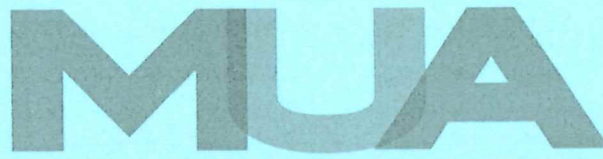


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 304 : TAXATION
DATE: 19TH JULY 2017

DURATION: 2 HOURS
MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

EXTRACT FROM EMPLOYER'S GUIDE TO PAYE 2009 (SOURCED FROM KRA WEBSITE)

The 2008 Finance Act contains a few amendments to the Income Tax Act (Cap 470) which affect the operation of PAYE.

1. CAR BENEFIT

Where an employee has a restricted use of a motor vehicle provided to him by his employer, the Commissioner shall determine a lower rate of benefit depending on the usage of the motor vehicle. The value of motor vehicle benefit, like housing benefit and unlike all other benefits will no longer be determined on the basis of cost to employer or the fair market value.

2. HOUSING BENEFIT

The housing benefit for a director and a whole time service director shall be the higher of 15% of total income (or employment income, in case of whole time service director), the fair market rental value and the actual rent paid by the employer.

3. FREE OR SUBSIDIZED EDUCATION

Free or subsidized education granted to "low income employees" dependents by employers who are educational institutions is a tax exempt benefit in the employees' hands. The employer is also not taxable on the fees forgone.

4. MEALS TO LOW INCOME EMPLOYEES

Meals served to low income employees in a canteen or cafeteria operated or established by the employer are a tax exempt benefit. The meals may be outsourced by the employer provided that the canteen or cafeteria is established by the employer. A "low income employee" is an employee whose emoluments do not attract tax at the rate of more than 20%.

5. EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs)

For clarification purposes, benefits arising from ESOPs not registered by the Commissioner are taxable.

The effective date of all these changes is 13th June, 2009.

COMMISSIONER'S PRESCRIBED BENEFIT RATES 2009

| A | SERVICES | Monthly Rates (Kshs) | Annual Rates. (Kshs. |
|----------|--|--------------------------------|--------------------------------|
| (i) | Electricity - (communal or from a | 1500 | 18000 |
| (ii) | Water - (communal or from a borehole) | 500 | 6000 |
| (iii) | Provision of furniture (1% of cost to If hired the cost of hire should be brought | | |
| (iv) | Telephone (Landline and Mobile Phones) | 30% of bills | |
| B | AGRICULTURAL EMPLOYEES: | REDUCED RATES | OF |
| (i) | Water | 200 | 240 |
| (ii) | Electricity | 900 | 10800 |

Note: The above rates (A + B) are effective from 12th June 2003.

C MOTOR CARS

| | | | |
|-------|---------------------------------|-------|--------|
| (i) | Saloon Hatch Backs and Estates | | |
| | Up to 1200 cc. | 3600 | 43200 |
| | 1201 to 1500 cc. | 4200 | 50400 |
| | 1501 to 1750 cc. | 5800 | 69600 |
| | 1751 to 2000 cc. | 7200 | 86400 |
| | 2001 to 3000 cc. | 8600 | 103200 |
| | Over 3000 cc. | 14400 | 172800 |
| (ii) | Pick-ups, Panel Van Unconverted | | |
| | Up to 1750cc. | 3600 | 43200 |
| | Over 1750cc. | 4200 | 50400 |
| (iii) | Land Rovers/Cruisers | 7200 | 86400 |

Note: 1 Range Rovers and vehicles of similar nature are classified as saloons.

2 **Car Benefit**

Where an employee is provided with a motor vehicle by employer, the benefit should be taken as the higher of:

- Fixed monthly rate determined by the Commissioner as shown above and
- The prescribed rate of benefits. In this case, the prescribed rate of benefit means:- The proportion of the initial capital cost of the vehicle for each month as follows:-

| | |
|------------------|-----------|
| 1996..... | 1% p.m. |
| 1997..... | 1.5% p.m. |
| 1998 et seq..... | 2% p.m. |

Where such vehicle is hired or leased from a third party, the cost of hiring or leasing the vehicle should be taken.

TAX TABLE FOR MONTHLY AND ANNUAL INCOME: YEAR 2009

| MONTHLY TAXABLE INCOME (INCOME BRACKETS) | ANNUAL TAXABLE INCOME (INCOME BRACKETS) | TAX RATE |
|---|---|----------|
| Under Kshs. 10,165 | Under Kshs. 121,969 | 10% |
| From Kshs. 10,165 but under Kshs. 19,741 | From Kshs. 121,969 but under Kshs. 236,881 | 15% |
| From Kshs. 19,741 but under Kshs. 29,317 | From Kshs. 236,881 but under Kshs. 351,793 | 20% |
| From Kshs. 29,317 but under Kshs. 38,893 | From Kshs. 351,793 but under Kshs. 466,705 | 25% |
| From Kshs. 38,893 and above | From Kshs. 466,705 and above | 30% |

Required:

Use the above sets of information together with the knowledge of Taxation you have acquired to answer the following questions:

Mr. Makurius is an employee of Tulsors Petroleum Company. During the year 2016, his emoluments and employment benefits were as follows:

- i) Basic monthly salary of sh. 32,000 for the first half of the year which was increased by 10% over the second half of the year.
- ii) Monthly house allowance of 20% of basic salary.
- iii) Commuter allowance of sh. 2,000 per month.
- iv) The employer has provided a medical insurance cover which entitles every employee and his/her dependants to free healthcare services up to the tune of sh. 5 million per annum.
- v) Mr. Makurius lives in a house that is rented by the employer at a monthly rental of sh. 15,000. Mr. Makurius is deducted by his employer a monthly rent of sh. 4,000.
- vi) The employer pays for Mr. Makurius Electricity and water whose annual total bills amounted to sh. 16,000 and sh. 8,000 respectively.

- vii) The employer advanced a loan to Mr. Makurius of sh. 1,200,000 on 1st January 2016 at an interest rate of 5% per annum. Assume that the commissioner's prescribed rate was 8% for the entire year.
- viii) The company deducts sh. 200 every month for NSSF and contributes a similar amount. In addition, the company operates a registered pension scheme for all its employees whereby each employee is deducted 10% of basic salary, with the employer contributing a similar amount to the scheme.
- ix) Mr. Makurius has a 12 year education policy with Longevity Insurance Company. Mr. Makurius has instructed his employer to be deducting from his monthly salary, and remitting a monthly premium to the insurance company of sh. 4,000.
- x) Mrs. Makurius operates a grocery business on part-time basis which she co-owns with her husband. Profit from the business in the year 2016 amounted to sh. 110,000. Mrs. Makurius is also a legal practitioner and her total income from the practice amounted to sh. 380,000 in the year 2016.
- xi) Mr. Makurius runs a partnership business with his friends. His share of profits for the year ended 31st December 2016 was sh. 160,000.
- xii) Mr. Makurius holds shares with three companies listed at the NSE. In the year 2016, he received dividend cheques amounting to sh. 12,000.

Required:

- a) Evaluate Mr. Makurius taxable employment income for the year 2016. (8 Marks)
- b) Compute the tax payable by Mr. Makurius on his employment income for the year 2016. (5 Marks)
- c) Assess Mr. Makurius total taxable income for the year 2016. (3 Marks)
- d) Compute the tax payable by Mr. Makurius on his total taxable income for the year 2016. (3 Marks)
- e) Comment on any items that you have not used in tax computations for Mr. Makurius. (3 Marks)
- f) Advise Mr. Makurius on three (3) specific lawful means he could use to maximize on reducing his tax burden. (3 Marks)

QUESTION TWO

The following transactions relate to Bidii Enterprises, a firm that is registered with KRA for VAT purposes, during the dates shown below in the month of November 2016:

| | |
|----|--|
| 1 | Purchased supplies (zero rated) sh. 20,000 |
| 2 | Purchased goods from a VAT non-registerd business sh. 12,000 |
| 4 | Sold goods sh. 30,000 |
| 6 | Bought goods sh. 24,000 |
| 7 | Sold goods sh. 22,000 |
| 10 | Bought goods sh. 35,000 |
| 12 | Sold goods sh. 42,000 |
| 15 | Bought goods sh. 48,000 |
| 18 | Sold goods sh. 52,000 |
| 20 | Sold goods sh. 46,000 |
| 25 | Sold goods sh. 26,000 |
| 27 | Purchased supplies sh. 18,000 |
| 30 | Sold goods sh. 38,000 |

Additional information:

- i) All purchases are exclusive of VAT except where otherwise stated.
- ii) All sales are inclusive of VAT except where otherwise stated.

Required:

- a) Design a purchases statement for the month clearly showing columns of amount before VAT, VAT amount, and total amount inclusive of VAT.
(4 Marks)
- b) Prepare a sales statement for the month clearly showing columns of amount before VAT, VAT amount, and total amount inclusive of VAT.
(4 Marks)
- c) Compute input tax and output tax and determine the amount of VAT payable by, or refundable to Bidii Enterprises during the month.
(3 Marks)
- d) Clearly explain and differentiate the terms 'Vatable supplies', 'Zero-rated supplies', 'Exempt supplies' and 'ETR'.
(4 Marks)

QUESTION THREE

- a) State and explain any five (5) canons of an optimal tax system. **(10 Marks)**
- b) Distinguish between the terms 'resident' and 'non-resident' companies in terms of their tax obligations. **(5 Marks)**

QUESTION FOUR

Maono Mapya Manufacturers Ltd. is a company based in Nairobi Industrial Area which deals with metallic fabrications. On 1st January 2016, the written down values (WDV) of its various machinery for wear and tear purposes were as follows: Class I - sh. 350,000; Class II - Nil; Class III - sh. 540,000; and Class IV - sh. 720,000. During the year ended 31st December 2016, the following transactions took place:

- i) Importation of lorry sh. 2,000,000 from Germany. Custom duty paid for the lorry was 20%.
- ii) Traded in an old pick-up for a new one. The trade-in value was sh. 150,000 and an additional sh. 300,000 was paid in full settlement of the deal.
- iii) Bought computers sh. 200,000; second-hand tractor sh. 560,000; old trailer detached from, and occasionally pulled by the tractor sh. 120,000; fixtures and fittings sh. 145,000; and photocopier sh. 160,000.
- iv) Purchased factory plant and machinery sh. 890,000. Installation costs on the factory plant and machinery amounted to sh. 160,000.
- v) Disposed motor cycle whose WDV was sh. 40,000 for sh. 50,000.
- vi) Sold a deep freezer whose WDV was sh. 30,000 for sh. 25,000.

Required:

- a) Design an appropriate format for the above information and compute the wear and tear allowance for each class for the year 2016, as well as the WDV for each class at the end of the year. **(10 Marks)**
- b) Describe the various types of capital deductions/allowances and briefly assess their importance. **(5 Marks)**

QUESTION FIVE

The following information was extracted from the books of Maanzoni Manufacturing Company Ltd. for the year ended 31st December 2015:

Sales sh. 5,600,000

Cost of goods sold sh. 1,250,000

Salaries and wages sh. 840,000

Advertising expenses sh. 280,000

Bad debts written off sh. 32,000

General provision for bad and doubtful debts sh. 24,000

Annual subscription to Kenya Manufacturers Association sh. 50,000

Donations to Charitable organization sh. 200,000

Bad debt recovered after it had been written off sh. 12,000

Audit fees sh. 180,000

Depreciation sh. 45,000

Legal costs for issue of shares for public subscription sh. 200,000

Extension of premises sh. 300,000

NSSF contributions for employees by the company sh. 142,000

Taxable loss brought forward from previous years sh. 78,000

Required:

- a) Assess the taxable profit for Maanzoni Manufacturing Company Ltd. for the year 2015. (6 Marks)
- b) Calculate the total tax payable by Maanzoni Manufacturing Company Ltd. in the year 2015. (2 Marks)
- c) Comment on any items you may have left out in the computations of taxable profit for Maanzoni Manufacturing Company Ltd. (3 Marks)
- d) Outline four (4) sources of public revenue. (4 Marks)

QUESTION SIX

- a) Discuss six roles of Kenya Revenue Authority in the administration of income tax in Kenya. **(9 Marks)**
- b) Briefly explain the change in the taxation of rental income that was enshrined in the finance Act of 2015 and that took effect from 2016 year of income. **(2 Marks)**
- c) Clearly outline four reasons why excise duty is levied in Kenya. **(4 Marks)**

