

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF TAXATION-PAPER 8

TUESDAY, 17 DECEMBER 2002

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**.
2. Attempt **all** questions in Sections **A** and **B** and **one** question from Section **C**.
3. Section **A** has twenty compulsory multiple-choice 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.
6. **Tax rates** are provided on page 12.
7. Please read further instructions on the answer book.

SECTION A**Question 1.**

- (i) Which of the following is zero-rated under the VAT Statute 1996?
 - (a) The supply of tour transport services.
 - (b) The supply of goods as part of the transfer of business as a going concern from one taxable person to another taxable person.
 - (c) The supply of machinery, tools, and implements suitable for use only in agriculture.
 - (d) The supply of machinery used for processing of agricultural or dairy products.
- (ii) Which of the following is allowed as a deductible expense for income tax purposes?
 - (a) NSSF company contribution.
 - (b) Pension paid to a person.
 - (c) Cost of commuting between the person's residence and work.
 - (d) Costs incurred by an employer to house his employees.
- (iii) Which of the following is a supply of a good under the VAT Statute 1996?
 - (a) Supply of electrical energy.
 - (b) Supply of construction services.
 - (c) Supply of accountancy services.
 - (d) Supply of medical services.
- (iv) Z Ltd billed Kanakulya Shs 1,200,000 VAT inclusive for the supply of services. What is the VAT payable on the transaction?
 - (a) Shs 204,000.
 - (b) Shs 174,359.
 - (c) Shs 1,025,641.
 - (d) Shs 360,000.
- (v) Which of the following is a company under the Income Tax Act of 1997?
 - (a) A partnership.
 - (b) A sole proprietorship.
 - (c) A joint venture.
 - (d) A body of persons unincorporated.

The following information relates to question (vi) to (xi).

Mr. Dan Kashekuro is a business consultant operating in Kampala. He expects to earn a net profit of Shs 80,000,000 during the year 2002. His accounting date is 31 December of every year. Mr. Kashekuro has only one source of income.

Mr. Kashekuro submitted the final tax return of the year 2002 on 31 December 2003, with the financial statements showing a taxable profit of Shs 120,000,000.

- (vi) When was Mr. Kashekuro expected to file his provisional tax return for the year ending 31 December 2002?
 - (a) 30 June 2002.
 - (b) 30 April 2002.
 - (c) 31 March 2002.
 - (d) 30 April 2004.
- (vii) How much income should Mr. Kashekuro show on the provisional tax return for the year 2002?
 - (a) Shs 80,000,000.
 - (b) Shs 120,000,000.
 - (c) Shs 40, 000,000.
 - (d) Shs 60,000,000.
- (viii) How much provisional tax is Mr. Kashekuro expected to pay for the year 2002?
 - (a) Shs 24,000,000.
 - (b) Shs 23,070,000.
 - (c) Shs 6,000,000.
 - (d) Shs 5,070,000.
- (ix) When is Mr. Kashekuro expected to file the final tax return of 2002?
 - (a) 31 December 2002.
 - (b) 31 March 2003.
 - (c) 30 June 2003.
 - (d) 30 April 2003.
- (x) What penal tax is Mr. Kashekuro expected to pay for late submission of the 2002 final tax return?
 - (a) Shs 1,771,200.
 - (b) Shs 1,440,000.
 - (c) Shs 5,611,200.
 - (d) Shs 3,691,200.
- (xi) How much penal tax will Mr. Kashekuro be charged with for under estimating his 2002 provisional tax?
 - (a) Shs 1,698,600.
 - (b) Shs 2,400,000.
 - (c) Shs 1,680,000.
 - (d) Shs 2,214,000.

The following information relates to questions (xii) to (xiv).

Mr. Kasango is employed with Mpumudde Health Services as a Chief Accountant. He earns a monthly salary of Shs 3,500,000. He also has a company car, which was allocated to him on full time basis. The car was purchased at a cost of Shs 17,000,000 and Mr. Kasango was the first person to drive it in the company.

The company also pays for Mr. Kasango's house rent at a monthly rental fee of Shs 1,200,000.

- (xii) What monthly taxable benefit will Mr. Kasango be taxed on for the use of the company car?
- (a) Shs 425,000.
 - (b) Shs 1,416,667.
 - (c) Shs 3,400,000.
 - (d) Shs 283,333.
- (xiii) What monthly taxable benefit will Mr. Kasango be taxed on for the company accommodation provided to him?
- (a) Shs 1,200,000.
 - (b) Shs 747,500.
 - (c) Shs 768,750.
 - (d) Shs 705,000.
- (xiv) Compute the tax Mr. Kasango pays on his monthly employment income.
- (a) Shs 1,281,750.
 - (b) Shs 1,269,000.
 - (c) Shs 1,184,000.
 - (d) Shs 972,500.
- (xv) Mrs. Berna Mugezi incurred startup costs of Shs 15,000,000 to start his business. Over how many years is Mr. Mugezi expected to expense the start up costs?
- (a) 20 years.
 - (b) 3 years.
 - (c) 4 years.
 - (d) 5 years.
- (xvi) Mrs. Farmer incurred farm works of Shs 35,000,000 during the year ending 31 December 2002, when she was starting up her farming business. Compute the capital deductions she is expected to claim for the year of income ended 31 December 2002.
- (a) Shs 8,750,000.
 - (b) Shs 1,750,000.
 - (c) Shs 12,250,000.
 - (d) Shs 7,000,000.

- (xvii) Which of the following payments is subject to 15% withholding tax?
- (a) Interest paid to a financial institution.
 - (b) Dividends paid to a non-resident company having more than 25% of the shareholding in the paying company.
 - (c) Interest paid by a company to a resident associated company.
 - (d) Interest paid to a person where such a person is exempt from tax.

The following information relates to questions (xviii) to (xx).

Mr. James Juko is a VAT registered taxpayer dealing in electrical supplies. During the month of June 2002, he received tax invoices for telephone services with VAT payable of Shs 250,000. During the same month, Mr. Juko made taxable supplies amounting to Shs 12,000,000 VAT exclusive, which was not accounted for. He also paid Input VAT of Shs 350,000 on hotel bills. Mr. Juko paid Input VAT of Shs 950,000 on other creditable purchases during the same month.

- (xviii) How much Input VAT can Mr. Juko claim on the telephone bills?
- (a) Shs 225,000.
 - (b) Shs 250,000.
 - (c) Shs 162,500.
 - (d) Shs 146,250.
- (xix) Compute the amount of Output VAT the tax authorities are going to ask Mr. Juko to account for, in respect to the June 2002 sales.
- (a) Shs 2,040,000.
 - (b) Shs 2,080,800.
 - (c) Shs 1,743,590.
 - (d) Shs 3,600,000.
- (xx) When is the VAT return for the month of June 2002 due for filing to the Uganda Revenue Authority?
- (a) 30 June 2002.
 - (b) 5 July 2002.
 - (c) 31 July 2002.
 - (d) 15 July 2002.

SECTION B**Question 2.**

Bwaise International Hospital Ltd is a company that deals in the provision of medical services to the general public. The hospital, which started operating on 1 July 1997, has its head offices in Kampala.

The company's tax accounting date is 30 June and the Minister of Finance approved its business operations for purposes of claiming any capital deductions.

The results of Bwaise International Hospital Ltd for the year to 30 June 2002 were as follows:

	Shs '000	Shs '000	Shs '000
Receipts			3,600,000
Unrealised Foreign Exchange Gain			54,000
Interest Income			20,000
Profit on disposal of non-current assets			<u>25,000</u>
			3,699,000
Less: Cost of Sales			<u>600,000</u>
Gross Profit			3,099,000
Less: Expenses			
Salaries & Wages			
Net Salaries Paid	646,000		
NSSF Company Contribution	47,500		
Employee Taxes(PAYE)	<u>256,500</u>	950,000	
Unrealised Foreign Exchange Loss		27,000	
Depreciation		250,000	
Advertising		95,000	
Repairs & Maintenance Costs		90,000	
Uniforms for staff		15,000	
Electricity & Water Bills		150,000	
Telephone Costs		120,000	
Specific Provisions for Trade Bad debts		35,000	
Provisions for future repair costs		65,000	
Legal fees		80,000	
Accountancy fees		12,000	
Non-current Assets Valuation fees.		39,000	
Pension		20,000	
Other tax allowable costs		<u>150,000</u>	
Total Expenses			<u>2,098,000</u>
Net Profit			<u>1,001,000</u>

Additional information is as follows:

- (a) At the start of its business operations on 1 July 1997, the company had incurred the following capital expenditure:

Description	Cost (in Shs)
Land	450,000,000
Hospital buildings	1,500,000,000
Motor vehicles (cars)	20,000,000
Fixtures & fittings	<u>150,000,000</u>
	<u>2,120,000,000</u>

- (b) During the year to 30 June 2002, the company incurred the following additional capital expenditure:

Description	Amount (Shs)
1 Mercedes Benz	85,000,000
3 Pick ups (6-tons) each at	45,000,000
5 Computers totalling	12,500,000
Office chairs & tables	5,000,000
Hospital equipment	100,000,000

- (c) The company, during the year made an extension to the hospital at a cost of Shs 410,000,000. The extension was completed and put to first use on 1 January 2002.
- (d) During the year, the company disposed off 3 computers at a price of Shs 3,500,000 and a motor vehicle at Shs 4,500,000.
- (e) The company had an agreed tax loss of Shs 50,000,000 as at 30 June 2001.
- (f) On 15 December 1999, the company acquired a set of hospital equipment worth Shs 150,000,000 from a UK non-resident supplier on credit. On negotiations with the management of the company, this debt was written off on 31 March 2002.
- (g) The company paid provisional tax of Shs 200,000,000 during the year to 30 June 2002.
- (h) On the interest income of Shs 20,000,000, it earned, Standard Chartered Bank withheld Shs 3,000,000 as withholding tax, which was remitted to URA. The company was only paid Shs 17,000,000.

- (i) Analysis of legal fees:

	Shs
Increase in share capital	15,000,000
Debt collection fees	10,000,000
Purchase of the extra piece of land	<u>55,000,000</u>
	<u>80,000,000</u>

- (j) The tax Written Down Values of Bwaise International Hospital's depreciable assets as at 1 July 2001 are as follows:

Class	Shs
I	95,000,000
II	75,000,000
IV	250,000,000

Required:

Compute the final corporation tax payable by Bwaise International Hospital for the year ending 30 June 2002.

(20 marks)**Question 3.**

Mr. Gregory Mutono is a Ugandan resident person who resides in Muyenga, a suburb of Kampala city.

Mr. Mutono has commercial properties from which he collects rental income. Some of the properties are located in Nairobi-Kenya, whereas some are located in Kampala.

During the Year to 30 June 2001, Mr. Mutono's rental records revealed the following:

	Kenya Property Kenya Shs	Uganda Property U Shs.
Rental Income	35,000	79,000,000
Expenses		
Ground Rate	1,200	1,500,000
Water & Electricity	5,000	1,200,000
Cleaning & Maintenance	1,000	3,500,000
Security	500	950,000
General Repairs	7,000	19,000,000
Depreciation	<u>1,750</u>	<u>3,900,000</u>
Total Expenses	<u>16,450</u>	<u>30,050,000</u>
Net Rental Profit	<u>18,550</u>	<u>48,950,000</u>

Additional information:

- (i) The Exchange rate between the Uganda shilling and the Kenyan shilling was UShs 23 to KShs 1, during the period.
- (ii) Mr. Mutono also earned a net transport income of Shs 12,500,000 from his minibus during the year to 30 June 2001. When the motor license of the minibus was being obtained, Mr. Mutono was instructed by the Uganda Revenue Authority officials to pay a provisional tax of Shs 500,000. This amount was paid on 1 January 2001.
- (iii) Mr. Mutono earned a net interest income of Shs 5,000,000 during the year to 30 June 2001. Withholding tax was deducted by Bank of Baroda and remitted to Uganda Revenue Authority.

- (iv) During the same year, Mr. Mutono was given dividends amounting to Shs 35,000,000 from shares he holds in a Kenyan company operating in Kenya.
- (v) Mr. Mutono is also employed in Wam Electronics Ltd as Chief Engineer. Wam Electronics is a Uganda company located in Jinja and mainly deals in electrical gadgets. For the year to 30 June 2001, Mr. Mutono's employment terms were as follows:
- Monthly salary Shs 3,500,000.
 - A full time company motorcar, which was purchased at Shs 20,000,000 on 1 January 2000. Mr. Mutono was the first person to use the car in the company.
 - Monthly cash allowances for utilities and electricity bills of Shs 350,000.
 - A company house, whose monthly market value is Shs 900,000. Mr. Mutono pays a monthly rental fee of Shs 100,000 to his employer.
 - During the year to 30 June 2001, Mr. Mutono paid Pay As You Earn on his employment income amounting to Shs 8,400,000.

Required:

- (a) State the tax returns Mr. Mutono was required to file to Uganda Revenue Authority during the year to 30 June 2001 and their respective due dates.
- (5 marks)**
- (b) Compute the amount of tax Mr. Mutono is required to pay for the year to 30 June 2001.

(15 marks)
(Total 20 marks)

Question 4.

Kibimba Grocers Ltd is a well-established company dealing mainly in grocery supplies. The management accounts for the month of June 2002 showed the following:

	Shs 000's	Shs 000's
Sales		220,000
Sales Return		<u>(25,000)</u>
		195,000
Purchases	45,000	
Purchase Returns	<u>(5,000)</u>	
		<u>(40,000)</u>
Gross Profit		155,000
Expenses:		
Bad Debts written off	17,000	
Electricity & Water	1,200	
Rent	2,000	
Other Expenses	<u>75,000</u>	
Total Expenses		<u>(95,200)</u>
Net Profit		<u><u>59,800</u></u>

Additional information:

- (i) Further analysis of the sales and purchases figures for VAT purposes is as follows:

Sales Analysis by Percentage

	Sales	Sales Returns
Standard Rated Sales	60%	80%
Zero Rated Sales	25%	15%
Exempt Sales	15%	5%

- (ii) The company's Input Value Added Tax (VAT) during the month of June 2002 was Shs 17,550,000.

Input tax has been paid as follows in respect of:

	Percentage
Standard Rated Supplies	50%
Zero Rated Supplies	25%
Exempt Supplies	15%
Overheads	<u>10%</u>
	<u><u>100%</u></u>

- (iii) Purchases returns are all in respect of standard rated supplies. The input VAT for the month did not take the purchase returns into account.
- (iv) The sales and purchase returns are all supported by credit notes and other relevant documentation.

- (v) The bad debts written off include a trade bad debt of Shs 10,000,000 which was in respect of a standard rated supply made in the month of January 2002. The balance of Shs 7,000,000 relates to a staff loan written off.
- (vi) The trade debt written off is the VAT inclusive amount and is supported by credit notes and all other relevant documentation needed to support the write off.

Required:

- (a) You are required to compute the VAT payable or refundable by/to Kibimba Grocers Ltd, for the month of June 2002. (15 marks)
 - (b) What records is Kibimba Grocers Ltd required to keep for VAT purposes? (5 marks)
- (Total 20 marks)**

SECTION C

Question 5.

Write short notes on the following:

- (a) Industrial building, as used in the Income Tax Act 1997 and as per subsequent amendments? (7 marks)
 - (b) Objections and appeals under the Income Tax Act 1997, as amended. (5 marks)
 - (c) Ingredients of a good tax system. (8 marks)
- (Total 20 marks)**

Question 6.

- (a) Discuss the indicators that show that some one is in business (i.e. Badges of Trade). In your discussion, show how the badges of trade are related to taxation. (7 marks)
 - (b) What are the indicators of one being in employment as opposed to someone who renders independent services? (7 marks)
 - (c) Why is it more beneficial for one to be treated as an independent service provider instead of an employee for tax purposes? (6 marks)
- (Total 20 marks)**

Tax Rates

Resident Individual Income Tax Rates

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

Presumptive Tax Rates

Gross Turn Over	Tax
Where the gross turnover of the taxpayer does not exceed Shs 20,000,000 per annum	Shs 100,000
Where the gross turnover of the taxpayer exceeds Shs 20,000,000 but does not exceed Shs 30,000,000 per annum	Shs 250,000 or 1% of gross turnover, whichever is the lower
Where the gross turnover of the taxpayer exceeds Shs 30,000,000 but does not exceed Shs 40,000,000 per annum	Shs 350,000 or 1% of gross turnover, whichever is the lower
Where the gross turnover of the taxpayer exceeds Shs 40,000,000 but does not exceed Shs 50,000,000 per annum	Shs 450,000 or 1% of gross turnover, whichever is the lower