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**UNIVERSITY EXAMINATIONS  
RESIT/SPECIAL EXAMINATION**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE  
BCOM 315: TAX LAWS AND PRACTICE**

**STREAMS:**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 02/02/2021**

**2.30 P.M – 4.30 P.M.**

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**INSTRUCTIONS**

- **Attempt Question one and any other two questions.**

**Question One:**

a) Outline the relevant laws that provides guideline on the taxation of income in Kenya

(4 marks)

b) The Income Tax Act has defined business to include any trade. Highlight any four indicators of trade that manifest trade as per the income tax act.

(6 marks)

c) Peter Nduati works for Excel Ltd. During the year ended 31<sup>st</sup> December 2019, he received the following incomes and emoluments.

1. Basic salary of sh.160,000 per month (PAYE Sh.42,000 per month)

2. He is a member of the registered retirements benefits scheme of which he makes monthly contributions of sh.30,000

3. The company paid annually electricity, water and telephone bills averaging to Sh.18,000, Sh12,500 and Sh.16,000 respectively.

4. During the year, the company paid school fees for his son amounting to Sh.280,000. This amount was disallowed for tax purposes on Excel Ltd.

5. In December 2019, Peter Nduati received an entertainment allowance of Sh.120,000. Half of this amount was spent on entertaining customers.

6. Peter Nduati has a life insurance policy and contributes a monthly premium of sh.15,000.

Required:

- a) Taxable income for Peter Nduati for the year ended 31 December 2019. (8 marks)  
 b) Tax liability (if any) Peter Nduati's for the taxable income. (6 marks)

d) Using an illustration, distinguish between zero-rated supply and exempt supplies as applicable in the Value Added Tax Act. (6 marks)

**Question Two:**

- a) Briefly explain any four reasons why Kenya Revenue Authority issues the personal identification number to tax payers. (6 marks)  
 b) Kennedy Mutuku is a trader registered for value Added Tax (VAT). He has provided you with the following information relating to his business for the month of March 2020.

	Sh.
Consultancy fee: Local Clients	1,850,000
Foreign Clients	250,000
Sale of goods: Exports	350,000
Local markets	3,500,000
Legal fee expenses	450,000
Rent expense for office premises	170,000
Audit fee Paid	250,000
Email and Webhosting Expenses	85,000
Purchases: Zero rated	250,000
Standard rate	2,100,000
Sales (Exempt)	550,000
Additional information	

1. A customer owing Sh. 50,000 was declared bankrupt during the month of the trade
2. The trader received credit notes of Sh.25,000 and sent out debit notes of Sh.50,000 in March.
3. All the above transactions are quoted exclusive of VAT at the rate of 16% where applicable.

Required: The VAT payable (or refundable) for the month of March 2020 (12 marks)

**Question Three:**

a) Alex, Bill and Charles are in partnership, trading as ABC enterprises. They share profits and losses in the ratio of 2:2:1. In the year 2020, they reported a loss of Sh.200,000 after charging the following items.

	<b>Sh.</b>
Depreciation	100,000
Salaries: Alex	400,000
Bill	300,000
Charles	200,000
Interest on capital: Alex	100,000
Charles	100,000
Commission: Bill	200,000
Stationery	50,000
Office expenses	100,000

In addition, interest on drawings was also included in the determinations of the profit as follows;

Interest on drawings: Alex	20,000
Charles	10,000

Required:

Taxable income for the year ended 31 December 2020 in respect of each partner. (14 marks)

b) Describe four alternative purposes for which a building may be in use in order to qualify for capital deductions as an industrial building. (6 marks)

#### **Question Four:**

a) Trend Ltd. revealed the following capital expenditure when the company commenced operations in Kenya as at 1<sup>st</sup> January 2020:

	Sh.
	24,80
Factory building for installing processing machinery	0,000
security walls and fencing round the factory	6,820
	,000
	2,400
Sewerage system	,000
	7,600
Staff quarters	,000
	3,700
Processing machinery	,000
	1,750
Delivery van	,000
	980,0
Fork lift	00

	2,500
Parking and loading bay	,000
	680,0
Furniture	00
	800,0
Computers	00
	5,000
2 Saloon car Sh.2.5M each	,000

Additional information:

1. The cost of the factory building includes a godown Sh.800,000; retail Shop Sh.400,000; show room Sh. 800,000 and office Sh. 500,000.

2. The following assets were disposed of during the year ended 31<sup>st</sup> December 2020.

Assets	Date of disposal	Disposal proceeds
Computers	5-May-2020	120,000
Saloon Car	10-Aug-2020	1,600,000

Required: Capital allowance due to the company for the year of income 2020 (20 marks)

RATES OF TAX (including wives' employment, Self-employment and professional income tax rates)

Year of income 2019

Monthly taxable pay		Annual taxable pay		Rate of Tax
(Shillings)		(Shillings)		% in each Shilling
1 -	12,298	1 -	147,580	10%
12,299 -	23,885	147,581 -	286,623	15%
23,886 -	35,472	286,624 -	425,666	20%
35,473 -	47,059	425,667 -	564,709	25%
Excess over	47,059	Excess over	564,709	30%

Personal relief Sh.1,408 per month (Sh.16,896 per annum)

**Prescribed benefit rates of motor vehicle by employer**

(i)	Saloons, Hatch Backs and Estates	Monthly rates	Annual rates
up to	1200cc	3,600	43,200
1201	1500cc	4,200	50,400
1501	1750cc	5,800	69,600
1751	2000cc	7,200	86,400

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	2001	3000cc	8,600	103,200
	Over	3000cc	14,400	172,800
(ii)	Pick-ups, Panels Vans (unconverted)			
	Up to	1750cc	3,600	43,200
	Over	1750cc	4,200	50,400
(iii)	Land Rovers/Cruisers			
			7,200	86,400

**Wear and tear allowances (calculated on cost, net of any investment deduction allowance)**

Tractors, Lorries ≥ 3 tonnes and similar heavy self-propelled vehicles	37.5%
Computer hardware, calculators, copiers and duplicating machines	30%
Aircraft	25%
Motor vehicles (if not commercial, limited to cost of KShs 2 million)	25%
Ships which don't qualify for investment deduction due to tonnage	12.5%
Plant and machinery, furniture and fittings and other equipment	12.5%
Software (calculated on a straight line basis)	20%

**Industrial Building Allowance:**

Industrial buildings effective	10%
Hotels	10%
Hostel and Certified education buildings (straight-line) 1/1/2016	100%
Shipping Deduction (qualifying ships reduced from 495 tons to 125 tons in 2016)	100%
Farm works allowance	100%
Investment deduction allowance	100%
Qualifying commercial building infrastructure	25%

<b>Commissioner prescribed benefit rates</b>	Monthly Rates	Annual Rates
<b>Services</b>	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.		
(i) Water	200	2,400
(ii) Electricity	900	10,800