

DEKUT BCOM/BBA

BCM 2203 INTRODUCTION TO TAXATION

DRAFT SUPPLEMENTARY/SPECIAL EXAM

NOVEMBER 2021

INSTRUCTIONS: Answer question one and any other two

QUESTION ONE

- a) Explain the meaning of the following terms as appearing in the respective tax legislation.
- i) Excise duty
 - ii) Taxable person
 - iii) Non-resident
 - iv) Zero-rated
 - v) Exempt income (5marks)
- b) Discuss five canons of an optimum tax system (10 marks)
- c) The following is the breakdown of the investment income for Mr. Mbotela for the year 2019

| | |
|---|------------------|
| | Sh. |
| Dividends from Unga Processors Ltd. | 80,000 |
| Interest on deposits in commercial banks | 400,000 |
| Interest on Treasury Bills | 200,000 |
| Interest from bonds in HFCK | 400,000 |
| Capital gain on sale of private land | 500,000 |
| Dividends from a company incorporated in Uganda | <u>170,000</u> |
| | <u>1,750,000</u> |

Required; calculate the tax liability of Mr. Mbotela for the year 2019 (5 marks)

- a) Mrs Kiogora presented the following information regarding her rental income for the year 2019.

| | |
|----------------------------|------------|
| | Sh. |
| Gross rent | 430,000 |
| Mortgage interest: | 80,000 |
| Cost of building extension | 120,000 |
| Painting expense | 100,000 |

Mrs Kiogora is employed and earns a basic salary of Ksh 79,000 per month and allowances of Ksh 40,000 per month.

Required; calculate her tax liability for the year (10 marks)

QUESTION TWO

- (a) What does the term employer include for PAYE purposes? (4 marks)
- (b) J. Selina is an accountant with Kamau Enterprises Ltd. Details of employment income for the year ended 31 December 2019 are as follows:

Salary per month – Sh.250,000 (PAYE of Sh.84,600 per month).

She contributes 5% of her monthly salary to the company's pension scheme which is registered with the Commissioner of Income Tax.

She is provided with a company house.

The financial controller has informed you that Kamau Enterprises Ltd. has leased the house which J. Selina is occupying at the monthly rent of Sh.50,000

Required:

- (i) Compute chargeable income for J. Selina in 2019. (6 marks)
- (ii) Compute J. Selina's 2019 tax liability. (6 marks)
- (iii) Would the chargeable income and the tax liability in (i) and (ii) above change if the house that J. Selina occupies was rented from her? Explain. Calculations are not required). (4 marks)

QUESTION THREE

- (a) Mr. Matata received the following investment income in 2018

| Dividends: | Net Ksh |
|---------------------------------------|----------------|
| Kenya Breweries Ltd | 180,000 |
| Safaricom Ltd. | 90,000 |
| CMC Ltd. | 360,000 |
| Tetu cooperative society | 425,000 |
| Interest: | |
| Kenya Commercial Bank Savings Account | 180,000 |
| HFCK – Housing Development Bond | 630,000 |
| Post Office Savings Bank | 200,000 |
| 15% 2010 Treasury Bonds. | 130,500 |
| Jamii trust (WHT 10%) | 360,000 |

Required; explain on taxation of the investment income (8 marks)

- (b) Write brief notes on housing benefit. (4 marks)
- (c) Discuss the different sources of public revenue (8 marks)

QUESTION FOUR

Mrs. Mary Meno is a professional dentist who practices in Nairobi. She has provided you with the details on her clinic for the year ended 31 December 2018:

| | Sh. |
|--|------------|
| Gross Professional fees received | 1,000,000 |
| Donations to a children's home | 10,000 |
| Debt collection expenses (dental patients) | 6,000 |
| Wages for dental assistant | 120,000 |
| Replacement of surgical instruments | 40,000 |
| Rent for the clinic premises | 140,000 |
| Electricity and water – clinic | 40,000 |
| Other clinic expenses | 70,000 |
| Hire of car for use in practice | 50,000 |
| Uniforms for staff | 5,000 |
| Payment of school fees for own children | 40,000 |

| | |
|--|---------|
| Contribution to provident fund – self | 60,000 |
| Payment of life insurance premium – self | 20,000 |
| Terminal benefits paid to retired receptionist | 50,000 |
| Depreciation on furniture – clinic | 12,000 |
| Rents received from sub-rentals | 14,000 |
| Rent collection expenses(sub-tenants) | 2,000 |
| Wages paid to cleaners and watchman – clinic | 50,000 |
| Furniture bought for clinic 1 January 2018 | 64,000 |
| Additional servant quarters – personal residence | 140,000 |
| Directors fees received (deductions at source SSh.3,0000 | 120,000 |

Required:

- (a) Calculate the taxable income of Mrs. Mary Meno for the year ended 31 December 2018. (12 marks)
- (b) Tax payable by Mrs. Mary Meno. (6 marks)
- (c) Indicate when the tax, if any, is payable to the Income Tax department. (2 marks)

QUESTION FIVE

- (a) With reference to the VAT Act (Cap. 476), define the following terms:
- (i) Time of supply (2 marks)
- (ii) Minimum turnover (2 marks)
- (iii) Tax invoice (2 marks)
- (iv) VAT tribunal (2 marks)
- (b) Kikomatt Supermarket Limited registered for VAT on 15 December 2018. On that date, it had goods in stock for sale valued at Sh. 96,000 and for which input tax had been paid. These goods were subsequently sold in March 2019.

During the four months ended 30 April 2019, the supermarket completed the following transactions:

| Month | Purchases Sh. | Sales Sh. |
|----------|------------------|--------------|
| January | 2,450,000 | 3,200,000 |
| February | 2,870,000 | 3,460,000 |
| March | 3,250,000 | 2,940,000 |
| April | 3,120,000 | 3,500,000 |

The purchases and sales are inclusive of VAT, at the standard rate, where applicable.

Additional information:

- 10% of the monthly purchases and sales relate to exempt goods.
- 20% of the monthly sales represent goods exported to Uganda.
- Credit notes amounting to Sh. 25,000 were issued to customers in March 2019.
- VAT on monthly electricity consumption was Sh. 2,000.

Required:

The VAT account for the four month period ended 30 April 2019. (12 marks)

DeKUT

RATES OF TAX (including wife's employment, self employment and professional income rates of tax). **Year of income 2018**

| Annual taxable pay (shillings) | Rates of tax % in each shilling |
|---|--|
| On the first 147,180 | 10% |
| On the next 139,043 | 15% |
| On the next 139,043 | 20% |
| On the next 139,043 | 25% |
| Excess over 564,709 | 30% |

Personal relief Sh.16,896 per annum)

Prescribed benefit of motor vehicles provided by employer

| | | Monthly Rates (Sh.) | Annual Rates (Sh.) |
|--|-------|--|-------------------------------|
| Capital allowances: | | | |
| Wear and tear allowances: | | | |
| Class I | 37.5% | | |
| Class II | 30% | | |
| Class III | 25% | | |
| Class IV | 12.5% | | |
| Software | 20% | | |
| Telecommunication | 20% | | |
| Industrial building allowances: | | | |
| Industrial building | 10% | Upto 1200cc | 3,600 43,200 |
| Hotels | 10% | 1201 - 1500cc | 4,200 50,400 |
| Commercial | 25% | 1501 - 1750cc | 5,800 69,600 |
| Hostels | 50% | | |
| Farm works allowances | 100% | 1751 - 2000cc | 7,200 86,400 |
| Investment deduction allowance: | | 2001 - 3000cc | 14,400 172,800 |
| 2011 - | 100% | (ii) Pick-ups, panel vans (Unconverted) | |
| Outside NBI/Mombasa/Kisumu | 150% | | |
| Shipping investment allowances | 40% | | |
| Mining allowance: | | Upto 1750cc | 3,600 43,200 |
| Year 1 | 40% | Over 1750cc | 4,200 50,400 |
| Year 2-7 | 10% | (iii) Land Rovers/Cruisers | 7,200 86,400 |
| | | OR 2% of the initial capital cost of the | |

Vehicle for each month.

Commissioner's prescribed benefit rates

| | Monthly rates Sh. | Annual rates Sh. |
|--|------------------------------|-----------------------------|
| Services | | |
| (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 (Land line and mobile) 30% of bills

Agriculture employees: reduced rates of benefits

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

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.