**BUST 430: Business taxation (School based)**

**Answer TWO questions in section A, and ONE question in section B**

**SECTION A**

1. ABC LTD, a dealer in general merchandise made the following sales and purchases on the specified dates in January/ February 2011.

|  |  |  |
| --- | --- | --- |
| **DATE** | **SALES (Ksh. 000)** | **VAT RATE** |
| 12.1.11 | 3,000 | Standard |
| 30.1.11 | 5,000 | Exempt |
| 3.2.11 | 15,000 | Exempt |
| 3.2.11 | 10,000 | Standard |
| 15.2.11 | 20,000 | Zero rated |
| 19.2.11 | 5,000 | Standard |

|  |  |  |
| --- | --- | --- |
| **DATE** | **PURCHASES (Ksh. 000)** | **VAT RATE** |
| 2.1.11 | 2,000 | Standard |
| 5.1.11 | 3,000 | Exempt |
| 5.2.11 | 20,000 | Exempt |
| 6.2.11 | 20,000 | Standard |
| 12.2.11 | 12,000 | Zero rated |
| 15.2.11 | 15,000 | Standard |

a. Explain the concept of VAT, and its difference with sales tax (4 mks)

b. Explain the difference between **zero-rated** and **exempt** as applied to VAT (6 mks)

c. When is Input tax in VAT calculation is to be apportioned? (3.5 mks)

d. Draw a VAT account and determine the amount of VAT payable/ refundable to ABC LTD, and state the date by which the VAT return should be made to KRA in this case. (10 mks)

* 1. Discuss the following taxes levied in Kenya, citing relevant examples and the objects,
     1. Customs duty (4 mks)
     2. Excise tax (6 mks)
     3. Import declaration fee (3.5 mks)
  2. You have purchased a second hand vehicle from Japan at an equivalent of Ksh. 300,000. Calculate the total amount of duty payable (IDF, Excise, Customs, VAT) and calculate the total cost of the vehicle after clearance with the Revenue Authority at the port. (10 mks)

1. The following is a breakdown of the monthly pay for Mr. Otieno, an employee of ABC LTD.

|  |  |
| --- | --- |
| **Payment (Per month)** | **Ksh** |
| Basic salary | 120,000.00 |
| House allowance | 50,000.00 |
| Medical allowance | 3,000.00 |
| Commuter allowance | 2,000.00 |
| Motor vehicle fuel allowance | 12,000.00 |
|  |  |

In addition, he pays for the following expenses from his salary:

Membership fees to professional body (ICPAK) - Ksh. 1,000 p.m.

Mr. Otieno had also taken a mortgage of Ksh. 1 million from Housing Finance. He pays an interest on the mortgage of Ksh. 10,000.00 pm.

**Required:**

1. Calculate the amount of PAYE to be paid by Mr. Otieno per month, and determine his net monthly pay (12 mks)
2. Define the following terms as applied to PAYE.
   * Employer (2 mks)
   * Employee (2 mks)
   * Paying point (3 mks)
   * Monthly pay (4 mks)

**SECTION B**

1. Taxes may be levied for a variety of reasons. Discuss in detail the objectives of taxation (23.5 mks)
2. i. Discuss the following terms as used in taxation
   1. Incidence of a tax (3 mks)
   2. Economic incidence of a tax(2 mks)
   3. Statutory incidence of a tax (2 mks)

ii. Using diagrams, explain the economic effects of the imposition of a tax for goods that have elastic demand and those that have inelastic demand (16 mks)