

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

MONDAY, 10 JUNE 2013

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. Tax rates are provided on page 5
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

Lifetime Entertainment Services Ltd (LESL) offers services which include hire of grounds, tents; catering, music and bridal cars. The following is the company's statement of comprehensive income for the year ended 31 December 2012:

	Shs '000'	Shs '000'
Turnover:		
Grounds hire		12,000
Tents and chairs		23,000
Bridal cars		7,900
Catering (food)		60,000
Music		<u>9,000</u>
		111,900
Expenditure:		
Salaries and wages	36,000	
New chairs	14,000	
Fuel	350	
Audit fees	500	
Provisions	4,600	
Bank charges	100	
Water and electricity	3,000	
Depreciation	720	
Donations	30	
Repairs and maintenance	2,500	
Advertising	700	<u>(62,500)</u>
Trading profit		<u>49,400</u>

Non-current assets purchased during the year:

- (i) Two bridal cars Shs 50 million per car.
- (ii) Two tents Shs 5 million.
- (iii) Chairs Shs 14 million (included in the statement of comprehensive income above).

Provisions relate to unspecified bad debts and a donation made to a staff member's wedding. The company did not furnish the return to the commissioner by the due date as required under the Income Tax Act.

As a result, the Uganda Revenue Authority issued an estimated assessment with a total tax payable of Shs 52 million.

Required:

- (a) Compute the capital allowances due. Assume that the brought forward tax allowances with respect to classes II and IV are Shs 38 million and Shs 14 million respectively.
(8 marks)
- (b) Compute the tax payable by LESL.
(7 marks)
- (c) Write an objection letter to the Uganda Revenue Authority, with regard to the estimated assessment of tax. Clearly state the grounds for objection.
(10 marks)
- (Total 25 marks)**

Question 3

Kyoto is an expatriate working in one of the leading banks in Uganda. He is a resident person for tax purposes. For the month ended 31 May 2013, Kyoto was provided with the following as his monthly remuneration.

	Shs '000'
Salary	10,000
School fees	1,000
Housing allowance	500
Utilities	375
Health insurance	1,250
Wife's allowance	2,500
Hardship allowance	750
Motor vehicle at market value	8,680
Cost of living adjustment	1,750

Required:

- (a) Compute the monthly tax payable by Kyoto.
(23 marks)
- (b) Advise Kyoto's employer on the due date for filing the pay as you earn return to Uganda Revenue Authority.
(2 marks)
- (Total 25 marks)**

SECTION C

Attempt two of the three questions in this section.

Question 4

Bull Agencies Ltd (BAL) is a VAT registered taxpayer. The company's transactions for the months of February and March 2013 were as follows:

Particulars	Shs '000'
February sales	260,000
February purchases	279,000
March sales	185,000
March purchases	Nil

Note: All transactions were VAT exclusive.

Required:

- (a) Compute BAL's net VAT position as at the end of February 2013. Advise the company as to whether to pay tax, claim, an offset or refund from the tax authority.
- (9 marks)**
- (b) Show BAL's VAT position which should be filed with Uganda Revenue Authority for the period of March 2013, basing on your response in (a) above.

(6 marks)

(Total 15 marks)

Question 5

- (a) Explain the reasons why governments levy taxes. **(8 marks)**
- (b) The citizens of the state ought to contribute as equally as possible towards government revenue.

Required:

Explain the above principle and clearly state the challenges faced by policy makers in its implementation.

(7 marks)

(Total 15 marks)

Question 6

Write short notes on each of the following:

- (a) Double taxation relief agreements. **(5 marks)**
- (b) Objections and appeals under the Income Tax Act. **(5 marks)**
- (c) Non-revenue tax sources. **(5 marks)**

(Total 15 marks)

TAX RATES

Resident Individual Income Tax Rates

Annual chargeable Income	Rate of Tax
Not Exceeding Shs 2,820,000.	Nil
Exceeding Shs 2,820,000 but not exceeding Shs 4,020,000.	10% of the amount by which chargeable income exceeds Shs 2,820,000.
Exceeding Shs 4,020,000 but not exceeding Shs 4,920,000.	Shs 120,000 plus 20% of the amount by which chargeable income exceeds Shs 4,020,000.
Exceeding Shs 4,920,000.	<p>A. Shs 300,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000, and</p> <p>B. Where the chargeable income of an individual exceeds 120,000,000 an additional 10% is charged on the amounts exceeding Shs 120,000,000</p>

Non – resident Individual Income Tax Rates

Annual chargeable Income	Rate of Tax
Not exceeding Shs 4,020,000.	10%
Exceeding Shs 4,020,000 but not exceeding Shs 4,920,000.	Shs 402,000 plus 20% of the amount by which chargeable income exceeds Shs 4,020,000.
Exceeding Shs 4,920,000.	<p>A. Shs 582,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000, and</p> <p>B. Where the chargeable income of an individual exceeds 120,000,000 an additional 10% is charged on the amounts exceeding Shs 120,000,000</p>

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.