



SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF BUSINESS ADMINISTRATION AND BACHELOR OF LEADERSHIP AND MANAGEMENT

UNIT CODE: BBA 302/ MGT 212, UNIT NAME: PRINCIPLES OF TAXATION

September – December 2018/2019 End Semester Exam - Time: 2 Hours

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

QUESTION ONE (30 marks) (COMPULSORY)

- a) State five major objective of taxation in Kenya (5 marks)
- b) i) Define the term 'tax planning' (2 marks)
ii) Briefly explain two instances in which a business may apply the concept of tax planning (4 marks)
- (c) The Kenya Revenue Authority (KRA) is geared towards a function-based organization rather than one structured along the types of taxes. This is evidenced by the integration of VAT, Income Tax and Excise departments into the Domestic Department. Asses the likely benefits and drawbacks to KRA arising from this integration (3 marks)
- d) Highlight the benefits of an effective tax policy to a developing country. (3 marks)
- e) With reference to section 132(7) of the Income Tax Act (Cap.470), list four types of transactions for which personal identification number (PIN) is required (4 marks)

- f) Mr Moses an employee of Pingo Ltd received a base salary of Kshs 1,200,000 P.A (PAY-E 40,000 p.m) in the year ended 31st Dec 2017.

Required:

- i) Taxable income (4 marks)
- ii) Tax payable or refundable (5 marks)

QUESTION TWO (15 marks)

- a) (i) Specify the rules relating to payment of Income tax under the Pay As You Earn rules. (3 marks)
- (ii) What are the consequences of failure to deduct and pay tax under PAYE? (3 marks)
- b) 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 cost of plant
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:

- i) From an Income Tax perspective indicate for each of the above items whether it is capital or revenue expenditure. Explain. (5 marks)
- ii) Explain the role and functions of a Value Added Tax tribunal. (4 marks)

QUESTION THREE

- a) Write brief notes on the following: (4 marks)
- i) Tax-free employment benefits (3 marks)
 - ii) Set off of import duty
- b) Local supplies of goods and services to an Export Processing Zone (EPZ) are zero rated under the VAT Act (Cap 476). Explain the two alternative methods of zero rating such supplies. (5 marks)

- c) With reference to the Income Tax Act (Cap.470) explain how a Kenyan branch of a foreign company is taxed (3 marks)

QUESTION FOUR (15 marks)

- a) Section 24 (1) of the Income Tax Act (Cap 470) requires companies to adequately distribute their profits as divided within twelve months after the end of the accounting period. Outline the circumstances under which a company may apply for exemption from the shortfall distribution requirements. (3 marks)

- b) The following information relates to Vuma Limited for the year ended 31 December 2004:

The company's operating profit before tax amounted to Ksh.2,000,000 excluding Ksh.400,000 from investment activities.

The company intends to distribute Ksh.200,000 as dividend for the year ended 31 December 2004.

The corporate tax rate is 30%

Required:

Compute the short fall tax payable by Vuma Limited for the year ended 31 December 2004. (4 marks)

- c) Write short notes on the following:

i) Exemption of individuals from paying installments tax (4 marks)

ii) Double taxation relief (4 marks)

QUESTON FIVE (15 marks)

- a) It is common in Kenya to have individuals who cannot distinguish between taxes and charges. Explain the difference between a tax and National social Security Fund deductions. (6 marks)

- b) Specify the basic rules in Income Tax with regards to payment of pension from a registered scheme to:

(i) The pensioner, (4 marks)

(ii) The widow or widower of a pensioner. (5 marks)