

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### PRINCIPLES OF TAXATION – PAPER 10

**TUESDAY, 15 JUNE 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 10.
7. Please, read further instructions on the answer book.

## SECTION A

### Question 1

- (i) A tax whereby the incidence and impact fall on the same person is known as:
  - (a) regressive tax.
  - (b) progressive tax.
  - (c) indirect tax.
  - (d) direct tax.
- (ii) Which of the following is tax exempt under the Income Tax Act?
  - (a) Bank of Uganda.
  - (b) Uganda Revenue Authority Employees.
  - (c) Diplomats.
  - (d) Private education institutions.
- (iii) Which of the following is a **NOT** permissible addition under class I of the wear and tear allowances under the Income Tax Act?
  - (a) Software.
  - (b) Computer tables.
  - (c) A box of floppy disks.
  - (d) Printers.
- (iv) A person .... qualifies for cash basis accounting for VAT under the VAT Act.
  - (a) who supplies entertainment services.
  - (b) whose taxable supplies do not exceed shs 400 million.
  - (c) who supplies zero rated goods.
  - (d) whose taxable supplies do not exceed Shs 200 million.
- (v) Which of the following does **NOT** form part of an employee's taxable emoluments?
  - (a) Bonus payment.
  - (b) Annual retirement benefits.
  - (c) Long-term service award cash payment.
  - (d) Reward for winning an in-house competition for most innovative idea.
- (vi) Which of the following items does not qualify for an industrial building deduction?
  - (a) A lift installed in an industrial building.
  - (b) A store for a maize mill.
  - (c) An extension to a maize mill.
  - (d) Ginning machinery in a ginnery.

- (vii) Another name for commodity tax is:
- (a) import duty
  - (b) excise duty
  - (c) customs tax
  - (d) value added tax.
- (viii) Which of the following is an exempt supply under the Value Added Tax Act?
- (a) Supply of financial services.
  - (b) Supply of unimproved land.
  - (c) Supply of medicine.
  - (d) Supply of education services.

- (ix) A student summarized the following points:

- inflation
- purpose of the tax
- demographic factors
- distribution of income

Which of the following statements best describes the above summarized points?

- (a) They refer to the objectives of taxation.
- (b) They influence the cannons of a good tax system.
- (c) They relate to the benefit/cost theory.
- (d) They relate to the taxable capacity of a country.

**Use the following information to answer questions (x) and (xi):**

Mr. Mekanika is employed by Sekwa Auto Parts as a sales manager. He receives the following monthly emoluments:

	<b>Shs '000'</b>
Salary	1,000
Housing allowance	400
Airtime to call customers	50
Subscription to a golf club	500

- (x) What is Mr. Mekanika's monthly pay as you earn (PAYE)?
- (a) Shs 478,700
  - (b) Shs 493,700
  - (c) Shs 458,700
  - (d) Shs 34,000

- (xi) How long should Sekwa Auto Parts keep their records concerning their tax affairs under the Income Tax Act?
- (a) 10 years.
  - (b) 5 years.
  - (c) 7 years.
  - (d) 3 years.

- (xii) Mr. Mulondo Jamada is a supplier of stationery on Nkrumah Road and is registered for VAT. On 18 December 2009, he received a quotation to supply stationery to Namutamba Primary School. He sent a proforma invoice to Namutamba Primary School on 19 December 2009, and the school confirmed the order on 21 January 2010. Mr. Mulondo delivered the stationery to the school on 1 February 2010 and raised the invoice for the delivery on 2 February 2010. The school made the payment of the invoice on 2 March 2010.

What was the tax point of this supply?

- (a) 2 February 2010.
  - (b) 2 March 2010.
  - (c) 1 February 2010.
  - (d) 21 January 2010.
- (xiii) Which of the following taxes is **NOT** collected by Uganda Revenue Authority?
- (a) Import duty.
  - (b) Stamp duty.
  - (c) Property tax.
  - (d) Withholding tax.
- (xiv) A normal year of income is defined as:
- (a) a period of 12 months ending 30 June.
  - (b) a period of 12 months ending 31 December.
  - (c) a period of 12 months ending 31 July.
  - (d) any period of 12 months.
- (xv) A person shall not be registered as an investment trader in line with the provisions of the VAT Act **UNLESS** he/she:
- (a) is registered by the Uganda Investment Authority as an investor.
  - (b) keeps proper books of account.
  - (c) files his/her tax returns regularly.
  - (d) Has an annual turnover of Shs 50 million or more.

(xvi) Kabanda, an ATC(U) finalist, had the following summarized points during a discussion:

- Paid by people in gainful employment.
- Deducted in four equal installments.
- Employers have a statutory duty to deduct it.
- Also paid by business people.

Which of the following statements best describes the above summarized points?

- (a) They relate to employment income.
- (b) They relate to local service tax.
- (c) They relate to local hotel tax.
- (d) They relate to business income tax.

(xvii) Which of the following incomes is **NOT** subject to withholding tax?

- (a) Dividends.
- (b) Interest earned from a bank.
- (c) Sale of air tickets.
- (d) Management fees earned by a resident professional accountant.

(xviii) An application for extension of time to furnish a return of income must fulfill the following conditions **EXCEPT** that the application must:

- (a) be in writing.
- (b) be filed with the commissioner for indirect taxes.
- (c) be filed before the due date for filing of the return to which it relates.
- (d) must give reasons as to why the extension is being sought.

(xix) Provisional tax for an individual person is payable:

- (a) in 3 equal installments during the year of income.
- (b) in 4 equal installments during the year of income.
- (c) in 2 equal installments during the year of income.
- (d) once a year at the end of the year of income.

(xx) Which of the following does **NOT** qualify as an industrial building in line with the definition of an industrial building under the Income Tax Act as amended to-date?

- (a) An industrial annex.
- (b) A school building.
- (c) A wing used by visiting staff of a hotel.
- (d) A hospital laboratory.

**SECTION B****Question 2**

Jacobs Andrew is employed as an expatriate at Kawonawo Hotel attached to the administration department. He started work on 1 January 2007 and his contract runs for 3 years.

Jacob Andrews has since 1 January 2007 relocated to Uganda with his wife and 3 children aged 9, 12 and 16 for the duration of his contract.

The following is Jacobs Andrew's annual remuneration package:

	<b>Shs (million)</b>
• Salary	100
• School fees per child (for 2 children below the age of 18)	10
• Furniture allowance (one-off payment)	20
• Housing allowance	30
• Subscription fees to a social club of his choice	8
• A company motor vehicle.	
• Medical insurance cover for self, wife and 4 dependants less than 18 years old. The insurance cover is to a maximum of Shs 50 million per annum.	
• One return air ticket to visit his home country per year valued at Shs 15 million.	

**The following additional notes are also relevant to Jacobs Andrew:**

1. He rents an apartment at Shs 2 million per month.
2. He uses the company vehicle for private purposes to the extent of 20% of the time.
3. His children attend an International School in Uganda.
4. He made a donation of Shs 1 million during the year to a charitable organization.
5. He also made a contribution of 5% of his income to a pension fund in his home country.
6. He contributed Shs 1 million for the year towards fuel expenses on private usage of the company vehicle.
7. The company vehicle was given to him brandy new and was valued at Shs 70 million.

**Required:**

- (a) Define, and explain the term 'short-term residence' as used in the Income Tax Act, 1997.

**(2 marks)**

- (b) Explain the term 'resident retirement fund'.

**(3 marks)**

- (c) Compute Jacob Andrews' income tax liability for the year ended 31 December 2009.

**(20 marks)**  
**(Total 25 marks)**

### Question 3

XYZ Ltd. is a carpentry workshop in Nakawa. The workshop's income statement for the Year ended 31 December 2009 is given below:

	Shs '000'	Shs '000'
Gross profit		145,000
Operating expenses:		
Depreciation	16,500	
Professional fees	8,500	
Repairs of workshop tools	7,520	
Tips to workshop workers	10,000	
Others	<u>4,000</u>	<u>(46,520)</u>
Operating profit		98,480
Profit from sale of office furniture	1,300	
Bank interest	<u>1,450</u>	<u>2,750</u>
Net profit		<u>101,230</u>

### Notes

Professional fees are analysed as follows:

	Shs '000'
Tax consultancy	2,500
Legal fees	2,500
Debt collection fees	<u>3,500</u>
	<u>8,000</u>

Other operating expenses are analysed as follows:

	Shs '000'
Entertainment of customers	1,350
Fine for breach of health standards	<u>2,650</u>
	<u>4,000</u>

Tax written down values 31 December 2008:

	Shs '000'
Workshop plant and machinery	135,000
Lorry (7 tons)	76,000
Workshop Tools	<u>12,000</u>
	<u>223,000</u>

Additions during the year:

	Shs '000'
Pick-up	45,000
Tools	<u>5,000</u>
	<u>50,000</u>

The pick-up is to be used for delivering workshop furniture to customers.

XYZ Ltd has an adjusted tax loss of Shs 21 million carried forward from the previous year.

The company's accounting date is 31 December.

**Required:**

- (a) State and explain **five** characteristics of a good tax system. (5 marks)
  - (b) Calculate the adjusted income/ (loss) for XYZ Ltd. for the year ended 31 December 2009. (18 marks)
  - (c) Calculate the tax payable/ tax loss for XYZ Ltd. for the year ended 31 December 2009. (2 marks)
- (Total 25 marks)**

## SECTION C

### Question 4

Juliet Boutique is registered for VAT and the boutique's transactions for the month of May 2010 were as follows:

Sales:	Shs million	
Standard rated	100	(VAT inclusive)
Zero rated	30	(VAT exclusive)
Purchases:		
Stock (standard rated)	45	(VAT exclusive)
Expenses:		
Electricity for offices	12	(VAT exclusive)
Telephone bill for office	2	(VAT inclusive)
Expenses on company van	4	(VAT inclusive)

**Notes:**

- 1 Debts of Shs 28 million were written off after all efforts to recover them had failed. This figure is VAT inclusive.
- 2 Juliet Boutique filed the return late by one month.



**Required:**

- (a) Explain what you understand by the term 'tax point' under the VAT Act?  
(3 marks)
- (b) Calculate the VAT payable/claimable for the month ended 31 May 2010 by Juliet Boutique.  
(12 marks)
- (Total 15 marks)

**Question 5**

Uganda revenue Authority (URA) has embarked on a project to modernize tax collection which includes the following:

- Market segmentation of taxpayers into large, medium and small.
- Introduction of a self assessment regime for all taxpayers.
- Filing of returns using e-tax.

**Required:**

In light of the above, and as an aspiring tax consultant, explain:

- (a) what you understand by the term 'self assessment regime'  
(3 marks)
- (b) what is meant by the term 'e-tax', and the benefits likely to be enjoyed by taxpayers as a result of its introduction.  
(7 marks)
- (c) the challenges that are likely to be encountered by URA in implementing the modernization project.  
(5 marks)
- (Total 15 marks)

**Question 6**

In 2009 the heads of state of the East African countries signed a Common Market Protocol in Arusha, Tanzania.

**Required:**

- (a) State the countries that make up the East African Community Common Market Protocol.  
(5 marks)
- (b) Explain any **five** benefits that individual member states are likely to enjoy from the protocol.  
(5 marks)
- (c) Explain any **five** challenges that are likely to be faced in the implementation of the East African Common Market Protocol.  
(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.