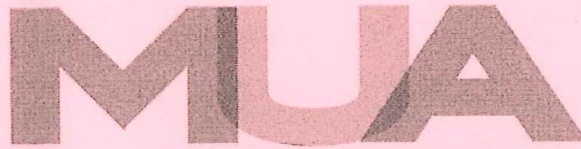


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 304 : TAXATION

DATE: 3RD APRIL 2025

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

Mr. Hesabu

Mr. Hesabu has recently opened all Income Tax Consultancy office in Nairobi. He has been approached by his clients on the following matters. As Mr. Hesabu's tax manager, write a memorandum on each of the points for his consideration.

(i) M/S Watu, Wote, Wao are three partners operating WWW Enterprises. In 2015, they made profits of Sh.180,000. They share profits in the ratio 3:3:4. Wao had overdrawn on his account and was charged Sh.30,000 interest. Watu and Wote received interest of Sh.25,000 each from the partnership. The interest account is included in the above profits. Mr. Wote wishes to know how much tax he would pay. He has no other source of income. **(10 Marks)**

(ii) Live Well Foundation is a Non-Governmental Organisation formed for the purposes of addressing people's spiritual needs. It will derive its income from donations of all kinds, charitable walks and sale of religious literature. They wish to know if they will be required to pay any tax. **(4 Marks)**

(iii) Mrs. Mjini is a happily married housewife residing in Kilimani Estate, Nairobi. Since her compound is big she engages in backyard gardening during her spare time and she derives a lot of satisfaction from it. She also maintains very accurate records of the performance of her garden. Details for the three years ending 31 December 2015 are as follows:

Year ended 31 December 2013 Profit	Sh.20,000
Year ended 31 December 2014 Loss	Sh.40,000
Year ended 31 December 2015 Profit	Sh.50,000

Garden produce consumed by Mrs., Mjini's family during the year of income 2015 was sh.60,000 (not included in the above results). She wishes to know how much tax she should pay from this activity in 2015. **(8 Marks)**

(iv) New Plastic Limited, manufacturers of plastic products wishes to sponsor research into plants that may produce plastics related materials. They have set

aside Sh.20,000,000 which will be awarded to the Department of Biochemistry, Ubona Science University. They wish to know if there is any tax advantage which may arise. **(3 Marks)**

QUESTION TWO

The following purchases and sales were made by Pepo Limited (VAT No. 100012Y) during the first two weeks of January 2016. Prices shown are inclusive of VAT at the standard rate of 16 percent.

		PURCHASES		SALES	
		Unit	Price per Unit Sh.	Unit	Price per Unit Sh.
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 2016.

Required:

- (i) The VAT account for Pepo Limited. **(8 Marks)**
- (ii) What are the requirements with respect to any sales made by Pepo Limited? **(5 Marks)**
- (iii) Specify when and how VAT is computed under (i) is payable. **(2 Marks)**

QUESTION THREE

Leo, Kesho and Kutwa trade in electrical goods and as partners in Leo Unincorporated. They share profits and losses equally. The following details in the draft accounts regarding their profit and loss status as at 31 December 2015 have been provided:

	Debits		Credits
	Sh.		Sh.
Office expenses	408,000	Gross profit	2,600,000
General expenses	188,000	Interest earned	240,000
Salaries and wages	560,000	Discounts received	160,000
Show room expenses	234,000	Other receipts	300,000
Rents, rates and taxes	300,000	Rent income	264,000
Printing and stationery	128,000	Capital gain on shares.	200,000
Instalment tax paid	90,000		
Advertising	146,000		
Legal charges	164,000		
Interest on capital	420,000		
Depreciation	184,000		
Bad debts	136,000		
Commission to partners	160,000		
Donation for poverty	200,000		
Property taxes	24,000		
Electricity expenses	92,000		
General reserve	240,000		

The partners provided additional information as follows:

1. Closing stock had been understated by Sh.30,000 as at 31 December 2004.
2. Leo was paid Sh.100,000 as salary (included in salaries and wages) and PAYE Sh.31,000 was paid on it.

3. The firm was fined Sh.30,000 for breach of regulations. This is included in legal charges.
4. Interest on capital was Sh.160,000 to Leo, Sh.120,000 to Kesho and sh.140,000 to Kutwa.
5. Commission to partners include sh.90,000 to Leo and the balance to Kutwa.
6. Capital allowances had been agreed at sh.1,800,000 with the tax authorities.

Required:

- (a) Compute the total income (loss) from the partnership business. (9 Marks)
- (b) Show allocation of profit/loss among partners. (6 Marks)

QUESTION FOUR

- a) Give THREE examples of non-taxable income. (3 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 and explain clearly at least three ways in which the Government may lose tax revenue on imports. (6 marks)
- c) Suggest three possible ways in which the Government may prevent loss of tax revenue from imports. (6 marks)

QUESTION FIVE

- a) State and briefly explain the factors that influence tax shifting. (5 Marks)
- b) Mr. S. Shah owns a coffee processing factory in Kiambu. The following particulars relate to assets of the factory in 2015.
 1. Purchased a new building from a builder at a cost of Sh.2,000,000. Administration offices included in the building had an estimated cost of Sh.250,000.

2. Purchased three microcomputers at a total cost of Sh.300,000.
3. Other assets of the factory were as follows:

	WDV 1.1.2015 Sh.	Additions Sh.	Disposals Sh.
Office furniture	3,300,000	1,900,000	700,000
Computers	200,000	-	80,000
Tractors	12,000,000	-	2,500,000
Lorries (1 ton)	2,500,000	3,000,000	500,000
Processing machines	4,800,000 3,200,000	2,400,000 4,000,000	1,800,000 200,000
Saloon cars	5,000,000	-	-
Buildings	7,500,000	2,000,000	4,000,000
Land			

4. The old buildings were inherited from Shah's father 5 years ago when new and were valued at Sh.50,000,000.
5. A farm house was constructed in 2015 at a cost of Sh.600,000. a cattle dip and milking machinery costing Sh.120,000 and sh.220,000 respectively were constructed and purchased during 2015.
6. The saloon cars (two) disposed of in June 2015 were purchased in 2013 at a cost of Sh.250,000 each. Another saloon car was purchased during 2015.
7. Goodwill and patents carried forward from 2013 were valued at Sh.1,400,000 on 31 December 2015.

Required:

Compute the capital deductions for the year 2016 (using 2015 rates) (10 Marks)

QUESTION SIX

a) Examine five factors which influence taxable capacity in a country.

(10 Marks)

b) "Governments in developing countries tend to overtax individuals in formal employment". Using suitable examples, explain why Governments find it convenient to continually raise higher taxes on earnings from formal employment.

(5 Marks)

Appendix: Rates**Taxable Employment Benefits - Year 2015**

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

Monthly taxable pay (shillings)			Annual taxable pay (shillings)			Rates of tax % in each shilling
1	-	10,164	1	-	121,968	10%
10,165	-	19,740	121,969	-	236,880	15%
19,741	-	29,316	236,881	-	351,792	20%
29,317	-	38,892	351,793	-	466,704	25%
Excess over	-	38,892	Excess over	-	466,704	30%

Personal relief Shs. 1,162 per month (Shs. 13,944 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	2.5%	(ii)	Pick-ups, Panel Van (Unconverted)				
Hotels	4.0%						
Farm works allowance	33.3%		Upto		1750 cc	3,600	43,200
Investment deduction allowance:			Over		1750 cc	4,200	50,400
2013	-	70%	(iii)	Land Rovers/Cruisers		7,200	86,400
2014	-	100%		OR 2% of the initial capital cost of the vehicle for each month, whichever is higher.			
2015	-	100%					

Shipping investment deduction 40%							
Mining allowance:							
Year 1	40%						
Year 2 - 7	10%						

Commissioner's prescribed benefit rates

Services	Annual rates	Monthly rates	
		Sh.	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

