

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION - PAPER 10

TUESDAY, 07 DECEMBER 2010

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 11.
7. Please, read further instructions on the answer book, before attempting any question.

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SECTION A**Question 1**

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

Nokia an employee of Gekya Ltd earned the following remuneration in the month of November 2010.

	Shs
Basic salary	3,000,000
Transport allowance	300,000
Medical allowance	200,000

Nokia is provided with a company house whose market rate is Shs 600,000 per month but contributes Shs 50,000 per month.

(i) What is his taxable housing benefit for the month of November 2010?

- (a) Shs 450,000
- (b) Shs 550,000
- (c) Shs 600,000
- (d) Shs 607,500

(ii) Compute Nokia's pay as you earn (PAYE) tax for the month of November 2010.

- (a) 1,107,500
- (b) 1,137,500
- (c) 1,152,500
- (d) 1,154,756

(iii) Kkaka was assessed income tax of Shs 30 million by the Uganda Revenue Authority (URA) for the year ended June 2010. He did not have any outstanding taxes in dispute. He disputed the tax assessment and wanted to object to it. However, he is obliged to pay part of the tax before the Uganda Revenue Authority can examine his objection. The tax to be paid to the URA in order for his objection to be considered is:

- (a) Shs 3 million.
- (b) Shs 20 million.
- (c) Shs 9 million.
- (d) Shs 4.5 million.

- (iv) The Uganda Revenue Authority (URA) has issued an agency notice to Standard Bank on the account of M/S Namboze Enterprises. Under what circumstances can such a scenario arise?
- (a) URA wants money from Standard Bank in order to meet its targets.
 - (b) Standard Bank holds money for M/S Namboze Enterprises and M/S Namboze Enterprises owes tax to the URA, which she has so far failed to pay.
 - (c) M/S Namboze Enterprises requested the URA to collect the money from her bankers.
 - (d) The husband to the proprietor of M/S Namboze Enterprises owes money to the URA and the URA wants to collect it from the wife.
- (v) Mummy received dividends of Shs 100 million from her shares in a company, which is listed on the Uganda Securities Exchange. The amount of tax that was withheld amounts to:
- (a) Shs 15 million.
 - (b) Shs 20 million.
 - (c) Shs 5 million.
 - (d) Shs 10 million.

Use the following information to answer questions (vi) -

(vii)

The Withholding Tax Regulations 2000 govern the taxation of individuals.

- (vi) The individual's annual tax threshold under these regulations is:
- (a) Shs 200,000.
 - (b) Shs 1,560,000.
 - (c) Shs 4,920,000
 - (d) Shs 2,820,000.
- (vii) The regulations give guidelines on an individual's taxation starting with small periods amounting to a:
- (a) week.
 - (b) fortnight.
 - (c) month.
 - (d) year.

- (viii) Mr. Mukasa received rental income of Shs 1,800,000 for the year ended 30 June 2010. What is his rental tax for year ended 30 June 2010?
- (a) Shs 360,000.
 - (b) Nil.
 - (c) Shs 540,000.
 - (d) Shs 324,000.
- (ix) Citibank disposed of several business assets worth Shs 165,200,000 to their employees but did not separately charge them for value added tax (VAT). The amount of VAT on disposal that is due to the Uganda Revenue Authority without the bank having to go back to its employees to demand the VAT is:
- (a) Shs 25,200,000.
 - (b) Shs 29,736,000.
 - (c) Shs 28,084,000.
 - (d) Shs 24,003,420.
- (x) Which of the following statements is correct about the taxation of petroleum operations in Uganda?
- (a) Uganda has no tax provisions in relation to the taxation of petroleum operations.
 - (b) In 2008, Uganda incorporated provisions in the Income Tax Act on the taxation of petroleum operations.
 - (c) Companies dealing in Petroleum operations are subject to a lower rate of tax of 20%.
 - (d) Companies dealing in petroleum operations are subject to a higher rate of tax of 50%.
- (xi) Dodo Ltd deals in the exportation of goods to the Sudan. In the month of November 2010 the company exported goods worth Shs 200 million, value added tax (VAT) inclusive. The amount of VAT which the company should remit to the Uganda Revenue Authority is:
- (a) Shs 36 million.
 - (b) Shs 15 million.
 - (c) Shs 30.5 million.
 - (d) Nil.
- (xii) The coming into effect of the East African Community Common Market in July 2010 means:
- (a) there is one market and a uniform price for goods and services.

- (b) all goods used in the community have to be produced from within the community.
- (c) there is free movement of goods and services within the community.
- (d) member countries have to be able to speak Swahili.

- (xiii) The domestic value added tax (VAT) refers to:
- (a) the import of goods whose value is Shs 4 million and above by a non-VAT registered person.
 - (b) VAT on domestically produced goods.
 - (c) The exports of goods valued at more than Shs 4 million by a non-VAT registered person.
 - (d) VAT paid by traders with turnover of less than Shs 50 million per annum.
- (xiv) Which of the following taxes are applicable to telephone air time in Uganda?
- (a) Income tax and stamp duty.
 - (b) VAT and stamp duty.
 - (c) Passport fees and licensing fees.
 - (d) Income tax, VAT and excise duty.
- (xv) Which of the following are non-tax revenues?
- (a) Passport fees and stamp duty.
 - (b) Income tax and VAT.
 - (c) Import duty and import license commission.
 - (d) Stamp duty and VAT.
- (xvi) A person dissatisfied with a tax assessment and to whom an objection decision has been given by the commissioner may appeal to an independent party known as:
- (a) FIDA.
 - (b) Anti corruption court.
 - (c) Tax Appeals Tribunal (TAT).
 - (d) State House.
- (xvii) A tax whereby the incidence and impact fall on different persons is best described as:
- (a) progressive tax.
 - (b) direct tax.
 - (c) regressive tax.
 - (d) indirect tax.
- (xviii) Jamal had the following summary points:
- Equitability.
 - Cost benefit theory.
 - Number of properties.
- The above points relate to the:

- (a) theory of equal sacrifice.
 - (b) problem of justice in taxation.
 - (c) factors which determine taxable capacity.
 - (d) canons of a good tax system.
- (xix) A resident company:
- (a) is exempt from paying taxes.
 - (b) is taxed only on Ugandan sourced income.
 - (c) pays tax on worldwide income.
 - (d) pays tax on income earned from the East African Community.
- (xx) Muico Limited purchased a building at Shs 50 million in 2006. In 2010, the company sold the building at Shs 90 million. Compute the tax gain to be included in the company's taxable income given that the accounting depreciation at the time of disposal was Shs 12 million.
- (a) Shs 52 million.
 - (b) Shs 78 million.
 - (c) Shs 40 million.
 - (d) Shs 38 million.

SECTION B

Question 2

- (a) Mr. Bwangu was appointed as the executive director of Uganda Wildlife Protection Service. His letter of appointment specified various benefits in kind which include:
- a fully furnished house.
 - an interest free loan of not less than Shs 5 million.
 - a car
 - school fees for at most three children,
 - utilities, and
 - paying off a loan which Mr. Bwangu had acquired from his previous employer.

Required:

Write a letter to Mr. Bwangu explaining to him:

- (i) when a benefit is deemed to be received from one's employer.

(5 marks)

(ii) how the above mentioned benefits are taxed on an employee.

(10 marks)

- (b) Mr. Bwangu received the following amounts during the month of November 2010:

	Note	Shs '000'
Basic salary		10,000
Benefits in kind		5,000
Accountable advance	1	1,200
Clothing allowance		1,000
Tutor in Spanish		500
Allowance for the wife		2,500
Office furnishings	2	1,500

Note

1. The accountable advance was for business-related expenses for Mr. Bwangu's employer.
2. Office furnishings were for Mr. Bwangu's office in which he conducts his employment duties.

Required:

Compute the tax payable by Mr. Bwangu for the month of November 2010.

(10 marks)

(Total 25 marks)

Question 3

- (a) The following information was extracted from the books of Joan Furniture Ltd for the year ended 30 June 2010.

Statement of Comprehensive Income

	Shs '000'
Revenue	445,000
	<u>(243,000)</u>
Cost of sales	0)
Gross profit	202,000
Other income (unrealized exchange gain)	<u>23,000</u>
	225,000
Expenses:	

Salaries and wages	4,500	
Postage and telephone	2,300	
Advertising and marketing	3,500	
Legal and professional fees	2,200	
Water and electricity	22,300	
Depreciation	4,500	
Un recoverable VAT	546	
Showroom expenses	3,400	
Stamp duty on land purchased	15,430	
Vehicle running costs	33,500	
Provision for Bad debts	2,200	
Entertainment	500	
Fines and penalties	340	
Interest and bank charges	3,400	
Unrealized exchange loss	8,750	
		<u>107,366</u>
Net profit		<u>117,634</u>

Tax written down values as at 30 June 2009 were as below.

	Shs '000'
Class I	35,000
Class II	24,500
Class IV	98,000

Joan Furniture Ltd owns a shop and showroom which were constructed in 2005 at a cost of Shs 48 million.

Required:

- (i) Compute the capital allowances to be claimed by Joan Furniture Ltd for the year ended 30 June 2010, including the industrial building allowance.
(10 marks)
- (ii) Using the information provided, compute the total liability by Joan Furniture Ltd for the year ended June 2010.
(10 marks)
- (b) The company had a tax credit at the beginning of the year of Shs 10 million and also made tax payments during the year of Shs 17 million.

Required:

- (i) What is the company's position after offsetting the credits against the tax payable?
(3 marks)

- (ii) What options are available to the company regarding the tax position it has at year end?

(2 marks)

(Total 25 marks)

SECTION C

Question 4

- (a) Value added tax (VAT) is a tax whose incidence falls on the one who purchases the goods or services. However, goods or services can be subject to VAT at the standard rate, zero rate or even exempt from VAT. Below is a list of 8 types of goods or services:

1. Monthly bank charges
2. Cement
3. Sugar
4. Social welfare services
5. Monthly transport to and from work
6. Burial services fees
7. Exports of maize
8. Import of management services

Required:

Classify the above goods as standard rated, zero rated or exempt.

(8 marks)

- (b) Conco Ltd had the following transaction during the month of November 2010:

Purchases Shs 50 million, VAT inclusive. Within the purchases figure, the company paid for insurance services totaling Shs 2 million.

Sales Shs 88 million, VAT exclusive. Included in here were exports to Juba, Shs 16 million and Rwanda Shs 23 million.

Required:

Compute the VAT payable to / claimable from Uganda Revenue Authority.

(7 marks)

(Total 15 marks)

Question 5

Uganda Revenue Authority (URA) is a tax body created by Uganda Government through an Act of parliament. Basing on your knowledge of tax administration in Uganda, answer the following questions:

Required:

- (a) What are the major functions and roles of URA?
(5 marks)
- (b) The domestic tax department of URA has undertaken a successful modernization project.

Required:

State the advantages and disadvantages of e-tax to the taxpayer.
(10 marks)
(Total 15 marks)

Question 6

Smuggling is an illegal method of conducting business caused by greed for wealth, ignorance and lack of patriotism.

Required:

State and explain the following:

- (a) **Seven** forms in which smuggling occurs.
(7 marks)
- (b) **Four** problems associated with smuggling.
(4 marks)
- (c) **Two** major reasons why countries impose prohibitions and restrictions to certain goods despite common groupings like East African Community market.
(4 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	Shs 450,000 or 1% of gross turnover, whichever is the lower.

not exceed Shs 50,000,000 a year.	
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