



Quality Education for the Real World

GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY-AUGUST 2023 SEMESTER

DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DBAC 017

COURSE TITLE: PRINCIPLES OF TAXATION

DATE: 3 AUGUST 2023

TIME: 8:00 AM – 11:00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

It is hard to find a single tax fulfill all the requirements of an ideal tax system. Consequently, authorities develop a variety of taxes so as to come up with an ideal tax system

- a) Describe at least five Principles of an optimal tax system [10 Marks]
- b) Explain five policy measures the government is out to achieve through taxation [10 Marks]
- c) Describe five ways through which the government of Kenya is able to raise its revenue domestically [10 Marks]
- d) Keystones Limited, a company based in Mombasa reported a trading profit of K.sh 666,255 after charging depreciation on its fleet of Motor vehicles, plant and machinery and office equipment amounting to K.sh 1,277, 455. From the revised rates of the various capital deductions available to the company it has emerged that total capital allowances for the year mount to K.sh 900,950
Compute the taxable income of the company and the tax payable if any given that the Tax authorities have revised the corporate tax rate for the year to be 30%.

[10 Marks]

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

Discuss the following terms as used in taxation policy of a government

- a) Economic stability [5 Marks]
- b) **Protection policy** [5 Marks]
- c) Redistribution of income and wealth [5 Marks]
- d) Incidence of a tax [5 Marks]

Question Three

The Kenya Revenue Authority have published the following information relating to the monthly employment income of residents applicable for the period commencing 1st of July 2023.

First Ksh 24,000	10%
Next Ksh 8,333	25%
Above 32,333	30%

Personal tax relief is Ksh 2,400

Mr Defo has a monthly basic pay of 335,000 and the aggregate of his other non cash employment benefits including a company car valued at Ksh 2,000,000 is K.sh 117,500. He is also provided with a house for which the company pays K,sh 65,000 per month. Mr Defo is deducted Ksh 25,000 for the use of the quarters.

- a) Determine Mr Defo's taxable monthly income [12 Marks]
- b) Compute the monthly tax liability for Mr Defo [8 Marks]

Question Four

In recent years the Kenyan tax payer has become highly informed and is now overly cautious about introduction of new taxes and the impact such a tax would have on their cost of living.

Discuss the following taxes as applied in Kenya

- a) Capital gains tax **[5 Marks]**
- b) Corporation tax **[5 Marks]**
- c) Withholding tax **[5 Marks]**
- d) Value added Tax **[5 Marks]**

Question five

Distinguish between the following terms

- a) Direct and indirect taxes **[4 Marks]**
- b) Impact and incidence of taxation **[4 Marks]**
- c) Proportional and progressive tax **[4 Marks]**
- d) Taxes and church offering **[4 Marks]**
- e) In explaining the behaviour of various taxes on income, depict graphically the proportion of income taken away by a tax whose rate is proportional, progressive, Regressive and/or digressive. **[4 Marks]**