



Scott Christian
UNIVERSITY
A Dynamic Centre of Academic Excellence

SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

UNIT CODE/NAME: BBA302: PRINCIPLES OF TAXATION

January-April 2021/2022 Supplementary/Special Exam - Time: 2 Hours

Instructions: Answer Question ONE (Compulsory) and any other TWO questions.

QUESTION ONE

(30 MARKS)

(a) (i) Distinguish between the impact and incidence of a tax.

(ii) State the impact and incidence of the following taxes.

- Pay As You Earn (PAYE)
- VAT on accountancy services
- Import duty on motor vehicles not intended for resale
- Excise duty on sugar

(4 Marks)

(b) "Jaza company Ltd reported income in 2011 was follows:

- | | |
|-------------------|---------------|
| - Business income | Sh.3, 000,000 |
| - Rental income | Sh.8, 000,000 |
| - Farming loss | Sh.2,800,000 |

Calculate the tax payable

(4 Marks)

(c) Normally in Kenya a trader is required to pay for a variety of licenses in order to conduct trade.

(i) Do you consider a license to be a tax? Explain.

(1 Mark)

(ii) Specify four of such licenses.

(2 Marks)

(iii) In Kenya there is a proposal for the Government to issue a single license to a trader in preference to the practice of issuing a variety of licenses. Would you support this proposal? Why

(1 Mark)

(d) Mr. Mengo is a married person. He and his wife had the following income for the Year 2010.

(i) Mr. Mengo

Salary 170,000 (P.A.Y.E sh 25,000)

Dividends sh 30,000 (Withholding tax shs 4,500)

Free company car (1500cc)

(ii) Mrs. Mengo:

She is employed as a teacher at a salary of sh 6,000 p.m (P.A.Y.E sh 2,500)

She also runs a small business. Her net income from the business was sh 60,000 during the year.

Required:

Calculate the tax payable by Mr. Mengo for the year ended 31st December 2010

(9 Marks)

Calculate the tax payable by Mrs. Mengo for the year ended 31st December 2010

(8 Marks)

QUESTION TWO

You are provided with the following details:

1. Installing a system of ventilation in the factory.
2. Legal expenses incurred when acquiring a new building
3. Giving the factory a fresh coat of paint
4. Replacing 200 tiles on a roof damaged by wind
5. Expenditure incurred in demolishing part of a wall to make room for a recently purchased machine.

Required:

- (a) From an Income Tax perspective indicate for each of the above items whether it is capital or revenue expenditure. Explain. (5 marks)
- (b) Timexa Limited provided the following details with respect to its fixed assets for the year of income 2005.

1.	Building	Class I	Class II	Class III	Class IV
	Sh.	Sh.	Sh.	Sh.	Sh.
	1,400,000	460,000	610,000	800,000	6,200,000

2. The industrial building had been constructed sometimes back in 2000 at a cost of Sh.1, 600,000. Fixed machines were Sh.2,000,000. Due to an oversight, no investment deduction was claimed.
3. During the year the following assets were purchased:
 - Patents Sh.200,000
 - Computers Sh.390,000
 - Stamping machine Sh.800,000
 - Land Sh.530,000
4. A car for use by the directors was involved in an accident and written off. No recoveries were made.
5. In December, all computers were sold as one lot for Sh.1, 220,000.
6. Assume 60% as the rate of investment deductions. For year 2000.

Taxable Employment Benefits - Year 2005 to date

RATES OF TAX (Including wife's employment, self employment and professional income rates of tax). Year of income 2011

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)						

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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%		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.