

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF TAXATION-PAPER 8

TUESDAY, 17 JUNE 2003

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 13.
7. Please read further instructions on the answer book.

SECTION A

Question 1

- (i) Which of the following is an exempt supply for VAT purposes?

- (a) The supply of hotel accommodation.
- (b) The supply of milk.
- (c) The supply of fertilisers.
- (d) The supply of drugs.

The following information relates to questions (ii) to (v)

Mr. Kalyango, a trader, received an income tax assessment from Uganda Revenue Authority (URA) demanding a tax liability of Shs. 45,000,000 on 1 March 2002.

- (ii) If Mr. Kalyango was not satisfied with the tax assessment, state the date by which he was required to submit an objection to URA.
- (a) 30 March 2002.
 - (b) 31 March 2002.
 - (c) 15 April 2002.
 - (d) 30 April 2002.
- (iii) Within how many days should URA respond to Mr. Kalyango's objection?
- (a) 30 days.
 - (b) 60 days.
 - (c) 45 days.
 - (d) 90 days.
- (iv) Assuming that Mr. Kalyango is agreeable to the tax assessment, by which date should the tax assessed be paid to URA?
- (a) 30 March 2002.
 - (b) 31 March 2002.
 - (c) 15 April 2002.
 - (d) 30 April 2002.
- (v) If Mr. Kalyango pays the tax due on 1 July 2002, calculate the interest he will be required to pay to URA.
- (a) Shs 480,000.
 - (b) Shs 2,250,000.
 - (c) Shs 1,800,000.
 - (d) Shs 3,180,000.

The following information relates to questions (vi) to (ix)

M/s Tam Ltd received a VAT assessment from Uganda Revenue Authority (URA) demanding a tax liability of Shs 50,000,000 on 1 March 2002.

- (vi) If M/s Tam Ltd was not satisfied with the tax assessment, state the date by which the company was required to submit an objection to URA.
 - (a) 31 March 2002.
 - (b) 1 May 2002.
 - (c) 15 April 2002.
 - (d) 30 April 2002.
- (vii) Within how many days should URA respond to M/s Tam Ltd's objection?
 - (a) 45 days.
 - (b) 60 days.
 - (c) 90 days.
 - (d) 30 days.
- (viii) If M/s Tam Ltd is not satisfied with the objection decision of URA, what course of action can the company take?
 - (a) Make another appeal to URA, asking them to reconsider their decision.
 - (b) Appeal to the High Court of Uganda.
 - (c) Appeal to the Tax Appeals Tribunal.
 - (d) Appeal to the Court of Appeals.
- (ix) If M/s Tam Ltd is not satisfied with the objection decision of URA, within how many days is the company required to make another appeal.
 - (a) 45 days.
 - (b) 60 days.
 - (c) 90 days.
 - (d) 30 days.
- (x) What is the penalty URA will levy on a taxpayer who submits a VAT return after its due date?
 - (a) Shs 200,000.
 - (b) 2 % of the tax assessed.
 - (c) The greater of Shs 200,000 or interest of 2% per month compounded computed on the tax due.
 - (d) Compounded interest of 2% per month computed on the tax assessed.

The following information relates to questions (xi to (xii)

Mr. Kakulu has a savings account in Stanbic Bank Uganda Ltd. On 31 December 2002, his bank statement showed that the bank had credited his savings account with interest of Shs 5,100,000. The Bank withholds tax on all the interest payments it makes.

- (xi) Compute the amount of withholding tax on Mr. Kakulu's interest income.
 - (a) Shs 765,000.
 - (b) Shs 204,000.
 - (c) Shs 1,530,000.
 - (d) Shs 900,000.
- (xii) Stanbic Bank was required to have remitted the tax withheld to Uganda Revenue Authority by:
 - (a) 15 January 2003.
 - (b) 31 December 2002.
 - (c) 30 April 2003.
 - (d) 31 January 2003.

The following information relates to questions (xiii) to (xv)

Bushenyi Steel Rollings Ltd is a company that deals in the manufacture of Metal frames and its accounting date is 30 June. On 1 July 2000, the company purchased a building from a property developer in Kampala for Shs 650,000,000. The building was originally used as a warehouse and had been put to use for the first time on 1 July 1999. The cost of constructing the building was Shs 350,000,000.

- (xiii) With respect to the building purchased, compute the industrial building allowance Bushenyi Steel Rollings Ltd will be entitled to for the year to 30 June 2002.
 - (a) Shs 32,500,000.
 - (b) Shs 17,500,000.
 - (c) Shs 15,000,000.
 - (d) Shs 15,750,000.
- (xiv) What will the residual of expenditure of the building be as at 1 July 2002?
 - (a) Shs 650,000,000.
 - (b) Shs 350,000,000.
 - (c) Shs 297,500,000.
 - (d) Shs 585,000,000.

- (xv) In which year will the company claim the last Industrial Building Allowance deduction on the building assuming that the company does not intend to make any capital improvements on the building?
- (a) Year to 30 June 2024.
 - (b) Year to 30 June 2019.
 - (c) Year to 30 June 2020.
 - (d) Year to 30 June 2025.
- (xvi) Which of the following incomes is not taxable?
- (a) Interest payable from Treasury Bills.
 - (b) Income of a person employed in the Uganda Police Force.
 - (c) Proceeds from a life insurance policy.
 - (d) Pension.
- (xvii) Malcom Ltd is a general merchandise business that begun operations on 1 July 2002. The company paid pre-operating office rent of Shs 24,000,000 for the period to 30 June 2002. What amount of the pre-operating rent will Malcom Ltd be able to claim as a deduction in the year to 30 June 2003?
- (a) Shs 24,000,000.
 - (b) Shs 8,000,000.
 - (c) Shs 0.
 - (d) Shs 6,000,000.
- (xviii) Which of the following is not a supply of a service for VAT purposes?
- (a) Provision of passenger transportation services.
 - (b) Provision of electricity.
 - (c) Provision of telephone services.
 - (d) Provision of consultancy services.
- (xix) Which of the following persons are not supposed to pay Uganda VAT on their purchases?
- (a) Embassies of foreign countries in Uganda.
 - (b) Public International Institutions.
 - (c) Non-resident persons consuming services performed outside Uganda.
 - (d) Financial Institutions providing financial services.
- (xx) Which of the following is not property income for income tax purposes?
- (a) Interest income of a financial institution.
 - (b) Dividends.
 - (c) Royalties.
 - (d) Contribution to a retirement fund made by a tax exempt employer.

SECTION B

Question 2

Kampala Bank Ltd is a financial institution providing financial services to the general public. The bank has been in business since 1980 and a summary of its financial results for the year to 30 June 2002 is as follows:

	Notes	Ushs'000
Income		
Interest income		5,600,000
Fees and charges		3,000,000
Foreign exchange trading income	3	1,500,000
Other income		<u>900,000</u>
Total Income		<u>11,000,000</u>
Expenditure		
Interest expense		1,200,000
Staff expenses	6	2,700,000
Depreciation		550,000
Repairs & Maintenance	2	900,000
Loss on Disposal of non-current assets		7,000
Subscriptions	4	17,000
Legal fees	7	29,000
Audit fees		24,000
Entertainment		12,000
Fraud & Forgeries		75,000
Advertising & Publicity	8	300,000
Bank of Uganda deposit Insurance		50,000
Insurance of Non-current Assets		65,000
Specific Loan loss provision		850,000
General Loan loss provision		150,000
Cash shortages		25,000
Training expenses (computer courses)		95,000
Other tax allowable expenses		<u>850,000</u>
Total Expenses		<u>7,899,000</u>
Net Profit for the year		<u>3,101,000</u>

Notes:

1. The bank's assets had the following Tax Written Down values as at 1 July 2001:

	Shs' 000
Class I	500,000
Class II	45,000
Class III	150,000
Class IV	160,000

2. The bank has a policy of expensing capital assets, which individually cost less than Shs 1 million in the year of purchase. In line with this policy the bank expensed furniture costing Shs 24,000,000 during the year 2002. Of this amount, Shs 3,200,000 relates to furniture which individually cost less than Shs.100,000. The expensed furniture cost was booked in the Repairs and Maintenance account. There were no other non-current assets additions nor disposals.
3. Foreign exchange trading income includes Shs 200,000,000 relating to unrealised exchange gains resulting from the translation of accounts denominated in foreign currency.
4. Subscriptions include Shs 2,000,000, which relates to the subscriptions of the Senior Managers of the bank to Kampala Club and Golf Club and no Pay As You Earn was paid on them. The balance relates to subscription to Uganda Institute of Bankers.
5. The Bank's tax assessment from Uganda Revenue Authority for the year of income ended 30 June 2001 showed that it had an accumulated tax loss of Shs 450,000,000 as at 30 June 2001.
6. Staff expenses are analysed as follows:

	Shs'000s
Salaries & Wages	1,701,000
NSSF company contribution	120,000
NSSF staff contribution	60,000
Staff PAYE	770,000
Medical Expenses	9,000
Staff Accommodation	40,000
Total	<u>2,700,000</u>

7. Legal fees are comprised of Shs 16,000,000, which were paid to the bank lawyers for the disposal of properties of borrowers who failed to repay their loans. The balance of Shs 13,000,000 relates to a provision of legal fees the bank expects to incur in the following year for an impending legal suit filed by a borrower against the bank in respect of outstanding loan balances.
8. Advertising expenses are analysed as follows:

	Shs'000s
TV & Newspaper Adverts	100,000
Installation of Billboards	80,000
Renting billboard space	<u>120,000</u>
Total	<u>300,000</u>

Required:

Compute the corporation tax payable by Kampala Bank Ltd for the Year of Income ending 30 June 2002.

(20 marks)**Question 3**

Mr. Robert Wanyenya is the chief accountant of Uganda Entertainments Ltd, a position he has held since 1 December 2001. Mr. Wanyenya previously worked for Uganda Investment Agents (UIA) as an accountant.

For the five months to 30 November 2001, his previous employer paid Mr. Wanyenya a monthly salary of Shs 3,500,000. The tax that was withheld and paid to Uganda Revenue Authority on account of his salary was Shs 700,000 per month.

UIA operates a retirement fund, which it registered with the Ministry of Gender, Labour and Social Welfare. On 30 January 2002, Mr. Wanyenya was paid Shs 35,000,000 as his retirement package.

At the time of resigning from UIA, Mr. Wanyenya had an accumulated annual leave of 90 days. His former employer (UIA) paid him the cash equivalent of Shs 10,500,000 on 31 March 2002.

Mr. Wanyenya's terms of employment with Uganda Entertainments Ltd are as follows:

- (i) His monthly salary is Shs 4,500,000. Pay As You Earn (PAYE) of Shs 1,100,000 per month was paid to URA with effect from the month of his appointment.

- (ii) He was given a company motor vehicle, which at any time is available to him. He first used the car, which was bought on 25 January 2002, at Shs 45,000,000, on 1 February 2002.
- (iii) The company has been providing him with security guards since the date of his appointment. The monthly charge for security services is Shs 360,000 of which the company contributes Shs 300,000 per month. Mr. Wanyenya pays the balance of Shs 60,000.
- (iv) The company incurred medical bills of Shs 250,000 in February 2002 for the medical treatment of Mr. Wanyenya's wife.

Mr. Wanyenya earned the following additional income during the year to 30 June 2002.

- (i) Treasury bill interest of Shs 5,000,000
- (ii) Income from the supply of 28 mattresses to Butabika Hospital of Shs 1,000,000. The cost of the mattresses was Shs 700,000.

Mr. Wanyenya operates a retail shop that deals in general merchandise in his place of residence. The financial results of the retail shop for the year to 30 June 2002 is analysed as follows:

	Shs 000's
Sales	48,000
Less: Cost of Sales	<u>(33,000)</u>
Gross Profit	15,000
Expenses	
Depreciation	(3,500)
Tax allowable expenses	<u>(5,500)</u>
Net profit	<u>6,000</u>

Required

Compute the total tax outstanding that Mr. Robert Wanyenya must pay to settle his tax liability for the year of income ending on 30 June 2002.

(20 marks)

Question 4

CPT transporters is a company that is in the transport business. The company is registered for VAT.

During the month of January 2003, the company had the following transactions:

Sales:

The sales were properly charged VAT where applicable but the following figures are VAT exclusive:

- (i) On 3 January 2003, the company transported goods from Kampala in Uganda to Mombasa in Kenya for Shs 25,000,000.
- (ii) On 6 January 2003, the company was contracted by a firm in Kenya to transport goods from Nairobi in Kenya to Jinja a town in Uganda for Kenya shillings 1,300,000.
- (iii) On 15 January 2003, the company was contracted by World Food Programme to transport food supplies to Padea, a town located in the northern part of Uganda for Shs 15,000,000.
- (iv) The company has passenger minibuses, which operate within Kampala City. During the month of January 2003 the company earned Shs 55,500,000 from passenger transport.
- (v) The company got a contract worth Shs 45,000,000 from a Ugandan petroleum company to transport petroleum products from Mombasa in Kenya to one of its petroleum fuel stations in Rwanda. The products were transported through Uganda.
- (vi) The company disposed off the Managing Director's car (a Toyota Prado) at Shs 17,000,000.
- (vii) One of the shareholders of the company decided to leave the company during the month of January 2003. At the time of leaving the company, he had advanced a loan amounting to Shs 25,000,000 to the company. His share holding was worth Shs 50,000,000. As compensation for his interest in the company, he was given three trucks valued at Shs 80,000,000.

Purchases

The company made its standard rated purchases from VAT registered suppliers and has proper tax invoices.

- (i) The company purchased a new motor vehicle (ML Benz) for the Managing Director at Shs 65,000,000.
- (ii) The company purchased 6 computers on credit at Shs 13,500,000.
- (iii) The company was invoiced for telephone bills amounting to Shs 15,000,000 during the month. The bills relate to the last 4 months.

- (iv) The company purchased 4 extra trucks, one for cash and the other three on credit. Each of the trucks cost Shs 30,000,000.
- (v) The company received invoices for electricity amounting to Shs 2,500,000.
- (vi) The company received two rental invoices during the month. One invoice of Shs 4,500,000 was in respect of office rent and the other of Shs 3,500,000 was in respect to the rent for the Managing Director's residential house.

NOTE:

- 1. The above purchases figures are VAT inclusive.
- 2. The exchange rates for the month of January 2003: 1 Kenya shilling was equivalent to 23 Uganda shillings.
- 3. The company has not made any application to the Uganda Revenue Authority regarding the method to use to claim input VAT.
- 4. Assume that the company accounts for VAT on invoice basis.

Required:

- (a) Calculate the amount of VAT payable or claimable by CPT Transporters for the month of January 2003.
(15 marks)
 - b) Explain with examples the difference between Exempt supplies and Zero-rated supplies under the VAT Statute, 1996.
(5 marks)
- (Total 20 marks)**

SECTION C

Question 5

- (a) Why is it important to have financial statements which give a true and fair view for tax purposes?
(5 marks)
- (b) Define and explain the methods of accounting a taxpayer is allowed to use under the Income Tax Act 1997. In your explanations discuss how these relate with the income tax law.
(5 marks)
- (c) Distinguish between a Year of Income and a Substituted Year of Income.
(5 marks)
- (d) The Income Tax Act 1997 provides special tax treatment of small taxpayers. What are the conditions governing income tax payable by these taxpayers?
(5 marks)
- (Total 20 marks)**

Question 6

- (a) Mr. H Smith is an investor who intends to start up business in Uganda. He has approached you to find out which taxes he must be aware of and how to comply with them. In addition, he would like to know whether under the tax laws of Uganda, he is allowed to carry on business in his own right as an individual or he must set up a company.

Required:

Write down the issues, which you think must be brought to the attention of Mr. H. Smith.

- (10 marks)
- (b) What are the requirements of a proper tax invoice for VAT purposes in Uganda?
(5 marks)
- (c) Describe what you understand by the term Public International Organisation as used in the VAT Statute, 1996.
(2 marks)
- (d) What is the VAT treatment of the following purchases by a Public International Organisation?
- (i) An import of a Motor Vehicle worth Shs 50,000,000.
 - (ii) A purchase of water services from National Water and Sewerage Corporation worth Shs 2,000,000.
 - (iii) A purchase of construction services from a locally VAT registered contractor valued at Shs 10,000,000 VAT exclusive.

(3 marks)
(Total 20 marks)

TAX RATES**RESIDENT INDIVIDUAL INCOME TAX RATES**

Chargeable Income	Tax Rate
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.

SMALL BUSINESS TAXPAYERS TAX RATE

Gross Turn Over	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 per annum.	Shs. 450,000 or 1% of gross turnover, whichever is the lower.