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University Examinations 2023/2024

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF SCIENCE IN APPLIED ACCOUNTING

BFH 3154: TAXATION THEORY AND PRACTICE I

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (30 MARKS)

- (a) Distinguish between the impact and incidence of a tax. (2 marks)
- (b) Discuss four roles played by the Controller of Budget in the budgeting process in Kenya (4 marks)
- (c) Mr. Mali Mingi received a salary of Sh. 1,200,000 during the year 2023. He contributed 25% of his salary to the company's registered pension scheme and 10% of his salary to a registered home ownership savings plan. Calculate his taxable income for the year (5 marks)
- (d) What are the economic consequences of increasing the Value Added Tax rate to raise additional revenue for the Government? (4 Marks)
- (e) Describe four benefits of progressive taxes to a country (4 Marks)
- (f) Mr. Ole mboga an employee of Bidii company Ltd received income in 2021 as follows:
- Basic salary of Sh.550,000 p.a
 - A day and night watchman whose salaries were Sh.5,000 p.m. and Sh.6,500 p.m. respectively.
 - Furniture was also provided at cost of Sh.280,000
 - A car of 2000 cc whose initial cost was Sh. 1,400,000 was provided for his personal use.

- The company paid his telephone bills averaging Sh.4,000 p.m.
- He was granted free company products valued at Sh.3,500 p.m.

Required: Calculate his taxable income: (6 marks)

(g) Explain five main canons of an optimal tax system. (5 Marks)

QUESTION TWO (20 MARKS)

(a) Define each of the following taxes and state the applicable rate

- (i) Instalment tax
- (ii) Advance tax
- (iii) Withholding tax
- (iv) Turnover Tax (8 marks)

(b) Mrs. Mjomba was granted a salary increment of 20% on 31 Dec 2023 which was back dated to 1st January 2022. Her salary for 2022 and 2023 was sh.680,000 and sh. 760,000 respectively.

Required: Calculate the tax liability on the salary arrears for 2022 and 2023. (6 marks)

(c) Explain the factors that determine the extent to which the incidence of a tax can be shifted (6 marks)

QUESTION THREE (20 MARKS)

(a) Describe 'set-off tax (2 marks)

(b) Mrs. Ongera works with Anga Ltd. and has provided you with the following information for the year ended 31 December 2023.

- Pension from previous employment Sh.20,000 per month.
- Salary sh. 120,000 per month (P.A.Y.E Sh.42,000 per month)
- Mrs. Ongera and her husband own a company whose taxable income was agreed at Sh.500,000 after charging husband's salary of sh.250,000 per month (P.A.Y.E sh.60,000 per month).
- Anga Ltd. provided a company house to Mrs. Ongera in South B where rent of similar houses was Sh.20,000 per month.
- Mrs. Ongera works over-time and her over-time income averages Sh. 10,000 per month.
- Mrs. Ongera enjoyed medical benefit of Sh. 160,000 during the year. She is a senior manager and the company has medical cover for all its employees.

- She obtained free consumables from the company as a Christmas gift worth Sh.30,000 during the year.
- Mrs. Ongera owns rental property at Komarock Estate and receives Sh.50,000 as rental income per month. During the year, she incurred Sh.60,000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to sh.3,000,000. She paid sh.900,000 during the year of which sh.500,000 was principal.
- Mrs. Ongera owns 20% of the shares of Anga Ltd.

Required:

- i. The taxable income for Mr and Mrs Ongera for the year of income 2023. (12 marks)
- ii. Tax payable on the income computed above. (4 marks)
- iii. Mrs. Ongera did not fill her self-assessment return form for 2023. State the penalties due, if any. (2 marks)

QUESTION FOUR (20 MARKS)

Write explanatory notes on the taxes listed below and in each case indicate whether the tax complies with the main principles of a good tax system.

- (a) Presumptive tax on agricultural produce. (5 marks)
- (b) Cess on agricultural produce. (5 marks)
- (c) Trade license chargeable to professionals. (5 marks)
- (d) Stamp duties on transfer of properties. (5 marks)

QUESTION FIVE (20 MARKS)

(a) Specify the rules relating to payment of Income tax under the Pay As You earn rules.

(5 marks)

(b) What are the consequences of failure to deduct and pay tax under PAYE? (3 marks)

(c) Distinguish between a direct and indirect tax. (4 marks)

(d) Explain briefly the following income tax terms:

- i. Year of Income.
- ii. Business.
- iii. "Resident" when applied to an individual. (6 marks)

(e) Differentiate between Degressive and Regressive rates of tax (2 marks)

TAX BANDS

Monthly Gross Pay (ICES.)	Annual Taxable Income	Tax Rate
Up to 24,000	Up to 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
32,334 - 500,000	388,001 – 6,000,000	30%
500,001 - 800,000	6,000,001 – 9,600,000	32.5%
Above 800,000	Above 9,600,000	35%
Personal Relief is 2,400	Personal Relief is 28,800	

PRESCRIBED BENEFIT RATES OF MOTOR VEHICLES PROVIDED BY EMPLOYER

(i) Saloon, Hatch Backs and Estate

	Monthly Rates Sh.	Annual Rates Sh
Up to - 1200cc	3,600	43,200
1201 - 1500cc	4,200	50,400
1501 - 1700cc	5,800	69,600
1751 -2000cc	7,200	86,400
2001 - 3000cc	8,600	103,200
Over —3000cc	14,400	172,800

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

to- 1750cc	3,600	43,200
Over - 1750cc	4,200	50,400

(iii) Land Rovers/Cruisers: 7,200 86,400

OR 2% of the initial capital cost of the vehicles each month, whichever is higher.

COMMISSIONER'S PRESCRIBED BENEFIT RATES

	Monthly rates Sh.	Annual rates Sh.
Services		
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (communal or from a borehole)	500	6,000
Agricultural employees: Reduced rates of benefit		
(i) Water	200	2,400
(ii) Electricity	900	10,800