

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

### PRINCIPLES OF TAXATION – PAPER 10

**FRIDAY, 22 JUNE 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 5
8. Write your answer to each question in a separate answer booklet.
9. Please, read further instructions on the answer booklet, before attempting any question

**SECTION B**

*This section has two questions compulsory to be attempted.*

**Question 2**

Boobo Company Ltd employs both expatriates and Ugandans. For purposes of the Income Tax Act 1997, the expatriates are considered non-resident individuals as they come for a short period and go back. For the month ended 31 March 2012, the company paid the employees as per the table below:

Name of employee	Type of employee	Payment	Lunch benefit	Travel allowance
		Shs '000'	Shs '000'	Shs '000'
Melanie Amaro	expatriate	4,800,000	30,000	50,000
Robin Wood	expatriate	3,600,000	30,000	50,000
Tina Turner	expatriate	2,880,000	30,000	50,000
Miachael Lwanga	Ugandan	2,000,000	30,000	50,000
Chris Luwaga	Ugandan	1,500,000	30,000	50,000
Kona Lwego	Ugandan	220,000	30,000	50,000

The lunch benefit was provided to all staff on equal terms at the office premises.

**Required:**

Compute the PAYE due from each employee, the workings and explanations should be included.

**(25 marks)**

**Question 3**

Amazing Grace Ltd deals in importation and wholesale of hardware materials from China. The company is located on Luwum Street, Kampala. The company's statement of comprehensive income for the period ended 31 March 2012 was as below:

	Shs '000'	Shs '000'
Turnover	330,000	
Cost of sales	<u>(170,000)</u>	
Gross profit		160,000
Salaries and wages	15,000	
Postage and telephone	2,340	
Vehicle running costs	16,989	
Legal and professional fees	9,000	
Office rental	12,000	
Repairs and maintenance	3,800	
Insurance & bonds	3,000	
Depreciation	8,354	
Income tax	2,000	
Stationery	2,700	
Amortisation of leasehold land	1,900	

Licenses, permits and subscriptions	235	
Advertising and marketing	1,590	
Water and electricity	7,000	
Travel	32,400	
Unrealised foreign exchange loss	<u>22,000</u>	
		<u>(140,308)</u>
Profit before tax		<u><u>19,692</u></u>

Additional information:

- (i) Legal fees include Shs 5 million incurred on purchasing land.
- (ii) Travel costs include Shs 20 million incurred on the director's wife during a holiday in Sweden.
- (iii) The company paid advance corporation tax of Shs 2 million which was expensed in the statement of comprehensive income.
- (iv) The company purchased the following assets during the year.
  - Three trucks of less than 7 tons capacity each at Shs 32 million.
  - Two laptop computers both at Shs 3.5 million,
  - Furniture and fittings at Shs 3 million.

Assume that this was the first year of business.

**Required:**

- (a) Compute the initial allowances (if any) and the capital allowances due to Amazing Grace Ltd.  
(7 marks)
  - (b) Compute the tax due at year end for the company after setting off any available tax credits.  
(12 marks)
  - (c) Write short notes on what qualifies a company to be a resident company for income tax purposes.  
(6 marks)
- (Total 25 marks)**

## SECTION C

*Attempt two of the three questions in this section.*

### Question 4

The following is a listing of transactions made by Ms Koma in the month of May 2012 value added tax (VAT) period:

VAT offsets brought forward from previous periods Shs 12 million.

Particulars	Shs '000'
Imported various hardware materials worth	132,000
Imported new computers including laptops	55,000
Bought from other local suppliers assorted hardware materials	45,700
Paid salaries & wages	5,000
Made sales of assorted hardware equipment	350,000

#### Required:

- (a) Compute Ms Koma's VAT position for the month of May 2012 VAT period.  
(12 marks)
  - (b) When is a taxpayer allowed to claim for an offset under the VAT Act?  
(3 marks)
- (Total 15 marks)**

### Question 5

- (a) ICPAU recently held a seminar on taxation in which the presenter made the following remark; "Taxation is a necessary evil, it should be administered in such a way so as to ease the evil".

#### Required:

Explain the **six** canons of taxation, giving clear examples of how each canon is supposed to ease the evil of paying taxes.

**(12 marks)**

- (b) State and explain **three** objectives of taxation.

**(3 marks)**

**(Total 15 marks)**

### Question 6

Write short notes on the following:

- (a) Tax Appeals Tribunal.  
(5 marks)
  - (b) Self assessment regime introduced by Uganda Revenue Authority.  
(5 marks)
  - (c) Non-tax revenue collected by Uganda Revenue Authority.  
(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.