

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

FRIDAY, 30 NOVEMBER 2012

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. This examination contains Sections **A**, **B** and **C**.
3. Section **A** is bound separately from Sections **B** and **C**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt the **two** questions in Section **B**. Each question carries 25 marks.
6. Attempt the **two** of **three** questions in Section **C**. Each question carries 15 marks.
7. Some tax rates are provided on page 6
8. Write your answer to each question on a fresh page in your answer booklet.
9. Please, read further instructions on the answer booklet, before attempting any question

SECTION B

This section has two compulsory questions to be attempted.

Question 2**Bogere Supermarket**

The following is a statement of comprehensive income for Bogere Supermarket Ltd for the year ended 31 March 2012:

	Shs '000'	Shs '000'
Sale of merchandise		45,757
Cost of sales		<u>(10,527)</u>
Gross profit		35,230
Other income		<u>1,495</u>
Total income		36,725
Expenditure:		
Administration fees paid	2,225	
Advertising	200	
Amortisation of operating leases	321	
Audit fees	1,200	
Provision for bad debts	4,000	
Bank charges	100	
VAT penalties	600	
Depreciation	4,589	
Donations	300	
Electricity and water	5,000	
Motor vehicle expenses	5,678	
Professional services and legal expenses	1,000	
Rent paid	2,000	
Repairs and maintenance	1,689	
Staff costs	3,000	
Capital assets	<u>4,000</u>	<u>(35,902)</u>
Trading profit		<u><u>823</u></u>

Fixed assets which were purchased during the year included:

- (i) 2 fridges each costing Shs 1.5 million.
- (ii) a van with a seating capacity of 28 passengers at a cost of Shs 26 million.
- (iii) a computer of Shs 4 million.
- (iv) a piece of land at Bunga which is yet to be developed at Shs 50 million.

The company supplied goods to the Ministry of Health and a withholding tax of Shs 3 million was deducted. The corresponding tax credit certificate was obtained.

In the course of the year, the supermarket was audited for VAT purposes and the tax authority disallowed VAT of Shs 4.5 million as non – claimable because the invoices which were given to the supermarket were not proper tax invoices. In addition, a penalty of Shs 600, 000 was imposed due to errors in completion of the VAT returns.

Included in legal and professional fees are lawyers' fees of Shs 400,000 for working on the legal affairs of the director's friend.

Donation was made to a staff member's wedding.

Provisions for bad debts are general.

Required:

- (a) Explain why the Ministry of Health withheld tax from the supplies made to them and what the supermarket can do with the tax withheld.
(5 marks)
 - (b) Advise the supermarket on what it should do in its corporation tax computation with the disallowed VAT of Shs 4.5 million.
(2 marks)
 - (c) Compute the capital allowances due to the supermarket. Assume that there was no brought down tax written down values.
(6 marks)
 - (d) Compute the tax payable and offset any credits available to the supermarket.
(12 marks)
- (Total 25 marks)**

Question 3

Coco Ltd made the following payments to its employees for the month ended 30 June 2012:

	Shs '000'
Moses Willy	1,789
Kalumba Isaac	400
Gashumba Oslo	230
Komaketch Andrew	12,300

The company also paid the following consultants the corresponding amounts:

	Shs '000'
Sylvia Were (non-resident)	5,300
Anita Mwanje (resident)	1,200

Required:

- (a) Compute the tax:
 - (i) payable by each employee showing the detailed workings. **(12 marks)**
 - (ii) deductible from each consultant. **(4 marks)**
 - (c) Coco Ltd has asked you for advice on how the following are taxed under employment income:
 - (i) motor vehicle benefit. **(6 marks)**
 - (ii) interest free loan provided by an employer to an employee. **(3 marks)**
- (Total 25 marks)**

SECTION C

Attempt two of the three questions in this section.

Question 4

Joan Enterprises Ltd is a company dealing in letting of commercial premises. During the November 2012 tax period, the company sold off all its properties to Ruka Enterprises Ltd which also deals in letting of commercial premises. Both companies are registered for VAT.

Required:

- (a) Advise both companies on what needs to be done to ensure that the disposal qualifies to be a transfer of a business as a going concern under the VAT Act and the related practice notes.
- (10 marks)**
- (b) Explain the benefits of having a disposal treated as a transfer of business as a going concern.

(5 marks)

(Total 15 marks)

Question 5

Briefly explain:

- (a) **five** benefits of a customs union.
- (b) the disadvantages of smuggling.

(10 marks)

(5 marks)

(Total 15 marks)

Question 6

- (a) Kintu has residential flats located in Najjera, Ntinda. He earned Shs 12 million from these flats for the year ended 30 June 2012. In addition, he has a supermarket in Kyalo from which he earned Shs 46 million. He pays tax on income from the supermarket under the small business taxpayers.

Required:

- (i) Compute the rental tax payable on the income from the flats.
- (6 marks)**
- (ii) Compute the tax payable on the income from the supermarket.
- (6 marks)**
- (b) Define the term 'year of income' as per the Income Tax Act.

(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 plus 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 plus 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 plus 1% of gross turnover, whichever is the lower.