

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

THURSDAY, 10 DECEMBER 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**

Use the following information to answer questions (i) and (ii):

Cheche Ltd decided to list its shares on the Uganda Securities Exchange (USE). The employees were allocated 20% of the shares at no cost.

- (i) Which of the statements below is correct?
 - (a) The employees will not get any tax benefit when they exercise their right to acquire the shares.
 - (b) Valuation of the employee share benefit depends on the price of the shares for all companies listed on the securities exchange.
 - (c) The employees will be taxed on the gains from the sale of the shares.
 - (d) The taxation of benefits in kind does not include taxation of shares.
- (ii) Expenditure incurred by Cheche Ltd in the initial public offering at the securities exchange is:
 - (a) not tax deductible because it is capital in nature.
 - (b) tax deductible over a period of 4 years.
 - (c) tax deductible in whole in the year of the initial public offering.
 - (d) tax deductible over a period of two years.
- (iii) Tax losses as determined by the provisions of the Income Tax Act can:
 - (a) be carried forward indefinitely.
 - (b) be transferred to a sister company provided this sister company is in Uganda.
 - (c) not be carried forward. They are forfeited in the year they are incurred.
 - (d) be carried forward for a period of 5 years only.
- (iv) A company acquires a loan from the parent company. The interest will be paid after three years but the company accrues the interest each year in its books. For income tax purposes, which of the statements below is correct?
 - (a) The company cannot claim the accrued interest as tax deductible.
 - (b) The withholding tax on the interest is due even if payment has not yet been effected.
 - (c) The interest can be added to the loan and deducted.
 - (d) The withholding tax will be due on payment of the interest.

Use the following information answer questions (v) - (vii):

The People's Bank is under receivership because its capital adequacy levels have failed to meet the minimum capital as set by central bank. The bank had acquired a building in the year 2006 at Shs 3 billion. Thereafter, upgrading of the building was undertaken to bring it to the standards set by the central bank. The upgrade cost Shs 520 million. In 2008, the bank sold the building at Shs 3.2 billion. All these amounts are exclusive of VAT. The building did not qualify for industrial building allowance.

- (v) What was the tax gain / loss on the disposal of the building?
 - (a) Gain Shs 520 million.
 - (b) Loss Shs 200 million.
 - (c) Loss Shs 320 million.
 - (d) There was neither tax loss nor tax gain.
- (vi) What was the VAT in relation to acquisition, upgrading and eventual sale respectively?
 - (a) Shs 540 million, 576 million and 93.6 million.
 - (b) Shs 457 million, 79.3 million and 488 million.
 - (c) Shs 540 million, 93.6 million and 576 million.
 - (d) Shs 488 million, 457 million and 79.3 million.
- (vii) Under what circumstances would the bank not account for VAT on disposal of the building?
 - (a) If the sale is to a financial institution.
 - (b) If the transfer of the building is part or a transfer of a business as a going concern.
 - (c) If the central bank sells the building as opposed to the People's Bank.
 - (d) If the building is sold at a loss.
- (viii) Alice received an assessment from Uganda Revenue Authority (URA). She objected to it and is waiting for URA's objection decision. Under what time frame is URA required to respond or else Alice deems her objection as conclusive and acceptable?
 - (a) 30 days.
 - (b) 60 days.
 - (c) 90 days.
 - (d) 45 days.

- (ix) A residential property was disposed of by a company on 30 October 2009 at Shs 930 million, VAT exclusive. To what extent does the company have a VAT exposure on the transaction?
- (a) There is no VAT exposure because residential buildings are exempt from VAT.
 - (b) The company should account for VAT at the rate of 18%.
 - (c) The company should account for VAT at the rate of 5%.
 - (d) VAT is due at the rate of 17%.
- (x) Treasure Bank Ltd incurred imported services during the year. The bank is not VAT registered and does not know what to do with the services. Which of the following is correct?
- (a) Since Treasure Bank Ltd is not VAT registered, it does not have to account for VAT on imported services.
 - (b) Treasure Bank Ltd will have to register for VAT and account for VAT on the imported services.
 - (c) Treasure Bank Ltd will have to fill in VAT form 500 and account for VAT on the imported services.
 - (d) Treasure Bank Ltd will have to charge the suppliers VAT on payment.
- (xi) Non-residents of Uganda are taxed on income:
- (a) which is worldwide.
 - (b) sourced in Uganda.
 - (c) not mentioned in the double taxation agreements.
 - (d) made from the Government of Uganda only.
- (xii) A double taxation agreement would only cover:
- (a) income taxes.
 - (b) VAT.
 - (c) customs dues.
 - (d) excise duty.
- (xiii) Uganda has discovered major oil reserves in the western part of the country. Which of the statements below is correct about the taxation of oil operations?
- (a) They are exempt from tax.
 - (b) There are special provisions in the Income Tax Act relating to the taxation of oil activities.
 - (c) Tax rate for oil explorers is 2%.
 - (d) VAT on petroleum products is 5%.

- (xiv) The objectives/aims of the East African Customs Union include:
- (a) having a common currency by the end of 2010 and a common central bank by 2012.
 - (b) incorporating more neighbouring countries into the Union by 2010 and a common central bank by 2012.
 - (c) adopting a common language by the end of 2010 and forming a political federation by 2012.
 - (d) having a common market by 2010, monetary union by 2012 and forming a political federation.
- (xv) Tembo provided consultancy services to a company in Uganda. The company paid him his fees exclusive of withholding tax. The company is not a designated withholding tax agent. Why do you think the company withheld tax on Tembo's payment?
- (a) Tembo is not VAT registered.
 - (b) Tembo is not exempt from VAT.
 - (c) The company deducted the tax in error.
 - (d) Tembo forgot to instruct the company not to withhold.
- (xvi) Which department of the Uganda Revenue Authority administers Value Added Tax?
- (a) Tax Investigations.
 - (b) Legal and Board Affairs.
 - (c) Domestic Taxes.
 - (d) Commissioner General's Office.
- (xvii) Which of the following taxpayers can obtain withholding tax exemption status from the Uganda Revenue Authority?
- (a) Taxpayers whose names appear in the newspapers under Uganda Revenue Authority publications.
 - (b) Taxpayers who apply to the Uganda Revenue Authority.
 - (c) Tax compliant taxpayers in the eyes of the Uganda Revenue Authority.
 - (d) Taxpayers registered with Uganda Manufacturers Association.
- (xviii) In order for an investor to be registered as an investment trader for VAT purposes with the Uganda Revenue Authority, the taxpayer has to:
- (a) be approved by the Uganda Investment Authority.
 - (b) have an investment worth US\$ 5 million.
 - (c) show that he will be dealing in exempt supplies.
 - (d) have a letter from the President recommending him for investment trader status.

- (xix) Goods exported from Uganda are:
- (a) exempt from VAT.
 - (b) accounted for VAT at a rate of 18%.
 - (c) zero rated under the third schedule of the VAT Act.
 - (d) subject to VAT at the rate of 30% per the third schedule of the Income Tax Act.
- (xx) Guava and Poers Uganda Ltd purchased a motor vehicle for their managing director on 30 October 2009. The vehicle is a Hummer worth Shs 113 million. Which amount will be considered a business asset for tax purposes not qualifying for wear and tear allowance?
- (a) Shs 153 million.
 - (b) Shs 53 million.
 - (c) Shs 30 million.
 - (d) Shs 45 million.

SECTION B

Question 2

Dodo Ltd is a company located in Nakaseke District. The company intends to invest in the manufacture of several foodstuffs for export. The company plans to use locally produced raw materials. Among the products to be produced are juices; mango, pineapple, melon, orange, etc. The company will also be involved in maize milling and production of animal feeds. The machinery to produce the above mentioned items is very expensive. Dodo Ltd is working on obtaining a loan from Uganda Development Bank (UDB).

The company intends to buy the following assets:

- Juice extracting machinery of Shs 250 million.
- Juice packing assembly line of Shs 90 million.
- Fruit sorting, washing and drying machine of Shs 50 million.
- Build a fruit factory of Shs 45 million.
- Machines for milling and producing animal feeds Shs 100 million.
- Build a factory for the animal feeds & mills of Shs 65 million.
- 4 trucks for transporting both the raw materials and the finished products. Each truck is to cost Shs 35 million and has a load capacity of 6.5 tonnes.
- Computer equipment of Shs 42 million.
- Managing director's passenger vehicle of Shs 49 million.
- Other office machines Shs 23 million.
- Furniture and fittings Shs 5 million.

Below is the company's income and expenditure forecast of its operations over a period of three years commencing 2010. In the first year there will be no sales and all the finance costs relate to the interest on the loan from the bank.

Particulars	2010 Shs '000'	2011 Shs '000'	2012 Shs '000'
Sales less cost of sales	(12)	859,600	1,007,000
Other costs:			
Distribution	10	36,000	58,000
Administration	148,000	180,000	120,000
Operating	86,000	108,000	91,000
Finance	<u>24,000</u>	<u>35,600</u>	<u>88,000</u>
Net profit/(loss)	<u>(257,998)</u>	<u>500,000</u>	<u>650,000</u>

Required:

Prepare tax computations for the three years and advise Dodo Ltd as to whether they should seek for corporation tax exemption from government for a period of one or three years.

(25 marks)

Question 3

Caca Ltd employs Mr Kolwa and his wife, Mrs. Kolwa. The company paid the two employees the following emoluments per month for the year ended 30 September 2009:

Particulars	Mr Kolwa Shs '000'	Mrs Kolwa Shs '000'
Basic salary	6,000	4,000
Housing allowance	2,000	
School fees for children	3,000	3,000
Medical insurance	1,500	1,500
Domestic workers	500	
Leased vehicle costing	35,000	12,000
Leave travel	1,020	1,020
Disturbance allowance	600	600

Required:

- (a) Compute the monthly PAYE payable by Mr Kolwa and that payable by Mrs Kolwa for the year ended 30 September 2009. (20 marks)
- (b) Define the term 'employment' as used in the Income Tax Act. (5 marks)
- (Total 25 marks)

SECTION C

Question 4

Kkekka Consultants had the following transactions during the month of October 2009:

Sales:

Invoices inclusive of VAT Shs 382 million.

Exported services Shs 52 million.

Purchases:

Office necessities worth Shs 35 million VAT exclusive.

Paid subcontractors Shs 20 million.

Imported services worth Shs 15 million.

Required:

- (a) Compute the VAT payable by Kkekka Consultants for the above tax period (6 marks)
- (b) Kkekka Consultants' tax invoice is extracted below:

Kkekka Company Ltd
Kampala

VAT No: 56783-K

Customers name: Tankers (U) Ltd

Services supplied: Consultancy

Total invoice value: Shs 13,500,000

State whether this is a proper tax invoice and if not, give what a proper tax invoice should have.

(9 marks)
(Total 15 marks)

Question 5

- (a) Tractors Uganda Ltd has an accounting date of 30 September. The company would like to change its accounting date to 31 December to be in line with other companies in their group so as to file returns for the year 31 December 2010.

Required:

What steps must the company take to achieve a change in their accounting date?

(5 marks)

- (b) Explain **five** reasons for why government levies taxes.

(10 marks)

(Total 15 marks)

Question 6

Write short notes on each of following:

- (a) Resident individual for a year of income. **(3 marks)**
(b) Resident company for a year of income. **(3 marks)**
(c) Exempt organisation under the Income Tax Act **(6 marks)**
(d) Gross income. **(3 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.