

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

FRIDAY, 2 DECEMBER 2011

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** 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, before attempting any question.

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SECTION A

Question 1

- (i) Which of the following statements below is correct about the Income Tax Act, Cap. 340 of Uganda?
 - (a) It does not tax income earned in Uganda.
 - (b) It does exempt income from agro-processing from taxation subject to various conditions.
 - (c) It treats as tax deductible 5% of income tax payable by private employers who prove to Uganda Revenue Authority that 2% of their employees are persons with disabilities.
 - (d) It by default has a year end of 31 December.
- (ii) For tax purposes, a taxpayers' records should be:
 - (a) in the English language and kept in Uganda.
 - (b) maintained for ten years with Uganda Revenue Authority.
 - (c) kept anywhere in the world.
 - (d) in local language and computer generated.
- (iii) Tom owns a commercial property in Jinja Town. For the year ended 30 June 2011, he received a total of Shs 120 million from his tenants. The amount of Shs 120 million was VAT exclusive. What is the VAT payable?
 - (a) Shs 12,000,000
 - (b) Shs 3,600,000
 - (c) Shs 21,600,000
 - (d) Shs 36,000,000
- (iv) Bambu exported cement to Marijana in South Sudan. Which of the following statements is correct in relation to VAT on this transaction?
 - (a) It is an exempt supply.
 - (b) It is taxable at 17%.
 - (c) It is zero-rated.
 - (d) It is taxable at 18%.

- (v) Government securities which include treasury bills and treasury bonds are taxed at source. Which of the following statements is correct in relation to taxation of government securities?
- (a) They are exempt from taxation.
 - (b) Bank of Uganda accounts for the 18% VAT on the income derived from them.
 - (c) Financial institutions receiving income from the securities suffer withholding tax as a final tax.
 - (d) Stamp duty is accounted for on their payment.
- (vi) Proceeds collected from charitable performances by musicians and donated to charitable organizations of a public character, which are exempted under the Income Tax Act :
- (a) do not form part of the income for the musicians which is subject to tax.
 - (b) are taxable on the musicians at a rate of 30% since musicians collect the money.
 - (c) are taxable on the musicians at a rate of 18% since musicians collect the money.
 - (d) VAT should be accounted for to the URA as they are taxable supplies.
- (vii) Which of the following is **NOT** an exempt supply?
- (a) Supply of financial services.
 - (b) Supply of unimproved land.
 - (c) Supply of medicine.
 - (d) Supply of educational services.
- (viii) A taxable person is **NOT** allowed to claim a credit for VAT incurred on:
- (a) goods imported through customs.
 - (b) passenger motor vehicles.
 - (c) goods with proper tax invoices.
 - (d) school fees.
- (ix) The standard alternative method of accounting for VAT can only be used by a taxpayer dealing in mixed supplies on:
- (a) an annual basis.
 - (b) written approval from the commissioner general.
 - (c) being gazetted through the public gazette.
 - (d) publishing one's name in the New Vision.

- (x) A penalty of double the tax under the VAT Act is imposed on:
- (a) failure to lodge a return of income.
 - (b) failure to maintain proper records.
 - (c) failure to provide reasonable assistance.
 - (d) claiming a VAT refund which is false.
- (xi) Magembe has been employed by Kampala City Council, now Kampala Capital City Authority (KCCA), for twelve years. Under the KCCA, he has been forced to retire. Which of the following treatments relates to the taxation of his retirement benefits?
- (a) Only 75% is chargeable to tax.
 - (b) All is chargeable to tax.
 - (c) Only 50% is taxable.
 - (d) It is taxable at 30%.
- (xii) Progressive taxes are used to distribute income. This statement reflects one of the:
- (a) canons of a good tax system.
 - (b) reasons governments levy taxes.
 - (c) reasons why thieves smuggle goods into a country.
 - (d) governments keep track of their citizens.
- (xiii) Which of the following persons qualifies for cash basis accounting for VAT?
- (a) Providers of entertainment services.
 - (b) Traders whose taxable supplies do not exceed Shs 400 million.
 - (c) Traders who supply zero-rated goods.
 - (d) Traders whose taxable supplies do not exceed Shs 200 million.
- (xiv) The tax periods which can be used by a taxpayer under the Income Tax Act for corporation tax purposes are:
- (a) tax period, substituted year of income and calendar year.
 - (b) normal year of income, transitional period & substituted year of income.
 - (c) normal year of income, progressive period & substituted year of income.
 - (d) agreed upon year, calendar year and normal year.

- (xv) A person who is **NOT** satisfied with a VAT assessment may make an objection to the Commissioner General within ... days after receiving the assessment.
- (a) 45
 - (b) 30
 - (c) 90
 - (d) 60
- (xvi) A taxpayer must keep his/her tax records for years under the Income Tax Act, Cap 340.
- (a) 10
 - (b) 5
 - (c) 7
 - (d) 3
- (xvii) Which of the following is an allowable deduction in arriving at taxable income under the Income Tax Act?
- (a) Local service tax and unrealised foreign exchange losses.
 - (b) Local service tax and bad debts write off.
 - (c) Income tax paid and interest paid.
 - (d) Interest paid and provisions for bad debts.
- (xviii) Provisional tax of an individual person is payable:
- (a) in 3 equal instalments during the year of income.
 - (b) in 4 equal instalments during the year of income.
 - (c) in 2 equal instalments during the year of income.
 - (d) once a year at the end of the year of income.
- (xix) Which of the following conditions will prevent a person from being registered as an investment trader under the provisions of the VAT Act?
- (a) Person is registered by the Uganda Investment Authority as an investor.
 - (b) Keeps proper books of accounts.
 - (c) Fills their tax returns regularly.
 - (d) Unless he has capital of above Shs 50 million.
- (xx) Which of following is **NOT** subject to income tax in Uganda?
- (a) Partnerships and sole proprietors
 - (b) Partnerships and companies
 - (c) Sole proprietors and companies
 - (d) Foreign entities which only derive their income from Tanzania

SECTION B**Question 2**

Mr. Mwami Jonathan is employed as an expatriate worker in the Uganda office of Minsa International Limited, an international charity organization.

Mr. Mwami relocated to Uganda from his home country on 1 January 2010 to serve out his three year contract.

The terms and conditions of employment include the following benefits:

- (a) Annual basic salary Shs 72 million.
- (b) He is entitled to a car, provided by the employer.
- (c) He is entitled to a free ticket back to his home country once a year. The cost of the ticket is Shs 12 million.
- (d) He is entitled to one house maid, one shamba boy, and one security guard at his home.
- (e) School fees for dependants who are below the age of 18.
- (f) A bonus equivalent to one month's basic salary payable once a year.
- (g) A mobile telephone.
- (h) Medical insurance cover for self and four dependants who are below the age of 18.
- (i) An entertainment allowance of Shs 100,000 per month.
- (j) A housing allowance of Shs 1.5 million per month.
- (k) Annual subscription fees to a golf club of his choice.

Notes:

- (i) The car provided to Mr. Mwami cost Shs 75 million on 31 December 2009.
- (ii) During the year, Mr. Mwami used the car for personal purposes for a period of 110 days. Assume a year has 366 days.
- (iii) His annual bill for the mobile telephone calls amounted to Shs 1.25 million of which 60% were private calls.
- (iv) He has six dependants aged 6, 8, 10, 12, 14, 16 and 20, all attending Kamba International School. Each dependant pays tuition fees of Shs 14 million per year.
- (v) Mr. Mwami was subscribed to the KKG medical insurance scheme. Mr. Mwami's insurance cover costs Minsa International Shs 54 million per year.
- (vi) Mr. Mwami did not travel to his home country in the first year of his relocation but withdrew cash for an air ticket.
- (vii) Mr. Mwami remits 10% of his income to a pension fund in his home country.
- (viii) Mr. Mwami joined Nyange Golf Club and holds platinum membership card.

(ix) Nyange Golf Club subscription charges are:

- Platinum Shs 524,000
- Gold Shs 400,000
- Silver Shs 300,000
- Bronze Shs 200,000 per month.

Required:

(a) Compute Mr. Mwami's income tax payable in the year of income 2010.

(20 marks)

(b) Explain the term 'self assessment tax regime'.

(5 marks)

(Total 25 marks)

Question 3

Odong started a small scale business of producing fresh juices from locally grown fruits and water in Kabong District. His major objectives were to provide employment and most importantly safe and hygienic soft drinks to the people in his district of Kabong. Odong borrowed money from Uganda Development Bank which enabled him to start the business. His first year of income ended on 31 December 2010. Below are the results for the year:

Statement of Comprehensive Income:

	Shs '000
Sales	256,000
Cost of sales	<u>(137,000)</u>
Gross profit	119,000
Expenses	
Legal fees	23,000
Stamp duty	2,000
Salaries	28,700
NSSF	2,870
Audit fees	5,700
Donations	400
Depreciation	29,600
Provision for unspecific bad debts	2,000
Transport	16,700
Unrealised foreign exchange loss	4,500
Interest	4,200
Traffic fines	300
Start-up costs	<u>35,000</u>
Total expenses	154,970
Net loss	<u><u>(35,970)</u></u>

Fixed assets acquired at the beginning of the year:

	Shs '000
New factory worth	26,000
Production equipment	17,000
Computer	4,000
Furniture and fittings	1,200
Built a fence	500
Vehicles less than 7 tonne capacity	16,700

The factory was available for use for the whole year.

Required

- (a) Compute the initial allowance due, capital allowances and the industrial building allowance for the year ended 31 December 2010. **(10 marks)**
- (b) Determine Odong's tax position for the year ended 31 December 2010. **(15 marks)**
- (Total 25 marks)**

SECTION C

Question 4

Mr. Nsansa owns a carpentry workshop in Ndeeba, a suburb of Kampala. He is registered for VAT and the workshop's transactions in the month of February 2011 were as follows:

	Shs '000'	
Purchases:		
Timber imported	105,000	(VAT paid on importation Shs 16 million)
Smoothing equipment used to smooth out timber	45,000	(VAT exclusive)
Glue	4,000	(VAT exclusive)
Nails	15,000	(VAT inclusive)
Other Expenses:		
Electricity	3,500	(VAT inclusive)
Water supply for workshop	1,500	(VAT inclusive)
Telephone	1,000	(VAT exclusive)
Expenses on company van	4,000	(VAT inclusive)
Sales:		
Standard rated	100,000	(VAT inclusive)

Note:

1. A debt of Shs 28 million was written-off after all efforts to recover it through lawyers had failed. This figure is VAT inclusive.
- 2 Mr. Nsansa used the company van for private purposes 10% of the time.

Required:

- (a) Mention **four** features that a tax invoice should have.
(4 marks)
 - (b) Compute the VAT payable by the workshop.
(11 marks)
- (Total 15 marks)**

Question 5

The chairpersons of district local governments are urging the central government to reinstate the graduated tax as a means of raising revenue for local governments.

Required:

Explain the advantages and disadvantages of graduated tax in relation to the canons of a good tax system.

(15 marks)

Question 6

- (a) Describe **three** conditions that a person has to fulfill to be treated as a resident in Uganda for a year of income.
(6 marks)
 - (b) List **five** non-tax sources of revenue for the Government of Uganda.
(5 marks)
 - (c) Give **four** reasons why the Government of Uganda levies taxes.
(4 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.