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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING

Date: 17th April, 2024
Time: 2.30pm –4.30pm

DAC 1507 – TAXATION

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

Individual income tax rates for Kenya

Tax Band	Monthly Income	Tax Rate
	Kshs	%
First	24, 000	10%
Next	8,333	25%
Next	467,667	30%
Next	300,000	32.5%
Above	800,000	35%

Kenya Finance Bill 2023/24 Effective 1st July 2023

As per the statistics below, Income tax, vat, excise duty, import duty are the main four sources of tax to the government of Kenya according to the Finance Bill 2023/2024.

Income Tax -	48%
Vat -	29%
Excise duty -	13%
Import Duty -	8%
Others -	2%
Total	<u>100%</u>

Required:

- Outline five specific components of ``others`` (5 Marks)
- There are various components in a Tax System which is expected to be optimal within any jurisdiction. As a consultant in taxation, expound the difference between a Tax Authority and a Tax Payer (5 Marks)
- The Benefits Principle, The Ability to Pay Principle and The Cost of Service Principle are alternative canons of taxation build up over time by economists. Illustratively explain (5 Marks)
- Mr Joshua Kasuku was employed as sales manager at the Sirwo Ltd effective 1st January 2024. His earnings details for the month of January were as follows:

Details	Kshs
Basic pay	500,000
Monthly house allowance	50,000
Transport allowance	50,000
Entertainment allowance	200,000
Communication allowance (airtime, data bundles etc)	50,000

Required: Determine the gross tax liability of Mr. Joshua Kasuku **(5 Marks)**

e) The following statistics represent budget allocations of Kenya:

Kenya Budget Allocations Finance Bill 2023/24

Education	- 36%
Energy, infrastructure, ICT	- 25%
Public Administration	- 16%
Governance, Justice, Law & Order	-12%
National Security	- <u>11%</u>
Total	<u>100%</u>

You are required to explain the importance of tax revenue in Kenya based on the above information **(5 Marks)**

f) Explain five functions of Kenya Revenue Authority **(5 Marks)**

QUESTION TWO (20 MARKS)

a) As an intern at, KRA distinguish the terms iTax and Tax to a tax payer **(4 Marks)**

b) Explain five disadvantages of direct taxes **(5 Marks)**

c) Rose Nanyokia is employed by Sirwo Ltd as sales manager. She has provided the following information relating to her income and that of her spouse for the year ended 31st December 2023:

- 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:

i) Compute the taxable income for Rose Nanyokia for the year ended 31st December 2022.

(8 Marks)

ii) Calculate net tax payable

(3 Marks)

QUESTION THREE (20 MARKS)

- a) The aim of any government is to collect taxes as optimally as possible. Explain 6 factors that affect taxable capacity in Kenya **(6 Marks)**
- b) In determining taxable profits of a corporate entity, there are expenses that are allowable and others not. You are required to distinguish between allowable and non-allowable expenses **(4 Marks)**
- c) You are given the following information on payments made by a company:

• Advertising expenses	Kshs 10,000
• Purchase of equipment	Ksh 1 000 000
• Directors personal trip expenses	Ksh 500,000
• Donations to Children`s home	Kshs 30,000
• Salaries and wages	Kshs 50,000
• Major expenses to renovate office	Kshs 200,000
• Homestead maintenance	Kshs 15,000
• Telephone expenses	Kshs 30,000
• Workmen`s compensation policy	Kshs 20,000
• Redundancy costs for the year	Kshs 40,000

Required: Clearly show allowable and disallowable expenses with their totals **(10 Marks)**

QUESTION FOUR (20 MARKS)

Akinyi(A), Beverly(B) and Cosma (C) are in partnership, trading as ABC 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.

Depreciation		Sh.
		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) **(9 Marks)**
- ii) Clearly show the distribution of the profit(loss) among the partners **(7 Marks)**
- iii) Indicate Partners' Taxable Income from Partnership **(4 Marks)**

QUESTION FIVE (20 Marks)

- a) Explain main principles of An Optimal Tax System for purposes of enhancing tax revenue collection in the country **(10 Marks)**
- b) Discuss the advantages of KRA iTax online system **(10 Marks)**