

UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

BSC ACC& FIN (AUG INTAKE)

SEMESTER TWO 2021/2022

COURSE UNIT: ELEMENTS OF TAXATION

CODE: BBAM128

DATE: 15TH JULY, 2022

TIME: 9:30 AM - 12:30 PM

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***Instructions:***

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1. *Carefully read through ALL the questions before attempting*
2. *Answer any three questions from section B.*
3. *Section A is compulsory*

**CHOOSE/TICK/CIRCLE THE CORRECT ANSWER.**

11-Which of the following is NOT an exempt institution for income tax purpose.

- (a) World Bank      (b) United Nations(UN)      (c) International charity Organization
- (d) International Telecommunication Union (e) All the above

12-Which of the following is a component to the income Tax Act section 17.

- (a) Business income
- (b) Pay as you earn (PAYE)
- (c) NSSF
- (d) None of the above

13-The parameters below are used to distinguish direct taxes from indirect taxes except

- (a) Tax base or Activity Tax
- (b) Equity
- (c) Tax incidence
- (d) The relationship between tax payers and URA
- (e) Mode of assessment

14- According to Uganda's tax structure, its composed of direct and indirect taxes. Which of the following is not a component on income and profits

- (a) Customs
- (b) With holding Tax
- (c) National lottery /casinos
- (d) Traditional Assessment.

15-According to S.10 of the income tax Act 1997, an individual is a resident individual in the year of income if that individual

- (a) Has NO permanent home in Uganda for a period
- (b) Is present in Uganda for a period of or periods amounting in aggregate to 183 days or more in any twelve month period.
- (c) Has a national Identity Card
- (d) None of the above

**SECTION A ( ANSWER TRUE/FALSE) (25 Marks: @1.54)**

- 1-The law describes a return of income under (S.93) Income Tax Act 1997 as a form prescribed by the commissioner requiring any person chargeable to tax to voluntarily declare and provide information by completing the form and deliver it to URA with in a specified time period.
- 2-A resident individual is required to file a return whose gross income consists Exclusively of employment income derived from single employer & from which full tax has been withheld under (PAYE) system.
- 3-A tax is compulsory levy and therefore a non-quid-pro-quo but not a price.
- 4-Value added tax (VAT) is a tax levied not on the total of the goods & services being sold but only on the value added.
- 5-Direct taxation is a method where taxes are paid to government by intermediaries (especially businessmen) their passed to the consumer in form of price charges on commodities.
- 6-With holding tax is a tax NOT deducted at source by one person upon effecting payment to another person (withholding agent)
- 7-A tax payer who is dissatisfied with an assessment does not need to lodge an objection to the assessment with the commissioner within 45 days after service of the notice of assessment. .
- 8-Accrual basis Tax payer derives income when it is receivable and incurs expenditure when it is payable by the Tax payer according to S.41 &42 of the income tax Act 1997.
9. According to the incidence of tax concept, if the demand for the commodity is Inelastic, the producer will be able to shift a bigger portion of tax to the consumer.
10. Tax avoidable may be defined as an illegal action or step taken by the tax payer to escape from his/her tax liability in full or in part.



**CHOOSE/TICK/CIRCLE THE CORRECT ANSWER.**

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16-Which of the following statements best describes the term "tax"

- a) A drainage from the circular flow of income.
- b) A mutual contribution described by Government to reduce private expenditure.
- c) A non quid pro-quo payment whose perceived consideration is public goods.
- d) A voluntary contribution by the public in return for government provision of public goods and services.

## SECTION B

### Question One

**Naginda** is employed by Fandex Ltd., a Kampala based company. Her appointment letter in part reads as follows:

Subsequent to your successful interview, the board of directors of Fandex Ltd are happy to appoint you Financial Accountant. You will report to the Director of Finance who will assign you duties. The following are your terms and conditions of service:

- Your monthly basic salary shall be shs. 500,000.
- You and your family will enjoy the company's medical facilities through the company's established medical insurance scheme where the company has committed an annual insurance premium of shs.1,200,000 on your behalf.
- You will be granted 30 days annual leave plus leave allowance of 10% of your annual basic salary.
- The company will meet your electricity, telephone, and water bills in addition to the monthly shs.300,000 rent for your accommodation.
- You are entitled to a company car but due to the current break down of cars, you will receive a monthly shs. 50,000 in lieu of transport until after your first anniversary when a car will be available for your use.
- The company will contribute 10% of basic salary towards National Social Security Fund (NSSF) while yourself will contribute 5% of your basic salary.
- This appointment letter is effective 1.1.2018. The terms and conditions of service shall be subject to change after you have completed your one-year probation period.

During the year, management reviewed the performance of Naginda and having been found excellent, she was extended on 1.7.2018 a shs. 10,000,000 interest- free loan to enable her furnish her house. The bank interest rate was 20% p.a.

Like other employees, Naginda was offered a bonus of shs.600,000 in December 2018.

The company paid her annual utility bills as follows:

	Shs
Electricity	300,000
Water	250,000
Telephone	180,000

Naginda was allowed to proceed for leave on 1.1.2019 having successfully completed her probation.

**Required:**

Compute Naginda's annual taxable income from employment and the tax (PAYE) payable by her for the year ended 31.12.2018.

**Question Two**

Mwanje identified a car through the internet from Toyota Motors Ltd's website, a company registered in Japan. Mwanje made an order in December 2018 for a Toyota Nissan Model 2004 invoiced at a price equivalent to Shs 22 million free on board (FOB) Nagoya Japan. Mande paid an equivalent of Shs 3.2 million for shipment from Japan to Mombasa and Shs 250,000 for insurance premium on board. Kangaroo Cargo Movers Ltd charged Mande Shs 2,000,000 million to transport the vehicle from Mombasa to Kampala.

Additional information:

1. Import duty rate for the vehicle is 25%.
  2. Environmental levy is 20% for used vehicles older than 8 years.
  3. Vehicle registration fees is Shs 1,018,000.
- Mande was given an assessment to clear taxes on importation of the vehicle by Uganda Revenue Authority. He, however, was in doubt of Uganda Revenue Authority's computations since it was his first time to make an import. You are working with Wiser Certified Public Accountants as a tax consultant.

**Required:**

Compute all the necessary taxes and advise Mande on the tax due, including registration charges to enable him register his motor vehicle.

(25 marks)

**Question Three**

- a) Discuss in detail any six canons of taxation. (12 marks)
- b) Explain some of the methods or options URA can take to collect taxes when a person refuses or fails to comply with the payment of taxes. (10 marks)
- c) Write some notes on import duty and Environmental levy (3 marks)



#### Question Four

- Define the term taxation and explain the main characteristics of a tax (12 marks).
- Explain the seven (7) main objectives of taxation. (13 marks).

#### Question Five

- Explain any five benefits of acquiring a Tax Identification Number (TIN) in Uganda (5 marks).
- Explain any five Non tax revenues that URA collects on behalf of ministries and government departments. (10 marks)
- Explain any FIVE Rights and FIVE Obligations of the taxpayer (10marks)

In computing monthly PAYE tax, the following monthly rate of tax are used -

Total Monthly Employment Income	Monthly Income Tax
Where total income does not Exceed Shs.235, 000 per month	NIL
Where total income Exceeds Shs.235, 000 but does not exceed Shs.335,000= per month	10% of the amount by which chargeable income exceeds shs. 2,820,000
Where total income exceeds Shs.335,000= but does not exceed Shs.410,000= per month	Shs.10,000 plus 20% of the amount by which income exceeds shs. 335,000
Where total income exceeds Shs.410,000= per month	Shs.25,000= plus 30% of the amount by which total monthly income exceeds shs. 410,000  Where chargeable income exceeds shs. 10,000,000 per month, an additional 10% of the amount by which chargeable income exceeds shs. 10,000,000 per month

**Residents:****Annual Rates**

Chargeable Income	Rate of Tax
Not Exceeding Sh282,000=	Nil
Exceeding Sh282,000= but not exceeding 4,020 000=	10% of the amount by which chargeable income
Exceeding Shs.4,020,000= but not exceeding Shs 4,920,000=	shs 120 000= plus 20% of the amount by which Chargeable income exceeds shs4,020,000
Exceeding Shs.4,920, 000=	Shs.300,000= plus 30% of the amount by which Chargeable income exceeds shs 4,920, 000= Where chargeable income exceeds Shs 120,000,000 per annum, an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000.

**Non-Resident PAYE Rates: (Annual Rates)**

Chargeable Income	Rate of Tax
Not exceeding Shs,4,020,000=	10%
Exceeding Shs 4,020,000= but not exceeding Shs.4,920,000	Shs.402,000 plus 20% of the amount by which chargeable Shs.4,920000= income exceeds shs.4,020,000=
Exceeding Shs.4,920,000=	Exceeding Shs 4920,000= Shs.582,000= plus 30% of the amount by which chargeable income exceeds Shs.4,920,000= Where chargeable income exceeds 120000,000 per annum, an additional 10% to be charged on the amount by which chargeable income exceeds Shs 120,000,000