

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

FRIDAY, 29 NOVEMBER 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. 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

Caspers Uganda Limited (CUL) is located in Mityana and deals in video production. CUL engages sales representatives whose role is to scout for promising talents, introduce them to the sales executives and eventually train the talents in order to deliver products for sale. Included in the company's package is identifying talents, finding people to compose either songs or drama series and sign them on, produce videos and then sell them.

CUL's results for the twelve months ended 30 April 2013 were as follows:

Statement of profit or loss and other comprehensive income for the period ended 30 April 2013.

	Shs '000'	Shs '000'
Income		
Sale of music videos		40,000
Sale of drama series		20,000
Commission on young talents		<u>13,000</u>
		73,000
Expenses		
Salaries and wages	9,000	
Repairs and maintenance	6,000	
Purchase of new video equipment	10,000	
Studio lights	5,000	
Computers	13,000	
Travel and transport	3,000	
Entertainment	400	
Armotisation	600	
Meals	3,000	
Provision for bad debts	500	
Interest on loans	900	
Corporation tax paid	2,400	
Crew uniforms	600	
Damage to the Caspers brand	500	
Irrecoverable VAT	900	
Studio make-up	<u>100</u>	<u>55,900</u>
Profit before tax		<u>17,100</u>

Additional information:

The new video equipment, studio lights and computers were capital items in nature with respect to CUL.

Required:

Compute the tax payable by Dr Ntege Crystal for the month of March 2013 showing detailed workings and explanations for the positions taken.

(25 marks)

SECTION C

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

Question 4

A new company, New Co Ltd, has been incorporated in Kampala. The company's business is to offer professional services which are largely legal in nature. The company has over ten employees.

In the month of June 2013, New Co Ltd, made the following transactions, all figures VAT exclusive:

- Sales of professional services Shs 55 million.
- Entertainment Shs 3 million.
- Rent for Quarter 3 Shs 16 million.
- Salaries and wages Shs 12 million.
- Foods and beverages Shs 2 million.
- Purchased a company car, a Noah passenger motor vehicle, Shs 22 million.
- Purchased computers Shs 3 million.

Required:

- (a) Advise New Co Ltd about the three types of taxes, the company has to register for with reasons taking into account the background information provided.

(6 marks)

- (b) Advise New Co Ltd on the amount of VAT payable/ claimable for the June 2013 tax period. Explanations have to be given for the tax treatment of every transaction.

(9 marks)

(Total 15 marks)

Question 5

- (a) A good tax system is based on basic principles. Adam Smith put forward the first four basic principles which have since been added on to become nine principles.

Required:

Discuss these basic principles upon which a good tax system is based, giving examples of how the taxes we have in Uganda reflect the principles.

(10 marks)

TAX RATES

Resident Individual Income Tax Rates

Monthly chargeable income	Rate of tax
Not exceeding Shs 2,820,000 (Shs 235,000 pm)	Nil
Exceeding Shs 2,820,000 (235,000 pm) but not exceeding Shs 4,020,000 (Shs 335,000 pm)	10% of the amount by which chargeable income exceeds Shs 2,820,000 (Shs 235,000 pm)
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (410,000 pm)	Shs 120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds Shs 4,020,000 (335,000 pm).
Exceeding Shs 4,920,000 (410,000 pm)	(a) Shs 300,000 (25,000pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (410,000 pm) and (b) Where the chargeable income of an individual exceeds Shs 120,000,000 (10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (10,000,000 pm).

Non-resident Individuals Income Tax Rates

Monthly chargeable income	Rate of tax
Not exceeding Shs Shs 4,020,000 (335,000 pm)	10%
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (410,000 pm)	Shs 402,000 (33,500 pm) plus 20% of the amount by which chargeable income exceeds 4,020,000 (335,000 pm).
Exceeding Shs 4,920,000 (410,000 pm)	(a) Shs 582,000 (48,500 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (410,000 pm) and (b) Where the chargeable income of an individual exceeds Shs 120,000,000 (10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs Shs 120,000,000 (10,000,000 pm).

Small Business Taxpayers Tax Rates

Gross Turnover	Tax Payable
Where gross turnover of a taxpayer exceeds Shs 5,000,000 but does not exceed Shs 20,000,000 per annum.	Shs 100,000.
Where gross turnover of a taxpayer exceeds Shs 20,000,000 on but does not exceed Shs 30,000,000 per annum.	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 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.