BACHELOR OF COMMERCE

END OF SEMESTER EXAMINATION

BCM 207: PRINCIPLES OF TAXATION

APRIL 2021

ONLINE CLASS

Instructions

- **i) This exam paper contains SIX questions containing 10 marks each.**
- **ii) Answer Question 1 (COMPULSORY) and any other THREE questions**
- **iii) Read each question carefully before attempting.**

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QUESTION ONE

(a) The government when administering its tax package takes into consideration various effects of the particular tax.

Define the following;

(i)	Tax burden.	(1 mark)
(ii)	Tax incidence.	(1 mark)
(iii)	Taxable capacity.	(1 mark)

(b) The government tries to distribute its tax burden and benefit as equitably as possible and employs various principles to ensure this is done.

Required:

Explain THREE Principles applied in equitable distribution of tax burden. (3 marks)

(c) While formulating the tax regime of a country to make it as optimal as possible, the Cabinet secretary for finance has to adhere to some canons.

Required:

Discuss any FOUR canons of an optimal tax system. (4 marks)

QUESTION TWO

(a) Mutiso is employed by an ICT company in Nairobi and earns a basic salary of Ksh. 50,000, house allowance of Ksh.22000, responsibility allowance of Ksh. 15000. In June 2019 Mutiso was named the employee of the month and was paid a bonus of Ksh. 25000. Using the current tax rates prepare Mutiso's pay-slip showing the tax charged and payable.

Tax brackets	Percentage	Amount	Tax
1 to 12,298	10%	12,298.00	1,229.80
12,299 to 23,885	15%	11,587.00	1,738.05
23,886 to 35,472	20%	11,587.00	2,317.40
35,473 to 47,059	25%	11,587.00	2,896.75
Above 47,060	30%	64,941.00	19,482.30
Gross tax			27,664.30
Relief			1,408.00
Net tax			26,256.30

(a) Using the current tax rates shown above prepare Mutiso's pay-slip. (6 marks)

(b) Show the tax charged and payable. (4 marks)

QUESTION THREE

Raising revenue is the foremost reason why the government levies taxes; Your research has shown that there are other reasons why the government levies taxes.

Required:

Discuss any FIVE other reasons for levying tax. (10 marks)

QUESTION FOUR

There are various taxes commonly levied by the Kenya government. As a tax expert;

(a) Explain any FIVE taxes levied by the Kenya government. (5 marks)

(b) Indicate whether the taxes explained above are direct or indirect. (5 marks)

QUESTION FIVE

A manufacturer acquires raw materials for Ksh. 100,000 on which VAT is levied at 16%. At each stage of the chain, (supplier of raw materials, manufacturer, wholesaler, and retailer) 25% conversion costs are incurred and 30% mark-up is made.

Required:

(a) Calculate in each stage the VAT charged. (7 marks)

(b) Show the final VAT receivable by Kenya Revenue Authority. (3 marks)

QUESTION SIX

Taxes can be levied directly or indirectly and classified as such. The cabinet secretary for the Treasury has asked you to advise his ministry on the pros and cons of these two types of taxes.

Required:

(a) Discuss the advantages of direct taxes as opposed to indirect taxes. (5 marks)

(b) Explain the disadvantages of direct taxes as opposed to indirect taxes. (5 marks)