

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 11 DECEMBER 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 12.
7. Please, read further instructions on the answer book.

SECTION A**Question 1**

Use the following information to answer questions (i) to (iv):

During the year ended 30 June 2008, Annette, an individual taxpayer, trading as Mosquito Enterprises conducted the following activities. The enterprise sold mosquito nets worth Shs 46 million. In addition, Mosquito Enterprises started construction of a school in Matete village, Masaka to aid the rural poor who had no classrooms. Annette owns various commercial properties in Kitoro, Entebbe and earned Shs 25 million VAT exclusive.

- (i) What is the tax payable by Mosquito Enterprises for the year ended 30 June 2008?
 - (a) Shs 450,000.
 - (b) Shs 460,000.
 - (c) Shs 8,762,000.
 - (d) Shs 300,000.
- (ii) Which of the following statements is correct about the income which may be earned from the school?
 - (a) The school needs to be registered as a company so that it can pay income tax.
 - (b) The income from the school will be exempt from income tax.
 - (c) The teachers who will be employed by the school will pay taxes.
 - (d) Uganda Revenue Authority may want to run the school.
- (iii) Which of the following statements is correct regarding Annette's commercial properties?
 - (a) Annette has to register for VAT as her annual income is above the VAT registration threshold.
 - (b) Annette does not have to account for VAT on the income from the commercial properties.
 - (c) Kitoro, being in Entebbe, is outside the boundaries where VAT applies.
 - (d) Both (b) and (c) above.
- (iv) How much rental tax has Annette got to account for to Uganda Revenue Authority?
 - (a) Shs 7,500,000.
 - (b) Shs 6,570,000.
 - (c) Shs 3,688,000.
 - (d) Shs 2,000,000.

- (v) Joseph Walakira is employed by two organisations. He earns Shs 110,000 and Shs 200,000 per month from each of the organisations. Joseph's taxable income is:
- (a) Shs 110,000.
 - (b) Shs 180,000.
 - (c) Shs 200,000.
 - (d) Shs 310,000.
- (vi) Furnishing of tax returns is an obligation imposed on taxpayers by the Income Tax Act. Which of the following is correct in regard to an individual taxpayer?
- (a) Pays provisional tax in two equal instalments.
 - (b) Pays provisional tax in four equal instalments.
 - (c) Pays provisional tax in six equal instalments.
 - (d) Submits one final return at the year end.
- (vii) The VAT Act enumerates several items as "blocked items" for VAT. For such items, a registered taxpayer may claim a percentage or nothing at all as input VAT. Such blocked items include;
- (a) commercial vehicle expenses.
 - (b) expenses on capital items.
 - (c) entertainment for all taxpayers.
 - (d) telephone and passenger vehicles.
- (viii) Jordan Company Limited sponsored two of their employees in the Finance Department for the 13th Annual Seminar organised by the Institute of Certified Public Accountants of Uganda. Which of the following statements is correct about the taxation of this education expense?
- (a) Expenses incurred for education which is relevant to one's work are tax deductible; therefore the payment for the seminar would be tax deductible.
 - (b) Training which is not directly carried out by the company is not tax deductible.
 - (c) The two employees would be subject to tax on this benefit received from the company.
 - (d) The company will have to pay tax to the Uganda Revenue Authority on this expense.

- (ix) Which of the following combinations best describes the term “Tax Point” under the Value Added Tax Act?
- (i) Goods are delivered or made available if the performance of the service is completed.
 - (ii) Tax invoice is issued.
 - (iii) Payment for goods or services is made.
 - (iv) Credit note is issued.
- (a) (i), (iii) and (iv).
 - (b) (i), (ii) and (iv).
 - (c) (i), (ii) and (iii).
 - (d) (ii), (iii) and (iv).
- (x) The term “incidence of a tax” under the Income Tax Act refers to:
- (a) the object on which the tax is imposed.
 - (b) an indirect tax.
 - (c) a tax base.
 - (d) the one who pays the final tax.
- (xi) Mobuku Enterprises Ltd deals in the supply of general merchandise which is subject to VAT. The company has been supplying local Ugandan customers but has decided to export some of its products to Rwanda and Sudan. The VAT rate that would be applicable to the sales to Rwanda and Sudan is:
- (a) 18%.
 - (b) 17%.
 - (c) 5%.
 - (d) 0%.
- (xii) The VAT rate applicable to the sale of residential dwelling units is:
- (a) 2%.
 - (b) 3%.
 - (c) 4%.
 - (d) 5%.
- (xiii) Which of the following goods/services are subject to excise duty?
- (a) matooke, posho and rice.
 - (b) new television sets and new motor vehicles.
 - (c) airtime and beer.
 - (d) computers, furniture and management fees.

- (xiv) Which of the following statements best describe property income within the meaning of the Income Tax Act?
- (i) dividends, annuity, royalties, natural resource payments.
 - (ii) value of any gift derived by a person in connection with provision or use.
 - (iii) Total amount of any contribution made to a retirement fund during the year of income by a tax-exempt employee.
- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (i) and (iii).
 - (d) (i), (ii) and (iii).
- (xv) Kundi Show who works for Fashion Ltd earns Shs 180,000 per month. Under the recently introduced Local Service Tax, how much is she liable to pay per annum?
- (a) Shs 5,000.
 - (b) Shs 10,000.
 - (c) Shs 15,000.
 - (d) Shs 20,000.
- (xvi) A tax whereby both the incidence and impact fall on the same person is best described as:
- (a) indirect tax.
 - (b) progressive tax.
 - (c) direct tax.
 - (d) regressive tax.
- (xvii) Which of the following statements are most correct about cash accounting under the VAT Act?
- (i) Taxable supplies should not exceed Shs 100 million annually.
 - (ii) Taxable supplies should not exceed Shs 200 million annually.
 - (iii) A person, on election with the Commissioner General, must account for both input and output tax on cash basis.
 - (iv) Turnover should be Shs 50 million.
- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (i) and (iv).
 - (d) (i) and (iv).

- (xviii) An objection to an assessment to the Uganda Revenue Authority under the Income Tax Act should contain the following:
- (a) date, assessment number, grounds for objection.
 - (b) date and grounds for the objection.
 - (c) name of taxpayer and the tax head being objected to.
 - (d) name of the Uganda Revenue Authority officer who gave the assessment.
- (xix) Which of the following are tax deductible expenses?
- (a) Salaries, local service tax and accounting depreciation.
 - (b) Minor capital assets and training costs related to one's business.
 - (c) Tax depreciation expenses and donations.
 - (d) Loose tools and unrealised foreign exchange losses.
- (xx) Which of the following combined statements best explain the term "approved commercial building" under the Income Tax Act 1997?
- (i) Industrial building primarily used for purposes of carrying on a business, trade or profession.
 - (ii) Industrial building primarily used for purposes of an office.
 - (iii) Industrial building primarily used as a workshop or warehouse.
 - (iv) Property let out.
- (a) (i), (iii) and (iv).
 - (b) (i), (ii) and (iii).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (iii) and (iv).

SECTION B**Question 2**

The following information relate to Mugoya Clearing Company Ltd for period of income ended 30 June 2008:

Income statement for the period ended 30 June 2008

Particulars	Note	Shs
Clearing & Forwarding agency		(2,450,000,000)
Direct expenses		1,860,000,000
Motor vehicle expenses- Repairs & maintenance	1	28,900,000
Rent		26,000,000
Repairs & maintenance:		
Office equipment		2,960,000
Other	2	17,000,000
Telephone		
Mobile MTN		7,600,000
E-Mail		2,978,000
Fax		1,297,489
Landline MTN		2,000,000
Celtel Mobile		1,420,964
Travel:		
Accommodation	3	8,453,475
Local		2,959,300
Foreign		1,845,000
Utilities:		
Electricity & Gas		10,000,000
Water		5,000,000
Other Administrative Expenses:-		
Donations		3,610,000
Audit fees		4,000,000
Legal/Consultancy	4	9,000,000
Software expenses		3,500,000
Courier charges		516,719
Postage & delivery		35,000
Advertising & marketing		5,049,873
Training expenses		6,704,818
Security		1,074,667
Stationery & printing		14,000,000
Bad debts provision		20,000,000
Other office expenses		30,000,000
Depreciation		35,600,000

		Shs
Payroll Expenses:		
NSSF-Company contribution		5,000,000
Salaries & Wages		56,672,000
PAYE		4,121,846
Medical		6,495,700
Loan principal repayment	5	50,000,000
Finance charges:		
Interest paid	6	15,000,000
Unrealized exchange loss/(gain)		1,643,302
Bank charges		3,285,760
Other income: Disposal of assets		<u>500,000</u>
Profit before tax		<u>196,776,087</u>

Assets acquired during the year

	Shs '000'
2 commercial motor vehicles	95,000
Computers	13,000
12 chairs @ at 120,000	1,440
3 desks @ at 250,000	750

Notes:

1. Includes VAT which had been claimed by the company of Shs 2.3 million.
2. Includes new telecommunication equipment which cost Shs 5 million.
3. The Managing Director's wife travelled to Japan on non-business related issues.
4. Includes are legal fees which relate to capital expenditure of Shs 3 million.
5. The loan principal repayment was to a sister company domiciled in Kenya.
6. Interest paid relates to a loan from a sister company domiciled in Kenya

Required:

- (a) Compute the capital allowances due to the company for the period of income ended 30 June 2008. Assume that there were no tax written down values brought forward from previous periods. The company is based in Entebbe, Uganda.
(8 marks)
- (b) Compute the tax payable for the year.
(14 marks)
- (c) Compute the withholding tax on interest paid to the sister company in Kenya.
(3 marks)

(Total 25 marks)

Question 3

Joy and Joy Company Limited employs several people in its mineral water factory. The employees earn and receive varying salaries and benefits. The company has been in operation for 5 months and has never submitted any tax returns. The payroll for Joy and Joy Company Limited for one month is provided below:

Employee	Monthly salary Shs '000'	Car allowance Shs '000'	Housing allowance Shs '000'
Joy	560	70	50
Happy	430	50	20
Hope	360	30	60
Charity	140	20	60
Faith	270	30	30
Grace	170	-	30

Required:

- (a) Compute the:
- total PAYE payable to the URA for the five months the company has been in operation. (All workings must be shown).
(12 marks)
 - interest for late payment of tax, if any.
(5 marks)
- (b) Write a letter to the Commissioner General of Uganda Revenue Authority requesting to be allowed to settle the tax obligation above in **two** equal instalments.
(8 marks)
(Total 25 marks)

SECTION C**Question 4**

Consultancy Company Limited provides consultancy services to various clients. During the month of September 2008, the company had the following transactions:

Invoices issued amounted to Shs 120 million.

The company incurred the following expenses (VAT exclusive):

	Shs '000'
Salaries	30,000
Stationery	1,500
Rent	4,000
Travel	660
Accommodation	680
Staff Christmas party	1,780
Laptops for new staff	6,000
Photocopier	5,000
Office car – pick up	8,000
Advertising	789
Car repairs	635
New furniture	760
VAT payable / claimable	?

Additional information:

1. Out of the invoices issued, an invoice of Shs 5 million was in respect of an export of a service.
2. The total invoice value given above is VAT inclusive.
3. The car repairs were done on a passenger vehicle.

Required:

- (a) Prepare a VAT account for Consultancy Company Limited indicating the VAT payable or claimable for the period.
(10 marks)
- (b) Compute the VAT return attached for the month of September 2008. Assume the following: **TIN No:** 393-101-9368-U, **VAT No:** 22222 U
District: Kampala Central

(5 marks)
(Total 15 marks)

Question 5

Write short notes on the following:

- (a) **Five** challenges to Local Governments of collecting and managing Local Service Tax.
(5 marks)
 - (b) VAT treatment of supply of goods as part of the transfer of a business as a going concern.
(10 marks)
- (Total 15 marks)

Question 6

Write short notes on the following:

- (a) Resident retirement fund.
(3 marks)
 - (b) Composition of employment income.
(7 marks)
 - (c) Income tax registration requirements for a corporate taxpayer.
(5marks)
- (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.