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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 13th April, 2023
Time: 11.30am –1.30pm

KAC 402 - TAXATION

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

Individual income tax rates for Kenya

Monthly taxable pay (shillings)	Rates of tax % in each shilling	Annual taxable pay (shillings)	Rates of tax% In each shilling
1-10164	10%	1-121968	10%
10165-19740	15%	121969-236880	15%
19741-29316	20%	236881-351792	20%
29317-38892	25%	351793-466704	25%
Excess over 38892	30%	Excess over 466704	30%
Personal Relief	(sh. 1,162 per annum)	Personal Relief	(sh.13,944 Per annum)

Ref: KRA Tax Tables

From the olden days of the Ceaser of the Bible, Lord Keynes, Dr Adms Smith to date, tax issues are the basis of running a government. Tax systems have always been there for the same purpose. This is to ensure order and avoid confusion to any stakeholder. Therefore there are also many key terms relevant for taxation. It is also notable that people travel globally and earn income from many sources. Generally, tax is for the benefit of the people.

You are required to answer the following questions as a knowledgeable student of taxation:

- Discuss the main feature of `` tax `` (2 Marks)
- Describe what majorly makes up an `` optimal tax system`` (3 Marks)
- Discuss KRA as`` Taxing Authority`` (3 Marks)

- d) Lumbasi and Wakesho who are Tanzanians visited Kenya between 2020 and 2022 as follows:

	Days in Kenya	
Year	Lumbasi	Wakesho
2020	365	364
2021	1	1
2022	3	1
Total days	369	366
Average for the three years	123 days	122 days

State on the status of residency in Kenya for the respective periods for Mr Lumbasi and Mr Wakesho (4 Marks)

- e) As per Kenyan Tax Laws, explain the term ``Year of Income`` (2 Marks)
- f) Mumias Sugar Company Ltd provided a loan to one of his employees , Mr Joshua a loan of Kshs 500,000/= at an employer`s loan interest rate of 2% while the prescribed market interest rate was 10%. You are required to compute the low interest benefit of mr. Joshua for tax purposes (2 Marks)
- f) Outline six disallowable expenses for income tax purposes in Kenya (6 Marks)
- g) State two capital allowances in Kenya (2 Marks)
- h) Dr. Naaman Zakayo is a medical consultant who is a registered for VAT . He made the following transactions in the month of December 2022:
- Gave a gift to his local church in form of a free service valued at shs.250,000
 - Purchased a Pajero car(VAT inclusive) shs 1.5 million
 - Raised an invoice amounting to shs.1,000,000
 - Issued a credit note shs 25,000
 - Incurred input tax (20% related non-taxable supplies) shs 250,000
- You are required to prepare a VAT account for the month of December 2022. (6 Marks)

QUESTION TWO (20 MARKS)

- a) In accordance with the various canons of an optimal tax system as postulated by Adams Smith, outline eight reasons why the Kenyan Government hardly collects adequate revenue to run its activities (8 Marks)
- b) As a Value Added Tax consultant , you have been informed that Korokocho Manufacturing Company in Nairobi County acquires raw materials for Kshs 100,000 on which Value Added Tax (VAT) is levied at 16%. At each stage of the value chain, 25% conversion costs are incurred and a 30% mark-up is made.
You are required to sequentially compute and show the total Value Added Tax (VAT)payable to Kenya Revenue Authority (8 Marks)
- c) Outline components of monthly pay to an employee for purposes of Paye As You Earn(PAYE). (4 Marks)

QUESTION THREE (20 MARKS)

Abdi, Boaz and Cosmas are in partnership, trading as XYZ enterprises. They share profits and losses in the ratio 2:2:1. In the year 2022, they reported a loss of Sh 200,000 after charging the following items.

Sh.		
Depreciation		100,000
Salaries	Abdi	400,000
	Boaz	300,000
	Cosmas	200,000
Interest on capital	Abdi	100,000
	Cosmas	100,000
Commission	Boaz	200,000
Stationery		50,000
Office expenses		100,000

- Calculate the adjusted partnership profit (loss) (9 Marks)
- Clearly show the distribution of the profit(loss) among the partners (8 Marks)
- Indicate Partners' Taxable Income from Partnership (3 Marks)

QUESTION FOUR (20 MARKS)

- What are the purposes of a (Personal Identification Number) PIN in the Kenyan Tax system? (3 Marks)
- State seven Kenyan Laws that mandate Kenya Revenue Authority(KRA) to collect revenue from persons. (7 Marks)
- Mr Daniel is employed by Finteck Ltd as sales manager. He has provided the following information relating to his income and that of his wife for the year ended 31st December 2022:
 - Basic monthly pay shs 60,000
 - He was entitled to entertainment allowance of shs 5,000. He lives in a company house and pays a nominal rent of shs 8,000. The market rental value of house is shs 45,000 per month.
 - The company reimburses him of all expenses incurred on the official use of his car. During the year, he was reimbursed shs 90,000. He had purchased the car in 2015 at a cost of shs 800,000. It has an engine capacity of 1,600 cc.
 - The education fees of his children amounted to shs 200,000 was paid by the employer. This amount was charged to the company income statement.
 - He contributed shs 7,000 pm to the registered home ownership savings plan
 - The employer paid his life insurance premium amounting to shs 8000 per month
 - His wife had invested in shares of a quoted company and received a dividend of shs 12,000 (net withholding tax)
 - You are required to compute the taxable income for Mr. Daniel for the year ended 31st December 2022. (8 Marks)
 - Calculate net tax payable (2 Marks)

QUESTION FIVE (20 MARKS)

- a) Outline five disadvantages of direct taxes in Kenya (5 Marks)
- b) What is a `` tax base`` (2 Marks)
- c) Kimatuni Ltd is a company engaged in the processing, packing and distribution of coffee products. The following is the statement of comprehensive income for the year ended 31st December 2022:

	Shs.``000``
Operating profit	56,000
Gain on sale o a tractor	1,000
Investment income(Gross)	<u>8,000</u>
	<u>65,000</u>
Expenses:	
Directors remuneration	6,000
Impairment loss	500
Bad debts(General)	1,200
Audit and accountancy expenses	850
Interest Expense	650
General expenses	<u>900</u>
	<u>10,100</u>
Net Profit	<u>54,900</u>
Additional information:	
1 Analysis of investment income	Shs.``000``
Dividends from Delta Ltd	2,000
Interest from Classic Ltd	1,800
Interest from Baraza Bank Ltd	2,200
Dividends from Kampala(Uganda) Ltd	<u>2,000</u>
	<u>8,000</u>
2 Analysis of directors` remuneration	Shs.``000``
Directors` fees	2,800
Compensation for wrongful termination o contract	1,200
Contribution to pension scheme	1,900
Subscription to Starehe Golf Club	<u>100</u>
	<u>6,000</u>
3 Interest Expense comprised:	Shs.``000``
Interest on bank overdraft	200
Interest on a loan acquired to finance ordinary shares purchase	250
Interest on loan to purchase a machinery	<u>200</u>
	<u>650</u>
4 Audit and accountancy expenses comprised :	Shs.``000``
Audit fees	200
Appeal to the local committee	270
Assessment o a discontinued branch	<u>380</u>
	<u>850</u>

Required:

- i) A statement of adjusted taxable income for the year ended 31st December 2022 (9 Marks)
- ii) Tax payable if any on the income computed in (a) above (4 Marks)