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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 27th July, 2022
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 in tax% 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.13,944Per annum)

a) Mr. Juma is a registered VAT consultant. He made the following transactions in the month of March 2020:

- 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 March 2020. (6 Marks)

- b) With illustrations, explain why governments levy taxes (6 Marks)
- c) Mr Salim Juma is employed by Zintal 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 2019:
- 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)
- i) You are required to compute the taxable income for Mr. Salim Juma for the year ended 31st December 2019. (8 Marks)
- ii) Calculate net tax payable (2 Marks)
- d) Discuss the tax measures taken by the Government of Kenya to ease Covid 19 effects on tax payers in the year 2020 (4 Marks)
- f) State four Capital deductions under the second schedule of the Income Tax Act. (4 Marks)

QUESTION TWO (20 MARKS)

A, B and C are in partnership, trading as X 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	A	400,000
	B	300,000
	C	200,000
Interest on capital	A	100,000
	C	100,000
Commission	B	200,000
Stationery		50,000
Office expenses		100,000

- i) Calculate the adjusted partnership profit (loss) (10 Marks)
- ii) Clearly show the distribution of the profit(loss) among the partners (7 Marks)
- iii) Indicate Partners' Taxable Income from Partnership (3 Marks)

QUESTION THREE (20 MARKS)

- i) Elucidate the purposes of Kenya Revenue Authority (5 Marks)
- ii) Imani Ltd is a company engaged in the processing, packing and distribution of industrial sugar. The following is the statement of comprehensive income for the year ended 31st December 2021:

		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:

- a) A statement of adjusted taxable income for the year ended 31st December 2021. (10 marks)
- b) Tax payable if any on the income computed in (a) above (5 marks)

QUESTION FOUR (20 MARKS)

- a) Lord Keynes and Adams Smith are some of the prominent contributors to taxation issues overtime. Scholars have planned to hold a workshop in South Africa to deliberate over whether tax systems in Africa are optimal. Explain to one of the would be facilitators from Kenya on the main principles of An Optimal Tax System. (10 Marks)
- b) Explain the conditions in relation to an individual that makes him or her a resident according the Kenya taxation laws (6 Marks)
- c) Lumumba and Wabwire visited Kenya between 2015 and 2017 as follows:

		Days in Kenya
Year	LUMUMBA	Wabwire
2015	365	364
2016	1	1
2017	3	1
Total days	369	366
Average for the three years	123 days	122 days

You are required to comment on the status of residency in Kenya for the respective periods for Mr Lumumba and Mr Wabwire

(4 Marks)

QUESTION FIVE (20 MARKS)

- a) I am perturbed by what I hear as Withholding Tax. The government should explain why it is deducting my income promptly at source`` said an agitated tax payer.
Required: As a KRA tax consultant, elucidate the advantages of Withholding Tax in Kenya. (7 Marks)
- b) A Land lord, Mr Joshua Dan has several houses in Shimo La Tewa, Mombasa and is not well informed on tax matters. As a Tax Consultant, clearly list 10 allowable rental expenses (10 Marks)
- c) Explain the term ``taxable capacity`` (3 Marks)