

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF TAXATION-PAPER 8

TUESDAY, 16 DECEMBER 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 transactions is subject to withholding tax at the rate of 15%?
- (a) Export of services.
 - (b) Management services provided by a local company to a resident.
 - (c) Interest payment to a non-resident person.
 - (d) Capital gains on disposal of a business asset.
- (ii) Kairu and Kato are partners in KK Consulting, located in Rubaga. The business is doing well and they made a trading profit of Shs 20 million. Whom should URA assess?
- (a) KK Consulting as a taxable person and not the partners.
 - (b) The partners as taxable persons and not KK Consulting.
 - (c) Both the partnership as taxable person and Kairu and Kato in their own rights as taxable persons.
 - (d) Neither the partnership nor the partners.
- (iii) What is the due date for provisional tax payments of resident companies in Uganda?
- (a) Four months after the end of year of income.
 - (b) 60 days after, following the commencement of accounting period.
 - (c) On or before the last day of the sixth and twelfth month of a year of income.
 - (d) Within 30 days of filing final return of income.
- (iv) Mr. Magezi has been in business as a Sugar wholesaler in Kikubo for one month and his first month's turnover is Shs 60 million. He plans to remain in this business for the foreseeable future. When should he register for VAT?
- (a) Register by the 21st day of the second month.
 - (b) Wait until the twelfth month.
 - (c) Ignore URA until when they raise an assessment.
 - (d) Wait to register until he has been in business for two years.
- (v) Maaka Properties Limited is a VAT registered person and is now disposing off its office block in Katwe. It was bought for Shs 300 million a month ago and the buyer is paying Shs 500 million. How should the company handle the transaction for VAT purposes?
- (a) Issue a tax invoice and charge VAT on this sale.
 - (b) Treat the transaction as an exempt supply.
 - (c) Charge VAT on Shs 300 million.
 - (d) Withhold 15% of Shs 500 million and remit it to URA.

- (vi) Mrs Odong has an annual turnover of Shs 20 million from her Kiosk where she sells groceries. What tax should she pay to URA?
- (a) Corporation tax at 30%.
 - (b) VAT.
 - (c) Withholding tax on payments to her suppliers.
 - (d) Presumptive tax.
- (vii) What are the options available to URA in respect of a taxpayer who fails to submit a final return of income by the due date?
- (a) Estimate tax and a penalty of Shs 400,000 for every month it is outstanding after the due date.
 - (b) Estimate tax and a penalty of 2 % of the tax assessed for each month it is outstanding after the due date.
 - (c) Do not estimate tax but impose a penalty of the lower of Shs 900,000 per month it is outstanding 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 (viii) to (x):

Epson Ltd on 30 September 2003 received an estimated assessment from Uganda Revenue Authority (URA) demanding a tax liability of Shs 50,000,000 for the year of income ended 30 June 2003.

- (viii) If Epson Ltd was not satisfied with the tax assessment, state the last date by which the company was required to submit an objection to URA.
- (a) 30 October 2003.
 - (b) 15 November 2003.
 - (c) 31 December 2003.
 - (d) 1 October 2003.
- (ix) Within how many days should URA respond to Epson Ltd's objection?
- (a) 45 days.
 - (b) 60 days.
 - (c) 90 days.
 - (d) 30 days.

- (x) What course of action can the company take if it is not satisfied with the objection decision of URA?
 - (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.
- (xi) What is the last date for filing VAT returns by a registered person?
 - (a) 45 days after end of the month for which the VAT return is due.
 - (b) 15th day of the following month.
 - (c) 90 days following the month for which VAT return is due.
 - (d) 30 days of the month following.
- (xii) What action can URA take on a person who refuses to register for VAT when he has exceeded the VAT threshold?
 - (a) Compulsorily register such a person from the time when he should have registered and impose penalty.
 - (b) Sue the person in the High Court.
 - (c) Take the person to the Tax Appeals Tribunal.
 - (d) Impose punitive penalty of the greater of Shs 1,000,000 per month from the period he should have registered or interest of 2% per month compounded, computed on the tax due.

The following information relates to questions (xiii) to (xvii):

Komakech is a Sudanese resident who set up a business in Uganda for the first time with effect from 1 July 2002. He spent 190 days in Uganda during the year of income ending 30 June 2003. His business income from Uganda for the period to 30 June 2003 was Shs 9,200,000 and an equivalent of Shs 15,000,000 from Sudan where his other business is. He has also received rental income of Shs 700,000 per month for the twelve months from his Naguru house, which he bought on 1 July 2002 on one of his business trips to Uganda and Shs 900,000 per month from his House in Juba, Sudan.

- (xiii) How long does he need to spend in Uganda in his first year so as to be treated as a resident person for tax purposes?
 - (a) 122 days.
 - (b) 190 days.
 - (c) 365 days.
 - (d) 183 days.

- (xiv) What will be Komakech's residence status for the year to June 2003?
- (a) Non-resident.
 - (b) Resident.
 - (c) Partly resident.
 - (d) Temporarily resident.
- (xv) How much should Komakech include in his rental tax assessment to Uganda Revenue Authority?
- (a) Shs 34,200,000.
 - (b) Shs 9,200,000.
 - (c) Shs 8,400,000.
 - (d) Shs 17,600,000.
- (xvi) How much income will be included in his business income for the year of income 2003?
- (a) Shs 32,500,000.
 - (b) Shs 17,500,000.
 - (c) Shs 15,000,000.
 - (d) Shs 15,750,000.
- (xvii) If Komakech had paid taxes in Sudan in respect of his Sudanese business, how will those taxes paid be treated in his Ugandan business income tax returns?
- (a) Claim foreign tax credit only on rental tax but not income tax on his business.
 - (b) No foreign tax credit is available in Uganda since that income is not taxable in Uganda.
 - (c) Treat the tax paid in Sudan as deductible tax expense.
 - (d) Claim the tax paid in Sudan from URA.
- (xviii) Mr Dungu bought a warehouse on 7th Street Industrial Area on 1 January 2001 which he rents to AB Coffee Ltd for Shs 6 million a month. This is Dungu's only source of income. How should this rental income be treated for VAT purposes?
- (a) Zero-rated.
 - (b) Standard rated supply.
 - (c) Mixed supply.
 - (d) Exempt supply.

- (xix) Mr Olanya has an internet café business in Gulu and bought computers worth Shs 15 million. What allowances will he claim during their first year of use?
- (a) Initial allowance of Shs 7.5 million and depreciation allowance at 20% on the remainder.
 - (b) Initial allowance of Shs 11.5 million and depreciation allowance at 40% on the remainder.
 - (c) Depreciation allowance of Shs 7.5 million only.
 - (d) Depreciation allowance of Shs 6 million and initial allowance of Shs 4.5 million.
- (xx) Property Guru Ltd incurred legal expenses of Shs 26 million for the year ended 31 December 2002, for its Manager's domestic expenses. In addition, the Manager had an annual basic pay of Shs 34 million and Shs 12 million reimbursement for business trips incurred in course of his employer's business. How much was the manager's employment income for the year?
- (a) Shs 60,000,000.
 - (b) Shs 72,000,000.
 - (c) Shs 26,000,000.
 - (d) Shs 46,000,000.

SECTION B**Question 2**

Inter Africa Ltd (IAL) is a newly set up company whose second year of operation is the period of 12 months to 31 May 2003.

The following income statement was extracted from the books of IAL for the year ended 31 May 2003:

	Notes	Shs'000
Income		
Dividend from West Indies	3	200,000
Business income from Uganda	2	900,000
Recoveries from bad debts	10	150,000
Unrealised exchange gain		28,500
Profit on sale of lorry	1	<u>13,000</u>
Total Income		<u>1,291,500</u>
Expenditure		
Capital assets expensed	4	60,000
Depreciation		45,000
Bad debts provision		16,000
Repairs & Maintenance		55,000
Cash lost	5	40,000
Salaries and wages		130,000
Employers NSSF contribution		13,000
Management fees		12,000
Penalties and fines		24,000
Interest expense	6	112,000
Tax		23,400
Disallowed input VAT		6,000
Rent and Rates		15,000
Stock destroyed by fire	5	99,000
Valuation expenses	7	78,000
Marketing expenses		87,000
Repairs and Maintenance	8	134,500
Contribution to retirement fund		32,000
Reimbursable expenses	9	<u>35,000</u>
Total Expenses		<u>1,016,900</u>
Net Profit for the year		<u>274,600</u>

You have also been given the following notes:

1. The opening tax written down values as at 1 June 2002 are as follows:

Class I	Shs 25,000,000
Class II	Shs 67,000,000
Class III	Shs 132,000,000
Class IV	Shs 451,000,000

On 5 June 2002, IAL purchased two 10-ton lorries worth Shs 56 million each, computers of Shs 29,000,000 and a Range Rover Station Wagon for Shs 100 million.

IAL also sold a lorry for Shs 57 million, which had cost the company Shs 100 million. Before its incorporation on 1 June 2001, IAL incurred pre-incorporation expenses of Shs 198 million.

2. The business income erroneously includes 50 million, which was received on behalf of its Kenyan Principal for onward transfer to Kenya.
3. The withholding tax rate in West Indies is 10%. The dividend income is what was received in IAL's Stanbic Bank Account.
4. The assets expensed were all below Shs 90,000, with the exception of a motorcycle, which was stolen and the full cost expensed through this account. The motorcycle was covered by an insurance policy and by 30 May 2003, Jubilee Insurance Co. Ltd had paid IAL the insurance claim of Shs 4,000,000 in compensation for the motorcycle. The motorcycle had cost Shs 5.5 million in July 2002.
5. The company has an insurance policy covering such cash loss arising out of staff negligence. Preliminary investigations have indicated that Jubilee Insurance Co. Ltd is going to make good this loss.
The company has a fire policy and in this case the Police report and IAL have confirmed that the occurrence was outside those items covered by the fire policy.
6. Interest expense includes unrealised exchange loss of Shs 20 million and Shs 30 million relating to the sister company's interest expense.
7. The Valuation expense includes incidental expenses of Shs 5 million relating to the new trucks that were acquired while the balance related to demarcation of a piece of Industrial plot.
8. Repair and maintenance includes Shs 60 million relating to building a new boundary brick wall around the company business premises in Luzira, purchase of two generators worth Shs 1.5 million each, repairs of Shs 30 million and the balance a depreciation expense, erroneously posted to this account.

- 9 Reimbursable expenses were expenses, which the company paid to the consultants, but was reimbursed by the Norwegian consulting firm that was carrying out the consultancy for IAL. The reimbursement was not included in the IAL's income.
- 10 Only 40% of the bad debts had been allowed as tax deductible the previous year.

Required:

Compute the corporation tax payable by Inter Africa Limited for the Year of Income ending 31 May 2003.

(20 marks)

Question 3

Mr. Kintu is the Chief Executive of ECK Ltd, an international company with a Ugandan branch. He signed his employment contract on 2 January 2003.

- Kintu was previously employed by Grain Millers as the Marketing Manager with a monthly salary of Shs 2,900,000.
- Kintu was also entitled to maximum bonus of Shs 1.5 million per month which he achieved at all times with the exception of November 2002 when he received Shs 800,000.
- Grain Millers also had medical insurance with AAR and contributed Shs 500,000 for Kintu's benefit per annum.
- Kintu was also entitled to a thirteenth month salary equivalent to 20% of annual basic if all performance targets were achieved in the year. For the period to November 2002, Kintu achieved the required results and was paid the bonus in November 2002.
- Since Kintu was in sales, his mileage claims were above the maximum limit, for all months he was in Grain Milling. The maximum limit was Shs 600,000 per month. All mileage claims were for business journeys.
- Grain Milling had an internal provident fund where employees contributed 9% of their basic pay while the employer contributes twice the amount of an employee's contribution. Both parties abided this policy until Kintu's departure on 31 December 2002. The fund was not approved by the relevant Ministry. Mr Kintu was paid Shs 81 million which was the balance on his fund account as at 31 December 2002 with no further tax deduction.
- Kintu was given a terminal benefit of Shs 10 million in recognition of his past good service for the 12 years he worked with Grain Milling. No tax was deducted on the terminal benefits.

Mr Kintu 's terms of employment with ECK Ltd are as follows:

- (i) Monthly salary is Shs 5,500,000.
- (ii) His Children's school fees of Shs 5 million per semester. A semester runs from January to May and July to November.
- (iii) He was given a company motor vehicle that cost Shs 30 million. At the time it was given to him for his first use, it had a Tax Written Down Value of Shs 15 million.
- (iv) The Company agreed to grant him similar benefits as his former employer relating to Medical Insurance except that he was requested to make a nominal contribution of Shs 100,000 per month.
- (v) The company gave him a company house valued at an annual rent of Shs 20 million with effect from 1 January 2003.

Apart from earning employment income in the year to 30 June 2003, Mr Kintu received a dividend of Shs 1.2 million (Net) from Uganda Clays Limited.

Required

- (i) Compute Mr Kintu's chargeable income and the tax payable for the year ended 30 June 2003, on the basis that he had no other sources of income.

(15 marks)

- (ii) Compute any outstanding tax payable by Mr Kintu on the basis that the monthly PAYE deductions made on his behalf by Grain Millers and ECK Ltd were Shs 792,500 and Shs 1,572,500 respectively.

(5 marks)

(Total 20 marks)

Question 4

Bunyonyi Touring Limited promotes tourism around Lake Bunyonyi in Western Uganda. It is registered for VAT and for the past 6 months input VAT has always exceeded Output VAT but Management prefers to offset any VAT claim against future VAT liabilities.

The VAT Account for the following six months of 2003 was as follows:

	Output VAT	Input VAT
September	1,500,000	3,400,000
July	13,000,000	38,000,000
June	12,000,000	2,400,000
May	3,400,000	12,000,000
April	23,500,000	22,000,000
March	<u>1,000,000</u>	<u>1,500,000</u>
	<u>54,400,000</u>	<u>79,300,000</u>

- Bunyonyi Touring Ltd has hotel accommodation for tourists on its lakeside resort on Lake Bunyonyi in Kabale.
- On 1 October 2003, the company bought a new four storied commercial building in Kabale and paid VAT of Shs 15 million. All the rental space on the building was immediately occupied. The first two floors are a shopping Arcade, while the two top floors are for residential accommodation. The area coverage by Shops and residential accommodation are equal.

You have also been given the following information relating to the month of October 2003:

- The VAT, exclusive revenue from the Bunyonyi Lakeside Resort, was as follows: Shs 50 million was income from tourists' usage of the boats on the lake; Shs 45 million was from hire of tourist cars to Bwindi. The accommodation revenue was Shs 27 million.
 - The company bought 10 new passenger tourist vehicles at Shs 20 million each, inclusive of VAT.
 - The company received the following tax invoices relating to the Lakeside Resort: UEDCL's tax Invoices amounting Shs 1,117,000 excluding VAT, a Contractor's tax invoice of Shs 52,650,000 inclusive of VAT, for the improvement of the hotel rooms.
 - The company imported items branded with Bunyonyi Touring Limited for use in their lakeside resort with the approval of the Minister. 40% of the items related to Hotel rooms and the rest to the tourist boats.
 - The company received from Transi Uganda Ltd United States dollars 12,000 as rental charge of the Company's Micro Wave Link at Katuna border post. The exchange rate at the time of transaction was Shs 1,800 per one US dollar at Stanbic Kabale while the Customs rate for the month of October was Shs 1,900 per one US dollar.
 - The October 2003 rental income, inclusive of VAT where applicable was as follows:
 - 1st and 2nd floors Shs 15 million.
 - 3rd and 4th floors Shs 10 million.
 - Bunyonyi Touring Ltd has started a school offering tourism training and total fees billed in October 2003 were Shs 76 million.
- Bunyonyi Touring Limited has not made any application to the Commissioner General of URA, in respect to method of input tax apportionment.

Required:

- Compute the VAT payable/refundable for the month of October 2003.
(15 marks)

- (b) What would have been the Input VAT claimable by Bunyonyi Touring Limited, if it had been authorised to use the alternative method of input VAT apportionment?

(5 marks)

(Total 20 marks)

SECTION C

Question 5

- (a) (i) When does a company become resident in Uganda for tax purposes?
(ii) Why is the residence status of a company important for tax purposes?

(5 marks)

- (b) What details must an invoice have to satisfy the requirements of a tax invoice in Uganda?

(5 marks)

- (c) Briefly explain the differences and similarities between direct and indirect taxes, and give examples of each.

(5 marks)

- (d) What are the VAT registration requirements of Uganda?

(5 marks)

(Total 20 marks)

Question 6

- (a) Briefly explain the characteristics of a good tax system, with relevant illustrations from the Uganda tax system.

(10 marks)

- (b) Differentiate between cash basis and invoice basis accounting for VAT purposes?

(5 marks)

- (c) With illustrative examples, explain the difference between tax evasion and tax avoidance.

(5 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.

NON-RESIDENT INDIVIDUAL INCOME TAX RATES

Chargeable Income	Tax Rate
Not exceeding Shs. 2,820,000	10%
Exceeding Shs. 2,820,000 but not exceeding Shs. 4,920,000	Shs 282,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000
Exceeding Shs 4,920,000	Shs 702,000 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.