

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 18 JUNE 2009

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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) Which of the following statements best describes the term 'short term resident' within the provisions of the Income Tax Act 1997?
- (a) One with a permanent home in Uganda.
 - (b) Resident individual other than a citizen of Uganda present in Uganda for a period or periods not exceeding two years.
 - (c) Resident individual other than a citizen of Uganda present in Uganda for a period or periods not exceeding 183 days.
 - (d) Resident individual other than a citizen of Uganda present in Uganda for periods averaging two years and not more than 122 days in each year of income.
- (ii) Koko Dealers, based in Kampala, sold cement worth Shs 80 million to a company in the Sudan. How much VAT should Koko Dealers account for on this transaction?
- (a) Shs 14,400,000
 - (b) Shs 13,600,000
 - (c) Nil.
 - (d) Shs 24,000,000
- (iii) In order to register for value added tax (VAT), a person needs to be trading in taxable supplies. What are taxable supplies under the Value added Tax Act?
- (a) Standard rated and zero rated supplies.
 - (b) Standard rated supplies.
 - (c) Exempt and zero rated supplies.
 - (d) Zero rated supplies.
- (iv) Which of the following statements best describes a transitional year of income as per the Income Tax Act 1997?
- (a) It is a period of twelve months from January to December of any year of income.
 - (b) It is a normal year of income.
 - (c) It is a substituted year of income.
 - (d) It is the period of change from one accounting period to another.

- (v) Babo Company Ltd incurred start-up costs of Shs 50 million. The company has been advised that it can obtain tax relief on this expense. Which of the following statements is correct about income tax relief in relation to start-up costs?
- (a) They are tax deductible over the life of the company.
 - (b) They are tax deductible over a period of 4 years.
 - (c) No they are capital in nature and therefore not tax deductible.
 - (d) They are tax allowed at the discretion of the Commissioner General.
- (vi) In how many days should a taxpayer who is dissatisfied with a VAT assessment, object to the Commissioner General after receipt of an assessment?
- (a) 60.
 - (b) 45.
 - (c) 90.
 - (d) 55.
- (vii) Capital expenditure:
- (a) is part of deductible business expenses.
 - (b) should be capitalised in order to claim appropriate depreciation allowances.
 - (c) is tax deductible in full similar to revenue expenses.
 - (d) is taxable on the person who has incurred it.
- (viii) Which of the following are examples of indirect taxes?
- (a) Corporation tax and PAYE.
 - (b) Corporation tax and VAT.
 - (c) VAT and excise duty.
 - (d) Customs duties and PAYE.
- (ix) Goods which suffer excise duty are mainly considered to be luxury goods. Examples of these include:
- (a) Mattresses and blankets.
 - (b) Water and newspapers.
 - (c) Cars and drugs.
 - (d) Beer and air time cards.

- (x) A person liable for VAT is required to maintain proper records including tax invoices, credit notes and customs documents to mention but a few. For how long should such records be maintained under the VAT Act?
- (a) 2 years.
 - (b) 4 years
 - (c) 6 years.
 - (d) 5 years.
- (xi) Provisional taxpayers who are not individuals are liable to pay two instalments of provisional tax on or before:
- (a) June & December of the year.
 - (b) the last day of the sixth and twelfth month of the year of income.
 - (c) the year end.
 - (d) June and September.
- (xii) A taxpayer who disagrees with the Uganda Revenue Authority over a taxation decision has the right to appeal to the:
- (a) High Court.
 - (b) Commercial Court.
 - (c) Public Accounts Committee.
 - (d) Tax Appeals Tribunal.
- (xiii) What is the date for submitting Pay as You Earn (PAYE) returns and making payments to Uganda Revenue Authority?
- (a) By the 10th day of the subsequent month.
 - (b) On the 15th day of the month.
 - (c) On the 30th day of the month.
 - (d) By the 15th day of the subsequent month.
- (xiv) Kazungu, an ATC students had the following notes in her summary book:
- Interest, rent, royalties and dividends.
 - Total amount of contributions made to a retirement fund during a year of income by a tax exempt employer.
 - Any other income earned by a person.
- The above notes relate to:
- (a) employment income or gain.
 - (b) business income.
 - (c) property income.
 - (d) retirement fund.

- (xv) Okonko earned a consolidated salary of Shs 9 million for the month of May 2009. How much PAYE should be deducted from Okonko's salary?
- (a) Shs 2,700,000.
 - (b) Shs 2,622,500.
 - (c) Shs 1,770,000.
 - (d) Shs 1,620,000.
- (xvi) Kaka bought a motor vehicle under a finance lease; each month he paid instalments to the lessor which included the principal and the interest amount. VAT was due to be accounted for on;
- (a) the interest payment.
 - (b) the total payment of interest and principal.
 - (c) only on the principal payment.
 - (d) VAT is not applicable to the transaction.
- (xvii) Which of the following are examples under which penalties under the Income Tax Act arise?
- (a) Early payment of tax, making false or misleading statements.
 - (b) Late filing of returns, late payment of tax and under-declaration of taxable income on provisional tax estimates.
 - (c) Improper use of the tax identification number and making false or misleading statements.
 - (d) Obstructing a URA officer and failure to furnish a return of income.
- (xviii) Musa has a shop on William Street in Kampala. At the end of 2008, his records showed that the total sales made in the year were equal to Shs 38,750,000. He has asked you for advice as to how much tax he should account for to the Uganda Revenue Authority for both income tax and VAT respectively.
- (a) Shs 11,650,000 and Shs 6,975,000
 - (b) Shs 350,000 and Nil.
 - (c) Shs 10,695,000 and Shs 6,975,000
 - (d) Shs 5,670,000 and Nil.

- (xix) Which of the following represents the organisational structure of the Uganda Revenue Authority?
- (a) Ministry of Finance, Planning and Economic Development, Board, Commissioner General and Commissioners.
 - (b) Ministry of Finance, Planning and Economic Development, Bank of Uganda, Commissioner General and Commissioners.
 - (c) Ministry of Finance, Planning and Economic Development, Commissioner General, Board and Commissioners.
 - (d) Bank of Uganda, Ministry of Finance, Planning and Economic Development, Commissioner General and Commissioners.
- (xx) Which of the following statements apply to the use of a simplified tax invoice?
- (i) Taxable turnover below Shs 200 million.
 - (ii) Taxable turnover below Shs 100 million.
 - (iii) Zero rated supplies and exempt supplies should not be included on a simplified tax invoice.
 - (iv) Individual items not to exceed Shs 50,000.
 - (v) Individual items not to exceed Shs 100,000.
- (a) (i), (ii) and (iv).
 - (b) (i), (iii) and (iv).
 - (c) (ii), (iii) and (iv).
 - (d) (ii), (iii) and (v).

SECTION B**Question 2**

Okello is a director in a petroleum company in Uganda. He is a non-resident for tax purposes. He earned the following income during the month of February 2009:

Particulars	Amount Shs '000'
Salary	9,000
Housing allowance	5,000
Home servants earning a total of	2,000
Utilities (electricity, water)	700
A dog costing	500
Dog food	50

In addition, a company car which cost Shs 35 million was available to Okello for private purposes throughout the month. Okello had contributed Shs 7 million towards the purchase of the vehicle.

A loan of Shs 30 million at no interest was provided by the company to enable Okello purchase a plot of land. The Bank of Uganda rediscount rate at 1 February 2009 was 8%. Okello had a loan of Shs 2 million from a sister company of the petroleum company. The petroleum company paid off this loan on Okello's behalf in February 2009.

Required:

- (a) Compute Okello's employment income for tax purposes for the month of February 2009.

(20 marks)

- (b) Calculate the tax payable.

(5 marks)**(Total 25 marks)**

Question 3

Hannah Enterprises set up a hotel complex in Mbale Town in the year 2007. The hotel's first set of financial statements covering a period of ten months was prepared as at 30 June 2008. The hotel had the following new assets on which capital allowances had not yet been claimed:

	Shs million
Hotel building	500
Furniture	50
2 passenger vehicles @ costing Shs 25 million	50
10 television sets @ costing Shs 2 million	20
Computers	10

The statement comprehensive income was as below:

	Shs '000'	Shs '000'
Turnover		46,000
Cost of sales		<u>(22,000)</u>
Gross profit		24,000
Salaries	9,000	
Transport & fuel	2,000	
Electricity	4,000	
Depreciation	1,200	
Donations	300	
Marketing	1,000	
Repairs and maintenance	1,600	
Start up costs	2,000	
Fines	300	
NSSF company contributions	500	
Bad debts recovery	(450)	
Provision for bad debts	670	
Unrealised exchange loss	<u>200</u>	<u>(22,320)</u>
Net profit per financial statements		<u><u>1,680</u></u>

Required:

- (a) Compute the industrial buildings allowance including initial allowance, if any.
(4 marks)
- (b) Compute capital allowances for the period of ten months to 30 June 2008.
(5 marks)
- (c) Prepare a tax computation statement showing the hotel's tax position as at 30 June 2008.
(15 marks)
- (d) For how long should tax losses be carried forward?
(1 mark)

(Total 25 marks)

SECTION C**Question 4**

- (a) Konnie deals in an assortment of items. During the month of March 2009, he made some purchases and sales. The table below shows the related amounts to the sales and purchases, VAT exclusive:

Particulars	Purchases Shs '000'	Sales Shs '000'
Iron bars	200	380
Cement	3,000	5,000
Plumbing materials	630	220
Computers	6,000	2,000
Consultancy	-	7,000
Clearing and forwarding	1,000	3,000
Passenger transport	400	3,000

The consultancy income relates to the oversight responsibility Konnie has over the Meeting Point Arcade.

Required:

Compute Konnie's input and output VAT for the month of March 2009.

(10 marks)

- (b) Briefly explain any **five** features of a tax invoice.

(5 marks)**(Total 15 marks)****Question 5**

Write short notes on the following:

- (a) Classification of taxes? **(5 marks)**
 (b) Local hotel tax. **(5 marks)**
 (c) Justification for imposing and collecting taxes in Uganda. **(5 marks)**

(Total 15 marks)**Question 6**

Write short notes on the following:

- (a) **Five** principles of a good tax system. **(5 marks)**
 (b) Government budget deficit and how to finance it. **(5 marks)**
 (c) Local service tax. **(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.