Shs 18,000,000.
 - (b) Shs 20,000,000.
 - (c) Shs 9,288,000.
 - (d) Shs 3,000,000.

- (vi) Which of the following statements best describes Value Added Tax?
- (a) Tax on consumer expenditure.
 - (b) Tax on personal incomes.
 - (c) A contribution by traders to the government treasury.
 - (d) A tax on importation.
- (vii) VAT which is accounted for by importers who are not VAT registered is known as:
- (a) output VAT.
 - (b) domestic VAT.
 - (c) deferred VAT.
 - (d) zero VAT.
- (viii) In Uganda, non-resident persons are taxed on:
- (a) income derived from Uganda.
 - (b) world wide income.
 - (c) income which is foreign sourced.
 - (d) income paid o them locally.

Use the following information to answer questions (ix) – (xi).

Ssesse Limited, a company dealing in tourism promotion, had a certificate of incentives from the Uganda Investment Authority which exempted 70% of the company's income from tax for the period 1995 to 2000. Ssesse Limited had income subject to tax of Shs 30 million and 50 million for the years 2000 and 2001 respectively. Ssesse Limited accounts for tax under ordinary company tax rates.

- (ix) The tax payable for the year 2000 was:
- (a) Shs 9 million.
 - (b) Shs 6 million.
 - (c) Shs 30 million.
 - (d) Shs 2.7 million.
- (x) The tax payable for the year 2001 was Shs
- (a) Shs 15 million
 - (b) Shs 4.5million
 - (c) Shs 10.2 million
 - (d) Nil.

(xi) The corporation tax rate for mining companies in Uganda ranges from:

- (a) 10% - 45%.
- (b) 25% - 45%.
- (c) 30% - 45%.
- (d) 50% - 90%.

Use the following information to answer questions (xii) to (xiv).

United Bank Limited is designated under the provisions of the Income Tax Act, to withhold tax and remit it to the Uganda Revenue Authority. During the month ended 31 May 2008, the bank purchased goods worth Shs 44 million VAT exclusive from local suppliers. All the supplies were above Shs 1 million and the bank was invoiced for VAT. The bank's sales are exempt from VAT.

(xii) Being designated to withhold tax, United Bank is supposed to account for the tax withheld by:

- (a) the 15th day of the month following payment.
- (b) the 10th day of the month following payment.
- (c) 3 months after the transaction.
- (d) the date of payment of the invoice.

(xiii) The bank should remit withhold tax to URA to the tune of

- (a) Shs 6,600,000.
- (b) Shs 2,640,000.
- (c) Shs 13,200,000.
- (d) Shs 8,800,000.

(xiv) The bank would be in position to claim input VAT from URA on its purchases worth:

- (a) Shs 6,600,000
- (b) Shs 8,200,000
- (c) Shs 7,920,000
- (d) Nil.

(xv) Which of the following statements is **FALSE**?

- (a) Income from farming is subject to tax at a lower rate of 20%.
- (b) Withholding tax on dividends from companies listed on the securities exchange to individuals is 10%.
- (c) Domestic VAT is charged at the rate of 18%.
- (d) Exempt supplies under the VAT Act are not subject to any VAT.

- (xvi) Which of the following incomes is exempt from income tax?
- (a) Income of a financial institution.
 - (b) Income of mining entities.
 - (c) Income of a local authority.
 - (d) Investment income.
- (xvii) Which of the following expenses are tax allowable?
- (a) Tax depreciation and entertainment.
 - (b) Medical insurance and capital expenditure.
 - (c) Provision for bad debts and training expenses.
 - (d) Salaries, wages and tax depreciation allowances.
- (xviii) Which of the following statements is **FALSE**?
- (a) Withholding tax can be either a final tax or an advance tax.
 - (b) Non-tax revenue collected by the URA is used for maintenance of roads.
 - (c) The Tax Appeals Tribunal is an appellate body after a taxpayer fails to agree with URA.
 - (d) The commercial court also hears tax cases.
- (xix) The incidence of a tax:
- (a) is a tax base.
 - (b) relates to direct taxes.
 - (c) relates to the person who suffers the tax.
 - (d) is the tax rate.
- (xx) Joram has approached you complaining that URA has issued him an unreasonable income tax assessment to be paid. Your advice to him would be to:
- (a) ignore the tax assessment and carry on business as usual.
 - (b) submit an objection to URA stating his reasons for objection within the required timeframe under the law.
 - (c) report URA to the President.
 - (d) report URA to his area Member of Parliament.

SECTION B**Question 2**

Comprehensive Company Limited deals in the importation and wholesale of various merchandise. The company has two employees; Moses and Annette who received the following employment income during the month of March 2008. The two are husband and wife therefore some of the benefits are only given to one of them. The tax for the month has not yet been remitted because Comprehensive Company Limited is not yet registered with Uganda Revenue Authority.

Particulars	Moses Shs	Annette Shs
Salary	1,500,000	300,000
Car	6,000,000	
Housing allowance	150,000	
Education allowance	1,000,000	
Medical insurance	2,000,000	
Uniform	50,000	50,000
Transport allowance to and from home	50,000	50,000
Interest free loan	2,000,000	
Entertainment allowance	30,000	
Utilities	50,000	

Note: The car is available for both business and private use.

Assume the following:

- (i) There are 365 days in the year 2008.
- (ii) There are 31 days in the month of March.
- (iii) The Bank of Uganda discount rate as at 1 July 2007 was 6%.

Required:

- (a) Explain whether Moses and Annette being married can file their income tax returns under and pay tax in Moses' name.
(2 marks)
- (b) Compute the PAYE due to the URA for the month of March 2008.
(19 marks)
- (c) Compute the penalties due for late payment of the tax assuming that the tax will be paid in June of 2008.

(4 marks)
(Total 25 marks)

Question 3

John and Jane, husband and wife, opened up a company, Joane Company Limited, to run their farming enterprise. The company deals in the importation of farm inputs and also has a farm which has both crops and animals. The farm is in Kyankwanzi while the shop selling the farm inputs is at Nakivubo Mews in Kampala. During the year ended 31 March 2008, which was the company's first year of operations covering a period of 15 months, Joane Company Limited had the following results:

Income statement for the period of 15 months to 31 March 2008

Turnover	Shs '000	Shs '000
Shop re farm inputs	12,000	
Dairy sales	5,000	
Cattle sales	8,000	
Farm produce	<u>4,000</u>	<u>29,000</u>
Cost of sales		
Shop re farm inputs	8,500	
Dairy sales	3,400	
Cattle sales	3,000	
Farm produce	<u>12,000</u>	<u>(26,900)</u>
Gross profit		2,100
Other expenses		
Salaries and wages	4,500	
Directors' allowances	4,000	
Fertilizers	150	
Depreciation	4,000	
Interest on bank loan	2,000	
Legal and professional fees	200	
Shop rental	1,500	
Water and electricity	100	
Provision for bad debts	170	
Entertainment	200	
Income tax paid	350	
Start up costs	2,000	
Donations	<u>160</u>	<u>(19,330)</u>
Net loss per accounts	<u> </u>	<u>(17,230)</u>

The legal and professional fees were towards acquiring a land title for the farm land.

An extract from the fixed assets schedule is as below:

Property, Plant and Equipment

	Computers	Farm works	Equipment	Tractors	Total
	Shs	Shs	Shs	Shs	Shs
Cost	3,000	5,000	2,000	25,000	35,000

Required:

- (a) When Joane Company Limited was registering with URA, the company was advised to apply for a substituted year of income.

Explain to the company what this means and why they have to apply for a substituted year of income.

(3 marks)

- (b) Apart from the computers which were in Kampala, the rest of the asset additions were at Kyankwazi. Compute the capital allowances claimable by Joane Company Ltd.

(8 marks)

- (c) Prepare a tax computation for Joane Company Limited for the period ending 31 March 2008.

(12 marks)

- (d) Advise Joane Company Limited on how it can utilise the tax loss, if any, arising from its operations.

(2 marks)

(Total 25 marks)

SECTION C**Question 4**

KK Supermarket Ltd had the following operations during the month of February 2008. The purchases were VAT exclusive while the sales were VAT inclusive.

Particulars	Purchases Shs '000	Sales Shs '000
Sugar	50,000	141,600
Salt	1,500	5,310
Canned food	67,000	64,900
Beer	100,000	200,600
Soda	68,000	141,600
Computer	3,000	-
Various imports	7,500	-
Various exports to Congo	-	20,000
Total	<u>297,000</u>	<u>574,010</u>

Required:

Compute the VAT payable or claimable by KK Supermarket Ltd for the month of February 2008 tax period.

(15 marks)**Question 5**

Some members of Kampala City Traders Association were brain storming about the government's need to collect taxes and how the tax system should be administered. They did not see the reason for paying taxes to the government. Their Chairperson has invited you to address their concerns.

Required

Give reasons as to why government levies taxes, giving practical examples to help the traders understand the reasons given.

(15 marks)**Question 6**

Write short notes on the following:

(a) Problems of justice in taxation.

(5 marks)

(b) Factors that influence and determine the taxable capacity of a country.

(5 marks)

(c) Dangers of smuggling to Uganda's economy.

(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.