



220

(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA 422

COURSE TITLE: TAXATION THEORY AND PRACTICE

DATE: 09/08/2018

TIME: 2.00 - 4.00 P.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

YEAR OF INCOME 2017

Taxable Employment Benefits - Year 2017

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

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
software 20%	Over - 3000 cc	14,400	172,800

Industrial building allowance:

Up to 2009 : 2.5 %

From 1st January 2010 10%

Hostels/education/Film producers
buildings 100%

Commercial Buildings 25%

Farm Works Allowance 100%

Investment
deduction allowance:
100%

(ii) Pick-ups, Panel Van
(Unconverted)

Shipping investment deduction (ships over 125 tonnes) 100% (iii) Land Rovers/Cruisers 7,200 86,400

Mining allowance: Written off over 5 years (20%) OR 2% of the initial capital cost of the vehicle for each month, whichever is higher.

Commissioner's prescribed benefit rates

Services	Monthly rates	Annual 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

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%

QUESTION ONE (COMPULSORY)

- a) Explain the following concepts as used in taxation Citing relevant examples.
- i) Installment tax (3 Marks)
 - ii) Withholding tax (3 marks)
 - iii) Tax avoidance (3 marks)
 - iv) Exempt supplies (3 marks)
- b) Every citizen of the state ought to contribute to the support of the government in proportion to his or her ability. Examine the tax principles underlying the above assertion (18 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

- a) With reference to the provision of Value Added Tax, explain the following terms :
- i) Time of supplies (2 marks)
 - ii) Zero- rated supplies (2 marks)
 - iii) Taxable supplies (2 marks)
- b) an accounting company rendered professional service to its client in 2017 as detailed below

Month	Invoice date	Value before VAT	Date paid	Amount paid
May	15.5.2017	100,000	7.10.2017	20,000
June	4.6.2017	20,000	15.6.2017	20,000
July	13.7.2017	5,000	-	-
August	19.8.2017	250,000	30.8.2017	100,000
September			15.9.2017	50,000
October	12,10,2017	100,000	18.10.2017	5,000
November	15.11.2017	200,000	-	-

Required

- i) calculate the VAT payable each month and show the respective due date(10 marks)
- ii) suppose that in the month of October the firm provided free service to the community valued at sh 579,000. Comment on the VAT implication on this transaction (4 marks)

QUESTION THREE

U , S and N are partners trading under the name USN Enterprise. They share the profit in the ratio 4:3:3. The income statement for the year ended 31 December 2016 is below

salaries and wages	280,000	gross profit	2,300,000
Rent,rates and taxes	150,000	miscellaneous receipts	150,000
Office expenses	204,000	discounts	80,000
Printing and stationery	64,000	Rent from property	132,000
Instalment tax paid	45,000	profit on sale of shares	10,000
Advertising	75,000	interest on deposits	120,000
Interest on capital			
U	60,000		
S	70,000		

N	80,000	
Legal fees	82,000	
Commission to partners		
U	45,000	
N	35,000	
Depreciation	92,000	
Bad debts	68,000	
General expenses	99,000	
Donation to famine Relief	100,000	
General reserve	120,000	
Local tax on property	12,000	
Electricity	46,000	
Show room expenses	117,000	
Net profit	1,040,000	
	2,882,000	2,882,000

Notes

- i) The closing stock – sh 180,000 was valued at market price which was 10% less than its cost price
- ii) salaries and wages include sh 40,000 paid to S
- iii) Advertising include sh 10,000 spent on the campaign to introduce a new product
- iv) Legal fees include sh 12,000 paid as a fine and penalty
- v) Capital allowance had been agreed with the income tax authority at sh 90,000
- vi) U other income include sh 120,000 from rent. He had brought forward business loss of sh 135,000 from the previous year of the partnership
- vii) N has income of sh 200,000 from bet winnings and brought forward business loss of sh 135,000 from the assessment of the year of income for 2015

Required:

- a) Compute the total taxable income from the partnership business (12 marks)
- b) Allocate the profit among partners (5 marks)
- c) Calculate the taxable income of each partner for the year 2015 (3 marks)

QUESTION FOUR

- a) What is meant by tax planning and explain areas where the concept can be applied by the business (8 marks)
- b) Discuss the provisions of income tax relating to shortfall tax on non distribution of dividends (7 marks)
- c) The following information was extracted from the books of XYZ Ltd for the year ended 31st December 2017

Profit before tax sh 4,000,000
 Import duty refunded by tax authority sh 400,000
 Dividends distributed by XYZ Traders sh 8,800,000
 Dividends received by XYZ Traders sh 3,000,000
 The corporation tax is 30%

Required:

Determine the compensating tax payable by the company for the year ending 31st December 2017 (5 marks)

QUESTION FIVE

- a) Outline the factors to consider in deciding whether a person is employed or self employed for the purposes of income tax (6 marks)
- b) Mzalendo has approached you to assist in determination of his taxable income for the year ending 30 June 2014. He has provided you with the following information.
 - i) Employment income

He is employed by mkulima ltd where he earns a monthly salary of sh 75,000. Other employment benefits are ; company car of 1850 cc bought in the year 2010 for sh 850,000. He is housed at Furaha Estate in a house whose market rental t value is sh 35,000 per month. Annual performance bonus of one month's salary if he is rated more than 80% in the company's annual performance. In the yea under review, mzalendo was rated 85%.

A watchman and a house girl are paid by the company sh 5,000 each.

- ii) Business income

He runs an internet café at the market centre . The business sh 725,000 in the year 2014. However the business made a loss of sh 300,000 in 2013.
- iii) Wife employment income

She is employed by sukari industry where she earns a salary of sh 45,000 per month. The company gives her five litres of milk. The market value of milk per litre is sh 30 per litre. PAYE of sh 98,400 was deducted and paid to the income tax department for the year 2012
- iv) In the year, Mzendo sold his personal car for sh 620,000 , reprinting a gain of sh 200,000 which he used to travel to Zanzibar for a holiday.
- v) Mzalendo had the following investment income

Dividends	240,000
Castle breweries ltd	240,000
South African creameries ltd	360,000

- vi) Interest

HFCK Ltd – Housing development Company	120,000
Treasury bills	420,000
Akiba Bank fixed deposit	96,000
Loan to a friend	200,000.

Required ,

- i) Taxable income chargeable to tax for Mzalendo for the year ended 30 june 2014 (10 marks)
- ii) Tax payable and its due date (2 marks)
- iii) Comment on the any information not used (2 marks)