PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER- DECEMBER 2022

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: BCM301|BUA4123

COURSE TITLE: PRINCIPLES OF TAXATION

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer question **ONE** and ANY other **four** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One (Compulsory= 10 marks)

a) Discuss the rules governing the payment of Value Added Tax (VAT) (2 marks)

b) Maingi is a hardware merchant. He purchases cement from Mali Cement Ltd. which he then sells to his customers. Both Maingi and Malii Cement Ltd. require a profit margin of 20% on cost. Cement attracts 16% VAT. If the cost of production by Mali Cement Ltd. is Sh.220 per bag of 50Kg.

   i. At what price should Maingi sell a bag of cement including VAT? (4 marks)

   ii. Calculate VAT payable per 50 Kilogramme bag? (3 marks)

Question Two (10 Marks)

Mr. Manubhai works as a sales manager with Kenya Bats Limited. The following are his employment details for the year ended 31 December 2018. The company pays him a salary of Sh.90,000 per month. He is a member of the company's pension scheme which is registered with the Commissioner for Income Tax. He contributes five percent of his salary and company contributes ten per cent.

- He has a co-operative loan which he repays at the rate of sh.9,967 per month.
- The company bought for him a car on loan and repays Sh.10,160 per month towards the loan. Drought levy has been agreed at Sh.1,438 per month.
- Mr. Manubhai lives in Nairobi and is married with two children. His Payroll Number is FD0095/12.
- Statutory deductions are: NSSF Sh.200 per month, NHIF Sh.320 per month.

Required:

(i) A well laid out statement in respect of the month of December 2018 showing the income tax and other deductions; and net pay for Mr. Manubhai . (8 marks)

(ii) Discuss whether the current income tax rules regarding payment of tax discriminate against employees when compared to companies (2 marks)

Question Three (10 Marks)

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

b) Specify the main rules relating to a registered pension fund. (4 marks)

Question Four (10 Marks)

Mrs. Mary Meno is a professional dentist who practices in Nairobi. She has provided you with the details on her clinic for the year ended 31 December 2021**(use the tax table given on the last page)**

	Sh.	
Gross Professional fees received	1,000,000	
Subscriptions to professional association and publications	20,000	
Subscriptions to a wildlife magazine	2,000	
Donations to a children’s home	10,000	
Debt collection expenses (dental patients)	6,000	
Wages for dental assistant	120,000	
Replacement of surgical instruments	40,000	
Rent for the clinic premises	140,000	
Electricity and water – clinic	40,000	
Other clinic expenses	70,000	
Hire of car for use in practice	50,000	
Uniforms for staff	5,000	
Payment of school fees for own children	40,000	
Contribution to provident fund – self	60,000	
Payment of life insurance premium – self	20,000	
Terminal benefits paid to retired receptionist	50,000	
Depreciation on furniture – clinic	12,000	
Rents received from sub-rentals	14,000	
Rent collection expenses(sub-tenants)	2,000	
Wages paid to cleaners and watchman – clinic	50,000	
Furniture bought for clinic 1 January 2005	64,000	
Tarmacking of Drive-way personal residence	80,000	
Additional servant quarters – personal residence	140,000	
Dividend income net of withholding tax	34,000	
Interest income from commercial bank – gross	24,000	
Directors fees received (deductions at source SSh.3,0000	120,000	Net

Required:

a) Calculate the taxable income of Mrs. Mary Meno for the year ended 31 December 2005. (6 marks)

b) Calculate the tax payable by Mrs. Mary Maneno. (4 marks)

Question Five (10 Marks)

a) Distinguish between tax evasion and tax avoidance .Use suitable illustrations (4 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. Explain clearly at least **three** ways in which the Government may lose tax revenue on imports. (6 marks)

Question Six (10 Marks)

With reference to Income Tax, discuss the following using suitable illustrations :

(a) Self- assessment; (2 marks)

(b) Notice of Objection; (2 marks)

(c) NSSF; (2 marks)

(d) PIN advantages; (2 marks)

(e) Valuation of housing for employees. (2 marks)

Individual Tax rate

2002 - 2004	Bands of taxable income	Taxable income	Tax rate on band	Tax on band	Cumulative tax on income
	Sh	Sh	%	Sh	Sh
First	0	116,160	10	11,616	11,616
Next	109,440	225,600	15	33,840	45,456
Next	109,440	335,040	20	67,008	112,464
Next	109,440	444,480	25	111,120	223,584
OVER	444,180		30		
2005 to date Taxable Tax	Bands of taxable income	Taxable income	Tax rate on band	Tax on band	Cumulative tax on income
	Sh	Sh	%	Sh	Sh
First	0	121,968	10	12,196.8	12,196.8
Next	114,912	236,880	15	17,236.8	29,433.6
Next	114,912	351,792	20	22,982.4	52,416.0
Next	114,912	466,704	25	28,728	81,144.0
OVER	466,704		30		