



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BAC4203: TAXATION

END OF SEMESTER EXAMINATION

SERIES: SPECIAL AUGUST 2024

TIME: 2 HOURS

DATE: 2024

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 108,000 (c)			KES 9,000 (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 200 for agriculture employees)
Telephone (Landline and mobile phones)	30 % of the cost to employer
Provision of Furniture *	1 % of the cost to employer

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

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
	2,001 to 3,000 cc.	8,600	103,200
	Over 3,000 cc.	14,400	172,800
Pick-ups, Panel Van Unconverted	Up to 1,750 cc.	3,600	43,200
	Over 1,750 cc.	4,200	50,400
Land Rovers/Cruisers		7,200	86,400

Question ONE

- a) Explain FIVE Source of County Revenue as explained in Public Finance
(6marks)
- b) Discuss FOUR significances of the concept of “Residence” in the determination of Tax liabilities for both an Individual and Corporate body.
(8 Marks)
- c) Mr. Charles has no permanent home in Kenya but was present in Kenya for the last FOUR calendar years as reflected below;
- | | |
|-----------|----------|
| Year 2023 | 201 days |
| Year 2022 | 179 days |
| Year 2021 | 108 days |
| Year 2020 | 98 days |

Required:

Comment on Mr. Charles’s residence for income tax purposes for the years 20120– 2023
(4 marks)

- d) With respect to Income Tax, State the meaning of the following;
- i) Tax Planning (2 marks)
 - ii) Regressive Tax (2 Marks)
 - iii) Incidence and Impact (2 marks)
- e) Discuss FIVE Roles of Kenya Revenue Authority (6 Marks)
- (Total marks 20)**

QUESTION TWO

- a) “Tax is an a necessary EVIL.” Discuss (6 Marks)
- b) Mr. Awiti is a senior manager with Nipe Enterprises limited. He is based at the company’s headquarters in Mombasa. Mr. Awiti has provided the following information on his employment and other income for the year ended 31 December, 2022.
- He received a basic salary of sh. 120,000 per month (PAYE sh. 32,000 per month)
 - He was provided with a fully furnished house by the employer. The cost of the furniture to the employer was sh. 150,000
3. Between 1 January and 30 April 2022, he was provided with a company car (2000 cc) which the company had purchased in August 2021 at a cost of sh. 1,500,000. From 1 May 2022, the company hired a motor vehicle for official use by Mr. Awiti at a monthly hire charge of sh. 30,000
4. He contributed sh. 28,000 per month to a registered retirement benefit scheme while the employer contributed sh. 18,000 for him to the scheme.
5. During the first week of June 2022, he was sent outside Nairobi on official duties. He was paid a daily allowance of sh. 10,000 for the five days he was away to cover the cost of accommodation and food.
6. His other income comprises:-
- Rental income of sh. 280,000 for the year before deducting the following expenditure

Sh.

Construction of a fire exit 90,000

Rent and rates paid	15,000
Repairing of houses before letting	64,000
Purchase of fire extinguishers	60,000
Purchase of two plastic water tanks	120,000

- Pension from previous employer of sh, 25,000 per month
- Dividend from a collective investment scheme of sh. 10,000. The scheme invests in shares of quoted companies

Required:

- i) Taxable income of Mr. Mr. Awiti for the year ended 31 December 2022 **(10 marks)**
ii) Tax payable on the income computed in (b) (i) above **(4marks)**

(Total marks 20)

QUESTION THREE

- a) Discuss the FOUR Major aspects of a “Good Tax System.” **(8 Marks)**
b) Discuss THREE Significances of capital gains tax (CGT) in most countries **(6 marks)**
c) As a newly appointed Tax Manager of REITZ Co., Audit firm, advise a client, Miss Sofia on the following issues: **(6 Marks)**

- i) She has submitted a self-assessment return and wishes to know three possible responses she could receive from the commissioner.
ii) Three different types of income on which turnover tax is not applicable.

(Total 20 marks)

QUESTION FOUR

- (a) With reference to Value Added Tax Act, briefly define value added tax (VAT). **(2 marks)**
(b) Explain FOUR cases for and FOUR cases against VAT in your country. **(8 marks)**

- c) SeaTraders Ltd has provided you with the following details in respect of transactions for the month of December 2023

Sh

December 4: Purchases 580,000

December 8:	Return outwards	46,400
December 12:	Catering expenses	69,600
December 15:	Repairs of motor car	23,200
December 18:	Audit fees	20,880
December 20:	Imports (cost, insurance and freight)	100,000
December 22:	Sales (local)	904,800
December 24:	Sales (export)	200,000
December 27:	Exempt sales	280,000
December 28:	Photocopying	9,280
December 30:	Telephone bill	18,560

All transactions are inclusive of VAT at 16% where applicable.

Additional information:

1. Import duty is at 20% on cost, insurance and freight (CIF) basis.
2. A debtor of goods valued at Sh.40,600 was declared bankrupt on 18 December 2022.
3. Input tax relating to goods sold as exempt sales could not be directly identified and it was found appropriate to restrict deductible input tax.

Required: Calculate;

Prepare VAT Account for the Month of December 2022

(10 marks)

(Marks 20)

QUESTION FIVE

a) Discuss four factors that influence tax shifting in an economy **(8 marks)**

b) Distinguish the following in relation to Taxation:

Direct and Indirect Tax

(4 Marks)

c) You have been appointed as a senior advisor to County Government of Mombasa in regard to revenue (Tax) collection and compliance. Advise the CECM Finance on the possible challenges of Tax Compliance. Give reasons why there is Tax Evasion?

(8 Marks)

(Marks 20)