

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.)
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Capital allowances:

Wear and tear allowances:

Class I	37.5%
Class II	30%
Class III	25%
Class IV	12.5%
Software	20%
Telecommunication	20%

Telecommunication 20%

Industrial building allowances:

Industrial building	10%
Hotels	10%
Commercial	25%
Hostels	50%

Farm works allowances 100%

Investment deduction allowance:

2011 -	100%
Outside NBI/Mombasa/Kisumu	150%

Shipping investment allowances 40%

Mining allowance:

Year 1	40%
Year 2-7	10%

(i)	Saloons Hatch Backs and Estates			
		Upto 1200cc	3,600	43,200
		1201 - 1500cc	4,200	50,400
		1501 - 1750cc	5,800	69,600
		1751 - 2000cc	7,200	86,400
		2001 - 3000cc	14,400	172,800
(ii)	Pick-ups, panel vans (Unconverted)			
		Upto 1750cc	3,600	43,200
		Over 1750cc	4,200	50,400
(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.



DEDAN KIMATHI UNIVERSITY OF TECHNOLOGY

**SUPPLEMENTARY/SPECIAL EXAMINATIONS FOR THE YEAR 2021/2022
SECOND YEAR EXAMINATION FOR THE DEGREE IN BACHELOR OF
BUSINESS IN INFORMATION TECHNOLOGY**

BCM 2203: INTRODUCTION TO TAXATION

DATE:

TIME: 2 HOURS

Instructions:

Answer question ONE and any other TWO questions

QUESTION ONE

- a) Distinguish between tax evasion and tax avoidance. (4 marks)
- b) Discuss any four types of tax assessment (4 marks)
- c) Suggest three possible ways in which the Government may prevent loss of tax revenue from imports. (4 marks)
- d) Explain the concept of elasticity with respect to:
 - (i) Direct Tax (2 marks)
 - (ii) Indirect Tax. (2 marks)
- e) Should citizens feel obliged to pay tax? Explain (4 Marks)
- f) Mr. Bamwai has been employed as an accountant by Mwangaza Manufacturers Limited since 2018
 - i) Salary sh160,000 p.m. (PAYE 20,000 pm)
 - ii) Medical cover for self and family Sh70, 000 (Company had a registered scheme for its senior employees).
 - iii) A loan of Sh.3.6 million was granted with effect from 1 June 2018, which he used to construct his residential house at Karen. Interest was charged at 5% p.a. He entered the house on completion from 1 August 2018.
 - iv) He was provided with a house by the employer where he was paying rent of sh 5,000 pm
 - v) He contributed sh15,000 to a pension and the employer contributed an equal amount.
 - vi) The company also paid his bills as follows: p.a

	Sh.
Grocery bill	30,000
Telephone	24,000
Electricity	36,000
School fees	200,000

vii) At the end of the year he was accorded for free 2% of the company's shares valued at sh160, 000.

Required:

Calculate the taxable income and tax liability for Mr. Bamwai for the year 2021
(10 marks)

QUESTION TWO

- a) Explain the role and functions of a Value Added Tax tribunal. (4 marks)
- b) Explain any THREE effects of Value Added Tax on business. (6 marks)
- c) The following purchases and sales were made by Kamau Limited (VAT No.00012Y) during the first two weeks of January 2018. Prices shown are inclusive of VAT at the standard rate of 16 percent.

		PURCHASES		SALES		
		Unit	Price Unit Sh.	per Unit	Price Unit Sh.	per
January	1	100	1,400		10	1,800
	2				20	1,800
	5				50	1,800
	7	75	1,600			
	10				20	1,800
	12	-			50	2,000
		<u>175</u>			<u>150</u>	

There were no opening stocks at the beginning of the month.

The physical inventory confirmed that there were 25 units in stock as at 31 January 2018.

Required:

- i) The VAT account for Kamau Limited (8 marks)
- ii) When and how much is VAT payable/refundable by Kamau Ltd (2 Marks)

QUESTION THREE

Kiptoo and Mwaura have been in the operating a bookshop for many years sharing profits and losses in the ratio of 2:3 respectively. Their profit and loss for the year ended 31 Dec. 2018 showed the following:

	Shs.	Shs.
Gross profit		273,900
Less: expenses		
Rent, rate and heating	38,000	
Sundry expenses	14,000	
Staff salaries	50,100	
Bank interests	1,000	
Repairs and renewals	5,600	
Legal and professional fees	5,000	

Stationary	1,100	
Traveling expenses	26,000	
Partner's salary	17,000	
Depreciation		
Cars	600	
Equipment	100	
Interest on capital		
John	600	
Jane	400	
Donation to local youth club	<u>3,500</u>	<u>163,000</u>
Net profit		<u>110,900</u>

Additional information:

i.	Sundry expenses	sh
	Staff Christmas party	4,000
	Trade journals	500
	Training for staff	4,300
	Subscription to Kenya national chamber of commerce	200
	General allowable expenses	<u>5,000</u>
		<u>14,000</u>
ii.	Repairs include sh 3,000 for partitions to the office	
iii.	Legal and professional fees	
	Legal fees- debt collection	1,600
	Alteration to partnership deed	400
	Professional fees- accountancy	<u>3,000</u>
		<u>5,000</u>
iv.	Traveling expenses	
	Staff traveling	9,500
	Car expenses	<u>16,500</u>
		<u>26,000</u>
	It has been agreed with the commissioner that 1/3 of the car expenses is for private use of the partners	
v.	Partners salary	
	John	8,000
	Jane	<u>9,000</u>
		<u>17,000</u>
vi.	Capital allowances were agreed as follows	
	Car before taking into account the private use	450
	Equipment	80

Required:

- Compute the adjusted partnership profit for income tax purposes (12 Marks)
- Show the allocation of the profits among the partners and the tax payable by each partner. (6 Marks)
- What assumption (s) have you made in 'b' above (2 Marks)

QUESTION FOUR

- a) Explain the meaning of the following terms and state their effects on taxable income.
- i) Trading receipts. (2 marks)
 - ii) Balancing charge. (2 marks)
 - iii) Trading loss (2 marks)
 - iv) Balancing deduction. (2 marks)
- b) The Mau Forest Tree Fellers Ltd. commenced business on 1 January 2018. The following fixed assets of the company which it acquired prior to the commencement of the business were stated at their written down values as at 1 January 2018:

	Sh.
Milling machine	3,440,000
Fork lifts	1,720,000
Tractors	7,800,000
Lorries – 200 tones	2,400,000
Packaging machine	3,500,000
Crushing machine	3,680,000
Conveyor and sorter	6,240,000
Two pick-ups	1,800,000
One lorry	2,400,000
Saloon cars	780,000
Furniture and fittings	544,000
Land	20,000,000

The building in which the processing was to be carried out was constructed in 2010 but was first used for manufacture in 2018.

The building cost sh.13,600,000 in 2010 and the estimated value in January 2018 was sh.11,400,000.

In 2018 the company bought the following assets:

	Sh.
Toyota-saloon car	2,700,000
Lorry	5,200,000
Tractor	3,540,000
Furniture	280,000
Land	6,240,000
Pick-up	4,000,000
Computers	50,000
Computer scanner	400,000
Printers	200,000
Milling machine	5,550,000

The following assets were also disposed of in 2018:

Sh.

Forklift	480,000
Saloon car	920,000
Printer	50,000
Land	2,240,000
Packaging machine	4,500,000

A tractor was damaged through a road accident during the year and the insurance company paid Sh.3,200,000 as compensation.

Required:

Capital allowances for the company for 2018.

(12 marks)

QUESTION FIVE

- Explain the term residence as it applies to companies (4 marks)
- With reference to Income Tax Act, explain the tax treatment of dividends income received by a company (4 marks)
- The directors of Jedito Limited have presented you with the following profit and loss account for the year ended 31 December 2018:

	Sh	Sh
Gross profit		29,826,000
Less: operating expenses		
Salaries and wages	8,000,000	
Reserve for contingencies	1,580,000	
Hire purchase interest	413,000	
Laundry expenses	434,000	
Legal and professional fees	400,000	
Depreciation	2,450,000	
Dividends paid	1,600,000	
Repairs and maintenance	872,000	
Insurance premiums	320,000	
VAT paid	168,000	
Bad and doubtful debts	228,000	
Advertising	1,200,000	
Bank charges	170,000	
Water and electricity	1,200,000	
Rent and rates	3,020,000	
Subscriptions and donations	371,000	
Telephone and postage	1,204,000	
Sundry expenses	600,000	
Motor vehicle running expenses	2,300,000	(26,530,000)
Net profit		<u>3,296,000</u>

Additional information

- Salaries and wages include Sh 66,000 paid to the Income Tax Department as penalties and interest on delayed submission of PAYE deductions

2. Hire purchase interest relates to loans obtained to purchase a delivery van Sh 146,000 and the Chairman's personal car Sh 267,000
3. The company directors and senior managers are given free laundry services at the company's laundry. The cost of cleaning their personal clothing for the year ended 31 December 2018 was Sh 133,000
4. Legal and professional expenses included Sh 146,000 incurred while defending the Managing Director in a private suit against him.
5. Repairs and maintenance include the cost of acquiring a second hand laundry machine for Sh 167,000
6. Bad and doubtful debts are made up of 10% general provision against the debtors balance as at 31 December 2018 and a full provision of Sh 93,000 owed by Orient Finance Ltd. that has been placed under receivership. The debtors balance as at 31 December 2018 was Sh 1,350,000
7. Subscriptions and donations comprise:
 - i. Subscription to Rhino Golf Club for the Managing Director 260,000,
 - ii. Subscription to the Chamber of Manufacturing and Commerce 63,500
 - iii. Donation of books to the Watoto School for the Handicapped 35,000
 - iv. Annual subscription for Finance Manager paid to the Institute of Certified Public Accountants of Kenya 12,500
8. Sundry expenses include 263,000 paid to Health Africa for the Managing Director's medical cover. He is the only one in the company covered by the medical care.
9. Wear and tear allowance for the year ended 31 December 2018 have been agreed at Sh 4,320,000

Required:

- (i) Jedito Ltd's adjusted profit (or loss) for tax purposes for the year ended 31 December 2018 (14 marks)
- (ii) Corporation tax (if any) payable by Jedito Ltd. for the year ended 31 December 2018 (3 marks)