



**TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
UNIVERSITY EXAMINATIONS
MAY 2016 SERIES**

**BAC 4303: TAXATION ONE – PAPER 2
BACHELOR
OF COMMERCE/ BUSINESS ADMINISTRATION**

TIME: 2 HOURS.

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.

QUESTION ONE

- a. Argue for and against indirect taxes. **(8 marks)**
- b. Explain the theories of tax shifting **(12 marks)**
- c.
- i. Mr. Peter Munyoki has no permanent home in Kenya but was present in Kenya for the last four calendar years as shown below.
- Year 2015 – 210 days
 - Year 2014 – 180 days
 - Year 2013 - 96 days
 - Year 2012 - 90 days.
- Required
- Comment on his residence status for tax purposes for the year 2012 – 2015. **(4 marks)**
- ii. Mr. Uraya Has a permanent home in Kenya but for the whole of the year 2015 he was out of the country working in his company's Head Office in South Africa. His income for the year was as follows:
1. Salary – Shs. 720, 000 paid in South Africa
 2. Rent received from his house in Madaraka Estate (in Kenya) – sh 650,000
 3. Pension from previous Kenya employer – Shs. 400,000
 4. Royalties from a book written in Kenya – shs. 100,000
 5. interest from Kenya Commercial Bank Ltd. Shs. 18,000
 6. interest from a South Africa bank – Shs. 27,000

Required :

Without computing the tax payable, show how each of the income will be assessed in Kenya starting the applicable tax rate. **(6 marks)**

QUESTION TWO

- a. Elucidate the qualifying expenditure for investment allowance. **(10 marks)**
b. The following costs were incurred by Waiguru, a businessman in Kakamega, during the year of income 2015:

Purchase of land	Sh. 2,000,000
Factory building	sh. 1,000,000
Factory plant	sh. 1,200,000
Computers	sh. 800,000
Tractor	sh. 1,500,000
Pick up (2 tons)	sh. 1,600,000
Furniture	sh. 200,000

Required:

Compute capital allowances due to Waiguru. **(10 marks)**

QUESTION THREE

Write explanatory notes on the following:

- Amended assessment
- Qualifying interest
- Final assessment.
- Self assessment return
- Additional assessment

(20 marks)

QUESTION FOUR

- a. Discuss any FIVE principles of a good tax system (10 marks).
b. The following trial balance was obtained from the books of Mazera as at 31.07.2015:

	Sh	sh.
Sales		800,000
Capital		900,000
Creditors		100,000
Loan		600,000

Land	1,240,000	
Shop	700,000	
Salaries	100,000	
Purchases	300,000	
Opening stock	100,000	
Electricity	10,000	
Bad debts	5,000	
Insurance	8,000	
Interest on loan	7,000	
Discounts	<u>10,000</u>	<u>80,000</u>
	<u>2,480,000</u>	<u>2,480,000</u>

Closing stock Sh. 120,000

Required:

Compute Mr. Mazera's taxable profits. (10 marks)

QUESTION FIVE

- Discuss any FIVE factors that determine the taxable capacity in your country. (10 marks)
- Explain the specific objectives of fiscal policy in your country. (10 marks)