



**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN/BUNGOMA/NAIROBI/WEBUYE CAMPUS

**UNIVERSITY EXAMINATIONS
2016/2017 ACADEMIC YEAR**

SECOND YEAR SEMESTER ONE EXAMINATIONS

**FOR THE DIPLOMA
OF
DIPLOMA IN BUSINESS MANAGEMENT**

COURSE CODE: DAB 102

COURSE TITLE: TAXATION

DATE: Tuesday 13th December, 2016

TIME: 3:00PM-5:00PM

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO (2)** questions

TIME: 2 Hours

MMUST observes **ZERO** tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. ►

RATES OF TAX (for income tax)

Monthly taxable pay		Annual taxable pay		rates of tax
(Shillings)		(Shillings)		% in each shilling.
1	- 10,164	1	- 121,968	10%
10165	- 19,740	121,969-	236,880	15%
19741	- 29,316	236,881-	351,792	20%
29317	- 38,892	351,793-	466,704	25%
Over	38,892	Over	466,704	30%

Personal relief sh.1,162 per month(sh.13,944p.a)

Prescribed benefit rates of motor vehicles provided by the employer

	Monthly rate (sh.)	Annual rate(sh)
i) Saloons, hatch backs and estates		
Upto 1200cc	3,600	43,200
1201 - 1500cc	4,200	50,400
1501 - 1750cc	5,800	69,600
1751 - 2000cc	7,200	86,400
2001 - 3000cc	8,600	103,200
Over 3000cc		
ii) Pickups, panel vans		
Up to 1750cc	3,600	43,200
Over 1750cc	4,200	50,400
iii) Land cruiser/lover	7,200	86,400

Commissioners prescribed rates for services

Electricity	1,500	18,000
Water (communal or from a borehole)	500	6,000
Provision of furniture (1%p.m of cost to employer)		
Telephone (landline and mobile phones)	30% of bills	
Agricultural employees:		
i) Water	200	2,400
ii) Electricity	900	10,800

QUESTION ONE

- a) Describe the characteristics of tax that distinguish it from any other payment made to the state
(6Marks)
- b) State and briefly explain six sources of interest income that is fully exempted from tax (6 Marks)
- c) Leone is contemplating starting a business. However, he is not sure of which form of ownership to assume, either partnership or company.
Advice Leone on the tax implications of a partnership and a company. (5 Marks)
- d) Briefly describe four types of tax assessments (8 Marks)
- e) Explain five problems associated with the administration of VAT in Kenya (5 Marks)

QUESTION TWO

Leo, who is manufacturer, purchased raw materials worth sh.1740,000 inclusive of VAT. He incurred conversion cost of 40% on the raw materials cost. He added a profit mark up of 15% and sold the goods to Kesho wholesalers.

The wholesaler incurred storage and transportation cost which was 20% and 50% on the product cost respectively. He then added a mark up of 10% and sold the goods to Jana Traders who is a retailer. Jana traders incurred transport and storage costs of sh. 250,000. The goods were then sold at a profit margin of 25%.

Assume the goods are chargeable to VAT at a standard rate of 16%

Required:

Compute the VAT payable by the three traders. (20 Marks)

QUESTION THREE

Alex Ngotho is a Tax manager with Maxim ltd During the year of income ended 31st December 2015, his income was as follows:

1. Basic salary of Sh. 75,000 per month (inclusive of PAYE sh.14,000 per month)
2. He is provided with a motor vehicle of 2000cc by the employer. The vehicle cost the employer Sh.2,250,000 in the year 2012
3. He is housed by the employer in a fully furnished house (cost of furniture to the employer, Sh.180, 000).He contributes 5% of his basic salary towards the rent.
4. On 30th September 2012, he obtained a mortgage loan from Nyumba building Society for Sh.4, 000,000 at an interest rate of 18% p.a.
5. He is a member of a registered pension scheme to which he contributes Sh.15, 000 p.m while the employer contributed a similar amount.
6. The employer provided him with electricity, water and a cook, for which the company paid the following amounts; Sh.16000p.a, Sh.8000 p.a and Sh .10, 000 p.a respectively. The fair market value for the cook was Sh. 12,000p.a

Required

- i) Total taxable income for Mr. Alex for the year ended 31 December 2015 (17 Marks)

ii) Tax liability for Mr. Alex Kuiba

(3 Marks)

QUESTION FOUR

a) Write brief notes the following:

i) Tax impact and Turn over tax

(6 Marks)

ii) PAYE and PIN number

(4 Marks)

b) State six obligations of a taxable person with respect to V.A.T

(6 Marks)

c) Briefly state four causes of tax evasion in Kenya

(4 Marks)