



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date: 12th April, 2019
Time: 11.00am – 1.00pm

KAC 402 - TAXATION

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Highlight four measure that could be used by the customs service department of your country to prevent dumping (2 Marks)
- b) Briefly explain the conditions to be met for an asset to qualify for Shipping Investment Deduction (2 Marks)
- c) Define the term “resident person” in relation to a corporate entity. (2 Marks)
- d) Briefly explain the term “withholding tax” (3 Marks)
- e) Distinguish between “turnover tax” and “tax amnesty” (3 Marks)
- f) Mr. Matata has approached you with a view to obtaining help in determining his taxable income for 2018. He has supplied the following information:

Business Income

He runs a small garage that generate taxable income of Sh.60, 000. In 2016, he had a tax loss of Sh.40, 000 from this business.

Wife's Income

His wife was employed by Mafuta Ltd. as the Finance Director. Her salary was sh.52, 000 p.m. Additional benefits include:

Company car 1800 cc.

House at New Muthaiga (market value of rent Sh.20, 000 per month)

Staff gifts of oil products worth Sh.1000 p.m.

Capital Gains

In the course of the year, the Matata's sold one plot they owned in Nairobi for Sh.1, 200,000. This represented a gain of Sh.600, 000 which they used to take a holiday to Mombasa.

Investment Income

	Withholding Tax Sh.	Net Sh.
Dividends:		
Kenya Breweries Ltd	2,000	18,000
HFCK Ltd.	1,000	9,000
CMC Ltd.	4,000	36,000
Interest:		
Kenya Commercial Bank Savings Account	2,000	18,000
HFCK – Housing Development Bond	7,000	63,000
Post Office Savings Bank	-	20,000
15% 2010 Treasury Bonds.	1,500	13,500

Employment Income – Mr. Matata

He was employed by Utajiri Limited as the General Manager – Sales. His salary was Sh.40, 000 per month and a bonus of 2% on total sales revenue. He had a car of 2000cc which he used to visit customers otherwise his wife would pick and drop him at the place of work each day using her official car.

Utajiri Limited insures all its sales against default from customers. The cost of the insurance was Sh.10, 000 which represents 0.001 percent of sales. The company also paid sh.20, 000 to cover the life of Matata and his household items.

PAYE of Sh.130, 000 was deducted from Matata's pay but due to an oversight in the part of the Chief Accountant the tax was not paid to the Collector of Income tax. His wife's PAYE was Sh.180, 000 in the year.

Required:

- i) Compute total income chargeable to tax and show the tax payable thereon. (14 Marks)
- ii) Comment on any information not used for computing taxable income above. (2 Marks)
- iii) Is Matata to blame for failure of the company to pay his PAYE? Explain. (2 Marks)

QUESTION TWO (20 MARKS)

- a) Highlight four advantages arising from the use of progressive rate of taxation to an economy. (4 Marks)
- b) You have been invited by a group of PROCUREMENT and ACCOUNTING students to discuss the matters listed below:

Required:

In each of the cases provide explanatory notes and computations for use in your discussions with students.

CASE I

- i) A manager who is on full-time employment where he draws sh.80, 000 per month. He is housed by the employer in a rented house where rent payable to the landlord is Sh.720, 000 per annum. (3 Marks)

ii) The manager makes an annual contribution of Sh.84, 000 to a registered pension fund.

(2 Marks)

iii) The manager is provided with a motor car whose purchase cost was Sh.1, 200,000.

(2 Marks)

CASE II

A high school boy aged 15 years inherits Sh.300, 000 from his grandfather and wins Sh.100, 000 in the national lottery.

(3 Marks)

CASE III

A retired civil servant on an annual pension of Sh.180, 000 per annum signed a service contract with effect from 1 January 2018. The contract was for three years at an annual salary of Sh.440, 000. The contract was terminated by the employer on 31 December 2018. The employee was paid compensation amounting to Sh.560, 000.

(6 Marks)

QUESTION THREE (20 MARKS)

Tom, Peter and Mary trade in electrical goods and as partners in Topema Unincorporated. They share profits and losses equally. The following details in the draft accounts regarding their profit and loss status as at 31st December 2018 have been provided:

	Debits Sh.		Credits Sh.
Office expenses	408,000	Gross profit	2,600,000
General expenses	188,000	Interest earned	240,000
Salaries and wages	560,000	Discounts received	160,000
Show room expenses	234,000	Other receipts	300,000
Rents, rates and taxes	300,000	Rent income	264,000
Printing and stationery	128,000	Capital gain on shares.	200,000
Instalment tax paid	90,000		
Advertising	146,000		
Legal charges	164,000		
Interest on capital	420,000		
Depreciation	184,000		
Bad debts	136,000		
Commission to partners	160,000		
Donation for poverty	200,000		
Property taxes	24,000		
Electricity expenses	92,000		
General reserve	240,000		

The partners provided additional information as follows:

1. Closing stock had been understated by Sh.30, 000 as at 31st December 2017.
2. Tom was paid Sh.100, 000 as salary (included in salaries and wages) and PAYE Sh.31, 000 was paid on it.
3. The firm was fined Sh.30, 000 for breach of regulations. This is included in legal charges.
4. Interest on capital was Sh.160, 000 to Tom, Sh.120, 000 to Peter and sh.140, 000 to Mary.
5. Commission to partners include sh.90, 000 to Tom and the balance to Mary.
6. Capital allowances had been agreed at sh.1, 800,000 with the tax authorities.

Required:

- i) Compute the total income (loss) from the partnership business. (12 Marks)
ii) Show allocation of profit/loss among partners. (5 Marks)
iii) How is the profit/loss of each partner to be treated for tax purposes? (3 Marks)

QUESTION FOUR (20 MARKS)

- a) Explain the following canons of a good tax
- i) Equality (2 Marks)
 - ii) Economy (2 Marks)
 - iii) Productivity (2 Marks)
- b) The directors of Totale Engineering Company Limited presented the following Profit and Loss for the year ended 31 December 2018:

	Sh.
Revenues	
Sales	30,780,000
Interest on Government Securities (Gross)	<u>50,000</u>
	30,830,000
Expenses:	
Purchases	24,000,000
Wages	2,320,000
Carriage inwards	370,000
Rent	300,000
Insurance	190,000
Trade expenses	100,000
Repairs:	
Building	300,000
Machinery	56,000
Advertising	254,000
Legal charges	80,000
Audit fees	70,000
Depreciation	3,017,000
Provision for doubtful debts	104,000
Debenture interest	600,000
Interim dividend	400,000
Proposed dividend	<u>731,300</u>
	<u>32,892,300</u>
Net Loss	<u>2,062,300</u>

The following additional information is provided:

1.	Purchase returns and sales returns were Sh.500, 000 and Sh.700, 000 respectively. These were left out while preparing the trial balance.
2.	Wages include Sh.25, 000 per month paid to a “consultant” who helps the company whenever there is a problem with the VAT department. VAT of Sh.560, 000 remains unpaid and the “consultant” promises to find a way of getting it written off. Full PAYE is deducted from his salary.
3.	Trade expenses include an amount of Sh.60, 000 travel expenses to Korea for the Director as part of the National Chamber of Commerce Trade and Industry promotion tour.
4.	Repairs to machinery include small loose tools written off by Sh.10,000
5.	Bad debts which are specifically bad are Sh.74,000
6.	Capital allowances have been agreed at Sh.2, 000,000.

Required:

- i) Taxable profits for the year of income 2018. (9 Marks)
- ii) Tax payable if any for 2018. Comment on the results. (3 Marks)
- iii) The company intends to give the Director a company car in 2018. What are the tax implications? (2 Marks)

QUESTION FIVE (20 MARKS)

- a) The second schedule of the Income Tax Act (Cap 470) makes specific provisions aimed at promoting the development of mining activities. Summarize these provisions. (4 Marks)
- b) The following information is given to you from the books of Kilimo Holdings Ltd., a farming and manufacturing company as at 31 December 2016:

	Sh.
Written down values as at 31 December 2016	
Motor vehicles	655,000
Tractors	2,755,000
Plant and machinery	530,000
Furniture and fittings	225,000
Combine harvester	1,012,500
Spares for tractors	510,000
Land rovers	1,135,000
Office curtains	22,000
Computers	77,000
Fax machine	40,000
Telephones	80,000
Farm works (original cost Sh.21,000)	7,000
Industrial building (original cost net of investment deduction Sh.1,000,000)	950,000

Additions in 2018:			
Library books	Sh.	Saloon car	Sh.
Loose tools	25,000	Pick-up	1,500,000
Engine head for trailer	10,000	Farmhouse	850,000
New building	500,000		200,000
Old machinery installed in new building	750,000		
	350,000		
Disposals in 2018:			Sh.
Saloon car (cost in 2015 – Sh.150,000)			250,000
Furniture			25,000
Computers			80,000
Tractor			75,000

Required:

- i) Compute total capital allowances for the year 2018. State why you have not used any information and why you think it is not relevant. (14 Marks)
- ii) Show balances carried forward to 2018. (2 Marks)

RATES OF TAX

(Including wife's employment, self-employment and professional income rates of tax)

YEAR OF INCOME 2018

Taxable Employment Benefits - Year 2018

Annual Income [Kshs]	Monthly Income [Kshs]	Tax Rate [%]	Cumulative Tax Per Month	Cumulative Tax p.a
0 – 134,164	0 – 11,180	10%	1,118	13,416
134,164 – 260, 567	11,180 – 21,714	15%	2,698	32,376
260,567 – 386,970	21,714 – 32,248	20%	4,805	57,657
386,970 – 513,373	32,248 – 42,781	25%	7,439	89,258
513, 373 and above	42,781 and above	30%		
*Relief			1,280	15,360

Prescribed benefit rates of motor vehicles provided by employer						
					Monthly rates (Sh.)	Annual rates (Sh.)
Capital allowances:		(i)	Saloon, Hatch Backs and Estates			
Wear and tear allowances			Upto	-	1200 cc	3,600
Class I	37.5%		1201	-	1500 cc	4,200
Class II	30%		1501	-	1750 cc	5,800
Class III	25%		1751	-	2000 cc	7,200
Class IV	12.5%		2001	-	3000 cc	8,600
Industrial building allowance:			Over	-	3000 cc	14,400
Industrial buildings	2.5%	(ii)	Pick-ups, Panel Van (Unconverted)			
Hotels	10%					
Farm works allowance	100%		Upto		1750 cc	3,600
Investment deduction allowance:			Over		1750 cc	4,200
2003 -	70%	(iii)	Land Rovers/Cruisers			7,200
2004 -	100%		OR 2% of the initial capital cost of the vehicle for each month, whichever is higher.			
2005 -	100%					
Shipping investment deduction 40%						
Mining allowance:						
Year 1	40%					
Year 2 - 7	10%					

Commissioner's prescribed benefit rates

Services

	Monthly rates Sh.	Annual rates Sh.
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (Communal or from a borehole)	500	6,000
(iii) Provision of furniture (1% of cost to employer) If hired, the cost of hire should be brought to charge		
(iv) Telephone (Landline and mobile phones)	30% of bills	

Agricultural employees: Reduced rates of benefits

(i) Water	200	2,400
(ii) Electricity	900	10,800

Low interest rate employment benefit:

The benefit is the difference between the interest charged by the employer and the prescribed rate of interest.

Other benefits:

Other benefits, for example servants, security, staff meals etc are taxable at the higher of fair market value and actual cost to employer.

The current VAT rate is 16%