

# PRINCIPLES OF TAXATION

## PAPER 10

### **OVERALL AIM**

To equip the learner with knowledge of Uganda's tax system and skills to determine different taxes and prepare tax returns.

### **LEARNING OUTCOMES**

On completion of this course, the learner should be able to:

	<b>Learning outcomes</b>	<b>K</b>	<b>C</b>	<b>A</b>	<b>An</b>	<b>S</b>	<b>E</b>
1.	Explain the objectives of taxation	✓					
2.	Discuss the factors that determine a country's taxable capacity		✓				
3.	Discuss forms of taxation in Uganda		✓				
4.	Describe the evolution of tax administration in Uganda		✓				
5.	Determine tax liability for various taxpayers			✓			
6.	Explain how the tax system applies to taxpayers in Uganda		✓				
7.	Prepare tax returns and other correspondence for taxpayers			✓			
8.	Demonstrate an understanding of tax assessment		✓				
9.	Discuss ethical challenges encountered in handling taxation issues		✓				

### **LEVEL OF ASSESSMENT**

The examination will test the learner's knowledge, comprehension and application of skills of determining various taxes and preparation of tax returns.

## **EXAMINATION STRUCTURE**

There will be a three-hour examination comprising six questions of 20 marks each, of which the candidate will be required to attempt any five.

## **DETAILED SYLLABUS**

### **A INTRODUCTION TO TAX ADMINISTRATION IN UGANDA**

1. History and evolution of tax administration in Uganda: Pre-URA2 regime to-date; URA regime; e-tax regime (registration, filing, assessment, payment, electronic fiscal devices)
2. Objectives of taxation
3. Principles/ canons of taxation
4. Tax incidence, tax impact, tax base, tax shifting
5. Characteristics of a good tax system

### **B NATURE AND SCOPE OF TAXATION**

1. Classifications of taxes
2. Direct tax and indirect taxes
3. Taxable capacity
4. Tax compliance, tax evasion and tax avoidance
5. Methods of tax accounting
6. Structure of Ugandan's tax system and its implications

### **C INCOME TAX PRINCIPLES**

1. Income tax, chargeable income, gross income, exempt income and exempt organisations
2. Residence status for individuals, companies, partnerships, trusts, retirement funds
3. Allowable and disallowable deductions; taxable and exempt income; basis of assessments; capital allowances
4. Year of income
5. Tax rates

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<sup>2</sup> URA denotes Uganda Revenue Authority

## **D TAXATION OF EMPLOYMENT INCOME**

1. Meaning of employment; employment income
2. Sources of employment income
3. Taxable and nontaxable benefits
4. Allowable and non-allowable deductions
5. Exempt employment income
6. Tax credits
7. Income from past employment
8. Determination/ computation of employment income and tax liability

## **E TAXATION OF BUSINESS INCOME**

1. Meaning of business; business income
2. Examples of business income
3. Characteristics of trade
4. Small business taxpayer: Meaning; consideration of presumptive income tax
5. Determination of taxable business income:
  - (a) Allowable and non-allowable deductions
  - (b) Capital deductions including industrial building allowance, initial allowance, wear and tear allowance, farm works allowance
6. Determination/ computation of chargeable income and tax liability

## **F TAXATION OF PROPERTY INCOME**

1. Scope
2. Determination of applicable taxes

## **G TAXATION OF RENTAL INCOME**

1. Rental income and rental tax
2. Determination/ computation of rental tax

## **H CAPITAL GAINS TAX**

1. Scope of capital gains tax
2. Business assets
3. Cost base of an asset
4. Disposal of an asset

## **I WITHHOLDING TAX**

1. Parties to withholding tax
2. Payments subject to withholding tax
3. Withholding tax as a final tax
4. Payment of withholding tax and penalties for non-compliance
5. Determination of withholding tax

## **J ADMINISTRATION OF INCOME TAX**

1. Registration and deregistration of taxpayers
2. Tax returns
3. Tax assessment
4. Due dates and payment of final tax, provisional tax and withholding tax
5. Tax decisions, objections and appeals
6. Penalties and offences
7. Collection, recovery and refund of taxes
8. Small business taxpayers: Computation of small taxpayer's liability, return of gross income, election or option for income tax

## **K VALUE ADDED TAX (VAT)**

1. Advantages and disadvantages
2. Administration of VAT:
  - (a) Operations of the VAT department
  - (b) Taxable persons
  - (c) VAT registration and deregistration
  - (d) Taxable supplies of goods/ services, zero rated supplies, exempt supplies, mixed supplies
  - (e) Place of supply
  - (f) Rates of tax and tax periods
  - (g) Returns and due dates
  - (h) Payments and due dates
3. Accounting for VAT:
  - (a) Time/ point of supply
  - (b) Valuation of supplies
  - (c) Taxable value of imported goods and services
  - (d) Cash and invoice accounting
4. Tax invoices, credit notes, debit notes
5. Amended returns; returns that are filed separately
6. Powers and duties of the Commissioner General
7. Rights and obligations of a registered taxpayer
8. Determination/ computation of input and output tax
9. VAT refunds
10. Objections and appeals; offences and penalties

## **L OTHER SOURCES OF GOVERNMENT REVENUE**

1. Fines and penalties
2. Stamp duty
3. Licenses
4. Lotteries
5. Rates
6. Compulsory saving schemes

7. Government securities
8. Local service tax
9. Fees
10. Royalties
11. Grants, borrowings, donations

## **M CUSTOMS MANAGEMENT**

1. Prohibited and restricted imports
2. Importation procedures:
  - (a) Arrival and reporting procedures for goods
  - (b) Arrival by international trains, vehicles and other means overland
  - (c) Re-export procedures
  - (d) Goods in transit
3. Unloading and removal of cargo:
  - (a) Entry examination
  - (b) Removal of goods by sale in customs warehouse
  - (c) Passenger clearance
4. Customs warehouses
  - (a) Receipt/ delivery of goods
  - (b) Disposal of warehouse goods
5. Bonded warehouses
  - (a) Receipt/ delivery of goods
  - (b) Entry and control of goods prior to bonded warehouse
  - (c) Licensing of bonded warehouse
  - (d) Goods not allowed in bonded warehouses
6. Exportation procedures:
  - (a) Customs procedures for exports
  - (b) Entry outwards of goods
  - (c) Export of bonded goods

7. Smuggling:
  - (a) Forms
  - (b) Reasons for imposing prohibitions
  - (c) Reasons for restriction of certain goods
  - (d) Problems associated with smuggling
  - (e) Ways of preventing smuggling; treatment of offenders.
8. Importation by post:
  - (a) Procedures for clearing parcels, including examination procedures for parcels and redirecting parcels
  - (b) Warehousing of imports by post
9. Customs union, including benefits, challenges, opportunities created
10. Common markets, including advantages and trade barriers
11. Customs valuation and computation of duty

## **N ETHICAL ISSUES**

1. Ethical challenges that may be encountered in carrying out tax work
2. Importance of acting with integrity and consequences of tax avoidance

## **REFERENCES**

1. ICPAU, Taxation, Kampala.
2. Government of Uganda, by Uganda Printing and Publishing Corporation:
  - (a) Income Tax Act
  - (b) Value Added Tax
  - (c) Excise Duty Act
  - (d) The East African Customs Management Act
  - (e) The Tax Procedures Code Act