

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF TAXATION-PAPER 8

WEDNESDAY, 12 DECEMBER 2007

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 11.
7. Please read further instructions on the answer book.

SECTION A**Question 1**

- (i) TSRS Limited has an accounting date of 30 June. It would, however, like to change its accounting date to 31 December. The new year of income adapted by the company would be referred to as:
- (a) calendar year of income.
 - (b) transitional year of income.
 - (c) normal year of income.
 - (d) substituted year of income.
- (ii) Which of the following is a taxable supply at the standard rate of 18%?
- (a) Local transportation of passengers.
 - (b) International transportation of passengers.
 - (c) Local transportation of goods.
 - (d) International transportation of goods.
- (iii) BJ Limited has just become fully operational. The company incurred expenditure worth Shs 43,000,000. Compute the allowance due to the company in the first year of operation in respect to start-up costs.
- (a) Shs 10,750,000.
 - (b) Shs 8,600,000.
 - (c) Shs 2,150,000.
 - (d) Shs 17,200,000.
- (iv) Which of the following earnings does **NOT** constitute property income under the Income Tax Act?
- (a) Sale of buildings.
 - (b) Royalties.
 - (c) Rental income.
 - (d) Interest income.
- (v) John Brown is a consultant from the United States. He has been providing services to a local company over a period of four months. He flew back to his country after the completion of the assignment within that period. He was paid management fees of Shs 43 million for his services. Compute the tax payable on his income.
- (a) Shs 6,450,000.
 - (b) Shs 2,580,000.
 - (c) Shs 11,970,000.
 - (d) Shs 4,300,000.

- (vi) Mukasa Engineering Works Limited purchased commercial premises at Shs 265 million. The building was originally constructed for Shs 230 million. Compute the commercial building deduction due to the company in the first year of purchase.
- (a) Shs 6,750,000.
 - (b) Shs 13,250,000.
 - (c) Shs 2,300,000.
 - (d) Shs 11,500,000.
- (vii) Which of the following combinations best describes an exempt organisation?
- (i) An amateur sporting association; religious, charitable, or educational institution of a public character; or a trade union, employees' or employers association.
 - (ii) A non-governmental organisation.
 - (iii) Has been issued with a written ruling by the commissioner currently in force stating that it is an exempt organisation.
 - (iv) None of the income or assets of which confers, or may confer, a private benefit on any person.
- (a) (i), (ii) and (iv).
 - (b) (i), (iii) and (iv).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (ii), (iii) and (iv).
- (viii) Which of the following statements is **FALSE** about the tax point under the VAT Act?
- (a) The goods are delivered or made available, or the performance of the service is completed.
 - (b) When the agreement for the provision of services is made.
 - (c) Payment for the goods or services is made.
 - (d) A tax invoice is issued.
- (ix) Jenny is entitled to a company house whose rental market value is Shs 400,000. Her monthly salary is Shs 2,300,000. Compute the amount to include in her taxable pay as housing benefit.
- (a) Shs 400,000.
 - (b) Shs 405,000.
 - (c) Shs 350,000.
 - (d) Shs 345,000.

- (x) Which of the following items are **NOT** considered exempt supplies for VAT purposes?
 - (a) Disposal of a business as a going concern.
 - (b) Improved land.
 - (c) Supply of mosquito nets.
 - (d) Supply of diapers.
- (xi) Which of the following is **NOT** an approved commercial building?
 - (a) Residential flats.
 - (b) Warehouse.
 - (c) Workshop.
 - (d) Commercial storage facility.
- (xii) What is the applicable capital deduction to a farm tractor used on a farm for ploughing?
 - (a) Farm works allowance.
 - (b) Wear and tear allowance.
 - (c) Industrial capital allowance.
 - (d) Initial allowance.
- (xiii) Which of the following is **NOT** an allowable tax deduction?
 - (a) Donations to Feed the Hungry (an exempt organization).
 - (b) Business start-up costs.
 - (c) Expenses incurred on earning interest income.
 - (d) Debt recovery costs.
- (xiv) An objection to a notice of assessment under the Income Tax Act should be made to the Commissioner within:
 - (a) 30 days from date of receipt of the assessment notice.
 - (b) 30 days from date of issuance of the assessment notice.
 - (c) 45 days from date of receipt of the assessment notice.
 - (d) 45 days from date of issuance of the assessment notice.
- (xv) A tax assessment can be raised to only **ONE** of the following persons:
 - (a) Minor.
 - (b) Incapacitated individual.
 - (c) Dead person.
 - (d) Person with no source of income.
- (xvi) Which of the following does **NOT** form part of the taxable income of an employee?
 - (a) Bonus pay.
 - (b) Medical insurance expenses.
 - (c) Leave pay.
 - (d) Long service award pay.

- (xvii) Which of the following does **NOT** cause imposition of penal tax under the Income Tax Act?
- (a) Failure to furnish a return of income by an employee whose only income is salary which has been paid under the PAYE system.
 - (b) Failure to pay a provisional tax installment.
 - (c) Failure to maintain proper books of accounts and records.
 - (d) Failure to comply with a notice issued to provide information to URA.
- (xviii) A taxpayer is treated as having disposed off an asset **EXCEPT** in the following situation:
- (a) Sold or exchanged.
 - (b) Leased out.
 - (c) Transferred by way of gift.
 - (d) Destroyed by fire.
- (xix) On which of the following incomes is withholding tax **NOT** applicable?
- (a) Dividends paid to shareholders of a company.
 - (b) Interest paid to a bank.
 - (c) Management fees paid to a tax consultant.
 - (d) Fees paid to a non-resident service contractor.
- (xx) Which of the following is **NOT** a taxable person under the Income Tax Act?
- (a) Private Limited Company.
 - (b) Public Limited Company.
 - (c) Partnership.
 - (d) Retirement Provident Fund.

SECTION B**Question 2**

ZamZam Enterprises' income statement for the year ended 30 July 2007:

	Note	Shs '000
Operating profit		1,650,000
Dividends received		25,000
Rental income		12,500
Interest income		<u>11,320</u>
Total Income		<u>1,698,820</u>
Expenses		
Gifts and donations	2	7,800
Loan interest	3	19,000
Bad debts written off	4	21,000
Professional fees	5	11,000
Motor vehicle running expenses		6,375
Depreciation		8,162
Loss on disposal of asset		<u>14,000</u>
Total Expenses		<u>87,337</u>
Net Profit		<u>1,611,483</u>

Tax written down values of assets

Class	Shs '000
1	12,000
2	8,000
3	7,500
4	65,000

The following assets were acquired during the year of income:

Asset	Shs '000
(i) company motor car for the managing director	78,000
(ii) Toyota Hilux pick up van	72,000
(iii) computers	24,500
(iv) cost of building so far	225,000

(1/3 of cost allocated to the completed floor)

The following assets were disposed off during the year of income:

- (i) Managing Director's old car was sold at Shs 12.5 million. It had been purchased in 2002 at a cost of Shs 55 million and its accumulated depreciation at the time of the sale was Shs 30 million.
- (ii) Furniture purchased in 2004 at Shs 12.5 million was given away to an orphanage.

Notes:

1. Zamzam's Year of Income runs from 1 July 2006 to 30 June 2007.
2. Gifts and Donations:

	Shs'000
Donation to Rotary International	3,200
Christmas gifts to staff	1,500
Christmas gifts to friends	1,700
Donation to United Nations Development Programme (UNDP)	<u>1,400</u>
	<u>7,800</u>

3. **Loan Interest:**
The loan was used to construct a building from which the rental income was earned. The building is to be made up of 4 floors and only one floor has been completed and occupied. The floor was occupied with effect from 1 October 2006.

4. Bad Debts written off:

	Shs '000	Remarks
Charles Kamya	12,000	Pursued with lawyers and informed that customer could not be traced.
Ambrose Ganyana	7,000	Written to customer and through negotiation established that he had been over billed.
Edith Nakuya	<u>2,000</u>	Personal friend of the managing director-advised by the managing director to write off the debt.
	21,000	

5. Professional fees:

	Shs '000
Paid to Kalega & Partners for the building plans	7,800
Paid to Kasoma & Co. Advocates for debt recovery	<u>3,200</u>
	<u>11,000</u>

- | | | |
|----|-------------|----------------|
| 6. | Prepaid tax | Shs 12,222,000 |
|----|-------------|----------------|

Required:

- (a) Calculate the amount of capital allowances that Zamzam should claim.
(Show all your workings) **(12 marks)**
- (b) Compute the taxable profits and the corporation tax thereon. **(8 marks)**
- (Total 20 marks)**

Question 3

Jessica Kizito is a Ugandan citizen who is resident for Uganda tax purposes. She is the Managing Director of Spoonworth Clothing Uganda Limited.

Below were her earnings and dealings for the financial year ended 30 June 2007:

Jessica's monthly gross salary is Shs 5.6 million. She is required to contribute 5% of her salary to the National Social Security Fund, the firm contributing a further 10% on her behalf.

The company caters for her medical expenses up to the tune of Shs 800,000 per month. In the event that she has not fully utilised the allowance, she receives cash at the end of the year in respect of the balance. This year she received Shs 3.2 million in respect of the medical allowance.

She is given housing allowance of Shs 500,000 per month.

The company caters for staff lunch on an equal basis at the staff canteen.

She is entitled to free clothing from the company's clothing line worth Shs 500,000 per month to enable her keep up with the company style.

She is also entitled to a company car for both business and private use. She was the first user for of the car which cost Shs 35 million. She makes a monthly contribution of Ushs 300,000 every month for use of the car.

Jessica Kizito owns a block of flats in Makindye. The complex has 6 units with a monthly rental of each unit being Shs 450,000. The flats were occupied for the whole year. She incurred repair expenses in respect of the complex of Shs 2.3 million which catered for blocked plumbing and roof repairs.

Required:

- (a) Compute the rental income tax payable by Jessica Kizito for the year ended 30 June 2007.

(4 marks)

- (b) Compute Ms. Kizito's chargeable income and tax thereon for the year ended 30 June 2007.

(16 marks)

(Total 20 marks)

Question 4

- (a) (i) Distinguish between voluntary and compulsory registration for VAT.
(6 marks)
- (ii) Give **four** disadvantages of VAT to a taxpayer.
(4 marks)
- (b) Mr. Tomusange is VAT registered and deals in general merchandise.

Below are details of his transactions during the month of June 2007:

Sales (VAT exclusive):

	Description	Amount Shs '000
(i)	Milk	1,000
(ii)	Exercise books	1,000
(iii)	Ladies hair oil	2,000
(iv)	Shoe polish	1,200
(v)	Cooking oil	1,500
(vi)	Paintings	1,200

Expenses (VAT exclusive):

	Description	Amount Shs '000
(i)	Telephone bill	1,000
(ii)	Repair of motor car	200
(iii)	Re-painting of shop premises	70
(iv)	Purchase of office chairs	900
(v)	Purchase of cooking oil	700
(vi)	Purchase of ladies hair oil	1,200

Mr. Tomusange was charged VAT on the expenses given above.

Required:

Calculate Mr. Tomusange's VAT position for the month of June 2007.

(Show all your workings)

(10 marks)
(Total 20 marks)

SECTION C

Question 5

- (a) Explain the term “residence” when applied to an individual and to a company.
(6 marks)
 - (b) Distinguish between tax avoidance and tax evasion.
(6 marks)
 - (c) Briefly explain **four** ways in which URA can recover tax.
(8 marks)
- (Total 20 marks)

Question 6

- (a) Explain the following terms:
 - (i) Presumptive tax. (4 marks)
 - (ii) Regressive tax. (2 marks)
 - (iii) Progressive tax. (2 marks)
 - (b) What conditions are applicable for cash accounting under the VAT Act?
(6 marks)
 - (c) Explain the types of returns under the Income Tax Act that must be submitted by a company.
(6 marks)
- (Total 20 marks)

TAX RATES**Resident Individual Income Tax Rates**

Annual 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.

Non – resident Individual Income Tax Rates

Annual chargeable Income	Rate of Tax
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 Rates

Gross Turnover	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 plus 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 plus 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 a year.	Shs 450,000 plus 1% of gross turnover, whichever is the lower.