



**TECHNICAL UNIVERSITY OF MOMBASA**  
**SCHOOL OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING & FINANCE**  
**UNIVERSITY EXAMINATION FOR:**  
**BACHELOR OF COMMERCE**  
**BACHELOR OF BUSINESS ADMINISTRATION**  
**BAC4203: TAXATION I**  
**END OF SEMESTER EXAMINATION**  
**SERIES: NOVEMBER 2025**  
**TIME: 2 HOURS**  
**DATE: 2025**

**Instructions to Candidates**

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

**Do not write on the question paper.**

Tax bands	Annual rates of tax			Monthly rates of tax		
	Taxable Pay (KES)	Tax rates	Cumulative (KES)	Taxable pay (KES)	Tax rates	Cumulative ( KES )
On the first	288,000	10%	28,800	24,000	10%	2,400
On the next	100,000	25%	53,800	8,333	25%	4,483
On the next	5,612,000	30%	1,737,400	467,667	30%	144,783
On the next	3,600,000	32.5%	2,907,400	300,000	32.5%	242,283
Excess over	9,600,000	35%		800,000	35 %	
Personal relief			KES 28,800 (a)			KES 2,400 (a)
Insurance relief			KES 60,000 (b)			KES 5,000 (b)
Affordable housing relief			KES 100,000 (c)			KES 8,000 (c)
Mortgage interest relief			KES 300,000 (d)			KES 25,000 (d)
Registered Pension/Provident Schemes relief			KES 240,000 (e)			KES 20,000 (e)

**b) Commissioner's Prescribed Benefit Rates**

Service	Reduced rates of benefits
Electricity (Communal or from a generator)	KES 1,500 (KES 900 for agriculture employees)
Water (Communal or from a borehole)	KES 500 (KES 300 for agriculture employees )
Telephone (Landline and mobile phones)	30 % of the cost to employer
Provision of Furniture *	1 % of the cost to employer

**c) Motor Vehicles**

Motor vehicle type	Engine Capacity	Monthly (KES)	Annual (KES)
Saloon, Hatch Backs & Estates	Up to 1,200 cc.	3,600	43,200
	1,201 to 1,500 cc.	4,200	50,400
	1,501 to 1,750 cc.	5,800	69,600
	1,751 to 2,000 cc.	7,200	86,400
Pick-ups, Panel Van Unconverted	2,001 to 3,000 cc.	8,600	103,200
	Over 3,000 cc.	14,400	172,800
Land Rovers/Cruisers	Up to 1,750 cc.	3,600	43,200
	Over 1,750 cc.	4,200	50,400

**d) Investment allowance on Machinery**

Capital expenditure incurred on:	Rate from 1 January 2022*
Machinery used for manufacture	50% in first year of use and residual value 25 % in equal instalments
Hospital equipment	50% in first year of use and residual value 25 % in equal instalments
Ships or aircrafts	50% in first year of use and residual value 25 % in equal instalments
Motor vehicles * and heavy earth moving equipment	25 % per year in equal instalments
Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	25 % per year in equal instalments
Furniture and fittings	10 % per year in equal instalments
Telecommunications equipment	10 % per year in equal instalments
Filming equipment for local producers subject to CS approval	25 % per year in equal instalments
Machinery used to undertake exploration operations (prior to 01/01/2022, restricted to those who have a mining right)	50% in first year of use and residual value 25 % in equal instalments
Machinery used to undertake operations under a prospecting right	50% in first year of use and residual value 25 % in equal instalments
Other machinery	10 % per year in equal instalments

### **Question One (30 MARKS)**

a) Mr. Oluoch is employed as a senior manager with Siku Njema Enterprises Ltd. He holds 18% of the company's controlling interest.

The following details relate to Mr. Oluoch for the year ended 31 December 2024.

1. Basic salary Sh.82, 000 per month (PAYE Sh. 18,400 per month).
2. Benefits in kind for the year amounted to Sh.48, 000.
3. He was provided with a company car of 2000 cc whose cost was Sh.700, 000. The car was leased by the company at a monthly rent of Sh.24, 000. He also received a monthly fuel allowance of Sh.10, 000 for the car.
4. He was provided with a house by the employer. The house is rented from one of the company's directors at Sh40, 000 per month. The electricity is supplied from a generator installed by the company, the monthly expenses in relation to the generator amounted to Sh.30, 000.
5. On 1 May 2013, he moved to his own house which he had constructed through a 12% mortgage loan of Sh.2, 000,000. The loan had been obtained from National Housing Corporation on 1 October 2023.
6. He is a member of a registered pension scheme where he contributes Sh.18, 000 per month with the employer contributing an equal amount for him.
7. On 1 October 2024, he secured an education insurance policy for his child at an annual premium of Sh.72, 000 payable by the company.
8. He reported a farming income of Sh. 98,000 after presumptive tax.
9. He was out of work station for 5 days for which he was paid per Diem of Sh.4, 600 per day.

#### **Required:**

Total taxable income of Mr. Oluoch for the year ended 31 December 2024 and tax due on the taxable income calculated in above. (12 marks)

- b) Discuss five factors that influence tax shifting in an economy. (10 marks)
- c) Explain how tax policy can be used to promote the growth of small and medium size enterprises (SME's) in your country (8 marks)

### **Question Two (20 MARKS)**

- a) Evaluate four measures under Customs and Excise Act that are designed to prevent dumping in your country. (8 Marks)
- b) State and Explain THREE objectives of Taxation by the Government. (6 Marks)
- c) Differentiate between Residence and Non Residence (6 Marks)

**Question ThreeE (20 MARKS)**

- a) Explain merits and demerits of Indirect tax (4 marks)
- b) Mr. Daniel works as a manager with Kenya Batons Limited. The following are his employment details for the year ended 31 December 2023. The company pays him a salary of Sh.150000 per month. He is a member of the company's pension scheme which is registered with the Commissioner for Income Tax. He contributes five percent of his salary and company contributes ten per cent.

He has a co-operative loan which he repays at the rate of sh.10000 per month.

The company bought for him a car on loan and repays Sh.25200 per month towards the loan.

Drought levy has been agreed at Sh.2488 per month. Mr. Daniel lives in Kilifi and is married with two children. His Payroll Number is FK20070201/22. Statutory deductions are: NSSF Sh.1080 per month NHIF Sh.1700 per month.

**Required:**

Statement in respect of the month of December 2023 showing the income tax and other deductions; and net pay for Mr. Daniel (10 marks)

- c) Discuss the measures that you may suggest for the Government to enhance Tax Compliance (6 marks)

**Question Four (20 MARKS)**

- a) The Following People stayed in Kenya for the given period below;

Year	Amina	Daudi	Daniel
2020	110	240	45
2021	95	155	244
2022	140	110	199
2023	111	195	225

Prove who is a residence for the Income Year 2023. (5 Marks)

- b) Bizuu Grocers Ltd. is registered for VAT. During the month of January 2024, the supermarket had the following transactions:

**January**

1. Sold goods on credit to Mwaboza Enterprises for Sh. 500,000.
2. Purchased goods on credit from Hatimy Traders for Sh. 250,000
3. Paid for catering expenses Sh. 72,000 by cash
4. Mwaboza Enterprises returned goods valued at Sh.60, 000, and received a credit note.

5. Exported goods to Tizondo Ltd., a company based in Uganda for Sh. 250,000
6. Purchased stationery for Sh. 80,000 on credit from Salmanji Bookshop.
7. Purchased goods for Shs 750,000 from A-One Enterprises on credit
8. Imported goods from United Kingdom for Sh. 900,000 exclusive of import duty of 25% and value added tax at 16%.
9. Received a debit note of Sh. 50,000 from A-One Enterprises
10. Paid electricity bills amounting to Sh. 20,000 by cheque
11. Engaged an auditor and paid him Sh. 60,000 for auditing the Grocer's inventory.
12. Sold goods worth Sh. 1,400,000 to the Ministry of Youth and Sports
13. Bought spare parts for repair of motor vehicles for Sh. 100,000
14. Sold goods on credit to Jaambe Enterprises for Sh. 800,000
15. Made cash sales of Sh. 300,000 and banked the cash on the same day

The above transactions are stated inclusive of VAT at the rate of 16% where applicable and unless otherwise stated.

**Required:**

A value added tax (VAT) account for the month of January 2024 (10 marks)

c) Discuss five principles of an Optimal Tax system. (5 marks)