



PIONEER INTERNATIONAL UNIVERSITY

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UNIVERSITY EXAMINATIONS

BACHELOR OF COMMERCE YEAR TWO SEMESTER TWO

/BACHELOR OF ARTS EDUCATION YEAR THREE SEMESTER TWO

UNIT CODE: ACCT 2211

UNIT NAME: INTRODUCTION TO TAXATION

SEMESTER: JANUARY – APRIL 2024

ACADEMIC YEAR: 2023/2024

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question **ONE** and Any other **TWO** Questions

QUESTION ONE (30 MARKS)

- a) Kipkorir is employed by Zintac Ltd as a salesperson. He provided the following information relating to his income for the year ended 31 December 2023: His monthly basic salary is Sh.60, 000 (PAYE Sh 15,000 per month). He lives in a company house and pays a nominal rent of Sh 8,000 per month. The company reimburses him for all out-of-pocket expenses incurred on the official use of his car in the year 2023, the amount reimbursed was Sh 90,000. The education fees for his two children amounting to 200,000 were paid by the company during the year. He earned a net interest income of Sh 15,000 during the year from his investments in housing development bonds. He is contemplating purchasing a house for his residence in the near future. In year 2023, he invested Sh 100,000 in a registered home ownership savings plan. He has a life insurance policy for self and family for which he pays a total premium of Sh 45,000 per annum. The employer provided the following services and servants during the year which the employer paid sh 30,000 for each; house servant, cook, Ayah, Water and electricity.

Required: Compute the total taxable income and the tax payable from the income of Kipkorir for the year ended 31 December 2023

(13 Marks)

b) Mr. Onyango has no permanent home in Kenya but was present in Kenya for the last three calendar years as shown below:

- i. Year 2023 -210days
- ii. Year 2022-180days
- iii. Year 2021-96days

Required: Comment on his residence status for tax purposes for the years 2013-2017 (4 marks)

c) Discuss the criteria for taxing an income in Kenya (3 marks)

d) Discuss the cannons of taxation (10 marks)

QUESTION TWO (20 MARKS)

a) Highlight the key differences between a resident person and a Non-resident person (8 Marks)

b) Vinic Company Limited was incorporated in 2022 but did not start business until 1 January 2023 when the company commenced the business of processing tea. The following details related to the acquisition of fixed asset in the year 2023:

| | Sh. |
|---------------------------------|-----------|
| Land and Building | 6,500,000 |
| Plant & machinery | 4,000,000 |
| Motor Vehicle – 2 saloon cars ✓ | 2,000,000 |
| Tractor ✓ | 5,000,000 |
| Lorry (2 tons) ✓ | 2,500,000 |
| Furniture & Fittings | 600,000 |
| Construction of drainage | 150,000 |
| Fencing of farm | 50,000 |
| Farm House | 600,000 |
| Irrigation System | 750,000 |
| Labour Quarters | 1,200,000 |
| Computers | 220,000 |
| Milking Machinery ✓ | 300,000 |

The following further information is provided:

1. The company kept 10 cows and constructed a cattle dip worth Sh. 400,000 for the animals during this year.
2. Included in land and building is the cost of land valued at Sh. 2,000,000.

3. One saloon car was disposed of for Sh. 500,000, which was half the cost price.

Required: Capital deductions for Vinic and Company Limited for the year of income 2023(10 Marks)

QUESTION THREE (20 MARKS)

- a) Distinguish between Tax evasion and tax avoidance. (2 Marks)
- b) Distinguish between low interest benefit and fringe benefits (2 Marks)
- c) Discuss the major types of taxes according to administrative class and their merits (6 Marks)

The profit and loss account of Mr.Sigirai a trader in Nairobi, show the following for the year ended 31.12.2023

| | Shs. | Shs. |
|-----------------------------------|---------------|----------------------|
| Sales | | 100,000 |
| Opening stock | 25,000 | |
| Add: Purchase | <u>50,000</u> | |
| | 75,000 | |
| Less: closing stock | <u>35,000</u> | |
| Cost of goods sold | | <u>40,000</u> |
| GROSS PROFIT | | <u>60,000</u> |
| Other Income: | | |
| Post Office Savings Bank interest | 15,000 | |
| Tax Reserve Certificate interest | 3,000 | |
| Barclays bank interest—gross | 2,000 | |
| Sweepstake winning | <u>5,000</u> | <u>25,000</u> |
| | 85,000 | |
| Less: Sundry expenses | | <u>50,000</u> |
| NET PROFIT | | <u>35,000</u> |

The following information is given:

- i) An amount of Shs 8,000 received from Kenya National Assurance Company, as compensation for trading stock destroyed by fire has been included in drawings.
- ii) Owing to newfound friendship, a creditor Mrs. Matata wrote-off amounts payable to her by Mr. Sigirai of Shs 4,000. The amount is included in drawings.
- iii) The sundry expenses in the Profit and Loss Account include:
 - a. Cost of a bicycle used in the shop bought in May 2012 for Shs 3,500. ✓ AP
 - b. Alimony (allowance) paid to a former wife he divorced Shs 2,400. non AP
 - c. Subscription of Shs 1,000 to Matumbo Welfare Association of which he is a member.

d. Depreciation of assets Shs 2,200

non AP

iv) He paid with amounts drawn and included in his drawings accounts:

- a. Insurance premium of Shs 2,500 against fire in respect of trading stock.
- b. Painting of business premises Shs 800.
- c. Stationery Shs 500.

v) Wear and tear deduction of Shs 1,500 has been agreed with the Income Tax Department.

Required: Compute the taxable income for the year ended 31.12.2023 (10 Marks)

QUESTION FOUR (20 MARKS)

a) The following information was extracted from the books of Sasumua Traders, a registered business for Value Added Tax (VAT) purposes, for the month of August 2023:

| | Sh. |
|--|-----------|
| Export sales | 150,000 |
| Imported goods for resale (dutiable value) | 900,000 |
| Telephone expenses | 72,000 |
| Audit fees | 180,000 |
| Purchases at zero-rate | 240,000 |
| Exempted sales | 184,000 |
| Sales at standard rate | 3,500,000 |
| Purchase at standard rate | 1,480,000 |

0.25

Transactions are stated as exclusive of VAT where appropriate. The rate of VAT is 16%

Additional Information for the month of August 2023:

1. Sasumua Traders received debit notes and credit notes of Sh. 400,000 and Sh. 200,000 respectively for standard rated supplies
2. The imported goods for resale were subject to customs duty at the rate of 30%. These goods were subsequently transported to the business premises at a cost of Sh. 40,000 and repackaged at a cost of Sh. 10,000. The goods were then sold at a mark-up of 20% (the sales proceeds on these goods were not included in the reported sales at standard rate).
3. A debtor for goods sold at standard rate for Sh. 120,000 was declared bankrupt.

Required: The amount of VAT payable (if any) by Sasumua Traders for the month of August 2023 (10 Marks)

- b) Discuss the offences and penalties as stipulated in taxation (6 Marks)
- c) Highlight tax benefits of EPZ companies in Kenya (4 Marks)

BEST WISHES

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax). Year of income 2017

| | Monthly taxable pay (Shillings) | Annual taxable pay (Shillings) | Rates of tax % in each shilling |
|-------------|------------------------------------|-----------------------------------|------------------------------------|
| 1 | - 11180 | 1 -134,160 | 10% |
| 11181 - | 21715 | 134,161 - 260,580 | 15% |
| 21716 - | 32249 | 260,581 - 386,988 | 20% |
| 32250 - | 42782 | 386,989 - 513,384 | 25% |
| Excess over | 42782 | Excess over -513,384 | 30% |

Personal relief shs.1, 280 per month (shs15, 360. per annum)

Prescribed benefit rates of motor vehicles provided by employer

| | Monthly Rates | Annual rates (Shs) |
|--|---------------|--|
| Capital allowances: | | |
| Wear and tear allowances: | | |
| Class I | 37.5% | |
| Class II | 30% | (i) Saloons, Hatch Backs and Estates |
| Class III | 25% | |
| Class IV | 12.5% | |
| Industrial building allowances: | | |
| Industrial buildings | 2.5% | Up to 1200 cc 3,600 43,200 |
| Hotels | 4.0% | 1201- 1500 cc 4,200 50,400 |
| Farm work allowances | 33.3% | 1501- 1750 cc 5,800 69,600 |
| Investment deduction allowances: | | 1751- 2000 cc 7,200 86,400 |
| 2003 - | 70% | 2001- 3000 cc 8,600 103,200 |
| 2004 - | 100% | Over 3000 cc 14,400 172,800 |
| 2005 - | 100% | (ii) Pick-ups, Panel Vans (Unconverted) |
| Shipping investment deduction 40% | | |
| Mining allowance: | | |
| Year 1 | 40% | Up to 1750 cc 3,600 43,200 |
| Year 2-7 | 10% | Over 1750 cc 4,200 50,400 |
| | | (iii) Land Rovers/ Cruisers 7,200 86,400 |

OR 2% of the initial capital cost of the vehicle for each month.

| Commissioner's prescribed benefit rates | Monthly rates | Annual rates |
|--|----------------------|---------------------|
| Services | Shs. | Shs. |
| (i) Electricity (common or from 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 | |
| Agriculture employees: reduced rates of benefits | Monthly rates | Annual rates |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

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.