

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

PRINCIPLES OF TAXATION – PAPER 10

TUESDAY, 14 JUNE 2011

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.

The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.

2. Attempt all questions in Sections **A** and **B**, and any **two** questions in Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **two** compulsory questions of 25 marks each.
5. Section **C** has **three** questions and only **two** questions are to be attempted. Each question carries 15 marks.
6. Some tax rates are provided on page 10.
7. Please, read further instructions on the answer book, before attempting any question.

SECTION A

Question 1

- (i) Which of the following statements is correct with regard to withholding tax?
 - (a) It is a tax imposed on small businesses.
 - (b) It is an advance income tax to be offset against final income tax payable.
 - (c) It is a form of value added tax charged on special items.
 - (d) It is an excise duty imposed on all excisable goods.
- (ii) Odong is an employee of Kakka Ltd where he earns a monthly salary. In the evening after work at Kakka Ltd he does part time work at Kawempe University. Which of the following statements is correct with regard to the taxation of Mr Odong's part time income?
 - (a) It is tax free.
 - (b) It is taxable at a rate of 20%.
 - (c) It is taxable at a rate of 30%.
 - (d) It is taxable at a rate of 10%.
- (iii) Which of the following processes fall under non-tax revenues?
 - (a) Motor vehicle registration, stamp duty administration, express penalty regime.
 - (b) Licensing services, PAYE registration and rental tax collection.
 - (c) Stamp duty administration, income tax filings and customs clearance.
 - (d) Collections of various government departments and VAT.
- (iv) What happens to the tax collected by the Uganda Revenue Authority?
 - (a) It is allocated by the Uganda Revenue Authority to the different budget lines presented by the members of parliament.
 - (b) It is transferred by the Uganda Revenue Authority from all the different collection centres to the consolidated fund in Bank of Uganda.
 - (c) It is directly used to pay the salaries of the URA personnel.
 - (d) It is given to the donors for allocation.
- (v) Which of the following constitutes part of the customs documentation?
 - (a) Bill of lading and income tax return.
 - (b) Airway bill and excise duty schedule.
 - (c) Original commercial invoice and packing list.
 - (d) TIN form and VAT return.

- (vi) Which of the following taxes are applicable to the importation of goods into a country?
- (a) Import duty, excise duty and corporation tax.
 - (b) VAT, withholding tax and import duty.
 - (c) Withholding tax, insurance tax and collection tax.
 - (d) Import duty, PAYE and VAT.
- (vii) Supplies for VAT purposes can be categorized as:
- (a) single and multiple.
 - (b) exempt, taxable and non-taxable.
 - (c) standard rated, zero rated and exempt.
 - (d) input, output and inward.

Use the following information to answer questions (viii) and (ix)

Cole, a Kenyan, bought items worth Shs 3.4 million VAT exclusive from Game Stores in Uganda. He was informed that he could claim back his input VAT since he was taking the items out of Uganda.

- (viii) The VAT refundable to Cole was:
- (a) Shs 612,000.
 - (b) Shs 1,020,000.
 - (c) Shs 578,000.
 - (d) Shs 204,000.
- (ix) The VAT was refundable because the place of:
- (a) supply was not known.
 - (b) consumption was not known.
 - (c) supply was Uganda.
 - (d) consumption was outside Uganda.
- (x) Koboko has a business in Kiyembe. He made a turnover of Shs 35 million for the year ended 31 December 2010. Compute the income tax payable by Koboko.
- (a) Shs 350,000.
 - (b) Shs 250,000.
 - (c) Shs 300,000.
 - (d) Shs 130,000.

- (xi) In order to qualify for the cash basis method of accounting for VAT, the taxpayers turnover should **NOT** exceed:
- (a) Shs 50 million.
 - (b) Shs 12.5 million.
 - (c) Shs 200 million.
 - (d) Shs 150 million.
- (xii) Farai won a contract to work in Uganda as an expatriate. He came in from Zimbabwe. The taxman after reading the timeframe covered by the contract informed him that he was a short-term resident. The taxman meant that Farai was to be in Uganda for a period not exceeding:
- (a) 3 years.
 - (b) 1 year.
 - (c) 5 years.
 - (d) 2 years.
- (xiii) Which of the following statements is true about VAT refunds?
- (a) They are made by URA to exempt traders.
 - (b) Taxpayers are encouraged to seek for them once they are in a refundable position of Shs 5 million and above.
 - (c) Once one pays VAT on telephone, one should claim this VAT in its entirety.
 - (d) A receipt is used to claim input VAT.
- (xiv) Mr. Kapere, an individual taxpayer earned Shs 2.8 million as rental income from his houses in Kireka for the year ended 31 December 2010. How much was his rental tax for the above year ended?
- (a) Shs 168,000.
 - (b) Shs 136,000.
 - (c) Shs 840,000.
 - (d) Shs 560,000.
- (xv) Which of the following incomes are exempt from income tax?
- (a) Local authority's income and expatriate's income.
 - (b) Local authority's income and that of a listed institution.
 - (c) A capital gain and a pension.
 - (d) A pension and a lump sum payment from an employer.

- (xvi) Under the domestic taxes department of Uganda Revenue Authority, taxpayers are segmented as:
- (a) income tax, VAT and PAYE.
 - (b) large, medium and presumptive taxpayers.
 - (c) large, medium and small taxpayers.
 - (d) income tax, PAYE and excise
- (xvii) The gross income of a person for a year of income comprises of:
- (a) business, employment and rental income.
 - (b) business, notional and dividend income.
 - (c) employment, business and property income.
 - (d) property, withholding and corporation tax income.
- (xviii) The taxes administered by the URA are paid through:
- (a) Mobile money.
 - (b) Msente.
 - (c) the banking system.
 - (d) Zap.
- (xix) On which of the following items is credit restricted in the hands of a taxable person?
- (a) Telephone, passenger motor vehicles and entertainment.
 - (b) Taxable supplies, exempt supplies and zero rated supplies.
 - (c) Telephone, cement and computers.
 - (d) Taxable supplies, rental costs and transport.
- (xx) A person dissatisfied with an objection decision from the Uganda Revenue Authority under the VAT Act, may lodge an application for further appeal with the:
- (a) Registrar of Companies.
 - (b) Commissioner General of the Uganda Revenue Authority.
 - (c) Ministry of Finance, Planning and Economic Development.
 - (d) Tax Appeals Tribunal.

SECTION B

Question 2

Khan Company Ltd manufactures cement in Kotido. The company's statement of comprehensive income for the year ended 31 December 2010 was as below:

	Shs '000'	Shs '000'
Sales	550,000	
Cost of sales	<u>(120,000)</u>	430,000
Salaries	99,000	
NSSF	9,900	
Provisions	30,000	
Royalties - limestone	20,000	
Rehabilitation of sites	2,000	
Management fees	23,000	
Other professional fees	43,000	
Rent and rates	15,000	
Stamp duty	500	
Site restoration expense	1,000	
Business licenses, Uganda National Bureau of Standards fees	200	
Vehicle licenses	6,000	
Capex - plant and machinery	50,000	
Capex - office machine and equipment	20,000	
Insurance premiums	2,500	
Marketing	5,000	
Software maintenance fees	2,000	
Transport - fuel	25,000	
Electricity	1,000	
Water	600	
Postage and courier	200	
Printing and stationery	50	
General administration expenses	5,700	
Telephones	150	
Directors' fees	7,000	
Donations	100	
Subscriptions	800	
Legal fees	45,304	
Auditors' remuneration	1,000	
Entertainment	350	
Depreciation	<u>2,000</u>	<u>418,354</u>
Net profit		<u><u>11,646</u></u>

Additional information:

1. Capex refers to capital assets.
2. Provisions include provisions for bad debts and litigation.
3. Management fees were paid to a company in Mauritius. Uganda has a Double Taxation Agreement with Mauritius which provides for a reduced rate of withholding tax of 10%.
4. Stamp duty was paid on acquisition of a piece of land and included in the legal fees are fees relating to this transaction of Shs 10 million.
5. The directors' fees had not been subjected to tax. The directors are employed elsewhere as well.
6. The company has initial allowance and wear and tear allowances of Shs 15 million and 37.5 million respectively.
7. The company had a tax loss of Shs 55.3 million at the end of December 2009.

Required:

- (a) Compute the tax payable by Khan Company Ltd. **(21 marks)**
 - (b) What is the tax due on the directors' fees? **(2 marks)**
 - (c) Compute the withholding tax due on the management fees payable to the company in Mauritius. **(2 marks)**
- (Total 25 marks)**

Question 3

- (a) Explain the term 'resident individual' as used in the Income Tax Act. **(8 marks)**
- (b) Milani Trading Company Ltd's payroll for the month of May 2011 was as follows:

Employee Name	Basic Salary USD	Allowances	
		Housing Shs '000'	Mileage Shs '000'
Tony Alaso	550	1,000	200
Chris Mudola	400	-	200
Jackie Young	370	1,000	200
Baker Antwan	450	1,000	200

The employees' basic salary was quoted in US dollars while the other allowances were received in shillings. The exchange rate of the US dollar to the shillings was Shs 2,300 for the month of May 2011.

Required:

Compute the PAYE for Milani Trading Company Ltd showing the total taxable income for each employee and the tax payable thereon.

(17 marks)**(Total 25 marks)****SECTION C****Question 4**

Below are the transactions engaged in by Conrad and Company Limited in the February 2011 tax period:

Incomes	Ushs '000'
Sale of developed property	250,000
Interest earned on bank interest	10,000
Sale of company assets	5,000
Exportation of professional services to Kenya	2,000
Expenses:	
Salaries	5,000
Commission	2,000
Telephone costs	3,000
Repair of passenger motor vehicles	500
Purchase of furniture	1,000
Payment to contractors	160,000
Provisional income tax paid	15,000
Importation of services from Kenya	1,000

The company was in an offset position of Shs 3.4 million at the end of January 2011. The company deals in the acquisition and disposal of developed property.

Required:

(a) Compute the VAT payable to Uganda Revenue Authority.

(12 marks)

(b) Explain the term 'tax point' as used in the VAT Act.

(3 marks)**(Total 15 marks)**

Question 5

Write short notes on each of the following:

- (a) **Five** factors that determine the taxable capacity of a given country. (5 marks)
 - (b) Problems of equity in taxation. (5 marks)
 - (c) **Five** cannons of a good tax system. (5 marks)
- (Total 15 marks)**

Question 6

Uganda Revenue Authority (URA) is a tax body established by the Government of Uganda through an Act of Parliament in 1991. URA developed the slogan, 'Developing Uganda Together' and initiated a Uganda Revenue Authority Taxpayers' Charter where the rights and obligations of taxpayers are explained.

Required:

- (a) List and explain the following:
 - (i) obligations of taxpayers who are willing to develop Uganda together with URA. (5 marks)
 - (ii) rights of a taxpayer under the charter. (5 marks)
 - (b) Write a letter to the Commissioner General of Uganda Revenue Authority explaining the importance of integrity as a key to national development. (5 marks)
- (Total 15 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 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 a year.	Shs 450,000 or 1% of gross turnover, whichever is the lower.