

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

PRINCIPLES OF TAXATION – PAPER 8

DECEMBER 2000

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Sections **A** and **B**, and only **one** question from Section **C**.
3. Section **A** has **twenty** compulsory questions each carrying 1 mark.
4. Section **B** has **three** compulsory questions, each carrying 20 marks.
5. Section **C** has **two** questions and only **one** question is to be attempted. Each question carries 20 marks.

SECTION A.

Question 1

- (i) Which of the following is correct?
- a) Cash basis accounting is mandatory for those businesses below 50 million turnover per year.
 - b) Cash basis accounting is optional for businesses below 200 million turnover in a month.
 - c) Cash basis accounting is optional for those businesses below 100 million turnover in a year.
 - d) Cash basis accounting is optional for businesses below 200 million turnover in a year.
- (ii) Choose the correct statement.
- a) A business below 50 million profit per year is not allowed to register for VAT.
 - b) A business below 20 million turnover per year is not allowed to register for VAT.
 - c) A business with 13 million turnover in three months must register for VAT.
 - d) A business with 13 million turnover in three months is not required to register for VAT.
- (iii) Which of the following is not an exempt supply for VAT if the supplier is VAT registered?
- a) Maize flour sold to Kabale.
 - b) Medical gloves sold to ABC school clinic in Kabale.
 - c) Maize flour sold to Nairobi.
 - d) Supply of meat to Sheraton Kampala Hotel.
- (iv) A person who registered voluntarily for VAT;
- a) Can de-register any time on application to the Commissioner General.
 - b) Cannot de-register before an expiry of two years after the date of registration.
 - c) Cannot de-register before an expiry of 5 years after registration.
 - d) Cannot de-register before an expiry of 6 years.
- (v) Employment services according to the VAT Statute 1996 are:
- a) Exempt supplies.
 - b) Zero rated services.
 - c) Taxable services.
 - d) None of the above.

- (vi) Under the VAT Statute 1996, records must be kept for :
- a) 5 years.
 - b) 6 years.
 - c) 7 years.
 - d) 4 years.
- (vii) Which of the following is true?
- a) A taxable person must issue a tax invoice for any sale made in Uganda.
 - b) A taxable person, for any sale, can issue a tax invoice to another taxable person.
 - c) A taxable person must issue a tax invoice when he makes a taxable sale to any person.
 - d) A taxable person must issue a tax invoice only when he makes a taxable sale to another taxable person.
- (viii) For a resident person who is VAT registered;
- a) VAT is charged on worldwide income.
 - b) VAT is charged on worldwide sales.
 - c) VAT is charged on Uganda sourced sales.
 - d) None of the above.
- (ix) Which of the following is not included in gross income?
- a) Treasury bill interest income.
 - b) Income earned outside Uganda by a resident person.
 - c) Rental income of a company.
 - d) Income earned on exports.
- (x) A partnership is resident for a year of income if:
- a) It was established under the laws of Uganda.
 - b) Its management and control is exercised in Uganda at any time during the year.
 - c) It undertakes the majority of its operations in Uganda.
 - d) Any of the partners has a permanent home in Uganda.
- (xi) Mukasa paid 6 million for stock bought from EFG LTD and was provided with a proper tax invoice. What stock value should he debit to his Purchases account?
- a) 6 million.
 - b) 5.128 million
 - c) 7.021 million
 - d) None of the above.

(xii) Which of the following is false?

- a) Provisional tax is payable in two installments in case of an individual.
- b) Provisional tax is payable in four installments in case of an individual.
- c) Provisional tax is payable before the end of the year of income.
- d) Provisional tax is offset against tax liability at the year end.

The following information relates to question xiii to xvii;

Okello is a senior officer in the Uganda Police. His income during the year to 30 June 2000 was as follows:

	USHS (in millions)
Employment income from Uganda Police	12.0
Business income from Shop, net of tax allowable expenses (He elected to be out of Small Business taxpayer rates)	1.5
His gross business turnover during the year	30.0
Income from rental premises (net of repair and utility expenses adding up to 4 million)	5.2

(xiii) Okello's tax on employment income for the year is :

- a) Shs. 2,670,000
- b) Nil
- c) Shs. 3,600,000
- d) Shs. 3,132,000

(xiv) Okello's tax on business income for the year is:

- a) Nil
- b) Shs. 100,000
- c) Shs. 250,000
- d) Shs. 300,000

(xv) Okello's tax on business income, if he had not made the election, would have been :

- a) Shs. 250,000
- b) Nil
- c) Shs. 100,000
- d) Shs. 300,000

(xvi) Choose the odd man out.

- a) Excise Duty.
- b) Import Duty.
- c) Value Added Tax.
- d) Corporation Tax.

(xvii) Which of the following is not part of employment income?

- a) Reimbursement of employee's medical expenses.
- b) Employee's medical allowance.
- c) Payment in lieu of employee's leave.
- d) School fees paid for the employee's children.

(xviii) Which of the following taxpayers is required to submit a return of income?

- a) A peasant farmer who usually sells the surplus food beyond his family requirements.
- b) A Ugandan citizen whose only income is rental income from immovable property located in Nairobi.
- c) A listed institution which earns rental income from immovable property located in Kampala.
- d) A non-resident individual whose only income is consultancy fees charged to a resident taxpayer for consultancy services rendered in Uganda.

(xix) Which of these is not taxable in Uganda?

- a) Any allowance payable in Uganda to a person working in a Uganda foreign mission.
- b) Business income earned by a UPDF officer.
- c) Income earned by a peasant farmer from sell of his surplus food crop production.
- d) Interest income earned in Uganda by a non-resident person.

(xx) Which of these is true for a provisional taxpayer who is an individual?

- a) He is supposed to file two provisional returns, before the sixth and the twelfth month.
- b) He is supposed to make four quarterly provisional returns.
- c) He is supposed to make two payments, before the sixth and twelfth months.
- d) He is supposed to make four quarterly provisional tax payments.

SECTION B**Question 2**

Mr. Byamukama, with the assistance of his wife Ann runs a Canteen called "West end" at a college. He submitted his return of income for 1999 showing losses of Shs.1,234,000 together with his receipts and payments accounts as follows.

	Shs.'000
Receipts:	
Sale of food	15,645
Gambling	2,553
Sale of old cooker & furniture	211
	<u>18,409</u>
Payments:	
Purchase of groceries etc	6,215
Staff wages	3,912
NSSF and PAYE	360
Electricity and water	613
New Cooker	213
Salary to wife	900
Rent and rates	2,200
Uniforms, cleaning materials etc	319
Utensils	216
Insurance	430
Legal expenses	316
Household expenses including school fees	2,215
Car-running expenses	915
	<u>18,824</u>

- i) The family lives in the flat above the business premises; the rent is apportioned as follows: 40% for the flat and 60% for the Canteen.
- ii) Insurance includes premiums amounting to Shs.140,000 in respect of Byamukama's life policy.
- iii) It is estimated by Byamukama that personal use of the car is about 30% of the total mileage.
- iv) Byamukama has not yet paid the rent (Shs.200,000) for Dec.1999 and shop grocery bills amounting to Shs.316,000.

v) Analysis of repairs and renewals	Shs.
Painting and decorations	216,000
New furniture	418,000
Repairs to toilets	<u>182,000</u>
	<u>816,000</u>

- c) The fixed asset additions during the period were :

Date	Item	UShs
1 April 2000	Computers	5 million
4 July 2000	Land	25 million
5 October 2000	Toyota Mark II (saloon car acquired on 1 October 2000)	17 million
1 July 2000	Telephone Exchange	90,000
1 July 2000	Filing Cabinet	180,000

- d) The company's provisional return for the period indicated a projected profit of Ushs 50 million and tax thereon of 15 million was duly paid on 1.10.2000.

- e) The wear and tear balances brought forward from 1999 year were as follows:

Class	I	II	III	IV
UShs (in millions)	15	30	25	18

- f) The company had agreed tax losses for the years to 31 December 1999 of 3 million.

- g) The company's business is located in Arua.

Required.

- a) Indicate the procedure the company should follow to effect the change in accounting date to apply for tax purposes. **(3 marks)**
- b) Compute the tax payable by Millennium Ltd for the period ending 31 October 2000. **(14 marks)**
- c) Indicate the implication ,if any, of the provisional tax paid in view of the tax computed in (b) above. **(3 marks).**
Show your workings.

(Total 20 marks)

Question 4.

EFG Ltd. is a VAT registered company. Its trade transactions for the period January to June 2000 are as follows:

Month	Jan. Ushs millions	Feb. Ushs millions	March Ushs millions	April Ushs millions	May Ushs millions	June Ushs millions
Opening debtors	10	7	8	9	4	5
Closing debtors	7	8	9	4	5	4
Sales for the period excluding VAT	20	15	13	14	18	15
Trade creditors:						
Opening creditors	5	8	3	7	4	9
Closing creditors	8	3	7	4	9	4
Payments to trade creditors	14	10	12	13	12	15

The company deals only in iron sheets and proper tax invoices support all its purchases.

All figures are VAT inclusive unless indicated otherwise.

Required:

- Compute the monthly VAT liabilities for EFG LTD for the six months if it is using invoice basis accounting. **(8 marks)**
 - Compute its monthly VAT liabilities if it is using cash basis accounting. **(8 marks).**
 - Give two advantages and two disadvantages of cash basis compared to invoice basis accounting for VAT. **(4 marks).**
- (Total 20 marks)**

SECTION C:**Question 5.**

Mukasa, who has a permanent home in Mpigi District, Uganda, inherited a rental property located in Ndeeba from his late father Musoke. The property had cost his father in 1995 Ushs 750 million. The transactions relating to the property in the year to 30 June 2000 were as follows:

Income Details	USHS
Rental income from AS LTD for the whole calendar year 2000	24,000,000
Rental income for the period to December 1999 LK investments	10,000,000
The rent for January to June 2000 was still outstanding	10,000,000
Rental income from DER Associates for 16 months to June 2000.	24,000,000

The Expenses recorded by Mukasa were as follows:

Money paid to settle his late father's debts in respect of the contractor who constructed the building	5,000,000
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Mukasa provided rental space in settlement of his late father's loan at a rate of Ushs 3 million per month to JMK bank for the 15 months to August 2000

Water, UEB & Telephone Expenses	4,000,000
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Building repairs	12,000,000
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Legal fees to acquire the Title of the land on which the building was constructed	5,000,000
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Security	6,000,000
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Expansion of Parking yard	3,000,000
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In addition, Mukasa has a supermarket, which made a tax adjusted loss of Ushs 3 million during the year to June 2000.

Required:

a) Advise Mukasa of his tax liability for the year 2000. **(15 marks)**

b) Clearly indicate to him how to utilize his tax loss from the supermarket.

(5 marks)

(Total 20 marks)

Question 6.

a) Differentiate between An Exempt Organization and a Listed Institution as used in the Income Tax Act 1997. **(2 marks)**

b) With examples, distinguish between:

(i) Direct and indirect taxes

(ii) Horizontal and Vertical Equity as used in taxation.

(iii) Impact and incidence of tax.

(iv) Tax avoidance and tax evasion.

(10 marks)

c) Under what conditions may the Commissioner General allow an input tax credit claim by a taxable person who does not have a supporting tax invoice?

(5 marks)

d) Give three situations which may compel the Commissioner General to de-register a VAT registered person?

(3 marks)

(Total 20 marks)