

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF TAXATION-PAPER 8

WEDNESDAY, 20 JUNE 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 13.
7. Please read further instructions on the answer book.

SECTION A**Question 1**

- (i) What method can a non-VAT registered taxpayer use to pay VAT on any imported services to Uganda Revenue Authority?
- (a) Self billing system.
 - (b) Pay direct to the Bank.
 - (c) Fill in a VAT Form 500A.
 - (d) Fill in a VAT Return 200A.
- (ii) An investment trader is a person who has been:
- (a) approved as an investor by Uganda Investment Authority as an investment trader in Uganda.
 - (b) licenced by Private Sector Foundation as an investment trader in Uganda.
 - (c) approved by Uganda Revenue Authority as an investment trader in Uganda.
 - (d) approved as an investor by the Ministry of Finance, Planning and Economic Development as an investment trader in Uganda.
- (iii) Mary Jane is a non-resident for Uganda tax purposes. In the year ended 30 June 2006, she earned income from Kenya of Shs 12,000,000, USA of Shs 45,000,000 and Uganda of Shs 8,000,000. How much tax will she pay for the year ended 30 June 2006 in Uganda?
- (a) Shs 1,626,000.
 - (b) Shs 2,322,500.
 - (c) Shs 18,726,000.
 - (d) Shs 1,400,000.
- (iv) Which of the following statements describe a resident retirement fund for a given year of income?
- (i) It is organised under the Laws of Uganda.
 - (ii) It undertakes the majority of its operations in Uganda during the year of income.
 - (iii) Management and control are exercised in Uganda at any time during the year of income.
 - (iv) The principal purpose of the fund is provision of retirement benefits to resident individuals.
- (a) (i), (ii) and (iv).
 - (b) (ii), (iii) and (iv).
 - (c) (i), (iii) and (iv).
 - (d) (i), (ii) and (iii).

- (v) Mr. Mukasa is a resident person who is not VAT registered. He was paid management fees of Shs 12,000,000 in May 2007. How much withholding tax should be withheld from the fees?
- (a) Shs 3,600,000.
 - (b) Shs 720,000.
 - (c) Shs 1,800,000.
 - (d) Shs 480,000.
- (vi) Which of the following statements explains the transitional year of income as specified under the Income Tax Act?
- (a) It is a period of 12 months from 1 July to 30 June.
 - (b) It is a period of 12 months from 1 January to 31 December.
 - (c) It is the period between the change from one accounting period to another.
 - (d) It is any other period chosen by the taxpayer other than the normal year of income.
- (vii) New Eyes (U) Ltd has an accounting date of 31 January. The company shall be required to file provisional returns and self assessment returns for the year ending 31 January 2008 by:
- (a) 31 July 2007 and 31 July 2008.
 - (b) 31 July 2007 and 31 May 2008.
 - (c) 31 July 2007 and 31 May 2008.
 - (d) 31 January 2008 and 31 May 2008.
- (viii) Which of the following combinations constitutes employment income under the Income Tax Act?
- (i) Payment in lieu of leave.
 - (ii) Compensation for the termination of any contract of employment.
 - (iii) Employer's contribution for the benefit of the employee or any of his or her dependants made to a retirement fund.
 - (iv) Any gain derived by an employee on disposal of a right or option to acquire shares under an employee share acquisition scheme.
- (a) (i), (ii) and (iii).
 - (b) (i), (ii) and (iv).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (ii) and (iv).

- (ix) Tracy has just been employed as an accountant of a large law firm. She is entitled to a company car worth Shs 17.5 million and can use it for her personal use after working hours. In the year ended 30 June 2006, she used the car for 109 days. Compute her taxable benefit for the year ended 30 June 2006.
- (a) Shs 1,045,200.
 - (b) Shs 87,100.
 - (c) Shs 3,500,000.
 - (d) Shs 1,045,205.
- (x) Which of the following items fall in the same category?
- (i) Licence fees.
 - (ii) Passport fees.
 - (iii) Work permits.
 - (iv) Rental tax.
- (a) (i), (iii) and (iv).
 - (b) (ii) and (iii).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (ii) and (iii).
- (xi) Thomas owns two blocks of flats in Makerere. One is for residential apartments while the other is strictly for commercial purposes. In the month of May 2007, he earned Shs 12 million from the residential apartments and Shs 19 million from the commercial premises, VAT inclusive. Compute his output VAT payable for the month of May 2007.
- (a) Shs 4,728,814.
 - (b) Shs 3,420,000.
 - (c) Shs 2,898,305.
 - (d) Shs 5,580,000.
- (xii) Kiboko Squad Limited purchased a block of apartments at Shs 135,000,000. The block of apartments is for housing accommodation for the company staff. Determine the commercial building deduction claimable by the company.
- (a) Shs 6,750,000.
 - (b) Shs 27,000,000.
 - (c) Shs 5,400,000.
 - (d) Nil.

- (xiii) Which of the following is a standard supply for VAT purposes?
- (a) Medical services.
 - (b) Disposal of shares.
 - (c) Supply of accounting services.
 - (d) Supply of feeds for poultry and livestock.
- (xiv) Which of the following expenses is **NOT** an allowable deduction when computing corporation tax?
- (a) Donations to an exempt organisation.
 - (b) Transport from home to office provided by the employer.
 - (c) Capital expenditure less than Shs 1 million.
 - (d) 10% employers' contribution to a retirement fund.
- (xv) Save Mabira Limited's tax payable for the year ended 30 June 2006 was Shs 447 million. The company had earlier on provided for tax for the year of Shs 395 million. URA penalised the company for under providing. Compute the penalty that the company paid.
- (a) Shs 1,460,000.
 - (b) Shs 3,120,000.
 - (c) Shs 10,400,000.
 - (d) Shs 10,460,000.
- (xvi) CHOGM Limited is a petroleum company. The company deals in both exempt and taxable supplies. Which of the following is **FALSE** about persons dealing in mixed supplies?
- (a) The company should use the normal method of apportionment to ascertain input VAT claimable with no need to obtain approval.
 - (b) There is no need to register for VAT if the amount of taxable supplies does not exceed the threshold for VAT purposes.
 - (c) The company can claim only the input VAT relating to taxable supplies.
 - (d) The company should use the standard alternative method of apportionment to ascertain input VAT claimable with no need to obtain approval.
- (xvii) Under the Income Tax Act, a taxpayer can make an objection. In the event that the Commissioner has not responded, the taxpayer can elect to treat that the Commissioner has agreed with his decision. After how many days can he confirm this?
- (a) 30 days.
 - (b) 45 days.
 - (c) 90 days.
 - (d) 25 days.

(xviii) Gagaawala Musoke, a resident individual, earned rental income of Shs 1,800,000 for the year ended 30 June 2006. During the year he incurred expenses worth Shs 200,000. How much is his rental tax payable for the year?

- (a) Shs 480,000.
- (b) Shs 256,000.
- (c) Shs 360,000.
- (d) Nil.

(xix) A student had the following extracts:

- The goods are delivered or made available, or the performance of the service is completed.
- Payment for the goods or services is made.
- A tax invoice is issued.

Which of the following statements relates to the above extracts?

- (a) Grounds for objection.
- (b) Time of supply.
- (c) VAT period.
- (d) Place of supply.

(xx) A student had the following summarised notes:

- Dividends, interest, annuity and royalties.
- Total amount of any contribution made to a retirement fund by a tax exempt employer.
- Any other income derived by a person.
- Value of any gifts derived by a person in connection with the provision.

Which of the following statements summarises the above notes?

- (a) They constitute employment income.
- (b) They refer to non-tax revenue bases.
- (c) They constitute business income of an individual.
- (d) They constitute property income.

SECTION B**Question 2**

Merchandise Uganda Limited is a company dealing in all sorts of merchandise. The company has its head office situated in Kampala with branches in Iganga and Jinja. The company has been in operation since 2003.

The company's tax accounting date is 31 December and its financial results for the year to 31 December 2006 were as follows:

	Shs '000	Shs '000
Income		3,720,000
Other investment income		<u>150,600</u>
		3,870,600
Less: Cost of sales		<u>(967,000)</u>
Gross Profit		2,903,600
Expenses		
Salaries & Wages	1,076,500	
Bad debts	326,000	
Computer software	234,000	
Donations & Subscriptions	33,500	
Write off of non-current assets	17,000	
Provisions for gratuity	86,700	
Profit on disposal of property	34,000	
Legal & professional fees	92,600	
Loss on valuation of property	27,300	
Accountancy fees	12,000	
Travel & Accommodation	112,300	
Entertainment	15,600	
Loss on disposal of vehicles	700	
Other expenses	<u>250,000</u>	
Total Expenses		<u>(2,318,200)</u>
Net Profit		<u><u>585,400</u></u>

Additional information:

- (a) The tax Written Down Values of the Merchandise Uganda Limited's depreciable assets as at 1 January 2006 are as follows:

Class	Shs '000'
I	26,500
II	12,500
III	342,700
IV	126,000

- (b) During the year to 31 December 2006, the company incurred the following additional capital expenditure:

Description	Amount Shs '000'	Place of use
1 Saloon car	28,000	Kampala
1 Truck	95,000	Jinja
5 Computers	23,000	Iganga
Plant and machinery 1	5,600	Iganga
Plant and machinery 2	7,230	Jinja
Computers	7,000	Kampala
2 Office chairs	1,200	Kampala
Residential house	200,000	Iganga

- (c) During the year, the company disposed of the following assets:

Asset	Proceeds Shs '000'	Date of acquisition	Original cost Shs '000'
Mercedes Benz	23,000	1 January 2004	30,000
Truck	4,500	12 June 2004	8,000

- (d) The company had an agreed tax loss with URA of Shs 7,500,000 and a tax overpayment brought forward of Shs 3,500,000 as at 1 January 2006. The company paid provisional tax of Shs 150,000,000 for the year ended December 2006

- (e) Other income is analysed as follows:

	Shs '000's
Exchange gain (year end book translation)	25,600
Interest income	<u>125,000</u>
	<u>150,600</u>

Included in interest income is income from treasury bills of Shs 85,000,000 of which Shs 63,000,000 was received after 1 July 2006.

- (f) Bad debts are analysed as follows:

	Shs '000'
General Provisions	227,000
Bad debts write off	<u>99,000</u>
Charge for the year	<u>326,000</u>

- (g) Donations and subscriptions are analysed as follows:

	Shs '000'
Annual subscription to Uganda Manufacturers Association	22,500
Donations to a local church	9,750
Donations to Tim Makumbi	<u>1,250</u>
	<u>33,500</u>

- (h) Computer software of Shs 234,000,000:

This amount includes Shs 200,000,000 relating to actual software acquisition and Shs 34,000,000 relating to annual maintenance fees for the company's computers.

- (i) Other expenses are analysed as follows: -

	Shs '000'
Depreciation	123,000
Other tax allowable expenses	<u>127,000</u>
	<u>250,000</u>

Required:

Compute the final corporation tax payable by Merchandise Uganda Limited for the year ended 31 December 2006.

(NB: The computation should exclude any associated penalties).

(20 marks)

Question 3

Homas Farrah was appointed Group Financial Officer of Prentice Uganda Limited in September 2005. His job description requires him to travel to different countries within the group from time to time.

The following were his earnings and dealings within the financial year ended 30 June 2006.

- (i) Farrah's monthly salary is Shs 2,700,000. He is required to contribute 5% of this to the National Social Security Fund, the firm contributing a further 10% on his behalf. He is also part of the company's provident fund where he contributes 10% of his salary and the company contributes another 10%.
- (ii) The company reimbursed medical expenses incurred by Homas and his wife during the year. The amount reimbursed amounted to Shs 1,230,000.
- (iii) He lives in a company house on Naguru Hill, a suburb of Kampala, whose monthly rental market value is Shs 650,000.
- (iv) The company paid Shs 3,200,000 in respect of tax payable in his home country, Libya, for the same year.

- (v) The company provides lunch free of charge at the company's canteen to lower cadre staff. The senior staff are given an allowance of Shs 100,000 per month to cater for lunch expenses.
- (vi) The company paid for his air passage into Uganda worth Shs 2,000,000. He is also entitled to air tickets once a year for him and his wife worth Shs 4,500,000 in total.
- (vii) He is entitled to a company car but only for use during working hours. The car is new and is worth Shs 15,500,000. He uses his personal car after working hours.
- (viii) The firm provided him with a chauffeur whose salary is Shs 50,000 per month.
- (ix) He took leave for one week and was paid Shs 650,000 as leave pay allowance.
- (x) Mr. Farrah also received rental income from properties held outside Uganda amounting to Shs 36,000,000. The amount received was less rental tax of 35%.

Required:

- (a) Compute Mr. Farrah's chargeable income and tax thereon for the year ended 30 June 2006.

(18 marks)

- (b) In how many instalments is an individual taxpayer required to pay provisional taxes and when is the first instalment due?

(2 marks)**(Total 20 marks)****Question 4**

Sawa Uganda Limited is a manufacturing company in Uganda. The company made the following sales and purchases in the month of June 2006 from its different outlets:

Purchases

Branch	Non creditable purchases	Standard rated purchases
	Shs '000'	Shs '000'
Kampala	439,453	876,432
Rakai	329,076	432,098
Rukungiri	234,076	342,098
Soroti	187,065	239,076

Sales Branch	Standard rated Shs '000'	Zero rated Shs '000'
Kampala	1,543,086	456,987
Rakai	987,546	386,543
Rukungiri	765,432	254,372
Soroti	543,097	197,654

Notes:

- The above sales figures are **VAT inclusive** and purchases are **VAT exclusive**.
- All standard rated purchases are fully supported for VAT claim purposes.

The following additional information relates to the transactions of the company during the month:

- (i) The company paid garbage collection expenses to Bin It Uganda Limited of Shs 1,200,000, VAT inclusive.
- (ii) The company has had a long outstanding debt relating to Mr. Olong of Shs 3,600,000 and Mr. Duncan of Shs 5,600,000. Mr. Olong's debt has been outstanding for over two years, while Mr. Duncan's debt has been outstanding for a year. The company has written off the debts and would like to claim the VAT in this month. The amounts are VAT exclusive.
- (iii) The company hired a Quality and Risk Consultant from Sweden to carry out quality and risk assessment of the business. They paid him Shs 10,200,000 in respect of the services, which were performed over a period of two weeks and the Swede then returned to his country. The company withheld tax from his payments.
- (iv) Payments amounting to Shs 550,000 (VAT exclusive) were made out to MTN for the Talktime telephone line.
- (v) The company had the following repairs carried out in respect of its various company vehicles and trucks:
 - Shs 23,000,000 (VAT exclusive) for repairs of trucks.
 - Shs 7,300,000 (VAT exclusive) in respect of repairs for the Managing Director's Toyota Rav 4.

Required:

Compute the VAT payable / claimable by Sawa Uganda Limited for the month of May 2007. **(Show all your workings)**

(20 marks)

SECTION C

Question 5

(a) Briefly explain the following: -

- (i) Direct taxes. (2 marks)
- (ii) Indirect taxes. (2 marks)
- (iii) Regressive taxes. (2 marks)
- (iv) Progressive taxes. (2 marks)

(b) The Daily Monitor newspaper of Saturday, 9 June 2007 carried a headline “**3 New Vehicle Taxes Coming, Finance Ministry insists road licences must stay**”.

Motorists will pay tax on fuel, pay road toll fees and pay some more fees at bridges. There has been wide spread talk within government that road licences will be abolished in the next financial year. The Uganda Revenue Authority sought to replace road licence fees with a fuel levy where every litre of fuel a motorist buys, he or she pays tax to the Road Fund that is being set up to manage the roads.

Required:

- (i) State and explain four canons of a good tax system that are related to road licence fees?
(8 marks)
- (ii) Some quarters are arguing that the road licence fees should be abolished and a road fund fee be levied on fuel. Give **four** reasons why road licence fees should not be abolished

(4 marks)

(Total 20 marks)

Question 6

(a) Define the term taxable capacity and explain **four** factors that affect taxable capacity of a country.

(10 marks)

(b) List the main features of a simplified tax invoice and explain the circumstances under which such an invoice can be used?

(10 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.