

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF TAXATION-PAPER 8

TUESDAY, 14 DECEMBER 2004

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 transactions is subject to withholding tax at the rate of 6%?
- (a) Export of services.
 - (b) Payments to a Non-VAT registered resident professional.
 - (c) Interest payment to a non-resident person.
 - (d) Capital gains on disposal of a business asset.
- (ii) Alex Nga, trading as Rubaga Enterprises, made a trading profit of Shs 20 million for the accounting period ending 31 December 2003. Alex Nga is also employed at consolidated pay of Shs 1,000,000 per month for the entire period? How much tax is payable to Uganda Revenue Authority by Alex for the year?
- (a) Shs 3,400,000
 - (b) Shs 9,600,000
 - (c) Shs 8,670,000
 - (d) Shs 8,568,000
- (iii) Kisasi Limited is a new company manufacturing computers as its sole activity in Kira. What taxes will the company be required to pay to Uganda Revenue Authority?
- (a) VAT.
 - (b) VAT and Corporation tax.
 - (c) VAT, Corporation tax, PAYE and other withholding taxes.
 - (d) Withholding tax, PAYE and Corporation taxes.
- (iv) Mwene Munga and Associates have been in the professional Consultancy as legal consultants for last ten years with a monthly turnover in excess of 15,000,000 per month. When should they register / have registered for VAT?
- (a) Register by 21st day of the second month of operation.
 - (b) Wait until the twelfth month.
 - (c) Wait until URA until raises an assessment.
 - (d) Register at the end of the third month of operation.
- (v) Anna Komakech did not submit her self-assessment returns for the last two years. On 1 October 2004, she received estimated assessments for 2002 and 2003. By when should she object to URA?
- (a) 15 November 2004.
 - (b) 15 October 2004.
 - (c) 31 December 2004
 - (d) 30 April 2005

- (vi) Mr Simba is a Tanzanian resident operating a well stocked supermarket in Jinja. His chargeable income for year ended 30 June is Shs 3,920,000. How much personal tax should he pay to URA?
- (a) Shs 1,176,000.
 - (b) Shs 345,000.
 - (c) Shs 472,000.
 - (d) Shs 502,000.
- (vii) What are the options available to URA in respect of a taxpayer who refuses to pay the assessed tax?
- (a) Charge a penalty of Shs 400,000 for every month it is outstanding after due date.
 - (b) Arrest the taxpayer and take him to prison.
 - (c) Advise the Minister of Finance to write-off the tax.
 - (d) Attach assets of such taxpayer using court brokers.

The following information relates to questions (viii) to (x).

M/S Kitu Ltd's first year of income ended on 30 June 2004. Its annual gross income is Shs 60,000,000. The company has not yet registered for VAT. Its tangible non-current assets only comprise of two heavy trucks which were bought on 1 July 2003 for Shs 30 million each. The trucks now transport goods between Mombasa and Kampala, which is the company's only business.

- (viii) Which of the following statements is true about Kitu Ltd's registration for VAT?
- (a) Should not register because it is dealing in exempt supplies.
 - (b) Has the option to register because it is dealing in zero-rated supplies.
 - (c) Must register because the only condition is turnover exceeding Shs 50 million per annum.
 - (d) Should register because their service is standard rated.
- (ix) When is Kitu Ltd required to submit the annual return to URA for the year 2004?
- (a) 45 days after end of year of income.
 - (b) 6 months after end of the year of income.
 - (c) By 31 October 2004.
 - (d) By 31 December 2004.

- (x) What taxes is Kitu Ltd required to withhold on behalf of URA?
- (a) VAT, PAYE, Corporation tax, and Withholding tax on international payments and non-VAT registered resident professionals.
 - (b) PAYE, Income tax and Withholding tax on international payments and non-VAT registered resident professionals.
 - (c) Withholding tax on international payments, on non-VAT registered resident professionals and PAYE.
 - (d) None of the above because the Minister responsible for Finance has not gazetted it as a withholding agent.
- (xi) Ruhinda Supermarket is a VAT registered person. When are they required to file VAT returns to URA offices?
- (a) 45 days after end of the month for which 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 a 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 (xviii).

Mr Muthane is a foreign investor who operates business in Uganda through Muthane Ltd. On 1 July 2003 he bought a commercial building on Luwum Street made up of twenty shops each rented out at Shs 700,000 per month. On the same day, he bought 100,000 Bank of Baroda shares worth Shs 100,000,000 in his personal capacity. On 30 June 2004 he received Shs 60 per share as dividend.

- (xiii) If the investor was a non-resident, how long does he need to spend in Uganda in his first year so as to qualify as a resident person for tax purposes?
- (a) 122 days.
 - (b) 190 days.
 - (c) 365 days.
 - (d) 183 days.

- (xiv) What will be Mr Muthane's resident status as at 30 November 2004 if the only period he went out of Uganda totalled four months?
- (a) Non resident.
 - (b) Resident.
 - (c) Partly resident.
 - (d) Temporarily resident.
- (xv) How much tax should Muthane Ltd include in its provisional return to URA?
- (a) Shs 40,320,000.
 - (b) Shs 60,640,000.
 - (c) Shs 50,400,000.
 - (d) Shs 80,640,000.
- (xvi) How much income will be included in his personal business income for the year of income 2004?
- (a) Shs 6,000,000.
 - (b) Shs 174,000,000.
 - (c) Shs 168,000,000.
 - (d) Nil.
- (xvii) If Muthane Ltd decided to sell the building for Shs 160 million, given that it was bought for Shs 130 million and an extension added on for Shs 10 million, What is the treatment for this transaction for tax purposes given that it is a non-depreciable asset?
- (a) Shs 20 million is exempt income and not taxable.
 - (b) Capital gain of Shs 20 million is subject to capital gains at 15%.
 - (c) Capital gain of Shs 30 million is taxable at 15%.
 - (d) Shs 20 million is included in his business income and taxed at normal income tax rate.
- (xviii) How is a foreign tax paid by a Uganda resident treated in his Ugandan income tax returns?
- (a) Claim foreign tax credit.
 - (b) No foreign tax credit is available in Uganda since that income is not taxable in Uganda.
 - (c) Treat the tax paid abroad as a deductible tax expense.
 - (d) Claim foreign tax credit if this is provided under Double Taxation Agreement between Uganda and the foreign country.

- (xix) Mr Onya has a computer accessories and Internet café business in Mbarara which he bought from Twine as a going concern. What taxes should Twine charge to Onya?
- (a) VAT and Withholding tax.
 - (b) VAT since the building is bought as a going concern.
 - (c) No VAT because the business was sold as a going concern.
 - (d) VAT and stamp duty since Onya has bought his business.
- (xx) Angula and Bantu are partners in AB Certified Public Accountants and for the year ended 31 July 2004, they made a profit of Shs 26 million. In addition the Managing Partner was paid a salary of Shs 34 million and Shs 12 million reimbursements for business trips incurred in course of the business. Who are the taxable persons?
- (a) AB Partnership only.
 - (b) Bantu, Angulu and the partnership.
 - (c) Only the Managing Partner.
 - (d) Bantu and Angulu.

SECTION B

Question 2

Mr. Mukasa is a Finance Manager of an international company with a Ugandan subsidiary quoted on Uganda Securities Exchange. He signed his Employment contract on 1 July 2003.

He has monthly salary of Shs 3,900,000 and is entitled to a maximum bonus of Shs 2,500,000 per month.

He has a Medical Insurance cover to which the company contributes Shs 500,000 per month. The company deducts 20% of the cover from his salary.

The company offers its senior management shares. Mr Mukasa was offered 100 shares on 1 July 2003 at zero cost. He was also offered to purchase 1,000 shares, which he did, at 50% of the shares cost on 31 December 2003 due to his extraordinary good performance. The price of the shares were Shs 800 per share as at 1 July 2003, Shs 900 as at 31 December 2003 and Shs 1,000 at 30 June 2004.

The company has an approved provident fund where employees contributed 10% of their monthly salary plus 50% of maximum monthly bonus.

On 1 July 2003 Mr. Mukasa was given terminal benefits of Shs 60 million in recognition, by his former employer of 12 years. No tax was deducted on the terminal benefits.

Mr Mukasa also has part-time employment with Kampala Associated Consultants (KAC) where he is a partner. He received the following from KAC:

- (i) Monthly salary is Shs 1,500,000.
- (ii) His Children's school fees of Shs 1 million per semester. A semester runs from 15 January to 15 June and 15 July to 15 December.
- (iii) Payment of Kampala Club's membership fees of Shs 1.5 million per year, fuel coupons of Shs 500,000 per month and payment of his interest expense of Shs 250,000 per month relating to his Mercedes benz car that he bought under the company's scheme in addition to paying 50 % of the cost of the car. The Car cost Shs 25 million.
- (iv) As a partner, he is also entitled to 20% of the net profit. The firm's gross revenue was Shs 160 million and all operational expenses including partners' salaries are 30% of the revenue. The firm's direct expenses were 20% of the gross revenue.
- (v) The firm gave him a company house valued at an annual rent of Shs 20 million with effect from 1 January 2003.

Mr Mukasa also received a dividend of Shs 4.2 million (Net) from Bank of Baroda Uganda Ltd shares.

Mr Mukasa offered consultancy services to a Kenyan company and he was paid the equivalent of Shs 100 million on 1 January 2004 after a 20% withholding tax in Kenya. He has used this money to purchase a house in Nairobi which he rents to the Ugandan High Commission at Uganda Shs 2,000,000 per month.

Required:

- (a) Compute Mr Mukasa's chargeable income and the tax payable for the year ended 30 June 2004. **(15 marks)**
- (b) Compute any outstanding tax payable by Mr Mukasa on the basis that no PAYE deductions were made on all his Uganda sourced emoluments from all employments. **(5 marks)**

(Total 20 marks)

Question 3

Entebbe Fishers Ltd (EFL) is a newly set up company and their second accounting period covers 18 months ended 30 June 2004. EFL had the following transactions for the year ended 30 June 2004:

	Notes	Shs'000
Income		
Grant from DANIDA	2	800,000
Business income from Uganda	2	1,700,000
Income from Branch in Tanzania net of taxes	2	150,000
Unrealized exchange gain		45,500
Profit on sale of car		<u>28,000</u>
Total Income		<u>2,723,500</u>
Expenditure		
Capital assets expensed	3	76,000
Depreciation	9	145,000
Bad debts provision		36,000
Electricity, Water & Insurance		65,000
Cash stolen by employee	4	46,000
Employers NSSF contribution		80,000
Management fees	5	112,000
Penalties and fines		24,000
Interest expense	5	51,000
Tax		28,000
Disallowed input VAT		16,000
Rent and Rates		15,000
Stock destroyed by fire	4	99,000
One off expenses	6	178,000
Marketing re-organization expenses		87,000
Repairs and Maintenance, & write-offs	7	134,500
Contribution to retirement fund		95,000
Reimbursable travel expenses	8	<u>135,000</u>
Total Expenses		<u>1,422,500</u>
Net Profit for the year		<u>1,301,000</u>

You have also been given the following notes:

1. The Opening tax written down Values as at 1 January 2003 are as follows:

Class I	Shs 120,000,000
Class II	Shs 160,000,000
Class III	Shs 130,000,000
Class IV	Shs 450,000,000

On 5 January 2003, EFL purchased two 10-ton Lorries worth Shs 56 million each, computers of Shs 29,000,000, Land Rover Pick Up of Shs 150 million, Mercedes Benz Station Wagon for Shs 100 million and Toyota Double Cabin Pick Up for Shs 40 million.

2. Included in business income is net dividends of Shs 50 million received on EFL's Stanbic Bank Account.
3. Assets expensed after 1 July 2003 were all below Shs 900,000. Before first July 2003 the only assets expensed were a Motorcycle that cost Shs 1,200,000 and five refrigerators that cost the company Shs 250,000 each.
4. The company has an insurance cover for fire and special perils. However the insurance company declined to honour the fire cover on the grounds that fire was caused by the staff who stole the money as cover up and was attributed to negligence of management. The insurance company only agreed to honour cash stolen subject to 20% threshold.
5. Interest expense includes unrealised exchange loss of Shs 20 million and Shs 10 million relating to the sister company's interest expense. The management fee expense is net of tax.
6. One off expenses included Valuation cost Shs 12.5 million incidental financing of the new expansion loan from East Africa Development Bank and purchase of a competitor's business for Shs 100 million. The balance related to furniture and fittings for branch network in Mbarara, Gulu and Mbale.
7. Included in repairs and maintenance is a second hand 20 tonne pulling tractor head which is still in good condition, building extension at their rented premises worth Shs 10 million and Shs 30 million relating to a 10-year lease of a yard to repair their fleet and Shs 25 million for building a new boundary brick wall around this yard.
8. Reimbursable expenses of Shs 50 million were for third party consultancy expenses, which the company paid to the consultants, but was reimbursed by the Kenyan consulting firm that was carrying out the consultancy for EFL.
9. The company had leasehold premises whose depreciation for the year was Shs 38 million. The company's policy is to depreciate leases over their useful life.

Required:

Compute the corporation tax payable by Entebbe Fishers Ltd (EFL) for the Year of Income ending 30 June 2004.

(20 marks)

Question 4

Kampala Breweries Limited (KBL) registered for VAT and its results for the past six months are shown below:

The VAT Account for the 6 months' period covered by URA Audit is as follows:

2004	Output VAT Shs million	Input VAT Shs million
September	11,500	13,400
July	13,000	38,000
June	12,000	2,400
May	3,400	12,000
April	23,500	22,000
March	1,000	1,500

Following the URA Audit the following transactions were discovered:

- (a) Invoices for Bunyonyi Touring Ltd were the company held its annual retreat were not included amounting to Shs 11.5 million. Of this 20% related to hotel accommodation and balance to reimbursement of KBL's direct expense from VAT registered persons in Kabale.
- (b) The company's Output VAT account was found to have the following discrepancies:
 - (i) The VAT exclusive revenue of Shs 20 billion from hire of tents and chairs had been included in the VAT account.
 - (ii) The company bought 10 new vehicles from Kenya Motors and VAT was not claimed. The total VAT was Shs 20 million of which 20% related to Station Wagon Pajeros, 10% to omnibus, 30% to double cabins and the balance to single cabin pickups.
 - (iii) The Company included the entire electricity charges tax invoices in the VAT account. However Shs 11.2 million related to residences for senior management.
 - (iv) A Contractor's tax invoice of Shs 52,650,000 inclusive of VAT, for the improvement of production was excluded from the VAT account.
 - (v) The company imported items branded on behalf of a sister company and erroneously claimed input VAT of Shs 20 million.
 - (vi) The Company received from Transport Uganda Ltd, United States Dollars 12,000 as rental charge of the Company's Micro Wave Link. The Exchange rate at the time of transaction was Shs 1,800 per US Dollar while the Customs rate for the month of October was Shs 1,900 per US Dollar.

- (vii) The rental income of Shs 25 million was not disclosed in VAT returns.

Required:

- (a) Prepare the revised output and input VAT account taking into account the transactions highlighted following URA review.
(15 marks)
- (b) What penalties does the VAT Statute impose on non-compliant taxpayers?
(5 marks)
- (Total 20 marks)**

SECTION C

Question 5

- (a) (i) Give the three conditions that make a company resident in Uganda for tax purposes
(3 marks)
- (ii) Why is the residence status of a company important for tax purposes?
(2 marks)
- (b) List and briefly explain five cannons of taxation?
(5 marks)
- (c) Briefly explain how the self-assessment regime operates in Uganda.
(5 marks)
- (d) What are the grounds for late objection under the Income Tax Act 1997?
(5 marks)
- (Total 20 marks)**

Question 6

- (a) Briefly explain the requirements for VAT registration. What are the actions open to the Commissioner if a taxpayer refuses to register?
(5 marks)
- (b) Distinguish between cash basis and invoice basis accounting for VAT purposes?
(5 marks)
- (c) What are the features of a simplified tax invoice?
(5 marks)
- (d) Using examples, distinguish between exempt and zero rated supplies under the Uganda VAT system.
(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.