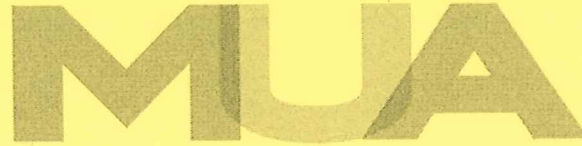


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 304: TAXATION

DATE: 7TH DECEMBER 2022

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

- a) Distinguish between sole proprietorship and limited liability forms of business in relation to:
- i) Income Tax (2 Marks)
 - ii) PAYE for the owners of business (2 Marks)
 - iii) Service charge for the owners and the business. (2 Marks)
- b) A Nairobi businessman is contemplating investing in a business worth Sh.5,000,000 but has not made up his mind on which form of ownership he will assume. The business is expected to produce a profit of Sh.2,000,000 before tax and his drawings/salary averaging 10% on investment. Compute the tax liability if he is to operate as a sole proprietor and as a company. (15 Marks)
- c) Outline four circumstances under which duty paid on imported goods may be refunded. (4 Marks)

QUESTION TWO

Mr. Kiplimo is finalizing his tax affairs for the year of income 2015. He and his wife had the following income and transactions for 2015:

1. Mr. Kiplimo's income:

He has paid Sh.52,000 Value Added Tax on all his purchases for the year

He was an employee of Bomet Tea Limited and was paid an annual salary of Sh.600,000 (P.A.Y.E deducted was Sh.142,500).

Pension contribution to a registered scheme were Sh.100,000 by his employer and Sh.50,000 from his pay.

Dividend received was Sh.40,000 gross. (Withholding tax was deducted as appropriate).

Gross interest received was sh.18,000 of which Sh.10,000 was from Post Office Savings Bank.

2. Mr. Kiplimo's expenses for the year:

Personal accident insurance premium of Sh.9,000 paid to American Life Insurance Company

Life insurance premium on self life of Sh.15,000 paid to world Life Union Insurance of the United Kingdom.

Alimony to his first wife of Sh.6,000 per month

Mortgage interest of Sh.62,000 on his house where he stays with his wife and children. The mortgage is from Savings and Loan Kenya Limited.

3. Mrs. Kiplimo's income:

She was an employee of Macadamia Limited who paid her a salary of Sh.25,000 per month. P.A.Y.E of Sh.7,800 was deducted per month from her salary.

She made a profit of Sh.900,000 from the sale of a plot in Nairobi inherited from her father.

She used the money to start a private clinic. She is a registered clinical officer. In the year of income 2015, she made an assessed loss of Sh.240,000.

Required:

- i) Compute the income chargeable to tax of Mr. Kiplimo for the year 2015. **(8 Marks)**
- ii) Calculate the tax payable (repayable) by him for 2015. **(4 Marks)**
- iii) Identify any information you have not used in calculations in (i) and (ii) above. **(3 Marks)**

QUESTION THREE

- a) List three items which may be included in the qualifying expenditure for the purposes of investment deductions. **(3 Marks)**
- b) Kalamuka Maize Millers Limited purchased a building on 1 January 2015, for Sh.4,000,000. It was brought into use on the same day. The sellers construction cost comprised:

	Sh.
Land	200,000
Architects fees	40,000
Leveling land	60,000
Construction (including offices sh.160,000)	<u>1,700,000</u>
	<u>2,000,000</u>

B.B. Ltd. purchased the whole of the Kalamuka Maize Millers Ltd. on 31 December 2015 and continued with the same business of milling maize. The following amounts were paid for assets purchased.

	Sh.
Goodwill	10,000
Land and buildings	4,000,000
Milling machines	1,800,000
Tractor and lorry	1,600,000
Motor vehicle	1,200,000

	Sh.
Extension to building	800,000
Security wall	100,000
Additional boiler	1,000,000
New sorter and conveyor - fixed to fabric of building	1,200,000
Fixtures and fittings.	600,000

B.B Ltd. sold some surplus assets as follows:

Date	Particulars	Sh.
1-7-2006	Milling machines	200,000
1-9-2006	Damaged fixtures and fittings	8,000
1-9-2006	Lorry	180,000

B.B. Ltd's financial year ended on 30 September 2016.

Required:

The capital deductions claimable for the year ended 31 December 2016. (12 Marks)

QUESTION FOUR

- (a) Explain any five deductions that may be available against gains or profits from employment. (5 Marks)
- (b) Mr. Mali Mingi is a hardware merchant. He purchases cement from Athi Cement Ltd. which he then sells to his customers. Both Mali Mingi and Athi Cement Ltd. require a profit margin of 20% on cost. Cement attracts 18% VAT. Determine the price that mali mingi should sell a bag of cement inclusive of VAT if the cost of production by Athi Cement Ltd. is Sh.220 per bag of 50Kg. (7 Marks)
- (c) Calculate the VAT payable to the Commissioner of income tax by Mali Mingi per 50kg bag of cement (3 Marks)

QUESTION FIVE

- a) Discuss four benefits of VAT in the context of a good tax system (8 Marks)
- b) The recent debate relating to importation of goods through the port of Mombasa has had one of its issues the amount of tax assessed. Specify three ways in which the Government may lose tax revenue on imports. (3 Marks)

- c) Explore two possible ways in which the Government may prevent loss of tax revenue from imports. **(4 Marks)**

QUESTION SIX

- a) Using two examples in each case, differentiate between allowable and non-allowable expenses under the Income Tax Act. **(5 Marks)**
- b) Discuss five objectives of raising taxes and explain how they are achieved by the government. **(10 Marks)**

RATES OF TAX (Including wife's employment, self employment and professional income rates of tax).
YEAR OF INCOME 2015.

Taxable Employment Benefits - Year 2017

Monthly taxable pay (shillings)		Annual taxable pay (shillings)		Rates of tax % in each shilling
1	- 11,180	1	- 134,164	10%
11,181	- 21,714	134,165	- 260,567	15%
21,715	- 32,248	260,568	- 386,970	20%
32,249	- 42,781	386,970	- 513,373	25%
Excess over	- 42,781	Excess over	- 513,373	30%

Personal relief Shs. 1,280 per month (Shs. 15,360 per annum)

Prescribed benefit rates of motor vehicles provided by employer

		Monthly rates (Sh.)	Annual rates (Sh.)
Capital allowances:	(i) Saloon, Hatch Backs and Estates		
Wear and tear allowances	Upto - 1200 cc	3,600	43,200
Class I 37.5%	1201 - 1500 cc	4,200	50,400
Class II 30%	1501 - 1750 cc	5,800	69,600
Class III 25%	1751 - 2000 cc	7,200	86,400
Class IV 12.5%	2001 - 3000 cc	8,600	103,200
Industrial building allowance:	Over - 3000 cc	14,400	172,800
Industrial buildings 10%	(ii) Pick-ups, Panel Van (Unconverted)		
Hotels 10%	Upto 1750 cc	3,600	43,200
Farm works allowance 33.3%	Over 1750 cc	4,200	50,400
Investment deduction allowance:	(iii) Land Rovers/Cruisers	7,200	86,400
2003 - 70%	OR 2% of the initial capital cost of the vehicle for each month, whichever is higher.		
2004 - 100%			
2005 - 100%			
Shipping investment deduction 40%			
Mining allowance:			
Year 1 40%			
Year 2 - 7 10%			

Commissioner's prescribed benefit rates

Services	Monthly rates Sh.	Annual rates Sh.
(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 (Landline and mobile phones)	30% of bills	

Agricultural employees: Reduced rates of benefits

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

Low interest rate employment benefit:

The benefit is the difference between the interest charged by the employer and the prescribed rate of interest.

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.

The current VAT rate is 16%