



**KISII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**

**FOURTH YEAR EXAMINATION FOR THE AWARD OF THE**  
**DEGREE IN BACHELOR OF COMMERCE ACCOUNTING & FINANCE**  
**FIRST SEMESTER 2022/2023**  
**(SEPTEMBER - DECEMBER, 2022)**

**BCOM 411: TAXATION LAW AND PRACTICE**

**STREAM: Y4 S1**

**TIME: 2 HOURS**

**DAY: FRIDAY, 3:00 P.M – 5:00 P.M**

**DATE: 23/12/2022**

**INSTRUCTIONS:**

- 1. Do not write anything on this question paper.**
  - 2. Answer Question ONE (Compulsory) and any other THREE Questions.**
- QUESTION ONE [25 MARKS]**

- a) Explain briefly the following income tax terms: (1 Marks each)
- i. year of income.
  - ii. Accounting year.
  - iii. "resident" when applied to an individual
- b) Distinguish between direct and indirect taxation, giving examples of each. (4 Marks)
- c) Discuss the canons/principles of taxation in Kenya (6 Marks)
- d) Brookside Dairy Ltd. buys milk from dairy farmers at Sh 5 per litre and after processing sells it at Sh 10. Assuming that a tax of 20% is imposed on every litre of milk sold, demonstrate how the tax can be shifted? (4 Marks)
- e) Mrs. Onyango works with Victoria Ltd. and has provided you with the following information for the year ended 31 December 2015.
- 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. Onyango 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). Victoria Ltd. provided a company house to Mrs. Onyango in Lolwe estate where rent of similar houses was Sh.20,000 per month.
  - Mrs. Onyango works over-time and her over-time income averages Sh.10,000 per

month. Mrs. Onyango 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 worth Sh.30,000 from the company during the year. She was paid sh.30,000 in lieu of annual leave.

Mrs. Onyango owns rental property at Milimani 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 Sh900,000 during the year of which Sh 500,000 was principal. Mrs. Onyango owns 20% of the shares of Victoria Ltd.

**Required:**

(i) The taxable income for Mr and Mrs Onyango for the year of income 2015. (6marks)

(ii) Tax payable on the income computed above. (2 Marks)

**QUESTION TWO:**

a) The shifting of taxes backward and forward is facilitated and in some cases hindered by certain factors, discuss the Factors that influence tax shifting (7 Marks)

b) John is a general manager with Haki Ltd. He has provided you with the following information on his income for the year ended 31 December 2014

1. He is paid a basic salary of Sh.75,000 per month (PAYE Sh.15,000 per month).
2. He is housed by the employer in a house leased at Sh 30,000 per month. The house was furnished by the employer at a cost of Sh 200,000. His private telephone charges averaging Sh1,800 per month is also paid by the employer.
3. He is a member of a golf club where the employer contributes Sh 5,000 per month for him.
4. He holds a life assurance policy with Maisha Assurance Company Ltd. The employer paid the premiums on the policy for year 2014 amounting to Sh 48,000.
5. He is a member of a registered collective investment scheme. During the year, he earned an income of Sh.40,000 from the scheme. The scheme invests in shares and fixed deposit accounts.
6. He separated with his wife on 1 October 2014. With effect from 31 October 2014, he has been paying alimony of sh20,000 per month to his wife as required by a court order.
7. He is provided with a motor vehicle (2000cc) by the employer which was purchased on 1 January 2013 at a cost of Sh1,500,000.
8. He contributed Sh 25,000 per month towards a registered pension scheme.
9. On 1 December 2014, his monthly salary was increased by ten per cent backdated to 1 July 2014.

**Required:**

(i) Taxable income of Mr. John for the year ended 31 December 2014. (6 marks)

(ii) Tax liability from the income computed in (i) above. (2 marks)

### QUESTION THREE

- a) Explain the two aspects of taxable capacity and give the factors affecting taxable capacity. (6 Marks)
- b) Mr. William is a professional dentist who practices in Kisumu. He has provided you with the details on his clinic for the year ended 31 December 2015: \_\_\_\_\_

	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 2015	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 Sh.3,0000)	120,000 net

Required:

- (a) Calculate the taxable income of Mr. William for the year ended 31 December 2015. (6 Marks)
- (b) Tax payable by Mr. William ( 3 Marks)

#### QUESTION FOUR

- a) The income tax act classifies income by reference to the source from which it is derived. State the various income to be taxed under the act. (5 Marks)
- b) The management of Capital Fish Limited has presented the following income statement for the year ended 31 December 2014:

<b><u>Capital Fish Limited</u></b>		
<b><u>Income Statement for the Year ended 31 December 2007</u></b>		
	<b>Sh.</b>	<b>Sh.</b>
Gross profit		5,292,000
<b><u>Other incomes:</u></b>		
Dividend from a subsidiary company	200,000	
Interest from foreign bank accounts	4,000	
Discount received	28,000	
Refund of VAT	12,000	
Gain on sale of motor vehicle	<u>14,000</u>	<u>258,000</u>
		5,550,000
<b><u>Expenditure:</u></b>		
Salaries and wages	800,000	
NHIF contribution	30,000	
Subscription to a trade association	50,000	
Hire purchase interest	15,000	
Bad debts written off	60,000	
General expenses	80,000	
Depreciation	25,000	
Legal expenses	40,000	
Insurance premiums	124,000	
Rent	66,000	
Electricity	34,000	
Purchase of furniture	26,000	<u>(1,350,000)</u>
Net profit		4,200,000

#### **Additional information:**

1. Capital allowances were agreed with the Revenue Authority at Sh.75,000
2. Included in bad debts is a loan of Sh.15,000 due from a former employee of the company who was dismissed in October 2014.
3. Legal expenses include Sh.20,000 incurred in defending a manager against a traffic offence.
4. Insurance premiums include Sh.24,000 paid to the National Hospital Insurance Fund (NHIF) as a penalty for late submission of contribution.
5. The company paid stamp duty of Sh.6,000 relating to a piece of land purchased in

August 2007. This payment is included in the rent expense for the year ended 31 December 2014.

**Required:**

(i) Compute the adjusted taxable profit or loss of Capital fish Limited for the year ended 31 December 2014 and tax liability thereon. (10 Marks)

**QUESTION FIVE**

- a) Discuss the significance of the concept of residence in relation to an individual and body corporate (5 Marks)
- b) Explain the meaning of impact and incidence of a tax (4 Marks)
- c) The following transactions related to the business of Mr. Onyango for the year of income 2015:

	Sh.
Wages	1,350,000
Purchases (zero rate)	150,000
Purchases (standard rate – 16%)	900,000
Purchased car from Japan	700,000
Sales at standard rate (16%)	2,400,000
Sales at zero rate	600,000
Exempt sales	900,000

**Required:**

Calculate the VAT payable by Mr. Onyango for the year of income 2015 (6 Marks)