



CERTIFICATE IN ACCOUNTING AND MANAGEMENT SKILLS (CAMS)

LEVEL II

ELEMENTS OF TAXATION

WEDNESDAY: 3 December 2025. Afternoon Paper.

Time Allowed: 3 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (For employment income including wife's employment, self-employment and professional income).

Year of income 2024.

Assume the following rates of tax applied throughout the year of income 2024:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 | 24,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| 32,334 - 500,000 | 388,001 - 6,000,000 | 30% |
| 500,001 - 800,000 | 6,000,001 - 9,600,000 | 32.5% |
| Excess over 800,000 | Excess over 9,600,000 | 35% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | | |
|---|-------------------------------------|---|--|--------------------------|---------------------------|--------------------------|
| | | | Monthly rates (Sh.) | Annual rates (Sh.) | Monthly rates (Sh.) | Annual rates (Sh.) |
| Capital expenditure incurred on: | | | | | | |
| (a) Buildings: | | | | | | |
| • Hotel building | 50% in the first year of use | 25% | Up to 1200 cc | 3,600 | 43,200 | |
| • Building used for manufacture | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 | |
| • Hospital buildings | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 | |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 | |
| • Educational/hostels building | 10% per year on straight line basis | 25% | 2001 - 3000 cc | 8,600 | 103,200 | |
| • Commercial building | 10% per year on straight line basis | 25% | Over - 3000 cc | 14,400 | 172,800 | |
| (b) Machinery: | | | | | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | (ii) Pick-ups, Panel Vans (unconverted) | | | |
| • Hospital equipment | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 | |
| • Ships or aircraft | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | (iii) Land Rovers/Cruisers | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | | | | |
| • Furniture and fittings | 10% per year on straight line basis | | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | | |
| • Other machinery | 10% per year on straight line basis | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|------------------------|-----------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. The following buildings qualify for investment allowance, EXCEPT _____.
 A. Commercial building
 B. Residential building
 C. Hotel building
 D. Educational building (2 marks)

2. The following are statutory obligations of a registered person under the value added tax (VAT) Act, EXCEPT to _____.
 A. file tax returns on time
 B. pay tax due on time
 C. pay penalties and interest
 D. pay tax on behalf of employee (2 marks)

3. Which one of the following statements explains the meaning of Pseudo tax? It's a tax charged _____.
 A. on incomes made by limited companies
 B. by the government for particular services offered to the tax payer
 C. on locally manufactured goods
 D. on the value added to the price of goods and services (2 marks)

4. Mary Shan is an employee of Basi Ltd. During the year ended 31 December 2024, she earned a basic income of Sh.2,500,000 exclusive of housing benefit. The employer provided her with a rented house for which the employer paid Sh.30,000 per month, while the market rental value of the house was Sh.45,000 per month. Mary contributed Sh.5,000 per month towards the rent. Determine Mary Shan's taxable income for the year ended 31 December 2024.
 A. Sh.2,500,000
 B. Sh.2,875,000
 C. Sh.2,980,000
 D. Sh.3,040,000 (2 marks)

5. The following are non-taxable benefits from employment, EXCEPT _____.
 A. employer payment on behalf of the employee to a registered mortgage scheme
 B. employer contribution on behalf the employee to a registered pension scheme
 C. employer medical expenses reimbursement to employee in non-discriminatory medical scheme
 D. school fees paid by the employer for the employee's children if it was taxed on the employer (2 marks)

6. The following statements explains when value added tax (VAT) is due and payable, EXCEPT _____.
 A. when the goods are manufactured and packed ready for distribution
 B. when goods or services are supplied to the purchaser
 C. when an invoice is issued in respect of the supply
 D. when part or full payment for the supply is made (2 marks)

7. Tess Mbiu, a registered trader for VAT gave a business gift to a client. The cost of the gift was Sh.20,400, which would normally sell for Sh.24,500 exclusive of VAT at the rate of 16%. How much output VAT should Tess Mbiu include in the VAT returns in respect of the gift?
 A. Sh.3,264
 B. Sh.0
 C. Sh.3,920
 D. Sh.9,248 (2 marks)

8. The following are methods of tax evasion, EXCEPT _____.
 A. under declaration of salary income
 B. claiming allowable deductions and exemptions
 C. keeping double books of accounts
 D. falsifying business expenses in the books of accounts (2 marks)

9. Makaa Ltd. incurred the following expenses, which were deducted from its company's books of accounts before calculating the net profit for the year ended 31 December 2024:

| | Sh. |
|---|---------|
| Penalty for late payment of tax | 155,000 |
| Printing and stationeries | 44,000 |
| Donations to political parties | 138,000 |
| Legal fees relating to trading transactions | 130,000 |

Calculate the total allowable expenses for Makaa Ltd. for income tax purposes in respect of the expenses incurred during the year.

- A. Sh.199,000
- B. Sh.174,000
- C. Sh.168,000
- D. Sh.293,000

(2 marks)

10. Yara Ltd. is a withholding tax agent and deals with leather products. During the month of October 2025, the company purchased goods from Tala Enterprises worth Sh.902,016 inclusive of VAT. How much tax did the company withhold?

- A. Sh.18,040.32
- B. Sh.144,322.56
- C. Sh.15,552
- D. Sh.124,416

(2 marks)

11. The following are advantages of progressive taxes system, EXCEPT _____.

- A. they generate higher revenue for the government
- B. they promote fairness in the tax system
- C. they have limited coverage among taxpayers
- D. they promote income equality

(2 marks)

12. A withholding tax agent must remit the tax so deducted to the Commissioner of Domestic Taxes Department within _____ working days after the deduction is made.

- A. 7
- B. 5
- C. 14
- D. 30

(2 marks)

13. Kongo Ltd. commenced business operations on 1 January 2024 after incurring various capital expenditures. Among the assets purchased was a Toyota land Cruisers used for the business, which costed the company Sh.3,450,000. What was its investment allowance deduction in the year 2024?

- A. Sh.86,400
- B. Sh.345,000
- C. Sh.690,000
- D. Sh.862,500

(2 marks)

14. _____ is a tax system in which the rate of tax decreases as income increases.

- A. Progressive tax
- B. Regressive tax
- C. Proportional tax
- D. Indirect tax

(2 marks)

15. _____ is a factor that could influence tax shifting in your country.

- A. Purpose of the product
- B. Education level of suppliers
- C. Size of population
- D. Elasticity of demand and supply

(2 marks)

16. Embo Ltd.'s accounting profit for the year ended 31 December 2024 was arrived at after deducting the following expenses items:

| | Sh. |
|---------------------------------|---------|
| • Salaries and wages | 289,700 |
| • Goodwill amortisation | 711,360 |
| • Donation to political party | 121,520 |
| • Loss on sale of motor vehicle | 234,000 |
| • Finance cost | 196,560 |

How much would the company add back to its accounting profits to arrive at its tax adjusted profit?

- A. Sh.1,356,580
- B. Sh.1,066,880
- C. Sh.1,263,440
- D. Sh.1,553,140

(2 marks)

17. In the month of September 2025, James Ombaka received a gross salary of Sh.348,000 and contributed Sh.45,000 to a registered pension scheme. What amount of the contribution will be allowable for deduction when determining the taxable pay.
A. Sh.20,000
B. Sh.393,000
C. Sh.30,000
D. Sh.45,000 (2 marks)

Use the information below to answer Question 18 and Question 19.

18. Chaka Traders reported sales of Sh.10,440,000 (inclusive of VAT at 16%) in November 2025 while standard rate purchases amounted to Sh.2,204,000 (exclusive VAT at 16%). From the reported sales Sh.348,000 relates to exports. How much VAT will Chaka Traders pay to the revenue authority for the month of November 2025.
A. Sh.352,640
B. Sh.1,392,000
C. Sh.304,000
D. Sh.1,039,360 (2 marks)

19. By which last date should Chaka Traders file and make VAT payment to the revenue authority to avoid any penalty.
A. 25th December 2025
B. 20th December 2025
C. 31st December 2025
D. 31st January 2026 (2 marks)

20. Under Income Tax Act, farmers are required to report their farming income:
A. Only when income exceeds Sh.500,000
B. Annually, along with other business income
C. Quarterly, regardless of income levels or profits
D. Farming income is never reported (2 marks)

21. What is the applicable withholding tax rate for winnings from betting, gaming, prize competition and gambling?
A. 15%
B. 10%
C. 5%
D. 20% (2 marks)

22. The following are deductible when determining taxable income, EXCEPT _____.
A. contributions to a registered pension scheme
B. contributions to Affordable Housing Levy
C. contributions to National Industrial Training Authority
D. contributions to Social Health Insurance Fund (2 marks)

23. Advance tax is payable to the Revenue Authority _____.
A. after filing annual returns
B. when profits are made
C. at the end of every financial year
D. before a commercial or public service vehicle is licensed (2 marks)

24. During the year of income 2024, Sharon received Sh.156,000 as net interest from his savings at Ngao Commercial Bank Ltd. Determine withholding tax deducted by the bank on gross interest earned.
A. Sh.23,400
B. Sh.27,529
C. Sh.15,600
D. Sh.9,600 (2 marks)

25. _____ is the due date for paying corporate tax for companies to the Revenue Authority in order to avoid incurring interest and penalties.
A. 30th April of the year following the year of income
B. 30th June of the following year
C. 31st December of the following year
D. 30th April of the same year (2 marks)

26. The primary purpose of installment taxes is to _____.
 A. encourage early payment of taxes
 B. spread tax liability throughout the year for ease of payment
 C. increase penalties for non-payment
 D. ensure companies file tax returns on time (2 marks)

27. Taxes on carbon emissions primarily aim to _____.
 A. generate revenue for governments
 B. reduce a government's reliance on fossil fuels
 C. internalise environmental costs and reduce pollution
 D. fund social welfare programs exclusively (2 marks)

28. Which one of the following statements is **TRUE** about income earned from illegal activities?
 A. Cannot be taxed by law
 B. Is taxable as other income in most jurisdictions
 C. Is generally exempt from taxation
 D. Carries automatic immunity from prosecution when reported (2 marks)

29. The primary purpose of the petroleum levy in Kenya is _____.
 A. to fund road maintenance
 B. to stabilise local fuel pump prices
 C. to support oil exploration activities
 D. to subsidise electricity generation (2 marks)

30. The following are circumstances under which a late objection could be accepted by the commissioner, **EXCEPT** _____.
 A. when the tax payer has no power in the office
 B. when the tax payer is sick to the extent to which he/she cannot handle his/her tax matters
 C. when the tax payer was out of the country
 D. when the tax payer is held in a police custody (2 marks)

31. Which one of the following statements is **TRUE** about a VAT registered trader dealing in exempt goods only.
 A. Should charge VAT at a reduced rate
 B. Should only charge VAT on exports
 C. Should not charge VAT and cannot claim input VAT
 D. Should charge VAT at 16% (2 marks)

32. Paul Babu is an employee of Slack Traders. He was provided with a fully furnished house by the employer on 1 January 2024. The cost of the furniture was Sh.300,000 to the employer.
 Determine his taxable furniture benefit.
 A. Sh.36,000
 B. Sh.72,000
 C. Sh.60,000
 D. Sh.35,000 (2 marks)

33. Nyabo Enterprises received a tax invoice of Sh.125,280 inclusive of VAT at 16% for the purchase of a laptop. Determine the cost price of the laptop exclusive of VAT.
 A. Sh.105,235
 B. Sh.108,000
 C. Sh.145,325
 D. Sh.153,000 (2 marks)

34. _____ is the number of Tribunal members required to validly constitute a sitting for the hearing and determination of the appeal in accordance with the Tax Appeals Tribunal Act.
 A. 7 members, including the Chairperson
 B. 5 members, with at least one being a legal practitioner
 C. 3 members, one of whom must be an advocate of the High Court of Kenya
 D. 10 members, at least half representing the Kenya Revenue Authority (2 marks)

35. A tax return submitted after the statutory filing deadline is subject to _____.
 A. a penalty
 B. interest
 C. additional assessment
 D. both penalty and interest (2 marks)

36. Augustine Kaka received a basic salary of Sh.600,000 in the year 2024. He also received a house allowance of Sh.100,000 during the year. How much tax will Augustine Kaka pay for the year 2024?
 A. Sh.152,400
 B. Sh.147,400
 C. Sh.123,600
 D. Sh.118,600 (2 marks)

37. Under the Kenyan Income Tax Act, a person qualifies as a resident for tax purposes if they have a permanent home
 A. in Kenya and are present in Kenya for at least 183 days in the year of income
 B. in Kenya and are present in Kenya for any period during the year of income
 C. outside Kenya but are present in Kenya for any period during the year of income
 D. in Kenya and are present in Kenya for an average of 122 days in the current year and each of the two-preceding year (2 marks)

Use the following information to answer Question 38 to Question 43.

Joram Msebi is employed as the Human Resource Officer at Limmah Ltd. He has provided the following information relating to his income for the year ended 31 December 2024:

(i) Basic salary Sh.75,000 per month. (Monthly PAYE deducted Sh.28,000)
 (ii) He was entitled to the following monthly allowances:

| Sh. |
|---------------------------------|
| Travelling allowance 20,000 |
| Entertainment allowance 15,000 |
| Responsibility allowance 10,000 |

 (iii) The company provided him with a security guard and a cook at his house who were paid monthly salaries of Sh.25,000 and Sh.18,000 respectively.
 (iv) He contributed Sh.9,000 per month to a registered pension scheme.
 (v) In the month of December 2024, he received Sh.62,000 as bonus. The company pays all employees a bonus at the end of the year.
 (vi) He was provided with a fully furnished house where the value of furniture was Sh.320,000.
 (vii) He was enrolled in a medical scheme for Sh.150,000 annually. The medical scheme covers all employees.
 (viii) He is a member of a Home Ownership Savings Plan (HOSP) where he contributes Sh.15,000 per month towards the plan.
 (ix) He received a bonus after being nominated as the employee of the year amounting to Sh.52,000 during the year.
 (x) He received Sh.120,000 from Government Infrastructure Bonds during the year.

38. Determine the taxable furniture benefit for Joram Msebi for the year ended 31 December 2024.
 A. Sh.76,800
 B. Sh.38,400
 C. Sh.32,000
 D. Sh.48,000 (2 marks)

39. Determine the taxable housing benefit if any for Joram Msebi for the year ended 31 December 2024.
 A. Sh.472,800
 B. Sh.256,900
 C. Sh.384,200
 D. Sh.316,260 (2 marks)

40. Determine the total contribution to Home Ownership Saving Plan (HOSP) deduction for Joram Msebi for tax purposes if any for the year ended 31 December 2024.
 A. Sh.48,000
 B. Sh.72,000
 C. Sh.96,000
 D. Sh.180,000 (2 marks)

41. Determine the contribution to pension scheme deductible while computing taxable income for Joram Msebi for the year ended 31 December 2024.

A. Sh.240,000
B. Sh.720,000
C. Sh.360,000
D. Sh.108,000

(2 marks)

42. Determine the total taxable income for Joram Msebi for the year ended 31 December 2024.

A. Sh.900,000
B. Sh.1,540,400
C. Sh.2,220,660
D. Sh.2,108,000

(2 marks)

43. Determine tax payable (if any) by Joram Msebi for the year ended 31 December 2024.

A. Sh.336,000
B. Sh.238,798
C. Sh.267,598
D. Sh.293,598

(2 marks)

44. Kidewo Ltd. purchased computers costing Sh.1,200,000 and an office cabinet costing Sh.280,000 on 1 January 2024 for use in its business. Calculate the investment deduction for the year ended 31 December 2024.

A. Sh.300,000
B. Sh.328,000
C. Sh.148,000
D. Sh.370,000

(2 marks)

45. The Commissioner of Domestic Taxes is required to make an objection decision within _____ days from the date the objection is lodged or the objection shall be deemed allowed if no decision is made.

A. 90
B. 14
C. 60
D. 30

(2 marks)

46. The Voluntary Tax Disclosure Programme applies to tax liabilities relating to the period up to _____.
A. 31 December 2019
B. 31 December 2020
C. 31 December 2024
D. 31 December 2023

(2 marks)

47. During the year of income 2024, Samuel Wambua received Sh.120,000 as reimbursement for medical expenses for himself and his family. The company reimburses senior management staff for medical bills incurred. What amount should be considered as a taxable benefit for Samuel Wambua from medical expenses.

A. Sh.120,000
B. Sh.Nil
C. Sh.18,000
D. Sh.12,000

(2 marks)

48. The period within which a registered taxpayer in Kenya must claim input tax (VAT) is _____ after the end of the tax period in which the supply or importation occurred.

A. 6 months
B. 3 months
C. 12 months
D. 9 months

(2 marks)

49. The following transactions require one to have a Personal Identification Number (PIN), EXCEPT _____.
A. When transferring land
B. When registering a motor vehicle
C. Registration of birth
D. Application of insurance cover

(2 marks)

50. What is the applicable withholding tax rate on the sale of scrap metal for both residents and non-residents.

- A. 3%
- B. 5%
- C. 2%
- D. 1.5%

(2 marks)

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CAMS LEVEL II
ELEMENTS OF TAXATION
WEDNESDAY: 20 August 2025. Afternoon Paper.
Time Allowed: 3 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (For employment income including wife's employment, self-employment and professional income).

Year of income 2024.

Assume the following rates of tax applied throughout the year of income 2024:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|-------------------------------------|------------------------------------|-------------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| 32,334 - 500,000 | 388,001 - 6,000,000 | 30% |
| 500,001 - 800,000 | 6,000,001 - 9,600,000 | 32.5% |
| Excess over 800,000 | Excess over 9,600,000 | 35% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | | |
|---|-------------------------------------|---|--|------------------------------------|-----------------------------------|------------------------|
| | | | (i) Saloons, Hatch Backs and Estates | Monthly rates (Sh.) | Annual rates (Sh.) | www.chopi.co.ke |
| Capital expenditure incurred on: | | | | | | |
| (a) Buildings: | | | | | | |
| • Hotel building | 50% in the first year of use | 25% | Up to 1200 cc | 3,600 | 43,200 | |
| • Building used for manufacture | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 | |
| • Hospital buildings | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 | |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 | |
| • Educational/hostels building | 10% per year on straight line basis | 25% | 2001 - 3000 cc | 8,600 | 103,200 | |
| • Commercial building | 10% per year on straight line basis | 25% | Over - 3000 cc | 14,400 | 172,800 | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 | |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 | |
| • Ships or aircraft | 50% in the first year of use | 25% | | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | | | | |
| • Furniture and fittings | 10% per year on straight line basis | | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | (iii) Land Rovers/Cruisers | 7,200 | 86,400 | |
| • Other machinery | 10% per year on straight line basis | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | |

| Commissioner's prescribed benefit rates: | Monthly rates | Annual rates |
|---|----------------------|---------------------|
| | (Sh.) | (Sh.) |
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. Which of the following is **NOT** a type of tax assessment in your country?
 A. Self-assessment
 B. Voluntary assessment
 C. Amended assessment
 D. Additional assessment (2 marks)

2. The following are non-allowable expenses when determining taxable income from a partnership business, **EXCEPT** _____.
 A. fines and penalties
 B. commission paid to partners
 C. partners salaries
 D. investment allowances (2 marks)

3. Which one of the following expenses is **NOT** allowable against employment income?
 A. Cost of travelling in performance of official duties
 B. Cost of travelling from home to place of work
 C. The extra cost of living away from home on official duty
 D. The vehicle running expenses when employee uses his own car to enable him perform his official duties (2 marks)

4. What is the treatment of increase in general provisions for bad debts in computations of taxable business income?
 A. It is a disallowable expense
 B. It is an allowable expense
 C. It is an allowable income
 D. It is a disallowable income (2 marks)

5. Which one of the following assets is **NOT** considered for investment allowance purpose?
 A. Land
 B. Sewerage system
 C. Commercial buildings
 D. Vehicles (2 marks)

6. Bomba Feeds Ltd. purchased animal feed raw materials for Sh.1,334,000 inclusive of VAT. They incurred transport cost of Sh.322,000 and conversion cost of Sh.460,000. The improved product was sold at a profit mark up of 10%. Determine VAT payable by Bomba Feeds Ltd.
 A. Sh.140,000
 B. Sh.184,000
 C. Sh.156,032
 D. Sh.200,003 (2 marks)

7. A company incurred the following legal fees in the year 2024:

| | Sh. |
|--|---------|
| • Legal fees relating to debt collection | 96,000 |
| • Legal fees relating to company formation | 192,000 |
| • Legal fees relating to issue of debentures | 112,000 |
| • Legal fees relating to issue of tender documents | 64,000 |

How much should the company deduct as allowable expense for tax purpose?
 A. Sh.464,000
 B. Sh.272,000
 C. Sh.160,000
 D. Sh.224,000 (2 marks)

8. Jane Wambui obtained a loan amounting to Sh.3,600,000 from employer, Gituamba Ltd., at an interest rate of 9% per annum while the market interest rate was 12% per annum. What is the fringe benefit tax per month?
 A. Sh.2,700
 B. Sh.12,000
 C. Sh.9,000
 D. Sh.108,000 (2 marks)

9. Kate Wasike, a company secretary, was provided with a car by her employer which she used during the year 2024. The car was 2500 cc and had cost the company Sh.1,300,000. What was her taxable benefit for the year of income 2024?

A. Sh.325,000
 B. Sh.390,000
 C. Sh.103,200
 D. Sh.312,000

(2 marks)

10. The transfer of tax burden from one tax payer to another is referred as _____.

A. tax incidence
 B. tax avoidance
 C. tax evasion
 D. tax shifting

(2 marks)

11. Mabea Traders made purchases for Sh.200,000 and sales for Sh.360,000 for the month of December 2024. Given that the prices are quoted exclusive of VAT and VAT rate is 16%, determine the VAT payable by or refundable to Mabea Traders for the month of December 2024.

A. Sh.25,600
 B. Sh.57,600
 C. Sh.36,000
 D. Sh.32,000

(2 marks)

12. Vashna Traders imported goods in December 2024 valued at Sh.900,000 being cost, insurance and freight excluding import duty and VAT, import duty rate was 20% during the month. Determine the VAT payable by Vashna Traders for the month of December 2024?

A. Sh.172,800
 B. Sh.144,000
 C. Sh.180,000
 D. Sh.200,448

(2 marks)

13. Indirect taxes are characterised by _____.

A. taxes that are paid directly by the taxpayer
 B. taxes that can be shifted to another party
 C. taxes applied only to income
 D. taxes that do not impact consumer prices

(2 marks)

14. Which one of following instruments are charged stamp duty as a source of revenue by the government?

A. Award certificates
 B. Valuation certificates
 C. Lease agreements
 D. Bill of lading

(2 marks)

15. Baltimore Ltd. is a withholding tax agent dealing with electronic goods. During the month of September 2024, the company purchased electronics from Beulah Traders worth Sh.626,400 inclusive of VAT. If the VAT rate is 16%, how much tax did the company withhold?

A. Sh.10,800
 B. Sh.22,500
 C. Sh.86,400
 D. Sh.100,224

(2 marks)

16. Which one of the following expenses is not allowable for the purpose of computing capital gains tax (CGT)?

A. Mortgage interest
 B. Cost of advertising to find a buyer
 C. Allowance for bad debt
 D. Legal fee

(2 marks)

17. Mabati Manufacturers Ltd. commenced operations on 1 January 2024, after incurring the following expenditure:

| | Sh. |
|-------------------------|-------------|
| • Factory building | 240,000,000 |
| • Processing machinery | 96,000,000 |
| • Delivery vans | 7,200,000 |
| • Director's Saloon car | 3,600,000 |

Required:

Determine the investment allowance due to Mabati Manufacturers Ltd. for the year 2024.

- A. Sh.170,550,000
- B. Sh.170,700,000
- C. Sh.184,200,000
- D. Sh.34,320,000

(2 marks)

18. Which one of the following is a circumstance under which a late objection might be accepted by the commissioner?

- A. When the taxpayer is committed to a new assignment to the extent to which he/she cannot handle his/her tax matters
- B. When the taxpayer is undertaking a new capital project
- C. When the taxpayer is held in a police custody
- D. When the taxpayer has no power in the office

(2 marks)

19. What is the taxable house benefit for an agricultural employee provided with a house in a farm or plantation?

- A. Taxable amount is 10% of the total income less own contribution towards the house
- B. Taxable amount is 15% of the total income less own contribution towards the house
- C. Taxable amount is 10% of the employment income less own contribution towards the house
- D. Taxable amount is 15% of the employment income less own contribution towards the house

(2 marks)

20. _____ is a type of tax shifting where a company facing an increase in taxes may decide to raise the prices of its goods and as a result, consumers end up paying more.

- A. Straight shifting
- B. Backward shifting
- C. Online shifting
- D. Forward shifting

(2 marks)

21. Goods and services exempted from value added tax (VAT) are listed under which schedule of the income tax Act.

- A. First schedule
- B. Second schedule
- C. Third schedule
- D. Fourth schedule

(2 marks)

22. A business owner in Kenya deliberately under-reports sales revenue to lower their tax liability. This is an example of _____.

- A. tax avoidance
- B. tax evasion
- C. tax deferral
- D. legal tax planning

(2 marks)

23. The following are conditions under which farming income is taxable in Kenya, EXCEPT _____.

- A. farming activities are conducted commercially and for profit
- B. farming income exceeds Sh.1 million
- C. farmer does hobby farming and fails to reinvest the earnings
- D. farmer is a non resident

(2 marks)

24. Which one of the following statements **BEST** defines income tax?

- A. A tax on the purchase of goods and services
- B. A tax imposed on the profit made from selling an asset
- C. A tax levied on the earnings of individuals and businesses
- D. A tax on the value added at each stage of production

(2 marks)

25. Which of the following is a characteristic of a progressive tax?

- A. The tax rate decreases as income increases
- B. The tax rate remains constant regardless of income
- C. The tax rate increases as income increases
- D. The tax only applies to capital gains

(2 marks)

26. Which of the following is **NOT** a circumstance under which duty paid may be refunded?

- A. When the goods are returned to the supplier
- B. If the duty was paid in error
- C. When the goods are sold at a loss
- D. If the goods are damaged during shipping

(2 marks)

27. The Kenyan government is planning to introduce a tax that increases as income levels rise. This tax follows which principle of taxation?
 A. Proportional taxation
 B. Equity and elasticity
 C. Simplicity and convenience
 D. Certainty and diversity (2 marks)

28. Kate Mapeni is an investor and she received the following incomes in the year 2024:
 • Dividends from Kamakil Ltd.: Sh.242,000 (net)
 • Dividends from Wamo Ltd.: Sh.200,000 (gross)
 • Interest from Himizo Bank Ltd.: Sh.58,000 (net)
 What is the total withholding tax deducted from the above income?
 A. Sh.28,600
 B. Sh.32,972
 C. Sh.40,300
 D. Sh.50,000 (2 marks)

29. James Matu gross rental income for the month of November 2024 from his commercial property amounted to Sh.1,580,000, before deducting the following expenses:
 Sh.
 • Caretaker salary 60,000
 • Repairs and maintenance 280,000
 • Construction of emergency exit 540,000
 Determine his taxable rental income for the month of November 2024.
 A. Sh.1,186,000
 B. Sh.1,240,000
 C. Sh.1,000,000
 D. Sh.700,000 (2 marks)

30. Under the residential rental income tax scheme, what is the tax payable on Sh.1,000,000 in annual rental income and expenses amounting to Sh.300,000 which are deductible?
 A. Sh.70,000
 B. Sh.75,000
 C. Sh.200,000
 D. Sh.50,000 (2 marks)

31. A property in Kenya is sold for Sh.20 million, with original cost of Sh.15 million. What is the capital gains tax (CGT) due?
 A. Sh.200,000
 B. Sh.750,000
 C. Sh.500,000
 D. Sh.1,000,000 (2 marks)

32. A taxpayer disputes an assessment by the Kenya Revenue Authority. What is the first step they must take before filing an appeal with the Tax Appeals Tribunal?
 A. Request an alternative dispute resolution (ADR)
 B. File a notice of objection with the Commissioner
 C. File the appeal directly with the Tribunal
 D. Pay the disputed tax in full (2 marks)

33. In Kenya, under what circumstances is digital service tax (DST) applied to a transaction?
 A. When a non-resident provides services over the internet to Kenyan users
 B. When a resident company sells digital services to non-residents
 C. When a foreign company advertises on Kenyan platforms
 D. Both A and C are correct (2 marks)

34. A company has a turnover of Sh.10 million. It opts to pay turnover tax at the prescribed rate. How much tax will it pay in total for the year?
 A. Sh.100,000
 B. Sh.150,000
 C. Sh.300,000
 D. Sh.400,000 (2 marks)

35. A tax system that allows taxpayers to remit taxes during their monthly salary deductions demonstrates which principle of taxation?
A. Certainty
B. Convenience
C. Flexibility
D. Elasticity (2 marks)

36. What is the penalty for failing to deduct withholding tax as an employer, assuming the tax due is Sh.500,000?
A. Sh.250,000
B. Sh.100,000
C. Sh.50,000
D. Sh.75,000 (2 marks)

37. A Kenyan resident spends 200 days in the country in a tax year and earns income from a business in Tanzania. How will this income be taxed in Kenya?
A. It is subject to Kenyan income tax as the individual is a tax resident
B. It is taxed only in Tanzania under a double taxation agreement
C. It is exempt from Kenyan taxation as it is earned outside Kenya
D. None of the above (2 marks)

38. A Kenyan business receives consultancy services from a non-resident company, incurring fees of Sh. 2,000,000. How much withholding tax should the Kenyan company deduct?
A. Sh.200,000
B. Sh.300,000
C. Sh.400,000
D. Sh.500,000 (2 marks)

39. Which one of the following is **NOT** a reason for deregistration as a taxpayer in Kenya?
A. Change of business structure
B. Death of the taxpayer
C. Failure to file returns for three consecutive years
D. Change of residence address (2 marks)

40. What is the current rate of Digital Service Tax (DST) applicable in Kenya?
A. 1.5%
B. 3%
C. 5%
D. 15% (2 marks)

41. A company claims expenses for donated equipment to a registered charity. Under what conditions can this be deducted from taxable income?
A. The donation must be in cash
B. The donation must directly benefit the public
C. The donation must be recorded and verified by the Kenya Revenue Authority (KRA)
D. Both B and C are correct (2 marks)

42. If a property located within a municipality valued at Sh.5,000,000 is transferred, how much stamp duty is payable?
A. Sh.200,000
B. Sh.150,000
C. Sh.250,000
D. Sh.300,000 (2 marks)

43. Airport tax in Kenya is primarily collected from _____.
A. airlines operating in Kenya
B. travelers departing from Kenyan airports
C. importers of aviation equipment
D. passengers using chartered flights (2 marks)

44. Revenue generated from airport taxes is primarily used for _____.
A. funding Kenya Airways operations
B. expanding airport infrastructure and maintaining facilities
C. paying staff salaries at Kenyan airports
D. supporting tourism campaigns abroad (2 marks)

45. A restaurant in Nairobi collected Sh.1,000,000 in gross sales during year 2024. How much catering levy did the owner pay in the year?
A. Sh.50,000
B. Sh.30,000
C. Sh.20,000
D. Sh.0 (2 marks)

46. Which one of the following is **NOT** a purpose of the petroleum levy in Kenya?
A. Stabilising fuel prices for consumers
B. Funding road maintenance and infrastructure
C. Supporting the oil exploration industry
D. Raising revenue for the government (2 marks)

47. Failure to remit stamp duty in Kenya within the stipulated time leads to _____.
A. an interest charge on the overdue amount
B. cancellation of the property transfer
C. legal action by the Ministry of Lands
D. a flat penalty of Sh.100,000 (2 marks)

48. Which of the following is exempt from stamp duty in Kenya?
A. Transfer of property under a corporate reorganisation
B. Sale of agricultural land
C. Transfer of property between unrelated parties
D. Sale of residential property (2 marks)

49. Karuri Ltd.'s net taxable profit for the year ended 31 December 2024 was Sh.24,336,000. The total installment tax paid during the year ended 31 December 2024 was Sh.6,463,600.

Required:

Determine the net tax payable (if any) by Karuri Ltd. for the year ended 31 December 2024.

A. Sh.6,463,600
B. Sh.837,200
C. Sh.7,300,800
D. Sh.0 (2 marks)

50. Which one of the following is a direct tax in Kenya?
A. Value Added Tax (VAT)
B. Excise duty
C. Income tax
D. Customs duty (2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

THURSDAY: 24 April 2025. Afternoon Paper.

Time Allowed: 3 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (for employment income including wife's employment, self-employment and professional income).

Year of income 2024.

Assume the following rates of tax applied throughout the year of income 2024:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| 32,334 - 500,000 | 388,001 - 6,000,000 | 30% |
| 500,001 - 800,000 | 6,000,001 - 9,600,000 | 32.5% |
| Excess over 800,000 | Excess over 9,600,000 | 35% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal installments) | Prescribed benefit rates of motor vehicles provided by employer | | | |
|---|-------------------------------------|--|--|--------|---------------------------|--------------------------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | | Monthly rates (Sh.) | Annual rates (Sh.) |
| (a) Buildings: | | | Up to 1201 - 1200 cc | 3,600 | 43,200 | |
| • Hotel building | 50% in the first year of use | 25% | 1501 - 1500 cc | 4,200 | 50,400 | |
| • Building used for manufacture | 50% in the first year of use | 25% | 1751 - 1750 cc | 5,800 | 69,600 | |
| • Hospital buildings | 50% in the first year of use | 25% | 2001 - 2000 cc | 7,200 | 86,400 | |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 3000 cc | 8,600 | 103,200 | |
| • Educational/hostels building | 10% per year on straight line basis | | Over - 3000 cc | 14,400 | 172,800 | |
| • Commercial building | 10% per year on straight line basis | | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 | |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 | |
| • Ships or aircraft | 50% in the first year of use | 25% | | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | (iii) Land Rovers/Cruisers | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | | 7,200 | 86,400 | |
| • Furniture and fittings | 10% per year on straight line basis | | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | | |
| • Other machinery | 10% per year on straight line basis | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|------------------------|-----------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. The following are rules of taxation of incomes in Kenya, **EXCEPT** _____.
 A. the income must have accrued in Kenya
 B. the payment of the services must have originated in Kenya
 C. the services must have been rendered in Kenya
 D. the recipient of the income must be in Kenya (2 marks)

2. Which one of the following is **NOT** a disadvantage of indirect taxes imposed in your country?
 A. Lack of civic consciousness
 B. They feed inflation
 C. Uncertain revenue
 D. They are imposed on a wide range of businesses (2 marks)

3. Which one of the following is **NOT** a disadvantage of high borrowing by the government?
 A. Increases interest rate
 B. Increases productivity
 C. Increases inflation
 D. Decreases morale of citizens (2 marks)

4. Which one of the following is **NOT** a reason why a country might prefer a multiple tax rate over a single tax system?
 A. Sufficient revenue
 B. Minimise incidence of tax evasion
 C. Minimise incidence of tax avoidance
 D. Desire to regulate externalities (2 marks)

5. Which one of the following statements is **NOT** true about residence in relation to tax?
 A. Residential status is used in determining the scope of taxation
 B. Residential status is used in determining the nationality of a person
 C. Residential status is used in determining the applicable tax rates
 D. Residential status is used in determining applicable reliefs (2 marks)

6. The following are sources of national government revenue, **EXCEPT** _____.
 A. donations and grants
 B. fines and penalties
 C. rates
 D. taxes (2 marks)

7. The following changes occurring to a registered VAT trader **MUST** be notified to the commissioner within 14 days, **EXCEPT** _____.
 A. change of physical address of the business
 B. change of partners in a partnership deed
 C. change of company structure
 D. change of place of business (2 marks)

8. Which one of the following information should be contained in a VAT tax invoice?
 A. Name, address and VAT registration number of the person making supply
 B. The name, address of person serving the customer
 C. Residential status of the supplier of goods and services
 D. Total value of the goods bought by the supplier during the month (2 marks)

Use the following information to answer Question 9 and Question 10.

Okra Enterprises deals with valuable goods. During the month of December 2024, the company purchased goods from Mwananchi Ltd. A VAT registered company worth Sh.1,080,540 inclusive of value added tax (VAT). VAT rate is 16%.

9. Determine the amount of money that was attributable to the sale, net of VAT.
 A. Sh.1,080,540
 B. Sh.149,040
 C. Sh.931,500
 D. Sh.172,886 (2 marks)

10. Compute the VAT payable to the revenue authority by Mwananchi Ltd.

A. Sh.150,300
B. Sh.149,040
C. Sh.931,500
D. Sh.172,886

(2 marks)

11. Which one of the following is **NOT** a reason why a person registered for VAT may be deregistered?

A. Death of a sole trader
B. Leaving the country
C. Non-payment of VAT
D. Insolvency or bankruptcy

(2 marks)

12. Kech Ltd. is a VAT withholding tax agent and deals with plastic products. During the month of October 2024, the company purchased goods from Pete Ltd. worth Sh.939,600 inclusive of VAT at the rate of 16%. How much VAT did Pete Ltd. withhold?

A. Sh.16,200
B. Sh.150,336
C. Sh.129,600
D. Sh.138,510

(2 marks)

13. Mateni Ltd. exported goods to Mwanzo Ltd. a company based in Uganda, for Sh.1,230,000 in December 2024. The rate of VAT applicable in the month was 16%. What is the value of VAT payable in relation to this transaction?

A. Sh.196,800
B. Sh.0
C. Sh.169,655
D. Sh.147,600

(2 marks)

14. John Kawira is a finance director of Saldon Ltd. During the year 2024, he incurred medical bills amounting to Sh.1,400,000 paid by the company's contracted insurance company. The company operates a medical scheme for all its employees and directors. What is the amount of medical benefit taxed on John Kawira for the year ended 31 December 2024?

A. Sh.400,000
B. Sh.1,400,000
C. Sh.0
D. Sh.1,000,000

(2 marks)

15. Jane Kilo received the following benefits from her employment for the year ended 31 December 2024:

- Basic salary Sh.92,000 per month
- Life insurance annual premiums amounting to Sh.90,000 paid by employer
- Annual Medical allowances for Sh.120,000 available to senior staff only
- Free clothes for the family worth Sh.54,000

Required:

Determine Jane Kilo taxable income for the year ended 31 December 2024.

A. Sh.1,302,000
B. Sh.1,248,000
C. Sh.1,278,000
D. Sh.1,368,000

(2 marks)

16. Mwanga Keya is an employee of P and P Ltd. During the year ended 31 December 2024, she was provided with a pick-up 2500cc which had cost the company Sh.2,800,000 at the beginning of the year. How much was the car benefit due to Mwanga Keya for the year ended 31 December 2024?

A. Sh.840,000
B. Sh.560,000
C. Sh.336,000
D. Sh.672,000

(2 marks)

17. During the year ended 31 December 2024, Patriko Trading Ltd. incurred the following expenses:

| | Sh. |
|-------------------------------------|---------|
| Staff refreshments | 92,400 |
| Penalty for the late payment of tax | 200,800 |
| Maintenance cost | 323,000 |
| Subscription to chamber of commerce | 100,000 |

What is the total allowable expenses for Patriko Trading Ltd. for income tax purposes in respect of the expenses incurred during the year?

- A. Sh.515,400
- B. Sh.716,200
- C. Sh.623,800
- D. Sh.616,200

(2 marks)

18. Which one of the following statements is **TRUE** about Home Ownership Savings Plan (HOSP)?

- A. Sh.96,000 per annum is allowed for tax purposes while computing PAYE
- B. Sh.48,000 per annum is allowed for tax purposes while computing PAYE
- C. Sh.36,000 per annum is allowed for tax purposes while computing PAYE
- D. It is not an allowable deduction in computing PAYE

(2 marks)

19. Osman Owino a sole trader who is registered for turnover tax made a gross sale of Sh.2,047,500 during the year ended 31 December 2024. Total expenses during the year amounted to Sh.1,260,000. Compute his taxable income for the year ended 31 December 2024.

- A. Sh.2,047,500
- B. Sh.716,625
- C. Sh.1,260,000
- D. Sh.787,500

(2 marks)

20. Under which of the following circumstances would housing benefit be taxed?

- A. If housing is provided for better performance of duty for example caretaker of a building
- B. If housing was necessary for such kind of employment for example school matron
- C. If housing was provided for security reasons for example soldiers in barracks
- D. If housing was provided due to position or rank for example manager

(2 marks)

21. Banmar Ltd. had deducted the following expenses while calculating its net profit for the year ended 31 December 2024:

| | Sh. |
|---------------------------|---------|
| Cash embezzled by cashier | 74,000 |
| Legal fees | 22,000 |
| Depreciation of furniture | 40,000 |
| License and permits | 37,000 |
| Salaries and wages | 161,000 |
| Goodwill amortised | 41,000 |

How much would the company add back to its accounting profits to arrive at its tax adjusted profit for the year.

- A. Sh.177,000
- B. Sh.195,000
- C. Sh.155,000
- D. Sh.192,000

(2 marks)

22. The following are reasons why accounting profit may differ from taxable profit, **EXCEPT** _____.

- A. some expenses deducted in the accounting profit are not allowable for tax purposes
- B. some expenses deducted in the accounting profits are specifically mentioned in the income tax act as non-allowable
- C. accounting profits are shown in the financial statements as a balancing figure unlike taxable profits
- D. some incomes included in the accounting profits are not taxable income

(2 marks)

23. Dismus Mutua received an income of Sh.1,716,000 for the year ended 31 December 2024. He took a mortgage loan to acquire his house from Denmark Bank on 1 January 2024 amounting to Sh.3,539,000 at an interest rate of 4% per annum. What is Dismus Mutua taxable income for the year ended 31 December 2024?
A. Sh.1,716,000
B. Sh.1,574,440
C. Sh.1,547,440
D. Sh.1,647,360 (2 marks)

24. Malaysia Manufacturing Ltd. started operations in 2024 after incurring various capital expenditures among them an industrial building at a cost of Sh.9,720,000, land Sh.4,374,000, boilers Sh.1,102,000, staff canteen Sh.2,860,000 and five tonne lorry Sh.4,080,000. What is the investment deduction claimable by Malaysia Manufacturing Ltd. for the year 2024?
A. Sh.6,921,000
B. Sh.5,697,000
C. Sh.6,431,000
D. Sh.6,717,000 (2 marks)

25. Carol Keph Limited, a bakery business started operations in May 2024 after incurring various capital expenditures among them a Toyota saloon car used as director's car. The car was purchased at a cost of Sh.3,300,000. What was its wear and tear deduction in the year 2024?
A. Sh.750,000
B. Sh.0
C. Sh.660,000
D. Sh.600,000 (2 marks)

26. Dicor Transporters have a fleet of motor vehicles used for transport business. During the year ended 31 December 2024, the company bought a Toyota Pick-up at a cost of Sh.3,500,000. How much is the company's investment allowances for the year 2024?
A. Sh.700,000
B. Sh.875,000
C. Sh.1,050,000
D. Sh.900,000 (2 marks)

27. Which one of the following statements is **TRUE** about rates?
A. Is a levy imposed by the local authority on products sold in a market found in a local authority
B. Is a levy imposed by the local authority on persons owning businesses in a local authority
C. Is a levy imposed by the local authority on transportation of products mined from an area
D. Is a levy imposed by the local authority on persons owning buildings and land in a local authority (2 marks)

28. Which one of the following is **NOT** an example of miscellaneous charges and levies?
A. Petroleum levy
B. Catering levy
C. Airport duty
D. Corporate tax (2 marks)

29. The following instruments are **NOT** chargeable to stamp duty, **EXCEPT** _____.
A. instrument of divorce
B. letter of allotment of shares
C. mortgage agreements
D. acknowledgement of debt (2 marks)

30. The following are circumstances under which a late objection can be accepted by the commissioner, **EXCEPT** _____.
A. when the tax payer is sick to the extent to which he/she cannot handle his/her tax matters
B. when the tax payer was out of the country
C. when the tax payer is held in a police custody
D. when the tax payer has no power in the office (2 marks)

31. The following documents **MUST** accompany a self-assessment return, **EXCEPT** _____.
 A. a set of audited final accounts
 B. tax computation schedule
 C. documents to support withholding tax
 D. tax compliance certificate (2 marks)

32. The following are benefits of integrating functions of various departments of the revenue authority, **EXCEPT** _____.
 A. results to efficiency
 B. compliance with government policy
 C. reduction of tax collected
 D. increased customer satisfaction (2 marks)

33. Kimani Wamumbi is an employee of Wams Ltd. He reported an employment income of Sh.1,360,000 before housing benefit for the year 2024. He lived in a company house and paid a nominal rent of Sh.5,000 per month for the house. The market rental value of houses in the estate was Sh.50,000 per month.

Required:
 Calculate the housing benefit due to Kimani Wamumbi for the year ended 31 December 2024
 A. Sh.204,000
 B. Sh.600,000
 C. Sh.540,000
 D. Sh.660,000 (2 marks)

34. Which one of the following conditions **MUST** be fulfilled for passage to be excluded from taxation of an employee's income?
 A. The employee must be solely in Kenya to serve the employer
 B. The employee must be a citizen of Kenya
 C. The employee must be recruited or engaged in Kenya
 D. The employee must get travel allowances from the employer (2 marks)

35. An objection to a tax decision of the commissioner of domestic taxes **MUST** be done within a period not exceeding?
 A. 30 days
 B. 14 days
 C. 60 days
 D. 21 days (2 marks)

36. Eric Kioko is an employee of Guradima Ltd. During the year ended 31 December 2024, he contributed Sh.6,000 per month to Dinet insurance company for his personal life insurance premium. How much was insurance relief for the year?
 A. Sh.72,000
 B. Sh.60,000
 C. Sh.10,800
 D. Sh.6,000 (2 marks)

37. Hawk Eyed Ltd. had the following expenses in their financial statement for the year ended 31 December 2024:

| | Sh. |
|---------------------------------------|------------|
| • Advertisement | 369,000 |
| • Depreciation | 266,000 |
| • Subscription to chamber of commerce | 355,000 |
| • Goodwill amortization | 399,000 |
| • Directors Christmas party | 460,000 |
| • Bad debts written off | 230,000 |

 Determine the total allowable expense for Hawk Eyed Ltd. for income tax purposes.
 A. Sh.829,000
 B. Sh.954,000
 C. Sh.815,000
 D. Sh.865,000 (2 marks)

38. Binding assessments are assessments which are final and conclusive. Which among the following is NOT a binding assessment?
 A. Assessment determined by local committee
 B. Assessment made and no appeal has been made
 C. Assessment made and no objection has been raised within the statutory period
 D. Assessment awaiting determination by local committee (2 marks)

39. Amani Ltd. reported a net profit of Sh.367,500 after deducting the following expenses:
 Sh.
 • General provision for bad and doubtful debt 112,500
 • Specific provision for bad and doubtful debts 157,500
 • Bad debts written off 75,000
 • Depreciation 90,000
 • Conveyance of land 45,000

Determine the adjusted taxable profit for Amani Ltd.
 A. Sh.690,000
 B. Sh.615,000
 C. Sh.645,000
 D. Sh.502,500 (2 marks)

40. Machungwa Ltd. a value added tax registered entity reported the following expenditure in the month of September 2024 exclusive of VAT at the rate of 16% where applicable:
 Sh.
 Purchases 1,950,000
 Legal fees 580,000
 Loan repayment 250,000
 Printing and stationery 620,000
 Salaries and wages 1,800,000

What is the total amount of input tax claimable by Machungwa Ltd. in the month of September 2024.
 A. Sh.312,000
 B. Sh.92,800
 C. Sh.832,000
 D. Sh.504,000 (2 marks)

41. Which one of the following statements is the **BEST** description of forward tax shifting?
 A. Transfers the tax burden to the supplier of inputs or raw materials by the producer
 B. Transfers the tax burden to the final consumer by the producer
 C. Distribution of the tax between two or more persons
 D. The transfer of the burden of tax to the incidence (2 marks)

42. Identify the withholding tax rate applicable to training and professional fees paid by a resident company.
 A. 5%
 B. 10%
 C. 15%
 D. 20% (2 marks)

43. The following are areas the commissioner of domestic taxes could obtain information regarding chargeable income, **EXCEPT** _____.
 A. self-confession
 B. public media
 C. insurance companies
 D. informers such as friends (2 marks)

44. Which one of the following is a consequence of a trader dealing in Zero rated supplies for VAT purposes.
 A. Registration for VAT is not required
 B. Filling VAT return is not required
 C. A trader cannot deduct input VAT
 D. A trader is expected to file VAT return (2 marks)

45. Harry Rono received the following employment benefits in addition to his annual salary of Sh.1,800,000 in the year ended 31 December 2024:

| Benefit | Amount (Sh.) |
|---------------------------------------|---------------------|
| Entertainment allowance for customers | 250,000 |
| Annual bonus | 300,000 |
| Leave allowance | 280,000 |

How much is Harry Rono taxable income for the year ended 31 December 2024?

- A. Sh.2,630,000
- B. Sh.2,380,000
- C. Sh.830,000
- D. Sh.2,050,000

(2 marks)

46. The basic value added tax point for a supply of a service is when the service is _____.

- A. performed
- B. paid
- C. invoiced
- D. approved

(2 marks)

47. The following are circumstances under which the income of a married woman can be taxed independently of her spouse, **EXCEPT** _____.

- A. if they are separated and the separation is likely to be permanent
- B. they are separated through a competent court jurisdiction
- C. she is an employee of a trust or settlement created by the husband
- D. she is a resident and the husband is not

(2 marks)

48. The following documents should accompany claim of refund for bad debts relief, **EXCEPT** _____.

- A. confirmation from liquidator that debtors has become insolvent and proof of debts amount
- B. copies of relevant tax invoices issued at time of supply to the insolvent debtors
- C. a declaration that the debtor and the tax payer are related
- D. records or documents showing input tax paid by the tax payer

(2 marks)

49. Willy Otush received a loan amounting to Sh.2,000,000 from Beng Ltd., the employer, at an interest rate of 12% while the prescribed rate was 14%. What is the low interest benefit due to Willy Otush?

- A. Sh.50,000
- B. Sh.40,000
- C. Sh.100,000
- D. Sh.80,000

(2 marks)

50. What is the nature of value added tax imposed in Kenya?

- A. A tax on income
- B. A tax on property
- C. A tax on consumption
- D. A tax on imports only

(2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

WEDNESDAY: 4 December 2024. Afternoon Paper.

Time Allowed: 3 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (for employment income including wife's employment, self-employment and professional income).

Year of income 2023.

Assume the following rates of tax applied throughout the year of income 2023:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|--------------------------------------|-------------------------------------|--------------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| 32,334 - 500,000 | 388,001 - 6,000,000 | 30% |
| 500,001 - 800,000 | 6,000,001 - 9,600,000 | 32.5% |
| Excess over 800,000 | Excess over 9,600,000 | 35% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal installments) | Prescribed benefit rates of motor vehicles provided by employer | | | | |
|---|-------------------------------------|--|--|-----------------------------------|------------------------|------------------------------------|-----------------------------------|
| | | | Monthly rates (Sh.) | Annual rates (Sh.) | www.chopi.co.ke | Monthly rates (Sh.) | Annual rates (Sh.) |
| Capital expenditure incurred on: | | | | | | | |
| (a) Buildings: | | | | | | | |
| • Hotel building | 50% in the first year of use | 25% | Up to 1201 | 1200 cc | 3,600 | 43,200 | |
| • Building used for manufacture | 50% in the first year of use | 25% | 1501 - | 1500 cc | 4,200 | 50,400 | |
| • Hospital buildings | 50% in the first year of use | 25% | 1751 - | 1750 cc | 5,800 | 69,600 | |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 2001 - | 2000 cc | 7,200 | 86,400 | |
| • Educational/hostels building | 10% per year on straight line basis | | Over - | 3000 cc | 8,600 | 103,200 | |
| • Commercial building | 10% per year on straight line basis | | | 3000 cc | 14,400 | 172,800 | |
| (b) Machinery: | | | | | | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | (ii) Pick-ups, Panel Vans (unconverted) | | | | |
| • Hospital equipment | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 | | |
| • Ships or aircraft | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | | | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | (iii) Land Rovers/Cruisers | | | | |
| • Furniture and fittings | 10% per year on straight line basis | | 7,200 | 86,400 | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | | | |
| • Other machinery | 10% per year on straight line basis | | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|--------------------------------|-------------------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

| Agriculture employees: Reduced rates of benefits | | |
|---|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. The following are statements on cancellation of personal identification number (PIN):

- (i) When the taxpayer has complied with all tax obligations
- (ii) When the taxpayer has passed away or ceased to exist
- (iii) When the taxpayer's PIN has been used for fraudulent transactions
- (iv) When the taxpayer fails to file tax returns
- (v) When the taxpayer requests the cancellation of the PIN

Which of the instances above could cause the Commissioner of domestic taxes to cancel personal identification number (PIN) as provided for under the Tax Procedures Act, 2015?

- A. ii, iii and v
- B. iii, iv and v
- C. i, iii, iv and v
- D. ii, iii, iv and v

(2 marks)

2. Which one of the following incomes is subject to Digital Service Tax (DST) in your country?

- A. Rental income from properties
- B. Dividend paid by local companies
- C. Online transaction from digital market place
- D. Sale of goods in a supermarket

(2 marks)

3. Which one the following rates is the applicable tax rate of the gross transaction value for services provided or sold through digital platforms?

- A. 1.5%
- B. 2%
- C. 5%
- D. 10%

(2 marks)

4. _____ is an example of a Pseudo Tax.

- A. Corporate tax
- B. Value added tax
- C. Stamp duty
- D. Capital gains tax

(2 marks)

5. Which one of the following expenses reimbursed to an employee is considered as taxable employment income while computing Pay As You Earn (PAYE)?

- A. Cost of travelling away from office in performance of official duties
- B. Cost of travelling from home to place of work
- C. The extra cost of living away from home on official assignment
- D. When employee uses his own car for an approved official assignment

(2 marks)

Use the following information to answer Question 6, 7, 8, 9 and 10:

Jeffrey Ronoh is employed as a senior officer of Bekly Ltd. He has presented the following information relating to his employment income for the year ended 31 December 2023:

- Basic salary was Sh.120,000 per month net of PAYE of Sh.48,000 per month.
- He was provided with lunch by the employer of Sh.6,000 per month for the whole year.
- He was paid a medical allowance from the company which is available to all employees, the allowance was Sh.12,500 per month.
- During the year, he was provided with a saloon car which was acquired in year 2021 at a cost of Sh.800,000 with an engine capacity of 1500cc.

6. Calculate Jeffrey Ronoh's total basic pay for the year ended 31 December 2023.

- A. Sh.168,000
- B. Sh.2,016,000
- C. Sh.864,000
- D. Sh.1,440,000

(2 marks)

7. Calculate Jeffrey Ronoh's taxable lunch allowance for the year ended 31 December 2023.

A. Sh.24,000
 B. Sh.48,000
 C. Sh.72,000
 D. Sh.96,000

(2 marks)

8. Calculate Jeffrey Ronoh's taxable medical allowance for the year ended 31 December 2023.

A. Sh.12,500
 B. Sh.360,000
 C. Sh.0
 D. Sh.150,000

(2 marks)

9. Calculate Jeffrey Ronoh's car benefit allowance for the year ended 31 December 2023.

A. Sh.16,000
 B. Sh.50,400
 C. Sh.192,000
 D. Sh.240,000

(2 marks)

10. Calculate Jeffrey Ronoh's total taxable income for the year ended 31 December 2023.

A. Sh.2,016,000
 B. Sh.2,066,400
 C. Sh.2,430,000
 D. Sh.2,138,400

(2 marks)

11. Jolly Manufacturers Ltd. commenced its operations on 1 January 2023 after incurring the following expenditure:

| | Sh.“000” |
|------------------------|----------|
| • Factory building | 6,160 |
| • Land | 3,080 |
| • Processing machinery | 2,640 |
| • Delivery van | 3,960 |
| • Forklift | 2,200 |

Required:

Calculate the investment allowance for Jolly Manufacturers Ltd. for the year ended 31 December 2023.

A. Sh.5,940,000
 B. Sh.6,160,000
 C. Sh.7,480,000
 D. Sh.7,940,000

(2 marks)

12. Which one of the following statements is **NOT** an advantage of installment tax?

A. Early collection of taxes by the government
 B. Reduced tax evasion
 C. Convenient to the payer to pay taxes in bits
 D. Yields more revenue

(2 marks)

13. Which one of the following taxes is an example of a direct tax?

A. Value Added Tax (VAT)
 B. Income Tax
 C. Excise Duty
 D. Customs Duty

(2 marks)

14. Kilopy Ltd. incurred the following expenses, which were deducted from its accounts before calculating the net profit for the year ended 31 December 2023:

| | Sh. |
|------------------------------------|---------|
| • Legal fee for breach of contract | 60,000 |
| • Parking fines | 15,200 |
| • Depreciation of furniture | 30,500 |
| • License and permits | 28,000 |
| • Salaries and wages | 184,000 |
| • VAT paid | 32,000 |

How much would the company add back to its accounting profits to arrive at its tax adjusted profit?

- A. Sh.137,700
- B. Sh.105,700
- C. Sh.289,700
- D. Sh.229,700

(2 marks)

15. Which one of the following is a source of revenue for a county government in your country?

- A. Advance tax
- B. Value Added Tax
- C. Property rates
- D. Stamp duty

(2 marks)

16. Which one of the following objectives is not relevant to taxation?

- A. To raise revenue
- B. Equal distribution of resources
- C. To increase tax rates
- D. Economic stability

(2 marks)

17. Resident in relation to a body corporate means the following, **EXCEPT** _____.

- A. The company was incorporated in Kenya under the Kenyan laws and regulations
- B. The management and control of the business was exercised in Kenya during the year of income under consideration
- C. The management and control of the business was not exercised in Kenya during the year of income under consideration
- D. The body corporate has been declared by the cabinet secretary of finance to be a resident through the Kenyan gazette

(2 marks)

18. _____ is a factor that affect tax shifting in your country?

- A. Type of market
- B. Type of government
- C. Type of company
- D. Amount of revenue required

(2 marks)

19. Which one of the following reasons is **NOT** a cause of tax evasion in your country?

- A. High tax rates
- B. Adequate collection points
- C. Complexity of tax system
- D. Low levels of income

(2 marks)

20. Sherry Kaley is a registered value added tax (VAT) trader dealing with leather products. In the month of September 2024, she made sales of Sh.625,000 to a VAT registered customer. She purchased goods in the same month amounting to Sh.420,000 from VAT registered suppliers. The above amounts are stated exclusive of VAT. (The rate of VAT is 16%)

Calculate the VAT payable by or refundable to Sherry Kaley for the month of September 2024.

- A. Sh.67,200 refundable
- B. Sh.67,200 payable
- C. Sh.32,800 payable
- D. Sh.32,800 refundable

(2 marks)

21. Tamah Ltd. imported goods in September 2024 valued at Sh.1,650,000. The insurance company charged 4% of the value of the goods to insure the goods and cargo handling company charged 2% of the value being freight charges. Import duty rate was 25% during the month while the value added tax (VAT) rate was 16%. How much is the VAT chargeable on the above goods?

- A. Sh.264,000
- B. Sh.349,800
- C. Sh.359,040
- D. Sh.368,400

(2 marks)

22. Dabik Ltd. reported a net profit of Sh.300,500 during the year ended 31 December 2023 after deducting the following expenses:

- General allowance for bad and doubtful debt Sh.135,000
- Specific allowance for bad and doubtful debts Sh.189,000
- Bad debts written off Sh.90,000
- Depreciation Sh.108,000
- Conveyance Sh.54,000

Calculate the adjusted taxable profit for Dabik Ltd.

- A. Sh.781,100
- B. Sh.575,500
- C. Sh.597,500
- D. Sh.786,500

(2 marks)

23. Kilome Limited started operations on 1 January 2023 after incurring various capital expenditures among them a saloon car which was purchased at a cost of Sh.3,600,000. Calculate wear and tear deduction for the year ended 31 December 2023.

- A. Sh.780,000
- B. Sh.960,000
- C. Sh.900,000
- D. Sh.750,000

(2 marks)

24. During the year ended 31 December 2023 Omar Sudir received a basic salary of Sh.1,380,000, he was provided with free meals from the company worth Sh.67,000 during the year. He also received company products worth Sh.108,000 during the year. Calculate Omar Sudir's total taxable income for the year?

- A. Sh.1,380,000
- B. Sh.1,555,000
- C. Sh.1,488,000
- D. Sh.1,447,000

(2 marks)

25. Which of the following statement is **TRUE** about an employee who gets a medical cover from the employer?

- A. It is a tax-free benefit provided the scheme is not discriminatory
- B. It is a taxable benefit on the employee for that year of income
- C. It is a tax-free benefit to permanent and pensionable employees
- D. It is a tax free benefit to the employee provided the employer is taxed

(2 marks)

26. Wepesy Ltd. income for the year ended 31 December 2023 was arrived at after deducting the following expenses:

| | Sh. |
|---------------------------------|------------|
| Loss on sale of a motor vehicle | 237,600 |
| Bad debt written off | 79,200 |
| Legal fee for debt collection | 170,400 |

How much should be added back from the above expenses when calculating the adjusted taxable profit for the year ended 31 December 2023?

- A. Sh.487,200
- B. Sh.237,600
- C. Sh.316,800
- D. Sh.170,400

(2 marks)

27. John Oliver is an employee of Series Ltd. During the year ended 31 December 2023, he contributed Sh.12,000 per month to cater for his insurance premium. His gross salary was Sh.120,000 per month.

Calculate John Oliver's total tax relief for the year ended 31 December 2023.

- A. Sh.28,800
- B. Sh.58,800
- C. Sh.21,600
- D. Sh.50,400

(2 marks)

28. Jumbo Ltd. had an accumulated loss of Sh.1,362,000 during the year ended 31 December 2023. In the year ended 31 December 2023, the company made a profit of Sh.2,043,000. Calculate the tax payable (if any) by Jumbo Ltd. for the year ended 31 December 2023?
A. Sh.681,000
B. Sh.204,300
C. Sh.238,350
D. Sh.612,900 (2 marks)

29. _____ is a tax assessment that allows a taxpayer to declare their income and tax payable voluntarily.
A. Final assessment
B. Self-assessment
C. Provisional assessment
D. Default Assessment (2 marks)

30. Zawadi Ltd. is a company registered for VAT purposes. In the month of June 2024, the company made purchases amounting to Sh.2,157,600 inclusive of VAT. Calculate the VAT on purchases made by Zawadi Ltd.
A. Sh.345,216
B. Sh.297,600
C. Sh.215,760
D. Sh.186,500 (2 marks)

31. Employees are required to file their annual tax returns within how many months after the end of the year.
A. 3 months
B. 6 months
C. 1 month
D. 4 months (2 marks)

32. _____ is the rate for Affordable Housing Levy payable by employees in Kenya.
A. 1.5% per month
B. 3% per month
C. 2.75% per month
D. 2 % per month (2 marks)

33. _____ is the restricted value for non-commercial vehicles for investment allowance purposes.
A. Sh.2,000,000
B. Sh.3,000,000
C. Sh.1,500,000
D. Sh.2,500,000 (2 marks)

34. Value added tax (VAT) collected in a particular month shall be paid to the revenue authority on or before _____ of the following month.
A. the 5th day
B. the 9th day
C. the 20th day
D. the 10th day (2 marks)

35. Which body is responsible for collection of taxes in your country?
A. The National Assembly
B. The Senate
C. The County Assembly
D. The Revenue Authority (2 marks)

36. _____ is the applicable rate of stamp duty payable on transfer of land outside municipality areas in Kenya.
A. 4% of the value
B. 10% of the value
C. 2% of the value
D. 5% of the value (2 marks)

37. Which one of the following is **NOT** eligible for investment allowance granted by the revenue authority in your country?
 A. Accounting software
 B. Plant and machinery
 C. Building
 D. Goodwill (2 marks)

38. Maven Manufacturing Ltd. started its operations on 1 April 2023 after acquiring a processing machinery for Sh.2,500,000. Calculate the investment allowance claimable on the machinery on 31 December 2023.
 A. Sh.625,000
 B. Sh.1,250,000
 C. Sh.2,500,000
 D. Sh.250,000 (2 marks)

39. Which one of the following conditions must be fulfilled for passage to be excluded from taxation of an employee's income?
 A. The employee must be solely in Kenya to serve the employer
 B. The employee must be a citizen of Kenya
 C. The employee must be recruited or engaged in Kenya
 D. The employee must get travel allowances from the employer (2 marks)

40. Ann Koki obtained a loan amounting to Sh.4,000,000 from her employer, Samakih Ltd. at an interest rate of 9% per annum while the market rate was 12% per annum. Compute her monthly fringe benefit tax.
 A. Sh.3,000
 B. Sh.10,000
 C. Sh.120,000
 D. Sh.36,000 (2 marks)

41. What is the tax position on house furniture provided by an employer to an employee provided with a furnished house?
 A. It is a tax-free benefit
 B. The taxable amount is 2% per month on the cost of the furniture
 C. The taxable amount is 1% per month on the cost of the furniture
 D. The taxable amount is 1.5% per month on the cost of the furniture (2 marks)

42. _____ is **NOT** a disadvantage of capital allowances?
 A. Enjoyed mostly by manufacturers thereby discriminating other economic players
 B. Enjoyed mostly by the poor thereby reducing the gap between the rich and the poor
 C. Investors close shop and move to other destinations once the tax incentive cease
 D. Results in loss of revenue for the government as it reduces tax payable (2 marks)

43. A company prepared financial statements for the year ended 31 December 2023. By which date should the company pay its corporation tax liability for the accounting period ended 31 December 2023 to avoid incurring interest and penalties?
 A. By 20 January 2024
 B. By 31 December 2023
 C. By 30 June 2024
 D. By 30 April 2024 (2 marks)

44. Cool Ltd. sold goods to Fade Ltd. for Sh.499,525 inclusive of 16% value added tax. What is the value of VAT included in the sales?
 A. Sh.79,924
 B. Sh.68,900
 C. Sh.61,480
 D. Sh.59,943 (2 marks)

45. _____ is **NOT** a limitation of value added tax (VAT).
 A. High tax avoidance and evasion where invoicing is not strictly enforced
 B. Enforcement of VAT is simple and easy to audit
 C. Its discriminatory where some goods and services are not vatible
 D. It requires maintaining statutory records which is costly to organisation (2 marks)

46. During the year ended 31 December 2023, Kambah Ltd. incurred the following expenses:

| | Sh. |
|---|------------|
| Penalty for late payment of tax | 255,000 |
| Printing and stationeries | 37,000 |
| Legal fees relating to trading transactions | 150,000 |
| Donations to political parties | 118,000 |

Calculate the total allowable expense for Kambah Ltd. for income tax purposes in respect of the expenses incurred during the year?

- A. Sh.255,000
- B. Sh.187,000
- C. Sh.268,000
- D. Sh.287,000

(2 marks)

47. Which one of the following statements is **FALSE** about tax point in relation to VAT?

- A. Earlier of when the goods are supplied or service rendered
- B. Earlier of when the invoice is issued
- C. Earlier of when an order is received
- D. Earlier of when payment partly or whole amount is made

(2 marks)

48. Bora limited started operations on 1 January 2023 after incurring various capital expenditures among them a Toyota pick-up which was purchased at a cost of Sh.6,120,000. Calculate the wear and tear deduction for the year ended 31 December 2023.

- A. Sh.1,530,000
- B. Sh.1, 836,000
- C. Sh.750,000
- D. Sh.1,390,000

(2 marks)

49. Which one of the following expenses is an allowable expense while determining taxable profit of a company.

- A. Deprecation
- B. Expenditure of capital nature
- C. Specific allowance of doubtful debts
- D. Installment tax paid

(2 marks)

50. _____ is the amount of daily subsistence allowance which is non-taxable for employees working outside work station.

- A. Sh.2,500
- B. Sh.2,000
- C. Sh.3,500
- D. Sh.5,000

(2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

WEDNESDAY: 21 August 2024. Afternoon Paper.

Time Allowed: 2 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (for employment income including wife's employment, self-employment and professional income).

Year of income 2023.

Assume the following rates of tax applied throughout the year of income 2023:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| 32,334 - 500,000 | 388,001 - 6,000,000 | 30% |
| 500,001 - 800,000 | 6,000,001 - 9,600,000 | 32.5% |
| Excess over 800,000 | Excess over 9,600,000 | 35% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | | |
|---|-------------------------------------|---|--|--------------------------|--------|---------|
| | | | Monthly rates (Sh.) | Annual rates (Sh.) | | |
| Capital expenditure incurred on: | | | | | | |
| (a) Buildings: | | | | | | |
| • Hotel building | 50% in the first year of use | 25% | Up to 1201 | 1200 cc | 3,600 | 43,200 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1501 - | 1500 cc | 4,200 | 50,400 |
| • Hospital buildings | 50% in the first year of use | 25% | 1751 - | 1750 cc | 5,800 | 69,600 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 2001 - | 2000 cc | 7,200 | 86,400 |
| • Educational/hostels building | 10% per year on straight line basis | | Over - | 3000 cc | 8,600 | 103,200 |
| • Commercial building | 10% per year on straight line basis | | | 3000 cc | 14,400 | 172,800 |
| (b) Machinery: | | | | | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | (ii) Pick-ups, Panel Vans (unconverted) | | | |
| • Hospital equipment | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 | |
| • Ships or aircraft | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | (iii) Land Rovers/Cruisers | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | | 7,200 | 86,400 | |
| • Furniture and fittings | 10% per year on straight line basis | | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | | |
| • Other machinery | 10% per year on straight line basis | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | |

| Commissioner's prescribed benefit rates: Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

| Agriculture employees: Reduced rates of benefits | 200 | 2,400 |
|--|-----|-------|
| (i) Water | 200 | 2,400 |

| | | |
|------------------|-----|--------|
| (ii) Electricity | 900 | 10,800 |
|------------------|-----|--------|

1. The following are advantages of progressive taxes **EXCEPT** _____.
A. yields more revenue
B. its economical
C. convenient to pay
D. promotes equality (2 marks)

ANSWER: C

2. An optimal tax system is the one that fulfils most of the principles of taxation. The following are principles of taxation according to Adam Smith **EXCEPT** _____.
A. canon of equity
B. canon of simplicity
C. canon of economy
D. canon of certainty (2 marks)

3. Sukuma Mbele Transporters has a fleet of motor vehicles used for transport business. During the year ended 31 December 2023, the company bought a Toyota Pick-up at a cost of Sh. 3,500,000. Determine the investment allowance due to the company for the year ended 31 December 2023.
A. Sh.700,000
B. Sh.875,000
C. Sh.1,050,000
D. Sh.900,000 (2 marks)

4. For a mortgage interest to qualify as allowable deduction, it must meet the following criteria **EXCEPT** _____.
A. the loan must be acquired from the employer
B. the loan is obtained from a recognised financial institution
C. the loan is acquired to purchase own residential house
D. the loan is acquired to construct own residential house (2 marks)

5. Cymon Ltd. is a withholding tax agent and deals in leather products. During the month of December 2023, the company purchased goods from Rada Ltd. worth Sh.819,772 inclusive of value added tax (VAT) at the rate of 16%. How much tax did the company withhold?
A. Sh.131,163
B. Sh.131,072
C. Sh.14,134
D. Sh.15,994 (2 marks)

6. The following are advantages of using personal identification number (PIN) by revenue authority **EXCEPT** _____.
A. helps in the prevention of tax evasion
B. helps to collect tax on imported goods
C. enables the government to recover maximum tax
D. helps in the prevention of tax avoidance (2 marks)

7. Saul Ray is an employee of Wingu Ltd. During the year 2023, he reported an income of Sh.1,700,000 before housing benefits. He was housed in a fully furnished house. The cost of the furniture to the employer was Sh.240,000. The employer had rented the house where he paid Sh.40,000 per month and the market rental value of the house was Sh.55,000. Saul Ray paid a nominal rent of Sh.5,000 per month for the house. Determine Saul Ray taxable income for the year ended 31 December 2023.
A. Sh.2,328,800
B. Sh.2,208,800
C. Sh.1,988,120
D. Sh.2,240,120 (2 marks)

8. The following statements explains when value added tax (VAT) is due and Payable **EXCEPT** _____.
A. when the goods are packed ready for distribution
B. when goods or services are supplied to the purchaser
C. when an invoice is issued in respect of the supply
D. when part or full payment for the supply is made (2 marks)

9. Which one of the following ways is practised by tax evaders?

- Operating with incomes that are tax exempt
- Use of debt capital where interest expense is tax allowable
- Claiming investment allowance
- Overstating expenses for the year

(2 marks)

10. Which one of the following is a source of revenue to county government?

- Corporation tax
- Catering levy
- Property rates
- Capital gains tax

(2 marks)

11. Brian Sulwe a sole trader who is registered for turnover tax made a gross sale of Sh.2,047,500 during the year ended 31 December 2023. Total expenses during the year amounted to Sh.1,260,000. Compute his taxable income for the year ended 31 December 2023.

- Sh.2,047,500
- Sh.716,625
- Sh.1,260,000
- Sh.787,500

(2 marks)

12. Rita Moraa contributes Sh.8,000 from her salary to a registered pension scheme, while his employer contributes a similar amount. Which one of the following statement is **TRUE**?

- Rita has a taxable benefit of Sh.8,000 and her taxable income reduced by the same amount
- Rita has a tax-exempt benefit of Sh.8,000 and her taxable income reduced by the same amount
- Rita's taxable employment income is reduced by Sh.16,000
- Rita has a taxable benefit of Sh.16,000

(2 marks)

13. Milito Ltd.'s net profit for the year ended 31 December 2023 was arrived at after deducting the following items:

| | Sh. |
|-----------------------------|------------|
| Stamp duty paid | 533,000 |
| Donation to political party | 166,000 |
| Conveyance fees | 175,000 |
| Salaries and wages | 217,000 |
| Transport cost | 147,000 |

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Determine the amount that should be added back to the net profit when calculating the adjusted taxable profit?

- Sh.874,000
- Sh.916,000
- Sh.846,000
- Sh.855,000

(2 marks)

14. Tikoh Ltd. is a manufacturing company that prepares its accounts by 31 December every year. On 1 May 2023, the company imported a processing machinery and incurred the following costs;

| | Sh. |
|----------------------|------------|
| Cost of Machinery | 990,000 |
| Freight charges | 180,000 |
| Insurance on transit | 36,000 |
| Import Duty paid | 234,000 |
| Installation cost | 198,000 |

What is the qualifying cost that Tikoh Ltd. will use while computing investment allowance which can be claimed in respect of the processing machines?

- Sh.1,404,000
- Sh.1,422,000
- Sh.1,638,000
- Sh.990,000

(2 marks)

15. Cenatric Ltd. had the following expenses in their financial statement for the year ended 31 December 2023:

| | Sh. |
|-------------------------------------|---------|
| Advertisement | 442,000 |
| Depreciation | 319,000 |
| Subscription to chamber of commerce | 426,000 |
| Goodwill amortisation | 478,000 |
| Directors christmas party | 552,000 |
| Provision for bad debts | 276,000 |

Determine the total allowable expenses for Cenatric Ltd. for income tax purposes.

- A. Sh.829,000
- B. Sh.868,000
- C. Sh.876,000
- D. Sh.888,000

(2 marks)

16. Proportional tax is tax where _____.

- A. tax is levied at a graduated scale rate on income earned by a person
- B. each individual pays fixed amount in a month or a year
- C. tax is adjusted in a manner that the rate decreases as income increases
- D. tax is levied at a flat rate on income earned by a person

(2 marks)

17. Which one of the following statements is **NOT** a role of an employer in the operation of the pay as you earn (PAYE) system?

- A. Maintaining proper records of tax payable from employees
- B. Submitting PAYE to the revenue authority on specified dates
- C. Issuing certificate of PAYE to employees
- D. Filing returns for employees for the year of income

(2 marks)

18. John Tabibu obtained a loan amounting to Sh.4,000,000 from his employer, Locky Ltd. at an interest rate of 9% per annum while the market rate was 12% per annum. What is the fringe benefit tax per month?

- A. Sh.3,000
- B. Sh.10,000
- C. Sh.120,000
- D. Sh.36,000

(2 marks)

19. Kulit Ltd. reported a profit of Sh. 1,032,800 in the year 2023 after deducting the following expenses:

| | Sh. |
|----------------------------------|---------|
| Legal fee for breach of contract | 72,000 |
| Parking fines | 18,000 |
| Depreciation of motor vehicle | 54,900 |
| Salaries and wages | 220,800 |
| Corporation tax paid | 160,000 |
| Rent and rates | 38,400 |

Determine the adjusted taxable profit for Kulit Ltd. for the year 2023.

- A. Sh.1,292,000
- B. Sh.1,337,700
- C. Sh.1,265,700
- D. Sh.1,247,700

(2 marks)

20. The following arguments are in favour of introduction of capital gains tax (CGT) in an economy **EXCEPT** _____.

- A. it ensures that there is equity in taxation
- B. it helps in curbing inflation
- C. it encourages saving and investment
- D. increases government revenue

(2 marks)

21. Value added tax (VAT) may **NOT** be refunded if _____.

- A. the input tax exceeds output tax and this is a common feature of the business
- B. a debt of a taxable person remains unpaid for a period of 3 years or more
- C. the trader incurs a loss in a specific period
- D. it is paid in error by using the wrong rate

(2 marks)

22. Which one of the following incomes is **NOT** subjected to withholding tax for a resident individual?
 A. Royalties
 B. Training fees
 C. Real estate rent
 D. Management fees (2 marks)

23. Zedek Kiatu is a professional accountant who is registered for VAT purposes. He offered book keeping services to local clients amounting to Sh.800,000 exclusive of VAT and audited a company in Uganda for Sh.470,000 exclusives of VAT on the month of February 2024. The VAT rate was at rate of 16% where applicable. How much is the output tax for the month of February 2024?
 A. Sh.203,200
 B. Sh.128,000
 C. Sh.75,200
 D. Sh.110,000 (2 marks)

24. Comet Manufacturers Ltd. started operation on 1 January 2023 after incurring various capital expenditures among them; an industrial building constructed at a cost of Sh.18,000,000, warehouse Sh.8,400,000, conveyor belt Sh.760,000 and forklifts Sh.3,400,000. What is the investment allowance claimable for the year ended 31 December 2023?
 A. Sh.14,430,000
 B. Sh.14,240,000
 C. Sh.15,280,000
 D. Sh.11,070,000 (2 marks)

25. Victor Mahugu is an investor and he received the following incomes in the year 2023:
 Dividends from Zedcom Ltd. Sh.342,000 (net)
 Dividends from Wema Ltd. Sh.300,000 (gross)
 Interest from Baraka Bank Ltd. Sh.68,000 (net)
 What is the total withholding tax deducted from the above income?
 A. Sh.45,000
 B. Sh.60,000
 C. Sh.42,500
 D. Sh.61,200 (2 marks)

26. Peter Kogit gross rental income for the month of November 2023 from his commercial property amounted to Sh.1,580,000, before deducting the following expenses:
 Sh.
 Caretaker salary 60,000
 Repairs and maintenance 280,000
 Construction of emergency exit 540,000
 Determine his taxable rental income for the month of November 2023.
 A. Sh.700,000
 B. Sh.1,240,000
 C. Sh.1,580,000
 D. Sh.760,000 (2 marks)

27. Smart Importers Ltd. imported a machinery valued at Sh.1,400,000 being cost insurance and freight excluding the customs duty of 20% and VAT at the rate of 16%. The customs duty was waived by the government. How much is the VAT chargeable on the above machinery?
 A. Sh.224,000
 B. Sh.179,200
 C. Sh.193,103
 D. Sh.268,800 (2 marks)

28. A value added tax (VAT) registered person is obligated to _____.
 A. file returns on due dates
 B. enforce payment of vat charged
 C. withhold vat from the purchases
 D. exempt a person from paying VAT upon request (2 marks)

29. What is the affordable housing levy payable by an employee with a monthly salary of Sh.190,000 and monthly travelling allowance of Sh.30,000?
A. Sh.2,500
B. Sh.3,300
C. Sh.6,600
D. Sh.2,850 (2 marks)

30. Which one of the following expenses is **NOT** an allowable expense when calculating taxable commercial rental income?
A. Mortgage interests
B. Agency fees
C. Legal expenses in engagement of a tenant
D. Structural alteration cost of the building (2 marks)

31. Which one of the following conditions must be fulfilled for passage to be excluded from taxation of an employee's income?
A. The employee must be solely in Kenya to serve the employer
B. The employee must be a citizen of Kenya
C. The employee must be recruited or engaged in Kenya
D. The employee must get travel allowances from the employer (2 marks)

32. Which one of the following statements is **NOT** true about stamp duty?
A. It is levied by the government on certain transactions and documents
B. The rate of stamp duty in urban areas is 4% and 2% in rural areas
C. It is paid in advance and the tax payer does not get a direct reward
D. It is an indirect tax intended to legalise the transaction (2 marks)

33. Which one of the following omissions does **NOT** constitute an offence under the pay as you earn (PAYE) regulations?
A. Failure to deduct PAYE
B. Failure to file returns within the due date
C. Failure to remit PAYE by 20th of next month
D. Failure to have operational PAYE system (2 marks)

34. Rates refer to a levy imposed by the local authority on _____.
A. products sold in a market found in a local authority
B. persons owning businesses in a local authority
C. transportation of products mined from an area
D. persons owning buildings and land in a locality (2 marks)

35. Biggie Ltd.'s net taxable profit for the year ended 31 December 2023 was Sh.24,336,000. The total instalment tax paid during the year ended 31 December 2023 was Sh.6,463,600.

Required:

Determine the net tax payable (if any) by Biggie Ltd. for the year ended 31 December 2023.

A. Sh.837,200
B. Sh.737,800
C. Sh.978,400
D. Sh.654,000 (2 marks)

36. Magdalene Adele, an employee of Sokoh Ltd. was provided with a saloon car of 2500cc by the company on 1 September 2023. The car was purchased at Sh.2,100,000 in the year 2020. The net book value as at 1 January 2023 was Sh.1,400,000.

Required:

What is Magdalene Adele's taxable benefit for the year of income 2023 in relation to the saloon car provided by the employer?

A. Sh.336,000
B. Sh.168,000
C. Sh.504,000
D. Sh.525,000 (2 marks)

37. AKON Ltd. Company prepared financial statements for the year ended 31 December 2023. By which date should the company pay any outstanding balance on corporation tax liability for the accounting period ended 31 December 2023 to avoid incurring interest and penalties?

A. By 20 January 2024
 B. By 30 April 2024
 C. By 30 June 2024
 D. By 9 February 2024

(2 marks)

38. During the year ended 31 December 2023, Tabuty Ltd. incurred the following expenses:

| | Sh. |
|---|---------|
| Penalty for late payment of tax | 255,000 |
| Printing and stationeries | 37,000 |
| Legal fees relating to trading transactions | 150,000 |
| Donations to political parties | 118,000 |

Determine the total allowable expenses for Tabuty Ltd. for income tax purposes for the year ended 31 December 2023.

A. Sh.255,000
 B. Sh.187,000
 C. Sh.268,000
 D. Sh.287,000

(2 marks)

39. Fatuma Fundi, a registered trader for value added tax (VAT) gave a business gift to a client. The cost of the gift was Sh.18,000, which would normally sell for Sh.24,400. The amount was exclusive of VAT at the rate of 16%. How much output VAT Should Fatuma include in the VAT returns in respect of the gift?

A. Sh.2,880
 B. Sh. Nil
 C. Sh.3,904
 D. Sh.6,784

(2 marks)

40. Zoeh Ltd. acquired the following buildings before commencing operations on 1 January 2023:

| | Sh. |
|---------------------|------------|
| Industrial building | 12,500,000 |
| Staff canteen | 2,850,000 |
| Warehouse building | 2,700,000 |

Determine the amount of investment allowance claimable by Zoeh Ltd. for the year ended 31 December 2023.

A. Sh.6,805,000
 B. Sh.6,250,000
 C. Sh.6,535,000
 D. Sh.6,520,000

(2 marks)

41. Elony Ltd., a resident company has been in business for the last three years. During the year ended 31 December 2023, the company reported a taxable profit of Sh.12,500,000. Determine the amount of instalment tax paid in the 1st quarter of the year 2024.

A. Sh.3,750,000
 B. Sh.937,500
 C. Sh.1,031,250
 D. Sh.4,125,000

(2 marks)

42. Mwanzo Ltd. purchased a forklift in July 2021 for Sh.1,600,000. The forklift was sold on 30 September 2023 for Sh.850,000. Its written down value for tax purposes at the time of disposal was Sh.120,000. Determine the trading receipt from this disposal.

A. Sh.1,600,000
 B. Sh.1,480,000
 C. Sh.730,000
 D. Sh.850,000

(2 marks)

43. Candy Kay is an American citizen. For the year of income 2023, she was in Kenya for 7 months. Her incomes include; Employment income from Zeeworld Ltd. based in America \$20,000, sales from curios \$ 2,000, consultancy fee from a Kenyan company Sh.3,000,000 net profit from sale of clothes imported from America Sh.2,000,000, Lottery winning while in Kenya Sh.1,000,000. Compute her taxable income.
(Assume the exchange rate at 1\$ = Sh.120).

A. Sh.6,000,000
B. Sh.5,000,000
C. Sh.8,640,000
D. Sh.7,640,000

(2 marks)

44. Which one of the following statements is **NOT** a limitation of withholding taxes?

A. High compliance costs
B. Increased paper work
C. Increased compliance by taxpayers
D. Increased instances of tax penalties

(2 marks)

45. Which one of the following statements is **NOT** a challenge faced in an effort to improve customs administration?

A. Different currency for different countries involved
B. Delayed implementation of customs regulations
C. Different tax rates applied in different countries
D. Coordination between government departments

(2 marks)

46. Which one of the following statements is **NOT** a ground for escalating an appeal to the court of appeal?

A. When the high court decision is contrary to the law
B. When the high court decision fails to determine material issues of the law
C. When there is a substantial error or mistake
D. When the commissioner refuses to amend an assessment

(2 marks)

47. Which one of the following statements is **NOT** an option for the commissioner upon receiving a notice of objection?

A. To amend the assessment in the light of the objection
B. Refuse to amend the assessment
C. Request for additional information
D. Escalate the objection to the high court

(2 marks)

48. Fanakah Farm Ltd. reported a net profit of Sh.2,350,000 for the year of income 2023. During the year under consideration, Fanakah farm acquired a tractor at Sh.5,000,000, an irrigation system at Sh.1,000,000, Constructed a farm house at Sh.2,500,000 and acquired farm implements at Sh.1,200,000. Compute the taxable income of the farm for the year ended 31 December 2023.

A. Sh.705,000
B. Sh.50,000
C. Sh. (1,250,000)
D. Sh.1,170,000

(2 marks)

49. When a trader is unable to pass an increase in tax to the consumer as the demand of the product is elastic, the only option available to the trader is to _____.

A. straight shifting
B. backward shifting
C. forward shifting
D. manual shifting

(2 marks)

50. Maryann Wangah, an employee at Upland Co. Ltd. received a basic salary of Sh.1,200,000 per annum in the year 2023. She was housed by the employer in a rented house where the employer paid Sh.25,000 per month and the rental market value of the house was Sh.30,000. Determine the housing benefit due to Maryann Wangah for the year ended 2023.

A. Sh.300,000
B. Sh.360,000
C. Sh.180,000
D. Sh.480,000

(2 marks)

.....

CAMS LEVEL II

ELEMENTS OF TAXATION

WEDNESDAY: 24 April 2024. Afternoon Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (for employment income including wife's employment, self-employment and professional income).

Year of income 2023.

Assume the following rates of tax applied throughout the year of income 2023:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| 32,334 - 500,000 | 388,001 - 6,000,000 | 30% |
| 500,001 - 800,000 | 6,000,001 - 9,600,000 | 32.5% |
| Excess over 800,000 | Excess over 9,600,000 | 35% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | |
|---|-------------------------------------|---|--|--------------------------|----------------|
| | | | Monthly rates (Sh.) | Annual rates (Sh.) | www.shop.co.ke |
| Capital expenditure incurred on: | | | | | |
| (a) Buildings: | | | | | |
| • Hotel building | 50% in the first year of use | 25% | Up to 1200 cc | 3,600 | 43,200 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 |
| • Hospital buildings | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 |
| • Educational/hostels building | 10% per year on straight line basis | 25% | 2001 - 3000 cc | 8,600 | 103,200 |
| • Commercial building | 10% per year on straight line basis | Over | 3000 cc | 4,400 | 172,800 |
| (b) Machinery: | | | | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | (ii) Pick-ups, Panel Vans (unconverted) | | |
| • Hospital equipment | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 |
| • Ships or aircraft | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | (iii) Land Rovers/Cruisers | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | 7,200 | 86,400 | |
| • Furniture and fittings | 10% per year on straight line basis | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | |
| • Other machinery | 10% per year on straight line basis | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|------------------------|-----------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

| Agriculture employees: Reduced rates of benefits | 200 | 2,400 |
|--|-----|--------|
| (i) Water | 900 | 10,800 |
| (ii) Electricity | | |

1. The following are characteristics of tax **EXCEPT** _____.
 - A. It is levied where there is an income
 - B. Tax is compulsory payment made to the government
 - C. It has a direct reward
 - D. Tax is for public benefit
 (2 marks)

2. The following are examples of miscellaneous charges and levies **EXCEPT** _____.
 - A. Airport tax
 - B. Advance tax
 - C. Catering tax
 - D. Petroleum levy
 (2 marks)

3. The following instruments are exempted from stamp duty **EXCEPT** _____.
 - A. Title deeds
 - B. Adoption deed
 - C. Instruments of divorce
 - D. Acknowledgement of debt
 (2 marks)

4. When the trader is unable to pass an increase in tax to the consumer but instead negotiates with the supplier to lower the price, this is known as _____.
 - A. Negotiation
 - B. Backward shifting
 - C. Straight shifting
 - D. Forward shifting
 (2 marks)

5. Which one of the following strategies **CANNOT** be used by Revenue Authority to enhance tax compliance?
 - A. Creating awareness by the revenue authority on the roles of taxes and the civic duty to pay taxes
 - B. Increasing the rates of various taxes for example customs duty and VAT
 - C. Enhancing efficiency in tax collection for example requiring PIN in some transactions
 - D. Providing more tax incentives for example tax reliefs and allowances
 (2 marks)

6. Sam Setoh received the following benefits from his employment for the year ended 31 December 2023:

| Sh. | |
|--|---|
| • Monthly salary | 125,000 |
| • Bonus | 237,000 |
| • Free gifts | 78,000 |
| • School fees for his son | Sh.201,000 which was expensed in company's books. |
| • Housed by the employer in a fully furnished house. | The cost of the furniture to the employer was Sh.240,000 during the year. |

Required:
 Determine Sam Setoh's taxable income for the year ended 31 December 2023.

 - A. Sh.1,843,800
 - B. Sh.2,322,720
 - C. Sh.2,044,800
 - D. Sh.2,355,000

 (2 marks)

7. Which one of the following is **NOT** a role of an employer in the operation of the pay as you earn (PAYE) system?
 - A. Maintaining proper records of tax payable from employees
 - B. Submitting PAYE to the revenue authority on specified dates
 - C. Issuing certificate of PAYE to employees
 - D. Reporting non-compliant employees
 (2 marks)

8. Mwenda Pole received the following benefits from his employer during the year 2023:
 - Monthly salary net of PAYE Sh.200,000
 - Monthly commuter allowance Sh.30,000
 - Monthly medical allowance Sh.35,000
 - Monthly grocery allowance Sh.20,000
 - Mwenda Pole is housed by the employer in an unfurnished house.
 - PAYE deducted each month was Sh.45,000.

Required:

Calculate Mwenda Pole employment income for the year 2023 that will be based in computing housing benefit.

- A. Sh.3,420,000
- B. Sh.3,960,000
- C. Sh.3,540,000
- D. Sh.3,600,000

(2 marks)

9. Which among the following statements is **NOT** considered when determining whether an activity in the form of business is being carried on?

- A. Evidence of regularity of transactions
- B. Nature of assets owned
- C. Transactions must be within Kenyan borders
- D. Volume of sales or turnover

(2 marks)

10. Which one of the following is **NOT** relief against gross tax liability?

- A. Insurance relief
- B. Personal relief
- C. Affordable housing relief
- D. Bad debt relief

(2 marks)

11. During the year ended 31 December 2023, Trendz Trading Ltd. incurred the following expenses:

| | Sh. |
|---------------------------------------|------------|
| • Staff refreshments | 236,400 |
| • Penalty for the late payment of tax | 10,800 |
| • Maintenance cost | 64,000 |
| • Depreciation | 100,000 |

Determine the total allowable expenses for Trendz Trading Ltd. for income tax purposes.

- A. Sh.336,400
- B. Sh.300,400
- C. Sh.311,200
- D. Sh.247,200

(2 marks)

12. Toe Line Ltd. had the following expenses from its accounts for the year ended 31 December 2023:

| | Sh. |
|---|------------|
| • Legal fee in respect to debt collection | 160,000 |
| • Depreciation of motor vehicle | 240,000 |
| • Staff entertainment | 180,000 |
| • Donation to political parties | 120,000 |

Compute the total disallowable/ non- deductible expenses for the company for the year 2023 when computing taxable income.

- A. Sh.360,000
- B. Sh.520,000
- C. Sh.340,000
- D. Sh.300,000

(2 marks)

13. Upendo Ltd. deals with vatable goods. During the month of November 2023, the company purchased goods from General Importers Ltd. worth Sh.900,450 inclusive of value added tax (VAT). Determine the amount of money that was attributable to the net sale.

- A. Sh.124,200
- B. Sh.756,378
- C. Sh.776,250
- D. Sh.1,044,522

(2 marks)

14. Which of the following is allowable expense while computing taxable income for a limited company?

- A. General bad debts
- B. Value added tax paid
- C. Tax penalties paid
- D. Specific bad debts

(2 marks)

15. Mali Safi Manufacturers Ltd. commenced its operations on 1 January 2023 after incurring the following expenditure:

| | Sh. |
|--|-----------|
| Factory building (including land Sh.2,650,000) | 7,650,000 |
| Staff canteen | 760,000 |
| Processing machinery | 1,800,000 |
| Saloon car | 3,200,000 |
| Lorry (4 tonnes) | 2,400,000 |

Required

Determine the investment allowance due to Mali Safi Manufacturers Ltd. for the year ended 31 December 2023.

- A. Sh.4,826,000
- B. Sh.5,130,000
- C. Sh.3,780,000
- D. Sh.4,650,000

(2 marks)

16. Which of the following is **NOT** an appellant body for tax purposes?

- A. Local committee
- B. Commissioner
- C. Tax tribunal
- D. High court

(2 marks)

17. Which one of the following statements is **NOT** true about stamp duty?

- A. It is levied by the government on certain transactions and documents
- B. The rate of stamp duty in urban areas is 4% and in rural areas is 2%
- C. It is paid in advance and the tax payer does not get a direct reward
- D. Its purpose is to legalise the transaction

(2 marks)

18. Janet Kahuni, a registered trader for value added tax (VAT) gave a business gift to a client. The cost of the gift was Sh.20,400, which would normally sell for Sh.24,480. The amount was exclusive of VAT at the rate of 16%. How much output VAT should Janet Kahuni include in the VAT returns in respect of the gift?

- A. Sh.3,720
- B. Sh.3,264
- C. Sh.3,917
- D. Nil

(2 marks)

19. Which one of the following is a basis of tax classification?

- A. By effect
- B. By source
- C. By volume
- D. By time

(2 marks)

20. Which of the following statements explains the tax position for earnings of a person with disability with exemption certificate from revenue authority?

- A. His/her earnings up to Sh.50,000 per month is exempted from tax
- B. His/her earnings not exceeding Sh.150,000 per month is exempted from tax
- C. His/her earnings are fully exempted from tax
- D. His/her earnings not exceeding Sh.100,000 per month is exempted from tax

(2 marks)

21. In relation to taxation of a person _____.

- A. A non-resident individual is subjected to withholding tax on dividends income from Kenya
- B. A resident individual is subject to income tax on all their income from Kenya only
- C. A non-resident individual is subject to income tax at a flat rate of 37.5%
- D. A non-resident individual can claim personal relief

(2 marks)

22. Which of the following benefits provided by an employer to an employee is **NOT** exempted from tax?

- A. Benefit in kind not exceeding Sh.36,000 per annum
- B. Insurance premiums paid by employer on behalf of an employee
- C. School fees paid by employer on behalf of employee's children and treated as non-allowable deduction in the company's books of account
- D. Employer contribution to a registered pension scheme on behalf of the employee not exceeding Sh.20,000 per month

(2 marks)

23. What does reporting period mean in case of excise duty?
 A. For a registered person, each end year
 B. For an import of excisable goods, each calendar month
 C. For a licensed person, each calendar month
 D. For licensed person, each financial year end (2 marks)

24. Which of the following expenses is allowable expense when determining taxable income?
 A. Expenditure incurred in the prevention of soil erosion
 B. Provision for doubtful debts
 C. Write off of intangible assets
 D. Dividends paid (2 marks)

25. Kazuri Ltd., a resident company made accumulated losses of Sh.285,500 as at 31 December 2022. In the year 2023 the company made a profit of Sh.540,300. What is the tax payable if any, by Kazuri Ltd. in the year ended 31 December 2023?
 A. Sh.254,800
 B. Sh.247,400
 C. Sh.76,440
 D. Sh.162,090 (2 marks)

26. Tazama Ltd. is a registered value added tax (VAT) trader dealing with electronic products. In the month of January 2023, they made sales worth Sh.500,000 to registered customers and Sh.300,000 to unregistered customers. They purchased stocks in the same month amounting to Sh.280,000 from registered suppliers and Sh.170,000 from unregistered suppliers. The above amounts are stated exclusive of VAT. What is the VAT payable or claimable by Tazama Ltd. for the month of January 2023?
 A. Sh.83,200
 B. Sh.56,000
 C. Sh.35,200
 D. Sh.20,800 (2 marks)

27. Wise Man is an investor. He received the following income in the year 2023:
 • Dividends from Pazuri Ltd. Sh.540,000 (Gross)
 • Dividends from Pesa Poa SACCO Ltd. Sh.300,000 (Gross)
 • Interest from Safeways Bank Sh.68,000 (Net)
 Determine the total withholding tax deducted from the above income.
 A. Sh.54,000
 B. Sh.60,000
 C. Sh.136,200
 D. Sh.61,200 (2 marks)

28. Peace Waridi gross rental income for the month of November 2023 from his commercial property was Sh.1,580,000, before deducting the following expenses:
 • Caretaker salary Sh.60,000
 • Repairs and maintenance exit Sh.280,000
 • Construction of emergency exit Sh.540,000
 Determine the taxable rental income by Peace Waridi for the month of November 2023.
 A. Sh.700,000
 B. Sh.1,186,000
 C. Sh.1,240,000
 D. Sh.760,000 (2 marks)

29. Which one of the following is a factor influencing the taxable capacity in a country?
 A. Location of taxpayers
 B. Level of income
 C. Education level of community.
 D. The willingness of the taxpayers (2 marks)

30. Mkulima Rose received farming income of Sh.300,000. She had consumed goods worth Sh.200,000. What is the taxable income on the above transactions?
 A. Sh.200,000
 B. Sh.300,000
 C. Sh.100,000
 D. Sh.500,000 (2 marks)

31. Jackson Sang decided to trade-in his old computer for a new one that cost Sh.420,000. He paid cash of Sh.200,000. The net book value of the old computer was. Sh.280,000. What is the disposal cost of the old computer for investment allowance purpose?

A. Sh.140,000
 B. Sh.200,000
 C. Sh.280,000
 D. Sh.220,000

(2 marks)

32. Extra Ltd. is a resident company that has been in business for the last three years. In the year ended 31 December 2022, the company reported a taxable profit of Sh.12,500,000. What is the amount of installment tax payable in the first quarter of 2023?

A. Sh.3,750,000
 B. Sh.1,031,250
 C. Sh.4,687,500
 D. Sh.2,500,000

(2 marks)

33. The income statement for Rolex Ltd. for the year ended 30 June 2023 was as shown below:

| | Sh. | Sh. |
|-------------------------------------|-------------------|--------------------|
| Gross profit for the year | 11,500,000 | |
| Less Expenses: | | |
| Depreciation | 280,000 | |
| Printing and stationery | 560,000 | |
| Legal expenses on income tax appeal | 300,000 | |
| Other allowable expenses | 180,000 | <u>(1,320,000)</u> |
| Net Profit | <u>10,180,000</u> | |

Determine the adjusted taxable profit for Rolex Ltd. for the year ended 30 June 2023.

A. Sh.10,460,000
 B. Sh.10,760,000
 C. Sh.11,500,000
 D. Sh.10,180,000

(2 marks)

34. Mawazo Ltd. purchased a forklift on 1 July 2021 for Sh.1,600,000. The forklift was sold on 30 September 2023 for Sh.850,000 while the written down value for tax purposes at the time of disposal was Sh.120,000. Assuming that this was the only asset in its category, determine the trading receipt from this disposal.

A. Sh.970,000
 B. Sh.1,480,000
 C. Sh.730,000
 D. Sh.850,000

(2 marks)

35. Which of the following amount is **NOT** a taxable income in the hands of an individual partner in a partnership business?

A. Partners share of profit
 B. Partners' capital contribution
 C. Partners salaries
 D. Dividends received

(2 marks)

36. At what rate is the monthly residential rental income taxed in case of an individual taxpayer for the financial year 2024?

A. 5%
 B. 10%
 C. 7.5%
 D. 20%

(2 marks)

37. A tax audit conducted by the commissioner may require review of the taxpayer's liability through _____.

A. Self-assessment
 B. Installment assessment
 C. Estimated assessment
 D. Additional assessment

(2 marks)

38. Which of the following is **NOT** deductible against the pay as you earn (PAYE) tax payable by an individual taxpayer?

- Personal Relief
- Pay as you earn (PAYE) paid in advance
- Insurance Relief
- Contribution to National Social Security Fund (NSSF)

(2 marks)

39. A taxpayer who pays withholding tax is issued with _____.

- A tax compliance certificate
- Withholding tax certificate
- Tax certificate
- PIN certificate

(2 marks)

40. Henry Kaka is employed as a finance manager by Zoa Ltd. The company provided him with a house on 1 July 2023 and furnished it at the cost of Sh.250,000. Determine Henry Kaka's taxable benefit on furniture for the year 2023.

- Sh.250,000
- Sh.15,000
- Sh.30,000
- Sh.75,000

(2 marks)

41. How is investment allowance determined by a taxpayer treated by the revenue authority for tax purposes?

- Allowable expense
- Tax relief
- Deferred expenditure
- Income

(2 marks)

42. Kiatuh Ltd. imported goods in December 2023 valued at Sh.2,100,000 being cost, insurance and freight excluding import duty and value added tax (VAT). Import duty was at the rate of 20% while VAT was at the rate of 16% during the month. Determine the amount of VAT chargeable on the goods.

- Sh.403,200
- Sh.336,000
- Sh.420,000
- Sh.400,448

(2 marks)

43. Agricultural employees housing benefit is 10% of employment income. Which of the following circumstances can lead to change of the rate to 15%?

- If the director is a whole-time service director
- If the house is leased by the employer
- If employee is housed outside the farm or plantation
- If employee has his own house

(2 marks)

44. The following measures are used by the customs and excise duty departments of your country to prevent dumping **EXCEPT** _____.

- Establishment of the advisory committee to recommend to the minister the imposition of antidumping or countervailing measures on investigated products imported into the country
- Prohibition and restriction of all imports as per the law in force from time to time
- Pre-shipment and pre-verification of exports and imports done by qualified and reputable inspection firms and institutions of regular off-shore inspections
- Collusion between customs officers and importers are policed strictly and heavily penalised

(2 marks)

45. In reference to the following scenarios, which one **DOES NOT** lead to tax refunds?

- Overpayment of tax
- Relief of error or mistake
- Exporting goods that were previously imported
- Underpayment of tax

(2 marks)

46. Which one of the following statements is **NOT** true about iTax system?

- Fulfils the canon of economy in taxation
- Fulfils the canon of convenience in taxation
- Fulfils the canon of productivity in taxation
- Facilitates tax audit

(2 marks)

47. Zack Muiruh obtained a loan amounting to Sh.4,600,000 from his employer, Plum Ltd. at an interest rate of 9% per annum while the market rate was 12% per annum. What is the fringe benefit tax per month?
A. Sh.41,400
B. Sh.3,450
C. Sh.12,420
D. Sh.6,420 (2 marks)

48. Which of the following statements is **NOT** true about residence in relation to tax?
A. Residential status is used in determining the scope of taxation
B. Residential status is used in determining the nationality of a person
C. The residential status is used in determining the applicable tax rates
D. The residential status is used in determining applicable reliefs (2 marks)

49. Which among the following is **NOT** a reason why the government levies taxes?
A. To ensure economic stability
B. As a means to redistribute resources and incomes
C. To increase employment levels
D. To increase the tax base (2 marks)

50. Which of the following statements is **NOT** true with regard to indirect taxes?
A. They are difficult to evade
B. They create civic consciousness
C. They are regressive
D. They are convenient to pay (2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

MONDAY: 4 December 2023. Afternoon Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2022.

| | Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|----------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| 1 | - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | | 25% |
| Excess over - 32,333 | Excess over - 388,000 | | 30% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | |
|---|-------------------------------------|-------------------------------------|---|--|---------|---------|
| Capital expenditure incurred on: | | | | (i) Saloons, Hatch Backs and Estates | | |
| (a) Buildings: | | | | Up to | 1200 cc | 3,600 |
| • Hotel building | 50% in the first year of use | 25% | | 1201 - | 1500 cc | 4,200 |
| • Building used for manufacture | 50% in the first year of use | 25% | | 1501 - | 1750 cc | 5,800 |
| • Hospital buildings | 50% in the first year of use | 25% | | 1751 - | 2000 cc | 7,200 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | | 2001 - | 3000 cc | 8,600 |
| • Educational/hostels building | 10% per year on straight line basis | | | Over - | 3000 cc | 103,200 |
| • Commercial building | 10% per year on straight line basis | | | | | 14,400 |
| (b) Machinery: | | | | (ii) Pick-ups, Panel Vans (unconverted) | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | | Up to | 1750 cc | 3,600 |
| • Hospital equipment | 50% in the first year of use | 25% | | Over | 1750 cc | 4,200 |
| • Ships or aircraft | 50% in the first year of use | 25% | | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | | (iii) Land Rovers/Cruisers | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | | | | |
| • Furniture and fittings | 10% per year on straight line basis | | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | | |
| • Other machinery | 10% per year on straight line basis | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|--------------------------------|-------------------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. The following documents are required to accompany a self-assessment return, EXCEPT _____.
 A. A set of audited final accounts
 B. Tax computation schedule
 C. Documents to support withholding tax
 D. List of shareholders (2 marks)

2. Job Mbatha is a trader registered for value added tax (VAT) purpose and dealing with leather products. In December 2022, he imported goods valued at Sh.2,625,000 being cost, insurance and freight excluding import duty and VAT. Import duty rate was 25% during the month while VAT rate was 16%. Calculate the amount of input VAT chargeable on the goods.
 A. Sh.525,000
 B. Sh.483,000
 C. Sh.420,000
 D. Sh.453,000 (2 marks)

3. The following are offences under the value added tax (VAT) Act, EXCEPT _____.
 A. Failure to register when eligible
 B. Failure to supply taxable goods
 C. Failure to issue a tax invoice
 D. Failure to keep proper records (2 marks)

4. When the trader passes on the tax burden to the consumer through a sales transaction, this is known as?
 A. Straight shifting
 B. Online shifting
 C. Backward shifting
 D. Forward shifting (2 marks)

5. John Tabachu received the following income and benefits from his employer for the year ended 31 December 2022:
 Sh.
 • Monthly salary 175,000
 • Monthly travel allowance 7,500
 • Annual insurance premiums 72,000
 • Medical expenses paid by employer Sh.165,000. The employer has a medical scheme covering all employees

Required:
 Calculate John Tabachu's taxable income for the year ended 31 December 2022.
 A. Sh.2,427,000
 B. Sh.3,090,000
 C. Sh.3,072,000
 D. Sh.2,262,000 (2 marks)

6. Noah Mutemi is an employee of Chajoh Ltd. During the year ended 31 December 2022, he contributed Sh.6,000 per month to cater for his life insurance premium. His gross salary was Sh.180,000 per month. Calculate his tax relief for the year of income 2022.
 A. Sh.28,800
 B. Sh.60,000
 C. Sh.21,600
 D. Sh.39,600 (2 marks)

7. Symon Mutua is an employee of Safari Ltd. During the year 2022, he received an annual income of Sh.2,500,000 before housing benefit. He was housed by the employer in a rented house where the employer paid Sh.30,000 per month while the fair market rental value of the house was Sh.45,000 per month. Symon Mutua was deducted Sh.5,000 per month towards the payment of rent. Calculate Symon Mutua's housing benefit for the year ended 31 December 2022.
 A. Sh.540,000
 B. Sh.480,000
 C. Sh.315,000
 D. Sh.360,000 (2 marks)

8. Mwatu Ltd's trading profit for the year ended 31 December 2022 has been arrived at after deducting the following items:

| | Sh. |
|-------------------------------|---------|
| • Cost of bill board | 711,360 |
| • Donation to political party | 221,520 |
| • Loss on sale of furniture | 234,000 |
| • Salaries and wages | 289,700 |
| • Specific bad debts | 196,560 |

What amount should be added back to the trading profit when calculating the adjusted taxable profit?

- A. Sh.1,166,880
- B. Sh.1,356,580
- C. Sh.1,263,440
- D. Sh.1,553,140

(2 marks)

9. Salsah Ltd. reported a net profit of Sh.1,032,800 in year 2022 after deducting the following expenses:

| | Sh. |
|---|---------|
| • Legal fee for director's breach of contract | 72,000 |
| • Parking fines | 18,000 |
| • Depreciation of motor vehicle | 54,900 |
| • Salaries and wages | 220,800 |
| • Corporation tax paid | 160,000 |
| • Rent and rates | 38,400 |

Calculate the adjusted taxable profit for Salsah Ltd. for the year 2022.

- A. Sh.1,292,000
- B. Sh.1,337,700
- C. Sh.1,265,700
- D. Sh.1,247,700

(2 marks)

10. Kenda Ltd. had the following expenses in their financial statement for the year ended 31 December 2022:

| | Sh. |
|---------------------------------------|---------|
| • Advertisement | 369,000 |
| • Depreciation | 216,000 |
| • Subscription to chamber of commerce | 351,000 |
| • Goodwill amortisation | 396,000 |

Calculate the total allowable expenses for Kenda Ltd. for income tax purposes.

- A. Sh.567,000
- B. Sh.720,000
- C. Sh.765,000
- D. Sh.612,000

(2 marks)

11. The following arguments are in favour of introduction of capital gains tax (CGT) in an economy **EXCEPT** _____.

- A. It ensures that there is equity in taxation
- B. It helps in curbing inflation
- C. It reduces chances of tax evasion
- D. Increases government revenue

(2 marks)

12. The following actions are undertaken by the revenue authority to recover overdue tax **EXCEPT** _____.

- A. Holding property of the tax payer as security for the unpaid tax
- B. Asking the bank to freeze the bank accounts of defaulters
- C. Issue of distress order where the assets of the tax payer are auctioned to recover the tax due and payable
- D. The commissioner can jail the tax payer for the tax due and payable

(2 marks)

13. The income of a taxable person can be assessed on another person under the following circumstances **EXCEPT** _____.

- A. When a taxable person is a minor
- B. When a taxable person is insane
- C. When a taxable person is deceased
- D. When a taxable person is illiterate

(2 marks)

14. Salama Ltd. prepares its accounts at the end of every year. The company submitted its tax returns for the year of assessment 2022 on 15 May 2023 showing unpaid tax balance of Sh.78,000. The balance of tax was paid on 31 May 2023 in relation to the return for the year of assessment 2022.

Which of the following statement is **NOT** true?

- A. The company has submitted the tax return within the submission due date
- B. The company was late in paying the balance of the tax payable
- C. The due date of the payment of the balance of Sh.78,000 is on 30 June 2023
- D. The balance of tax payable will attract late payment interest

(2 marks)

15. What is the applicable rate for the capital gains tax (CGT) in the year 2023?

- A. 5% not final tax
- B. 10% final tax
- C. 10% not final tax
- D. 15% final tax

(2 marks)

16. What is the tax position of meals provided to employees by an employer?

- A. It is an allowable expense for employer up to Sh.4,000 per month
- B. It is a taxable benefit on employee up to Sh.4,000 per month
- C. It is a tax-free benefit if provided to all employees
- D. It is a tax-free benefit for employee if it does not exceed Sh.4,000 per month

(2 marks)

17. Which of the following incomes will **NOT** be subject to withholding tax in your country?

- A. Royalties
- B. Dividends
- C. Salaries
- D. Commissions

(2 marks)

18. What percentage is applicable when calculating the housing benefit for agricultural employees residing in the plantation of farm?

- A. 5%
- B. 10%
- C. 15%
- D. 20%

(2 marks)

19. Which of the following statements **BEST** describe the difference between taxes and levies?

- A. Levies are narrower in scope with specific rate while taxes are broader in scope with different rates
- B. Levies are paid in return for a specific service rendered while taxes have nothing specifically identifiable in return
- C. Levies are penalties and fines on taxes not paid while taxes are restrictive and specific
- D. Taxes are contestable while levies are not contestable

(2 marks)

20. Pay As You Earn (PAYE) is a scheme of taxation where employee's income is deducted at source by employers and remitted to the revenue authority on or before which date?

- A. The 5th day after the end of the month
- B. The 9th day after the end of the month
- C. The 15th day after the end of the month
- D. The 10th day after the end of the month

(2 marks)

21. Who among the following qualifies for owner occupied mortgage interest relief?

- A. An individual
- B. Corporate entity
- C. Trust funds
- D. A company

(2 marks)

22. Which of the following is qualifying interest for tax purposes?

- A. Foreign interest
- B. Interest from infrastructure bond
- C. Interest from retirement schemes
- D. Interest from financial institutions

(2 marks)

23. A tax regime that allows taxpayers to decide on their chargeable income and tax payable is known as
A. Final assessment
B. Self-assessment
C. Provisional assessment
D. Assessment tax (2 marks)

24. The following are types of taxes:
(i) Income tax
(ii) Capital gains tax
(iii) Corporation tax
(iv) Value added tax
Which of the following are direct taxes?
A. (i), (ii), (iii) and (iv)
B. (i), (ii) and (iii) only
C. (ii) and (iii) only
D. (i) and (iv) only (2 marks)

25. Which of the following is NOT an advantage of indirect taxes?
A. Can be used to control inflation
B. Can be used to protect local industries
C. Have a wider coverage and can reach a large part of population
D. Are equitable since the rich pay more tax than the poor (2 marks)

26. How much is the allowable deduction against employment income in relation to contributions to a registered pension scheme?
A. Sh.240,000 per annum
B. Sh.300,000 per annum
C. Sh.96,000 per annum
D. Sh.60,000 per annum (2 marks)

27. Which of the following constitutes taxable business income?
A. Sales proceeds realised from disposal of assets
B. Unrealised foreign exchange gain
C. A reduction in general provision of bad debts
D. Realised foreign exchange gain (2 marks)

28. Which of the following is NOT an advantage of installment tax?
A. The taxpayer does not suffer tax penalties and interests
B. The government gets revenue early
C. The government reduces tax evasion
D. The government maximises revenue collection (2 marks)

29. The basic tax point for a supply of a service is when the service is?
A. Rendered
B. Negotiated
C. Inspected
D. Approved (2 marks)

30. Which of the following is a consequence of a trader dealing in Zero rated supplies for value added tax (VAT) purposes?
A. Registration for VAT is not required
B. Filling VAT return is not required
C. A trader cannot deduct input VAT
D. A trader is expected to file VAT return (2 marks)

31. Which one of the following statements explain the term “progressive tax”?
A. A tax which each individual pays fixed amount in a month or a year
B. This is a tax adjusted in a manner that the rate decreases as income increases
C. Where tax is levied at a flat rate on income earned by a person
D. Where a tax is levied at a graduated scale rate on income earned by a person (2 marks)

32. Which of the following is **NOT** allowable expense for the purpose of computing capital gain tax (CGT)?
 A. Loan interest expenses in acquiring property
 B. Legal fees on acquisition of the property
 C. Allowance for bad debt
 D. Cost of defending the title (2 marks)

33. The commissioner may not accept a late objection **EXCEPT** when?
 A. The taxpayer is undertaking a new capital project
 B. The taxpayer has no power supply in his office and thus could not get the notice on time
 C. The taxpayer is committed to a new assignment to the extent, he/she cannot handle the tax matters
 D. The tax payer was held in a police custody (2 marks)

34. Sapuroh Manufacturers Ltd. commenced its operations on 1 January 2022 after incurring the following expenditure:

| | Sh. |
|----------------------|------------|
| Perimeter wall | 5,600,000 |
| Land | 2,800,000 |
| Processing machinery | 2,400,000 |
| Saloon car | 3,600,000 |
| Forklift | 2,000,000 |

Required:
 Determine the investment allowance due to Sapuroh Manufacturers Ltd. for the year ended 31 December 2022.
 A. Sh.5,250,000
 B. Sh.4,000,000
 C. Sh.6,650,000
 D. Sh.8,050,000 (2 marks)

35. Which of the following is a right of a registered person for value added tax (VAT) purposes?
 A. To apply for registration as a taxable person
 B. To display certificate of registration in a clearly visible place
 C. To pay monthly tax when due to the department
 D. To request for information from the tax department (2 marks)

36. Which of the following levies/taxes is imposed and collected by the county government?
 A. Catering levy
 B. Petroleum levy
 C. Property rates
 D. Stamp duty (2 marks)

37. Which of the following statement is **NOT** true with regard to investment allowances?
 A. They are claimed on capital assets utilised by registered businesses
 B. They are claimed at different rate depending on the nature of assets
 C. The assets must have been used in the year of income under consideration
 D. The investment allowance is computed on reducing balance of the asset (2 marks)

38. Kikapu Manufacturers Ltd. incurred the following capital expenses on 1 January 2022:

| | Sh. |
|--------------|------------|
| Tractor | 2,180,000 |
| Carpets | 60,000 |
| Tuk tuks | 420,000 |
| Wheelbarrows | 20,000 |

Compute the investment allowances to be claimed by Kikapu Manufacturers for the year ended 31 December 2022.
 A. Sh.595,000
 B. Sh.658,000
 C. Sh.670,000
 D. Sh.550,600 (2 marks)

39. Prestige Milling Ltd. provides for the wear and tear allowance on all its assets. During the year ended 31 December 2022, the company purchased computers and office cabinet for Sh.2,900,000 and Sh.480,000 respectively. What is the investment allowance for the acquired assets for the year ended 31 December 2022?

- A. Sh.845,000
- B. Sh.870,000
- C. Sh.773,000
- D. Sh.798,000

(2 marks)

40. The **MAIN** purpose of levying tax is _____.

- A. To decrease inequalities
- B. To increase imports
- C. To generate public revenue
- D. To encourage saving

(2 marks)

41. Which of the following **DOES NOT** constitute the meaning of supply under VAT?

- A. Sales proceeds earned upon sale of a product
- B. The value of export services
- C. Drawings of goods meant for resale by a trader
- D. Insurance compensation for loss of a non- current asset

(2 marks)

42. The following information **SHOULD** be contained in a VAT tax invoice except?

- A. Name and VAT registration number of the person making supply
- B. The serial number and date of the invoice
- C. The name of person serving the customer
- D. Total value of supplies and total amount of VAT charged

(2 marks)

43. Which of the following is **NOT** a right of the commissioner of VAT?

- A. To expect that information obtained in the course of duty by the VAT officers shall be treated in confidence
- B. To demand security from any taxable person for the unpaid tax
- C. To retain books of accounts for a period long enough for him to complete his examination
- D. To take samples of goods of a taxable person without payment

(2 marks)

44. Safari Limited started its food processing operations in year 2021 after incurring various capital expenditures among them a mini bus which was purchased at a cost of Sh.3,120,000. How much investment allowances should the company claim in the year 2022?

- A. Sh.780,000
- B. Sh.585,000
- C. Sh.936,000
- D. Sh.390,000

(2 marks)

45. Kiritu Ltd sold goods to Fadeh Ltd. for Sh.21,460,000 inclusive of 16% value added tax. What is the value of output VAT?

- A. Sh.3,433,600
- B. Sh.2,146,000
- C. Sh.2,960,000
- D. Sh.21,460,000

(2 marks)

46. Kiatuh Ltd. imported goods in the month of October 2023 valued at Sh.2,100,000 being cost, insurance and freight excluding import duty and VAT. Import duty rate was 20% while VAT rate was at 16% during the month. Determine the amount of VAT chargeable on the goods.

- A. Sh.403,200
- B. Sh.336,000
- C. Sh.420,000
- D. Sh.400,440

(2 marks)

47. Which of the following is **NOT** a specified source of income?

- A. Royalties
- B. Dividends
- C. Rent
- D. Lottery

(2 marks)

48. Willy Makhoha is a professional accountant who is registered for value added tax (VAT) purposes. He offered book keeping services to local clients amounting to Sh.800,000 exclusive of VAT and audited a company in Uganda for Sh.470,000 exclusive of VAT on the month of February 2023. How much is the output tax for the month of February?

A. Sh.203,200
B. Sh.128,000
C. Sh.75,200
D. Sh.110,000

(2 marks)

49. Which of the following is **NOT** a statutory deduction?

A. Housing levy
B. Withholding tax
C. National Hospital Insurance Fund
D. Pay as You Earn

(2 marks)

50. Alpha Ltd. a resident company made a net profit of Sh.22,000,000 during the year ended 31 December 2022, before deducting investment allowance of Sh.15,600,000 which was agreed with the commissioner of tax. Determine the tax payable by the company?

A. Sh.5,500,000
B. Sh.6,600,000
C. Sh.1,920,000
D. Sh.6,400,000

(2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

MONDAY: 21 August 2023. Afternoon paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL the questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2022.

| | Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|----------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| 1 | - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | | 25% |
| Excess over - 32,333 | Excess over - 388,000 | | 30% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | |
|---|-------------------------------------|---|--|------------------------------------|-----------------------------------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | Monthly rates (Sh.) | Annual rates (Sh.) |
| (a) Buildings: | | | Up to 1200 cc | 3,600 | 43,200 |
| • Hotel building | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 |
| • Hospital buildings | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 2001 - 3000 cc | 8,600 | 103,200 |
| • Educational/hostels building | 10% per year on straight line basis | | Over - 3000 cc | 14,400 | 172,800 |
| • Commercial building | 10% per year on straight line basis | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 |
| • Ships or aircraft | 50% in the first year of use | 25% | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | | | |
| • Furniture and fittings | 10% per year on straight line basis | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | |
| • Other machinery | 10% per year on straight line basis | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | (iii) Land Rovers/Cruisers | 7,200 | 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|--------------------------------|-------------------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. Desmond Kimeu has been practicing commercial farming. During the year ended 31 December 2022, he made a sale of Sh.2,160,000 before deducting the following expenses:

| | Sh. |
|-----------------------------------|---------|
| Ploughing | 60,000 |
| Installation of irrigation system | 180,000 |
| Cost of constructing gabions | 360,000 |

Calculate the total taxable income for the year ended 31 December 2022.

- A. Sh.1,650,000
- B. Sh.1,800,000
- C. Sh.2,160,000
- D. Sh.1,560,000

(2 marks)

2. Raymond Sang a sole trader who is registered for turnover tax made a gross sale of Sh.1,950,000 during the year ended 31 December 2022. Total expenses during the year amounted to Sh.1,200,000. Compute his taxable income for the year ended 31 December 2022.

- A. Sh.1,950,000
- B. Sh.750,000
- C. Sh.3,150,000
- D. Sh.1,200,000

(2 marks)

3. Proportional tax is a tax where?

- A. Tax is levied at a graduated scale rate on income earned by a person
- B. Each individual pays fixed amount in a month or a year
- C. Tax is adjusted in a manner that the rate decreases, income increases and more tax is levied
- D. Tax is levied at a flat rate on income earned by a person

(2 marks)

4. Which of the following benefits provided by an employer to an employee is not exempted from tax?

- A. Benefit in kind not exceeding Sh.36,000 per annum
- B. Insurance premiums paid by employer on behalf of an employee
- C. School fees paid by employer on behalf of employee's children and treated as non-allowable deduction in the company's book of accounts
- D. Employer contribution to a registered pension scheme on behalf of the employee

(2 marks)

5. Value added tax (VAT) may not be refunded _____.

- A. If the input tax exceeds output tax and this is a common feature of the business
- B. If a debt of a taxable person remains unpaid for a period of 3 years or more
- C. If the registered person incurs a loss in a specific period
- D. If it is paid in error

(2 marks)

6. Which of the following ways is practiced by tax evaders?

- A. Operating with incomes that are tax exempt
- B. Use of debt capital where interest tax is tax allowable instead of equity capital
- C. Claiming investment allowance
- D. Overstating expenses

(2 marks)

7. Which of the following statement is true if an employee gets medical cover from the employer?

- A. It is a taxable benefit on the employee for that year of income
- B. It is a tax-free benefit to permanent and pensionable employees
- C. It is a tax-free benefit to the employee provided the employer is taxed
- D. It is a tax-free benefit provided the scheme is not discriminatory

(2 marks)

8. Which of the following is an example of direct taxes?

- A. Corporate tax
- B. Value added tax
- C. Entertainment tax
- D. Custom duty

(2 marks)

9. Which of the following asset matches its rate of investment allowances?

- A. Motor vehicle 12.5% per year on straight line basis
- B. Motorbike 25 % per year on a straight line basis
- C. Boiler 30% per year on a straight line basis
- D. Typewriter 30% per year on a straight line basis

(2 marks)

10. Kelvin Mochaki has residential property in Ezeka state. It has 15 units renting each at Sh.30,000 per month. He spends Sh.150,000 per month for security and maintenance of the rental property. How much is the residential rental income tax paid by Kelvin for the month of December 2022?

A. Sh.30,000
 B. Sh.45,000
 C. Sh.90,000
 D. Sh.135,000

(2 marks)

11. Malewa Ltd. had accumulated losses of Sh.427,500 for the year ended 31 December 2021. In the year ended 31 December 2022, the company made a profit of Sh.810,450. What is the tax payable (if any) by Malewa Ltd. for the year ended 31 December 2022?

A. Sh.243,135
 B. Sh.371,110
 C. Sh.114,885
 D. Sh.128,025

(2 marks)

12. Annah Zawadi is a registered VAT trader dealing with electronic products. In the month of April 2023. She made sales of Sh.500,000 to VAT registered customer and Sh.360,000 to VAT unregistered customer. She purchased stocks in the same month amounting to Sh.336,000 from VAT registered suppliers and Sh.170,000 from VAT unregistered suppliers. The above amounts are stated exclusive of VAT. What is the VAT payable or claimable by Annah Zawadi for the month of April 2023?

A. Sh.83,840
 B. Sh.67,200
 C. Sh.42,240
 D. Sh.24,960

(2 marks)

13. Allan and Sons Ltd. trading profit for the period ended 31 December 2022 was arrived at after deducting the following expenses:

| | Sh. |
|-------------------------------|---------|
| Loss on sale of a tractor | 198,000 |
| Bad debt written off | 66,000 |
| Legal fee for debt collection | 142,000 |

How much should be added back from the above expenses when calculating the adjusted taxable profit?

A. Sh.406,000
 B. Sh.198,000
 C. Sh.340,000
 D. Sh.142,000

(2 marks)

14. Keith Mwema received a basic salary of Sh.1,104,000, he was provided with free meals from the company of Sh.54,000 during the year. He also received company product worth Sh.144,000 during the year. What is Keith's total taxable income for the year?

A. Sh.1,104,000
 B. Sh.1,302,000
 C. Sh.1,158,000
 D. Sh.1,248,800

(2 marks)

15. Woods Manufacturing Ltd. started operations in 2022 after incurring various capital expenditures among them an industrial building constructed at a cost of Sh.21,600,000, warehouse Sh.10,080,000, conveyor belt Sh.760,000 and forklifts Sh.3,400,000. What is the investment deduction claimable for the year 2022?

A. Sh.13,038,000
 B. Sh.17,088,000
 C. Sh.18,336,000
 D. Sh.13,284,000

(2 marks)

16. Silvester Onyango is a resident and an investor where he received the following income during the year ended 31 December 2022:

Dividends from Safali Ltd. Sh.374,000 (gross)
 Dividends from Exity Bank Ltd Sh.330,000 (gross)
 Interest from Baraka Bank Sh.74,800 (net)

What is the total withholding tax deducted from the above income?

- A. Sh.79,200
- B. Sh.48,400
- C. Sh.116,820
- D. Sh.67,320

(2 marks)

17. Yegon Wikah gross rental income for the month of November 2022 from his commercial property was Sh.1,896,000 before deducting the following expenses:

Caretaker salary Sh.72,000
Repairs and maintenance exit Sh.336,000.

Construction of emergency exit Sh.648,000 in order to maintain existing rental income.

Determine the taxable rental income by Yegon for the month of November 2022.

- A. Sh.840,000
- B. Sh.1,488,000
- C. Sh.1,896,000
- D. Sh.912,000

(2 marks)

18. What is the position for free products received by an employee from the employer?

- A. It is a taxable benefit in full
- B. It is a tax-free benefit provided it does not exceed Sh.48,000
- C. It is a tax-free benefit provided it does not exceed Sh.36,000
- D. It is a tax-free benefit in full

(2 marks)

19. Saidi Abdih decided to trade-in his computer for a new one that had cost Sh.462,000, he paid Sh.220,000 in cash. The net book value of the old computer was. Sh.280,000. What is the disposal cost of the old computer for investment allowance purpose?

- A. Sh.154,000
- B. Sh.220,000
- C. Sh.308,000
- D. Sh.242,000

(2 marks)

20. Ponky Ltd. imported a machinery valued at Sh.1,400,000 being cost, insurance and freight excluding the customs duty at the rate of 20% and VAT at the rate of 16%. How much is the VAT chargeable on the above machinery?

- A. Sh.224,000
- B. Sh.179,200
- C. Sh.193,103
- D. Sh.268,800

(2 marks)

21. Binding assessments are assessments which are final and conclusive. Which among the following is not a binding assessment?

- A. Assessment determined by local committee
- B. Assessment made and no appeal has been made
- C. Assessment made and no objection has been raised within the statutory period
- D. Assessment awaiting determination by local committee

(2 marks)

22. Which one of the following statements does **NOT** explain the meaning of resident in regard to an individual for tax purpose?

- A. A person has no permanent home in Kenya and was in Kenya during the year of income under consideration for any period
- B. A person has a permanent home in Kenya and was in Kenya during the year of income under consideration
- C. A person has no permanent home in Kenya but was in Kenya for an aggregate of 183 days or more during the year of income under consideration
- D. A person has no permanent home in Kenya but was in Kenya for an average of more than 122 days for the year of income under consideration and two preceding years

(2 marks)

23. Birds Eye Manufacturers Ltd. commenced its operations on 1 January 2022 after incurring the following expenditure:

| | Sh. |
|----------------------|------------|
| Factory building | 6,160,000 |
| Land | 3,080,000 |
| Processing machinery | 2,640,000 |
| Delivery van | 3,960,000 |
| Forklift | 2,200,000 |

Required:

Calculate the investment allowance for Birds Eye Manufacturers Ltd. for the year ended 31 December 2022.

- A. Sh.5,940,000
- B. Sh.4,400,000
- C. Sh.7,315,000
- D. Sh.4,455,000

(2 marks)

24. Which one of the following is a right of a registered person for value added tax (VAT) purposes?

- A. To apply for registration as a taxable person
- B. To display certificate of registration in a clearly visible place
- C. To request for information from the tax department
- D. To pay monthly tax when due to the department

(2 marks)

25. Which of the following tax is levied by county governments?

- A. Rates
- B. Corporation tax
- C. Catering levy
- D. Capital gains tax

(2 marks)

26. Which of the following is NOT a pseudo tax?

- A. Stamp duty
- B. Petroleum levy
- C. Excise duty
- D. Airport levy

(2marks)

27. Agricultural employees housing benefit is 10% of employment income. Which of the following circumstances can lead to change of the rate to 15%?

- A. If the director is not a whole time service director
- B. If employee is housed in a leased building
- C. If employee is housed outside the farm or plantation
- D. If employee has his own house

(2 marks)

28. Which one of the following is a role of an employer in the operation of the pay as you earn (PAYE) system?

- A. Filing tax returns for the employees before the due date
- B. Sensitising employees on pay as you earn procedures
- C. Informing the commissioner of income tax of non- compliant employees
- D. Maintaining proper records of tax payable from employees

(2 marks)

29. Kidaph Mososoh received an income of Sh.1,430,000 for the year ended 31 December 2022. He took a mortgage loan to acquire his house from Mokpo Bank on 1 January 2022 amounting to Sh.4,719,000 at an interest rate of 3% per annum. What is Kidaph Mososoh taxable income for the year ended 31 December 2022?

- A. Sh.1,619,750
- B. Sh.1,571,570
- C. Sh.1,312,025
- D. Sh.1,288,430

(2 marks)

30. John Wekesa obtained a loan amounting to Sh.4,800,000 from employer, Okoa Ltd., at an interest rate of 9% per annum while the market rate was 12% per annum. What is the fringe benefit tax per month?

- A. Sh.3,600
- B. Sh.11,000
- C. Sh.132,000
- D. Sh.39,600

(2 marks)

31. Tamara Ltd.'s trading profit for the year ended 31 December 2022 has been arrived at after deducting the following items:

| | Sh. |
|-------------------------------|---------|
| Goodwill amortisation | 853,632 |
| Donation to political party | 221,520 |
| Loss on sale of motor vehicle | 280,800 |
| Salaries and wages | 347,640 |
| Finance cost | 235,872 |

Compute the amount that should be added back to the trading profit when calculating the adjusted taxable profit?

- A. Sh.1,400,256
- B. Sh.1,355,952
- C. Sh.1,516,128
- D. Sh.1,839,768

(2 marks)

32. Jua Kali Ltd. reported a profit of Sh.1,239,360 for the year ended 31 December 2022 after deducting the following expenses:

| | Sh. |
|----------------------------------|---------|
| Legal fee for breach of contract | 86,400 |
| Parking fines | 21,600 |
| Depreciation of motor vehicle | 65,880 |
| Salaries and wages | 264,960 |
| Corporation tax paid | 192,000 |
| Rent and rates | 46,080 |

Determine the adjusted taxable profit for Jua Kali Ltd. for the year ended 31 December 2022.

- A. Sh.1,550,400
- B. Sh.1,605,240
- C. Sh.1,518,840
- D. Sh.1,497,240

(2 marks)

33. Komesha Ltd. had the following expenses in their financial statement for the year ended 31 December 2022:

| | Sh. |
|-------------------------------------|---------|
| Advertisement | 442,800 |
| Depreciation | 259,200 |
| Subscription to chamber of commerce | 421,200 |
| Goodwill amortisation | 475,200 |

Determine the total allowable expense for Komesha Ltd. for income tax purposes.

- A. Sh.864,000
- B. Sh.702,000
- C. Sh.918,000
- D. Sh.680,400

(2 marks)

34. Poa Limited started operations in 2021 after incurring various capital expenditures among them a Toyota pick-up which was purchased at a cost of Sh.3,744,000. What was its wear and tear allowance for tax purpose for the year ended 31 December 2022?

- A. Sh.936,000
- B. Sh.702,000
- C. Sh.1,123,200
- D. Sh.468,000

(2 marks)

35. The following measures are used by the customs and excise duty departments of your country to prevent dumping except?

- A. Establishment of the advisory committee to recommend to the minister the imposition of antidumping or countervailing measures on investigated products imported into the country
- B. Prohibition and restriction of all imports from time to time by customs authority
- C. Pre-shipment and pre-verification of exports done by qualified and reputable inspection firms and institutions of regular off-shore inspections
- D. Collusion between customs officers and importers are policed strictly and heavily penalised

(2 marks)

36. Which of the following strategies cannot be used by Revenue Authority to enhance tax compliance?
 A. Creating awareness by the revenue authority on the roles of taxes and the civic duty to pay taxes
 B. Increasing the rates of various taxes for example customs duty and VAT
 C. Enhancing efficiency in tax collection for example requiring PIN in some transactions
 D. Providing more tax incentives for example tax reliefs and allowances (2 marks)

37. Mwanzo Mpya Ltd. sold goods to Mwisho Ltd. for Sh.499,525 inclusive of 16% value added tax (VAT). What is the value of VAT?
 A. Sh.68,900
 B. Sh.82,680
 C. Sh.73,776
 D. Sh.71,931.60 (2 marks)

38. Which one of the following is **NOT** an option available to the commissioner of income tax upon receiving a valid objection?
 A. Amend the assessment in light of the objection
 B. Keep the documents without further communication to the tax payer
 C. Amend the assessment in light of the objection with some adjustment
 D. Refuse to amend and confirm the assessment (2 marks)

39. Which of the following changes must be notified to the commissioner within 14 days by the taxpayer?
 A. Recruitment of additional employees by the taxpayer
 B. Additional machinery and motor vehicle for business use
 C. Additional premises are or will be used for the purposes of the business
 D. Salary increments effected by the taxpayer during the year (2 marks)

40. The following information should be contained in a VAT tax invoice
 A. Name, address and VAT registration number of the person making supply
 B. The name and address of person serving the customer
 C. Residential status of the supplier of goods and services
 D. Total value of the goods bought by the supplier during the month (2 marks)

41. Which one of the following is a disadvantage of investment allowances?
 A. Facilitates business expansion leading to job opportunities
 B. Results in loss of revenue for the government as it reduces tax payable
 C. Attracts local and foreign investors to invest in the country
 D. Used by companies to reduce taxable income payable to the commissioner (2 marks)

42. Catery Wanjah, a commercial tea farmer reported the following income and expenses for the year ended 31 December 2022:
 Sh.
 Sales of green tea 3,000,000
 Dividends from Kentea SACCO 500,000
 Tea picking expenses 450,000
 Contributions to Kentea SACCO 400,000
 Repair of paths leading to the tea bush 200,000
 Fertilizers and pesticides 300,000

Required:
 Compute Catery Wanjah taxable farming income for the year ended 31 December 2022.
 A. Sh.1,650,000
 B. Sh.2,050,000
 C. Sh.2,250,000
 D. Sh.2,150,000 (2 marks)

43. A clear understanding of the impact of taxation assist taxpayers in _____.
 A. Tax evasion
 B. Pricing of goods and services
 C. Filing tax returns
 D. Payment of tax (2 marks)

44. Peter Walecha is a resident and a seasoned investor. He has reported the following income for the year ended 31 December 2022. All incomes are stated at gross:

| | Sh. |
|--|---------|
| Dividends from SACCO (established by his employer) | 125,000 |
| Interest from post bank | 50,000 |
| Interest from Wemah bank | 360,000 |

Required:

Compute Peter Walecha tax payable from the various source of income listed above.

- A. Sh.54,000
- B. Sh.80,250
- C. Sh.60,250
- D. Sh.160,500

(2 marks)

45. Annette Lelar is a British citizen. She visited Kenya in the year 2020 and she remained in the country for 125 days. In the year 2021, she was in Kenya for 89 days and in the year 2022 for 160 days. What is her residential status for tax purposes for the year of income 2022?

- A. Resident
- B. Non-resident
- C. Exempted from tax
- D. Not applicable

(2 marks)

46. Ken Murimi operates a high-end carwash business. He has provided the following information relating to his business for the year ended 31 December 2022:

| | Sh. |
|--|-----------|
| Water bill from County Government water services | 500,000 |
| Maintenance and repairs to cleaning machines | 200,000 |
| Contributions to carwash owners merry go round | 250,000 |
| Salaries and commissions to workers | 1,000,000 |
| Carwash rent | 600,000 |
| Licenses and permits | 30,000 |
| Income on carwash services rendered | 4,500,000 |
| Income from cleaning carpets | 400,000 |
| Detergents and other consumables | 420,000 |

Required:

Compute Ken Murimi taxable income.

- A. Sh.1,900,000
- B. Sh.2,550,000
- C. Sh.2,300,000
- D. Sh.2,150,000

(2 marks)

47. Wemah Hospital operates a hospital and a medical training institute. It has presented the following information for the year ended 31 December 2022:

| | Sh. |
|---|------------|
| Construction of a new surgical wing | 6,000,000 |
| Acquisition of a new X-ray machine | 20,000,000 |
| Recruitment of specialised nurses | 5,000,000 |
| Purchase of an ambulance | 4,500,000 |
| Expenses incurred in launching the hospital | 2,000,000 |

Required:

Compute investment allowances to be claimed by Wemah Hospital for the year ended 31 December 2022.

- A. Sh.28,250,000
- B. Sh.35,500,000
- C. Sh.14,125,000
- D. Sh.30,500,000

(2 marks)

48. Which of the following incomes attract a withholding tax as a final tax?

- A. Dividend from saving and credit cooperatives (SACCO)
- B. Dividends from Farmers co-operative society
- C. Management and consultancy fee
- D. Dividends from an overseas company

(2 marks)

49. Which statement is true with regard to Kenya Revenue Authority?
A. Collecting taxes and implementation of tax policies
B. Filing tax returns for persons who fail to submit their returns
C. Preventing tax evasion by jailing tax evaders
D. Enacting tax laws for implementation in the country (2 marks)

50. Identify the deadline for remitting PAYE returns.
A. 10th of every month
B. 20th of every month
C. 30th of every month
D. 9th of every month (2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

MONDAY: 24 April 2023. Afternoon paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL the questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2022.

| | Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|----------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| 1 | - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | | 25% |
| Excess over - 32,333 | Excess over - 388,000 | | 30% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | |
|---|-------------------------------------|---|--|------------------------------------|-----------------------------------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | Monthly rates (Sh.) | Annual rates (Sh.) |
| (a) Buildings: | | | Up to 1200 cc | 3,600 | 43,200 |
| • Hotel building | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 |
| • Hospital buildings | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 2001 - 3000 cc | 8,600 | 103,200 |
| • Educational/hostels building | 10% per year on straight line basis | | Over - 3000 cc | 14,400 | 172,800 |
| • Commercial building | 10% per year on straight line basis | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 |
| • Ships or aircraft | 50% in the first year of use | 25% | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on straight line basis | | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on straight line basis | | | | |
| • Furniture and fittings | 10% per year on straight line basis | | | | |
| • Telecommunication equipment | 10% per year on straight line basis | | | | |
| • Film equipment by a local producer | 25% per year on straight line basis | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | |
| • Other machinery | 10% per year on straight line basis | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | (iii) Land Rovers/Cruisers | 7,200 | 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|--------------------------------|-------------------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. When is the due date for filing and paying the monthly rental income tax (MRI)?
A. 20th of following month
B. 30th of following month
C. 9th of the following month
D. 15th of the following month (2 marks)

2. What is the applicable corporation tax rate for a resident company?
A. 25%
B. 30%
C. 37.5%
D. 35% (2 marks)

3. Which is the applicable rate for catering levy?
A. 3.5% of gross sales value
B. 3% of gross sales value
C. 2% of gross sales value
D. 1% of gross sales value (2 marks)

4. A tax regime that allows taxpayers to determine of their chargeable income and tax payable is referred to as _____.
A. Estimated assessment
B. Additional assessment
C. Self-assessment
D. Amended assessment (2 marks)

5. Kasuku Ltd. had the following expenses in their financial statement for the accounting period ended 31 December 2022:
(i) Entertainment for directors
(ii) Depreciation for the year
(iii) Purchase of equipment
(iv) Subscription to chambers of commerce

Which of the above expenses can be treated as allowable expenses?
A. i, ii, and iii only
B. ii and iii only
C. iv only
D. ii only (2 marks)

6. Which of the following documents or instruments is subject to stamp duty?
A. Adoption deed
B. Affidavit
C. Charter party
D. Partnership deed (2 marks)

7. An objection to a tax decision of the commissioner of domestic taxes must be done within a period not exceeding?
A. 30 days
B. 14 days
C. 60 days
D. 21 days (2 marks)

8. What is the tax position of an agricultural employee provided with a house in a farm or plantation?
A. Taxable amount is 10% of the total income less own contribution towards the house
B. Taxable amount is 15% of the total income less own contribution toward the house
C. Taxable amount is 10% of the employment income less own contribution towards the house
D. Taxable amount is 15% of the employment income less own contribution towards the house (2 marks)

9. Hemedi, a sole trader who is registered for VAT, purchased fuel for his commercial trucks for Sh.582,640 inclusive of VAT, in the month of February 2022. How much should Hemedi claim as input from the above transactions?
A. Sh.80,364.14
B. Sh. 93,222.4
C. Sh.43,158.52
D. Sh.66,571.03 (2 marks)

10. What is the tax position on furniture provided by an employer to an employee?
A. The taxable amount is the value given to the furniture
B. It is a tax-free benefit
C. The taxable amount is 2% per month on the cost of the furniture
D. The taxable amount is 1% per month on the cost of the furniture (2 marks)

11. When a taxpayer is dissatisfied with a tax decision of the commissioner, the tax taxpayer is supposed to petition through?
A. A letter of protestation
B. A letter of objection
C. A letter of appeal
D. A letter of amendment (2 marks)

12. Albert Kemei is an employee of Teso Ltd. During the year ended 31 December 2022, he contributed Sh.12,000 per month to Uzima insurance for his personal life insurance premium. How much was insurance relief for the year?
A. Sh.60,000
B. Sh.21,600
C. Sh.5,000
D. Sh.28,800 (2 marks)

13. Cosmas Kimathi received the following incomes in the year ended 31 December 2022.
• Dividends from Kamura Co-operative Society Sh.170,000 (gross)
• Interest from post office bank Sh.100,000 (gross)

Determine the total withholding tax from the above incomes.
A. Sh.40,500
B. Sh.25,500
C. Sh.13,500
D. Sh.15,000 (2 marks)

14. Identify one of the following circumstances under which a VAT registered trader may be de-registered from VAT obligation?
A. In case the tax payer deals with digital supplies only
B. In case the tax payer fails to charge VAT in their sales
C. In case the tax payer fails to display VAT certificate of registration in a clearly visible place within the business
D. In case the taxpayer leaves the country permanently (2 marks)

15. Mwanatumu Hamisi imported a processing machine for sh. 6,400,000 from Japan exclusive of custom duty at the rate of 25% and VAT at the rate of 16%. What is the qualifying amount of the processing machine for investment allowance purpose?
A. Sh. 9,280,000
B. Sh. 8,000,000
C. Sh. 7,424,000
D. Sh. 6,400,000 (2 marks)

16. Define the term advance tax?
A. Tax levied on commercial vehicles before being licensed to operate in Kenya
B. Tax levied by the government for certain transactions and documents
C. Tax levied on locally manufactured goods
D. Tax levied on incomes earned by an individual (2 marks)

17. A whole-time service director is one?
A. Who controls more than 12% of the company's share capital
B. Who is a beneficial owner of the company
C. Who does not control more than 12% of the company's share capital
D. Who does not control more than 5% of the company's share capital? (2 marks)

18. Which of the following levies and charges is imposed by the county government?
A. Property rates
B. Catering levy
C. Petroleum levy
D. Stamp duty (2 marks)

19. Henry Menecha an employee of Meilian Ltd., bought a residential house on 1 January 2022 through mortgage facility of Sh.2,900,000 advanced by Kilifi Bank Ltd. at an interest rate of 15 % per annum. He moved in to the house on 1 January 2022. Determine the amount to be treated as allowable mortgage relief deduction against his employment income for the year 2022.
A. Sh.435,000
B. Sh.675,000
C. Sh.450,000
D. Sh.300,000 (2 marks)

20. Abdiraziz Wakah received an annual basic salary of Sh.960,000 in the year 2022. He contributed 10% of his basic salary to a registered pension scheme while the employer contributed an equal amount for him. Determine his taxable income for the year 2022.
A. Sh. 960,000
B. Sh. 864,000
C. Sh. 768,000
D. Sh. 1,152,000 (2 marks)

21. Stanley Mochache an employee of Leensfreight Ltd. received a basic salary of sh. 134,000 per month after deducting PAYE of sh. 46,000 per month. Determine his tax payable for the year 2022.
A. Sh.33,400
B. Sh.161,000
C. Sh.552,000
D. Sh.4,600 (2 marks)

22. Which among the following actions can the revenue authority **NOT** take to recover overdue tax?
A. Holding property of the tax payer as security for unpaid tax
B. Ask the bank to freeze the bank account of the defaulters
C. Issue a distraint order where the asset of the taxpayer is auctioned to recover the tax due and payable
D. Jail the tax payer for the tax due and payable (2 marks)

23. Pata Trader is registered for VAT purposes. In the month of January 2022, they imported goods for Sh.2,250,000, exclusive of customs duty at the rate of 25% and VAT at the rate of 16%. Calculate the VAT chargeable on the above goods.
A. Sh.450,000
B. Sh.360,000
C. Sh.381,931
D. Sh.310,345 (2 marks)

24. Which one of the following statements explains the meaning of the term pay as you earn (PAYE)?
A. Tax charged on locally manufactured goods
B. Tax levied on goods imported into the country
C. Tax charged on incomes earned by a limited company
D. Tax charged on incomes of an individual (2 marks)

25. Which one of the following offenses matches the right penalty?
A. Failure to deduct PAYE, account for it or to submit a certificate upon request, a penalty of 5% of the amount of the tax involved or sh. 10,000 whichever is higher
B. Failure to deduct or remit withholding tax penalty of 10% of the amount of the tax involved, up to a maximum of Sh.1,000,000
C. Failure to remit Excise Duty or VAT, penalty of 25% of the amount of the tax due or Sh.10,000
D. Failure to pay tax on due date, penalty of 5% of the tax involved is charged (2 marks)

26. Which of the following benefits is not taxable?
A. Subsistence allowance of up to Sh.2,000 per day
B. Meals provided by the employer up to a maximum of Sh.5,000 per month.
C. Pension contribution paid by a tax-exempt employer to an unregistered scheme
D. Benefit in kind given by employer up to a maximum of Sh.4,000 per month (2 marks)

27. What is the treatment of increase in general provisions for bad debts in computations of taxable business income?
A. It is a disallowable expense
B. It is an allowable expense
C. It is an allowable income
D. It is a disallowable income (2 marks)

28. Which of the following is **NOT** allowable expense under the commercial rental incomes?
A. Land rent and rates
B. Repair before letting the house
C. Agents fees
D. Mortgage interest (2 marks)

29. Matilda Waswa's gross commercial rental income for the month of November 2022 was Sh.750,000. The expenses for that month includes.
• Caretakers salary Sh.25,000
• Repairs so as to increase the rent Sh.140,000
• Mortgage interest paid Sh.180,000

Determine the rental income taxable for the month of November 2022.

A. Sh.405,000
B. Sh.430,000
C. Sh.750,000
D. Sh.545,000 (2 marks)

30. Taxable income is recognised when?
A. Taxpayer fails to include the income in his returns
B. The income has been received in money or its equivalent
C. Income has been received either actually or constructively
D. Transaction that is the source of income is completed (2 marks)

31. The term given to an outright dishonest action where the taxpayer seeks to minimise his tax liabilities through illegal means is known as _____.
A. Tax avoidance
B. Tax deductions
C. Tax evasion
D. Tax allowance (2 marks)

32. Cossim Ltd. had the following expenses in their financial statement for the year ended 31 October 2022:

- Directors Christmas party Sh.410,000
- Depreciation Sh.240,000
- Subscription fees to trade association Sh.390,000
- Goodwill amortisation Sh.440,000

Determine the total allowable expense for Cossim Ltd. for income tax purposes.

- A. Sh.1,480,000
- B. Sh.1,240,000
- C. Sh.830,000
- D. Sh.390,000

(2 marks)

33. It is mandatory to have a personal identification number (PIN) for the following transactions, **EXCEPT?**

- A. Land transfer
- B. Motor vehicle registration
- C. Application of insurance cover
- D. Application for birth certificate

(2 marks)

34. Which of the following assets is **NOT** considered for investment allowance purpose?

- A. Land
- B. Demolition of old building site
- C. Labour quarters
- D. Sewerage system

(2 marks)

35. Sheila Gibson is an Audit consultant and is registered for VAT. She provided free audit services to her church. The audit service would have cost the church Sh.928,000 inclusive of VAT. How much should Sheila Gibson include in her output VAT returns in respect to the above free service.

- A. Sh.128,000
- B. Sh.0
- C. Sh.148,000
- D. Sh.20,480

(2 marks)

36. Which one of the following is subject to monthly rental income (MRI) tax regime?

- A. Non-residents
- B. Landlords with less than Sh.1million per annum
- C. Landlords earning more than Sh.15 million per annum
- D. Taxpayer in the old regime with authority of the commissioner

(2 marks)

37. Dorcus Mwende received dividends income from Twaweza Co-operative Society amounting to Sh.34,000 net of withholding tax. How much is the withholding tax payable from the above dividend income?

- A. Sh.1,700
- B. Sh.3,778
- C. Sh.6,000
- D. Sh.5,100

(2 marks)

38. What is Digital Service Tax (DST)?

- A. A tax payable on income derived or accrued in Kenya and other countries from services offered through a digital market place.
- B. A tax payable on income derived or accrued in Kenya only from services offered through a digital market place.
- C. A tax payable on profit derived or accrued in Kenya and other countries from services offered through a digital market place.
- D. A tax payable on profit accrued in Kenya only from services offered through a digital market place.

(2 marks)

39. Which of the following statements defines bad debt relief for VAT purpose?
A. It is a relief granted if the debt of a taxable person remains unpaid for a period of 2 years or more
B. It is a relief granted if the input tax exceeds output tax and this is a common feature in a business
C. It is a relief granted if a debt of a taxable person remains unpaid for a period of 3 years or more
D. It is a relief granted to a taxable person if a debtor refuses to settle his debt (2 marks)

40. Maureen Mwalili received an annual salary of Sh.560,000 in the year ended 31 December 2022. She also received free company's product valued at Sh.35,000 during the year. Determine her taxable income for the year ended 31 December 2022.
A. Sh.560,000
B. Sh.595,000
C. Sh.525,000
D. Sh.590,000 (2 marks)

41. John Oguta purchased a building in the year 2022 for Sh.5,000,000. He incurred the following additional costs:
• Valuation fees Sh.280,000
• Replacing roof Sh.150,000
• Legal cost Sh.270,000

Calculate the adjusted cost of the building which is to be disposed in the month of May 2023.
A. Sh.4,300,000
B. Sh.5,000,00
C. Sh.5,700,000
D. Sh.700,000 (2 marks)

42. Select one of the following statements that describes how tax evasion is practiced.
A. Operating with incomes that are tax exempt
B. Claiming tax relief and allowances
C. Filing of fraudulent returns using fraudulent means
D. Use of debt capital where interest is tax allowable in the equity capital (2 marks)

43. Which of the following explains the tax position for school fees paid by an employer on behalf of an employee's children?
A. It is tax free benefit provided that it is taxed on the employer.
B. It is taxed on the employee
C. It is always taxed on the employer
D. It is taxed on both the employer and employee (2 marks)

44. What is the penalty for failure to file the self - assessment return?
A. Sh.2,000
B. Sh.1,000
C. Sh.10,000
D. Sh.5,000 (2 marks)

45. Josephine Wakio was given a saloon car by her employer on 1 January 2022, the cylinder capacity of the saloon car was 3200 and it had been purchased for Sh.1,800,000 in the year 2020. Compute the car benefit chargeable on her for the year ended 31 December 2022.
A. Sh.172,800
B. Sh.86,400
C. Sh.432,000
D. Sh.216,000 (2 marks)

46. There are circumstances where provision for accommodation by employer to employee is not considered as taxable benefit. Identify one such circumstance below.
A. If the accommodation is for low income earners
B. If it is considered a necessity for the employer to house the employee
C. If the accommodation is for a non-resident
D. If accommodation is provided to directors other than whole time service directors (2 marks)

47. Juhudi Ltd. reported a net profit of Sh.245,000 after deducting the following expenses:

- General provision for bad and doubtful debt Sh.75,000
- Specific provision for bad and doubtful debt Sh.105,000
- Bad debts written off Sh.50,000
- Depreciation Sh.60,000

Determine the adjusted taxable profit for Juhudi Ltd.

- A. Sh.245,000
- B. Sh.380,000
- C. Sh.535,000
- D. Sh.485,000

(2 marks)

48. Miwa sugar processing Ltd. started operation on 1 January 2022 after incurring the following expenditure:

- Factory building 28,000,000
- Processing machine 12,000,000
- Tractors 4,200,000
- Saloon car 3,400,000
- Administration office 6,000,000

Determine the investment allowance due to Miwa sugar processing Ltd. for the year 2022.

- A. Sh.53,600,000
- B. Sh.22,500,000
- C. Sh.22,400,000
- D. Sh.2,330,000

(2 marks)

49. Patience Moraa, a farmer and a sole trader made the following income in the year 2021 and 2022?

| | 2021 | 2022 |
|-----------------|-----------|---------|
| Farming income | 840,000 | 278,000 |
| Business income | (470,000) | 550,000 |

What is the taxable amount for the year 2022?

- A. Sh.828,000
- B. Sh.1,198,000
- C. Sh.370,000
- D. Sh.358,000

(2 marks)

50. What is the tax position of meals provided by an employer to employees?

- A. The value of the meals is included as emoluments and taxed accordingly if it exceeds Sh.48,000
- B. The value of the meals is tax free benefit to the employees
- C. The value of the meals is treated as a tax-free benefit to the low-income earners
- D. The value of the meals is a taxable benefit to the employees

(2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

MONDAY: 5 December 2022. Afternoon paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL the questions by indicating the letter (A, B, C or D) that represents the correct answer. Do NOT write anything on this paper.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax | |
|------------------------------|-----------------------------|---------------|--|
| | | % in each Sh. | |
| 1 - 24,000 | 1 - 288,000 | 10% | |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% | |
| Excess over - 32,333 | Excess over - 388,000 | 30% | |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (per year on reducing balance) | Prescribed benefit rates of motor vehicles provided by employer | | |
|---|----------------------------------|--|--|---------------------------|--------------------------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | Monthly rates (Sh.) | Annual rates (Sh.) |
| (a) Buildings: | | | Up to 1200 cc | 3,600 | 43,200 |
| • Hotel building | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 |
| • Hospital buildings | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 2001 - 3000 cc | 8,600 | 103,200 |
| • Educational/hostels building | 10% per year on reducing balance | | Over - 3000 cc | 14,400 | 172,800 |
| • Commercial building | 10% per year on reducing balance | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 |
| • Ships or aircraft | 50% in the first year of use | 25% | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on reducing balance | | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on reducing balance | | | | |
| • Furniture and fittings | 10% per year on reducing balance | | | | |
| • Telecommunication equipment | 10% per year on reducing balance | | | | |
| • Film equipment by a local producer | 25% per year on reducing balance | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | |
| • Other machinery | 10% per year on reducing balance | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on reducing balance | | (iii) Land Rovers/Cruisers | 7,200 | 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|------------------------|-----------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. Which of the following dividends are **NOT** fully exempted from taxation?
 A. Dividends received by an insurance company from its life fund
 B. Dividends received from registered companies and Sacco
 C. Dividends received from outside Kenya
 D. Dividends received when a company is winding up (2 marks)

2. Which one of the following fall under classification of tax by rate?
 A. Income taxes
 B. Rental taxes
 C. Production taxes
 D. Progressive taxes (2 marks)

3. Which one of the following is **NOT** a right of Commissioner of VAT?
 A. To expect that information obtained in the course of duty by the VAT officers shall be treated in confidence
 B. To demand security from any taxable person for the unpaid tax
 C. To retain books of account for a period long enough for him to complete his examination
 D. To take samples of goods of a taxable person without payment (2 marks)

4. Which of the following is a method of tax avoidance?
 A. Buying assets to enjoy capital allowances instead of leasing
 B. Importing business to avoid high local production cost
 C. Use of own capital to avoid interest charge by financial institutions
 D. Overstating expenses to reduce taxable income. (2 marks)

5. For the purpose of computing housing benefit, employees are classified into three categories. Which one is not among the categories?
 A. Ordinary employee and a whole time service director
 B. Agricultural employee
 C. Directors other than whole time service director
 D. Ordinary employee and low-income employee (2 marks)

6. Which one of the following is a source of revenue for a county government?
 A. Advance tax
 B. VAT tax
 C. Fees and charges
 D. Stamp duty (2 marks)

7. Which one of the following is **NOT** a positive role of excise duty in an economy?
 A. Protect local industries from cheap imports
 B. It raises revenue for the government
 C. Discourage consumption of harmful products
 D. Discourages growth of local industries (2 marks)

8. Which of the following rates is **NOT** applicable for advance tax for vans, pick-ups, trucks, prime movers and lorries
 A. For public service vehicles higher of Sh.1,500 per ton load capacity per annum or Sh.2,400 per annum
 B. For passenger carrying vehicles for every driver Sh.3,600 and for every conductor Sh.1,200 per annum
 C. For minibus, station wagons and saloon cars higher of Sh. 60 per passenger capacity or Sh.2,400 per annum
 D. For passenger carrying vehicles higher of Sh.250 per passenger capacity or Sh.2,400 per annum (2 marks)

9. Which one of the following conditions must be fulfilled for passage to be excluded from taxation of an employee's income ?
 A. The employee must be a citizen of Kenya
 B. The employee must be recruited or engaged in Kenya
 C. The employee must get travel allowances from the employer
 D. The employee must be solely in Kenya to serve the employer (2 marks)

10. The following are offences under the value added tax (VAT) Act **EXCEPT?**

- A. Failure to register when eligible
- B. Failure to supply taxable goods
- C. Failure to issue a tax invoice
- D. Failure to keep proper records

(2 marks)

11. Which one of the following is **NOT** an objective of taxation?

- A. To raise revenue
- B. Equal distribution of resources
- C. To bring peace
- D. Economic stability

(2 marks)

12. Which one of the following is a factor affecting tax shifting?

- A. Type of market
- B. Type of government
- C. Type of company
- D. Amount of revenue required

(2 marks)

13. Which of the following is a tax-free benefit?

- A. School fees paid by the employer for the employee's children if it was taxed on the employer.
- B. Employer contribution to unregistered pension scheme on behalf of an employee.
- C. School fees paid by employer on behalf of employees' children which has been expensed in employers' books of accounts.
- D. Medical benefits of senior staff in a company.

(2 marks)

14. Explain the tax position of benefits in kind received from employer?

- A. It is a tax-free benefit.
- B. It is a tax-free benefit if it does not exceed Sh. 36,000 per annum.
- C. It is allowable deduction up to Sh. 36,000 per annum.
- D. It is a taxable benefit up to Sh. 36,000 per annum.

(2 marks)

15. What is the tax position of contribution made to National Housing Development Fund under the affordable housing scheme?

- A. It reduces the tax liability by 15% of the gross contribution subject to a maximum of Sh.108, 000 per annum
- B. It is allowable deduction up to Sh.108,000 per annum
- C. It is allowable deduction whereby the allowable amount is 15% of the gross contribution
- D. It is allowable deduction up Sh.96,000 per annum

(2 marks)

16. Which of the following transactions do **NOT** require a KRA Personal Identification Number (PIN)?

- A. When applying for affidavit
- B. When applying for passport
- C. When registering a motor vehicle
- D. When applying for insurance cover

(2 marks)

17. The following machineries qualify for investment allowance at the rate of 50% **EXCEPT?**

- A. Lawnmower
- B. Conveyor belt
- C. Boiler
- D. Transformer

(2 marks)

18. What is the tax position of monthly pension income received by an individual aged 65 years and above?

- A. Tax free up to Sh. 25,000 per month
- B. Tax free up to Sh. 20,000 per month
- C. Tax free up to Sh. 30,000 per month
- D. Tax free in full

(2 marks)

19. The following changes occurring to a registered VAT trader must be notified to the commissioner within 14 days **EXCEPT?**

- A. Change of physical address of the business
- B. Changes of partners in a partnership deed
- C. Closure of place of business
- D. Change of accountants in the business

(2 marks)

20. Which of the following goods is **NOT** subject to pre-shipment inspection?
A. Used motor vehicles
B. New motor vehicles
C. Refrigerator, refrigeration equipment and air conditioners
D. Pharmaceutical, medical, dental and veterinary consumables (2 marks)

21. Which one of the following statements does **NOT** explain when value added tax (VAT) is due and payable?
A. When the goods are manufactured and packed ready for distribution
B. When goods or services are supplied to the purchaser
C. When an invoice is issued in respect of the supply
D. When part or full payment for the supply is made (2 marks)

22. The income of a taxable person can be assessed on another person under the following circumstances **EXCEPT**?
A. When a taxable person is a minor
B. When a taxable person is insane
C. When a taxable person is deceased
D. When a taxable person is illiterate (2 marks)

23. Which of the following assets matches its rate of investment allowance?
A. Boiler - 25% first year of use
B. Sport pavilion - 10% per year reducing balance
C. Air purifier - 10% first year of use
D. Fax machine - 12.5% per year reducing balance (2 marks)

24. Although value added tax (VAT) contributes significantly to government revenue, it has limitations which impact on the government, tax payers and the economy at large. Which of the following is not a limitation of VAT?
A. High tax avoidance and evasion where invoicing is not strictly enforced
B. It affects all the taxpayer uniformly since its proportional
C. Its discriminatory where some goods and services are not vatable
D. It requires many statutory records which are complicated to process (2 marks)

25. Charles Andai traded-in his duplicating machine A with a new duplicating machine B. The cost of the new duplicating machine B was Sh.336,000. The old duplicating machine A had a net book value of Sh. 126,000. He paid a cash of Sh.262,500 to obtain the new duplicating machine. What is the disposal value of the old duplicating machine?
A. Sh.126,000
B. Sh.73,500
C. Sh.262,500
D. Sh.210,000 (2 marks)

26. Betamax Ltd. purchased raw materials for Sh.1,334,000 inclusive of VAT, they incurred transport cost of Sh. 322,000 and conversion cost of Sh.460,000. The improved product was sold at a profit mark up of 10%. Determine VAT payable by Betamax Ltd.
A. Sh.184,000
B. Sh.156,032
C. Sh.339,250
D. Sh.372,416 (2 marks)

27. Joel Mutunga purchased a building in the year 2016 for Sh.5,440,000. He incurred Sh.168,000 valuation fee, Sh.144,000 agents commission and changing roof Sh. 240,000 He is anticipating to sell the building in the year 2023 January. Calculate the adjusted cost for capital gain tax purpose.
A. Sh.5,440,000
B. Sh.5,992,000
C. Sh.5,752,000
D. Sh.5,608,000 (2 marks)

28. Mary Akinyi received a basic salary of Sh.1,000,000 in the year 2021. She also received an annual medical allowance of Sh.187,500. She received an annual pension income of Sh.175,000. From her previous employer. What is Mary Akinyi's taxable income for the year 2021?

- A. Sh.1,187,500
- B. Sh.1,000,000
- C. Sh.1,362,500
- D. Sh.1,012,500

(2 marks)

29. Kiandiko Kivuva received an income of Sh.1,040,000 for the year 2021. He took a mortgage loan to acquire his own house from Tatua Bank on 1 February 2021 amounting to Sh.3,900,000 at an interest rate of 4% per annum. What is Kivuva's taxable income for the year ended 31 December 2021?

- A. Sh.1,040,000
- B. Sh.1,157,000
- C. Sh.897,000
- D. Sh.932,750

(2 marks)

30. Joly Max Manufacturing Ltd. started operations on 1 March 2021 to manufacturer animal feeds. The following expenses were incurred:

| | Sh. |
|-------------------------|-----------|
| - Factory building | 3,360,000 |
| - Plant and Machineries | 1,080,000 |
| - Office Buildings | 720,000 |
| - Equipment | 336,000 |
| - Motor Vehicles | 1,800,000 |

Compute Joly Max Manufacturing Ltd.'s investment allowance for the year ended 31 December 2021?

- A. Sh.7,296,000
- B. Sh.2,826,000
- C. Sh.1,824,000
- D. Sh.3,648,000

(2 marks)

31. During the year ended 31 December 2021, Joyrass Enterprises bought two saloon cars at a cost of Sh.7,200,000 and one delivery van at Sh.1,800,000. One of the saloon cars was involved in an accident and the company was compensated Sh.2,400,000 by the insurance. Compute the investment allowance claimable by Joyrass Enterprises?

- A. Sh.2,250,000
- B. Sh.1,625,000
- C. Sh.1,450,000
- D. Sh.1,750,000

(2 marks)

32. Margaret Dama is an employee of Uwezo Ltd. During the year 2021, she received a basic salary of Sh.1,152,000. She was housed by the employer with effect from 1 May 2021 in a rented house. She contributed Sh.240,000 during the year to an insurance company to cover her life. How much is the total taxable income for Margaret Dama for the year ended 31 December 2021?

- A. Sh.1,392,000
- B. Sh.1,267,200
- C. Sh.1,324,800
- D. Sh.1,252,800

(2 marks)

33. A company incurred the following legal fees in the year 2021.

| | Sh. |
|--|---------|
| - Legal fees relating to debt collection | 96,000 |
| - Legal fees relating to company formation | 192,000 |
| - Legal fees relating to issue of debentures | 112,000 |
| - Legal fees relating to issue of tender documents | 64,000 |

How much should the company deduct as allowable expense for tax purpose?

- A. Sh.464,000
- B. Sh.272,000
- C. Sh.160,000
- D. Sh.224,000

(2 marks)

34. Esbon Nyakundi received basic salary of Sh.65,000 in the month of November 2021 net of PAYE of Sh. 14,000. The employer contributed Sh.15,000 per month to cater for insurance for Esbon Nyakundi's life insurance premium. Determine his total tax payable for the month of November 2021.

- A. Sh.18,783.1
- B. Sh.22,983.1
- C. Sh.8,983.1
- D. Sh.6,733.1

(2 marks)

35. Cosmas Bundotich obtained a loan amounting to Sh.3,600,000 from employer, Mumberes Ltd, at an interest rate of 9% per annum while the market rate was 12% per annum. What is the fringe benefit tax per month?

- A. Sh.2,700
- B. Sh.32,400
- C. Sh.9,000
- D. Sh.108,000

(2 marks)

36. Riana Ltd.'s trading profit for the year ended 31 December 2021 has been arrived at after deducting the following items:

| | Sh. |
|-------------------------------|------------|
| • Finance cost | 163,800 |
| • Amortisation | 592,800 |
| • Donation to street children | 184,600 |
| • Loss on sale of furniture | 156,832 |

What amount should be added back to the trading profit when calculating the adjusted taxable profit?

- A. Sh.1,098,032
- B. Sh.941,200
- C. Sh.913,432
- D. Sh.934,232

(2 marks)

37. Kikwetu Ltd. had the following expenses deduced from its accounts before determining the net profit for the year ended 31 December 2021:

| | Sh. |
|----------------------------------|------------|
| Legal fee for breach of contract | 60,000 |
| Parking fines | 15,200 |
| Depreciation of furniture | 30,500 |
| License and permits | 28,000 |
| Salaries and wages | 184,000 |
| VAT paid | 32,000 |

How much would the company add back to its accounting profits to arrive at its tax adjusted profit?

- A. Sh.137,700
- B. Sh.105,700
- C. Sh.289,700
- D. Sh.229,700

(2 marks)

38. Bahari Ltd is a withholding tax agent and deals with skin care products. During the month of October 2022, the company purchased goods from Mahari Ltd. worth Sh.1,127,520 inclusive of VAT. How much tax did the company withhold?

- A. Sh.155,520
- B. Sh.174,960
- C. Sh.19,440
- D. Sh.58,320

(2 marks)

39. Martin Ouma is an employee of Maendeleo Ltd. During the year ended 31 December 2021, he was provided with a company car of 2500cc which had cost the company Sh.1,500,000 at the beginning of the year. How much was the car benefit due to Martin Ouma for the year ended 31 December 2021?

- A. Sh.375,000
- B. Sh.103,200
- C. Sh.180,000
- D. Sh.360,000

(2 marks)

40. Jamii Ltd. imported a processing machinery in December 2021 valued at Sh. 1,800,000 being cost, insurance and freight excluding import duty and VAT. Import duty rate was 25% while VAT rate was 16%. Determine the V.A.T payable in the Month of December 2021?

A. Sh.360,000
B. Sh.180,000
C. Sh.288,000
D. Sh.252,000

(2 marks)

41. Linkon Limited started ferry operations in the year 2021 after incurring various capital expenditures among them a ferry of 350 tonnes which was purchased at a cost of Sh.34,000,000. What is Linkon Limited's investment allowance for the year 2021?

A. Sh.8,500,000
B. Sh.17,000,000
C. Sh.13,600,000
D. Sh.3,400,000

(2 marks)

42. Hamisi pays Sh.9,000 to a registered pension scheme, while his employer contributes a similar amount. Which of the following statement is **TRUE**?

A. Hamisi has a taxable benefit of Sh.9,000 and his taxable income reduced by the same amount
B. Hamisi has a tax-exempt benefit of Sh.9,000 and his taxable income reduced by the same amount
C. Hamisi's taxable employment income is reduced by Sh.18,000
D. Hamisi has a taxable benefit of Sh.18,000

(2 marks)

43. Uninice Ltd. imported raw material from Yokohama Japan valued at Sh.7,200,000 being cost. The freight and insurance charges amounted to Sh.1,800,000. The import duty of 25% was waived by the government. Determine the VAT payable by Uninice Ltd. from this import.

A. Sh.1,152,000
B. Sh.1,440,000
C. Sh.1,800,000
D. Sh.2,250,000

(2 marks)

44. The following gifts and rewards are taxable **EXCEPT**?

A. If given by an employer in recognition of the service rendered
B. If given by the customer in recognition of services rendered
C. If given for attaining a certain target
D. If given by employer as birthday present

(2 marks)

45. The following are examples of miscellaneous charges and levies **EXCEPT**?

A. Airport tax
B. Advance tax
C. Catering tax
D. Petroleum tax

(2 marks)

46. The following are scope of taxable services under the digital services tax regulations **EXCEPT**?

A. Downloadable digital contents
B. Over the top services including streaming television shows
C. Provision of digital market place
D. Accessing of digital interface

(2 marks)

47. The following are rules of taxing income in Kenya **EXCEPT**?

A. The income must have accrued in Kenya
B. The payment of the services must have originated in Kenya
C. The services must have been rendered in Kenya
D. The recipient of the income must be in Kenya

(2 marks)

48. Which of the following rates is applicable under VAT Act?

A. 18%
B. 12%
C. 08%
D. 06%

(2 marks)

49. Which one of the following is allowable expense while computing taxable income for a limited company?
A. General bad debt
B. Value added tax paid
C. Depreciation expenses
D. General expenses (2 marks)

50. The following are reasons why accounting profits are different from taxation profit **EXCEPT?**
A. Some expenses deducted in the accounting profit are not allowable for tax purposes
B. Some expenses deducted in the accounting profits are specifically mentioned in the Income Tax Act as non-allowable
C. The person preparing the accounting profits is different from the one preparing taxable profit
D. Some incomes included in the accounting profits are not taxable income (2 marks)

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CAMS LEVEL II
PILOT PAPER
ELEMENTS OF TAXATION
November 2021.
Time allowed: Two Hours

This paper has two sections. Section One has twenty (20) short response/computational questions. Section Two has three (3) computational questions. All questions are compulsory. Marks allocated to each question are shown at the end of the question. Any assumptions made must be clearly and concisely stated.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2020.

Assume that the following rates of tax applied throughout the year of income 2020.

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|--------------------------------------|-------------------------------------|--------------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 40,667 | 288,001 - 488,000 | 15% |
| 40,668 - 57,334 | 488,001 - 688,000 | 20% |
| Excess over - 57,334 | Excess over - 688,000 | 25% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Prescribed benefit rates of motor vehicles provided by employer

| | | Monthly rates (Sh.) | Annual rates (Sh.) |
|-------|------------------------------------|--------------------------------|-------------------------------|
| (i) | Saloons, Hatch Backs and Estates | | |
| Up to | 1200 cc | 3,600 | 43,200 |
| 1201 | 1500 cc | 4,200 | 50,400 |
| 1501 | 1750 cc | 5,800 | 69,600 |
| 1751 | 2000 cc | 7,200 | 86,400 |
| 2001 | 3000 cc | 8,600 | 103,200 |
| Over | 3000 cc | 14,400 | 172,800 |
| (ii) | Pick-ups, Panel Vans (unconverted) | | |
| Up to | 1750 cc | 3,600 | 43,200 |
| Over | 1750 cc | 4,200 | 50,400 |
| (iii) | Land Rovers/Cruisers | 7,200 | 86,400 |

Commissioner's prescribed benefit rates

| Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|--------------------------------|-------------------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

SECTION ONE
[40 MARKS] [1 Hour]

1. What name is given to a type of tax that is heavier on the poor than on the rich? (2 marks)
2. The transfer of tax burden from one tax payer to another is called. (2 marks)
3. Name the tax that is charged on importation of goods into a country. (2 marks)
4. Naiposhi sold land that he had acquired twenty years ago. Which tax is payable on this transaction? (2 marks)
5. A company is paying its employees for the month of October 2020. What is the due date for remitting Pay as you earn (PAYE) deductions? (2 marks)
6. Amani has received an end of year cash gift of Sh. 20,000 from his employer. What is taxable value of this gift? (2 marks)
7. Kulei has received an end of year gift in form of a mobile phone worth Sh. 20,000. What is the taxable value of this gift? Give reason for your answer. (2 marks)
8. Identify two initiatives that the government can employ to minimize chances of tax evasion. (2 marks)
9. Laban was offered 100,000 shares by the employer at a price of Sh. 17 per share. These shares are trading in the local securities exchange at Sh. 26 per share. Calculate the taxable benefit on this offer. (2 marks)
10. Mawele was sent on official duty to Lamu for 10 days. A night out allowance of Sh. 7,000 was paid by the employer. Calculate the taxable benefit on this allowance. (2 marks)
11. Hamisi fell sick in the month of October 2020 and the employer paid his hospital bills of Sh. 900,000 to Pwani Special Hospital. The employer has standing arrangement with the hospital for all the employees. State the tax treatment of this benefit. (2 marks)
12. McHarmony a US citizen working for KC Ltd. Nairobi is entitled to air tickets for travelling back to the USA every summer. Is this benefit taxable? Give a reason for your answer. (2 marks)
13. Beth, a company secretary is provided with a car by the employer. The 1500 cc car cost the company Sh. 1,300,000. Determine the taxable value of this car for the year. (2 marks)
14. Mugo Wachiuri, a Pastor earned a salary of Sh. 32,000 in July 2020. Determine his net tax payable for the month. (2 marks)
15. ABD traders made purchases for Sh. 200,000 and sales for Sh. 360,000 for the month of July 2020. Given that the prices are quoted exclusive of VAT and VAT rate is 16%, determine the VAT payable for the month. (2 marks)
16. WacuKairu, a sole proprietor paid her hospital bills of Sh. 1,600,000 in the year 2020. How much of this expense is deductible against her taxable profits. (2 marks)
17. Matthews, a clothes dealer made a taxable profit of Sh. 2,400,000 in the year 2020. However, in the year 2019 he had made a loss of Sh. 600,000 from the same business. Determine his taxable amount for the year 2020. (2 marks)
18. Amunga, a hardware shop dealer makes an average monthly sales of Sh. 600,000. Should he register for value added tax? Give a reason for your answer. (2 marks)
19. A company's bank account has been credited with interest of Sh. 85,000 for the deposits held for the last one year. If the bank pays interest on deposits at 4% computed on straight line basis, how much deposits does the company have with the Bank. (2 marks)
20. State the due date for filing VAT returns for October 2020 transactions. (2 marks)

(Total: 40 marks)

SECTION TWO
[60 MARKS] [1 Hour]

21. (a) Identify four benefits from employment that are exempted from tax. (4 marks)

(b) Tiberius Kagwima is an employee of Farm Prime Retail outlets Ltd. The following details relate to his income for the year ended 31 December 2020:

- His basic salary was Sh.260,000 per month (PAYE deducted Sh.76,680).
- Annual bonus at 15 % of his annual salary.
- He was also given an annual allowance of Sh.20,000 to compensate for the higher cost of living.
- The company provided him with a new 2,500 cc car costing Sh.3,500, 000. It is estimated that 40% of the car's use related to official duties.
- A house rented by the employer at Sh.24,000 per month. The employer deducted Sh.2,500 from his salary every month to cover rent for the house.
- The employer paid his bills, water Sh.15,000 and electricity Sh.28,000 for the year
- He contributes 8,000 per month to a registered pension scheme, the employer contributes an equal amount.
- For the year ended 31 December 2020, the employer provided Mr. Tiberius Kagwima with groceries valued at Sh.43,000.
- He was selected as the employee of the year on 31 December 2020. This award carried a cash gift of Sh.45,000.
- He has a life insurance policy for self and family for which he pays a total premium of Sh.45,000 per annum.

His other income included:

- Profits from a barber shop Sh.600,000.
- Profits from his horticultural farm Sh.150,000.

Required:

(i) Determine Mr Tiberius Kagwima's taxable income for the year of income 2020. (14 marks)

(ii) Compute the net tax payable. (2 marks)

(Total: 20 marks)

22. (a) List five records that must be kept for purposes of accounting for VAT. (5 marks)

(b) Identify any four details required in a tax invoice. (4 marks)

(c) Given below were the purchases and sales made by Mada Limited during the month of October 2020. The prices were inclusive of VAT at the standard rate of 16 percent.

| | |
|------------|--|
| 1 October | Purchased 400 units at Sh.5,800 per unit |
| 3 October | Sold 40 units at Sh.8,700 per unit |
| 5 October | Sold 80 units at Sh.8,700 per unit |
| 11 October | Customers returned 10 units that had been bought on 1 October 2020 |
| 21 October | Sold 200 units at Sh.11,600 per unit |
| 25 October | Purchased 300 units at Sh.6,960 per unit |
| 26 October | Sold 80 units at Sh.8,700 per unit |
| 28 October | Returned 40 of the units that had been purchased on 25 October 2020 |
| 30 October | Sold 200 units at Sh.9,280 per unit |
| 30 October | Paid monthly bills, electricity Sh. 17,400, Telephone Sh. 11,600 and Water Sh.15,000 |

Required:

Prepare the VAT account for the month of October 2020.

(11 marks)

(Total: 20 marks)

23. (a) Explain four benefits of using online tax filing systems.

(8 marks)

(b) The following income statement was obtained from Tabby Kaguta, a shopkeeper in Malava Market:

Income statement for the year ended 31 December 2020

| | Sh. | Sh. |
|-------------------|------------------|-------------------------|
| Sales | | 3,000,000 |
| Opening stock | 750,000 | |
| Purchases | <u>1,500,000</u> | |
| | 2,250,000 | |
| Closing Stock | (1,050,000) | |
| Cost of Sales | | <u>(1,200,000)</u> |
| Gross profit | | 1,800,000 |
| Other income | | |
| Sales commission | 450,000 | |
| Bank interest | 360,000 | |
| Sale of land | 240,000 | <u>1,050,000</u> |
| | | 2,850,000 |
| General expenses | 750,000 | |
| Bad debts expense | 375,000 | |
| Interest expense | <u>270,000</u> | <u>(1,395,000)</u> |
| Net profit | | <u>1,455,000</u> |

The following additional information is provided:

1. Tabby realised a forex exchange gain of Sh.30,000 on her imported stock.
2. The general expenses in the income statement include:
 - Delivery van bought in May 2020 for Sh.450,000.
 - Subscriptions to Estate Mothers Association Sh.35,000.
 - Donations to her local church Sh.78,000.
 - Depreciation on assets Sh.100,000.
 - Medical bills for her family Sh.9,000.
 - Out of court settlement for inheritance dispute Sh.78,000.
3. Bad debt expense includes general provision for doubtful debts Sh.120,000.
4. Interest expense is made of interest on bank overdraft 180,000 and interest on loan acquired to buy land 90,000.
5. She had also invested in the following assets:
Computers Sh.300,000
Furniture Sh.450,000.

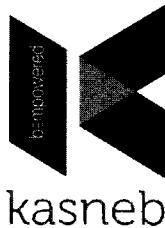
Required:

Determine Tabby Kaguta's taxable income for the year of income 2020.

(12 marks)

(Total: 20 marks)

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CAMS LEVEL II

ELEMENTS OF PUBLIC FINANCE AND ADMINISTRATION

MONDAY: 30 August 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

**RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).
Year of income 2020.**

Assume that the following rates of tax applied throughout the year of income 2020.

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|--------------------------------------|-------------------------------------|--------------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 40,667 | 288,001 - 488,000 | 15% |
| 40,668 - 57,334 | 488,001 - 688,000 | 20% |
| Excess over - 57,334 | Excess over - 688,000 | 25% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Prescribed benefit rates of motor vehicles provided by employer

| | | Monthly rates (Sh.) | Annual rates (Sh.) |
|-------|------------------------------------|--------------------------------|-------------------------------|
| (i) | Saloons, Hatch Backs and Estates | | |
| | Up to 1200 cc | 3,600 | 43,200 |
| | 1201 1500 cc | 4,200 | 50,400 |
| | 1501 1750 cc | 5,800 | 69,600 |
| | 1751 2000 cc | 7,200 | 86,400 |
| | 2001 3000 cc | 8,600 | 103,200 |
| | Over 3000 cc | 14,400 | 172,800 |
| (ii) | Pick-ups, Panel Vans (unconverted) | | |
| | Up to 1750 cc | 3,600 | 43,200 |
| | Over 1750 cc | 4,200 | 50,400 |
| (iii) | Land Rovers/Cruisers | 7,200 | 86,400 |

Commissioner's prescribed benefit rates

| Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|--------------------------------|-------------------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

QUESTION ONE

(a) Explain the following types of funds as provided in Public Finance Management Act, 2012:

- (i) Consolidated fund. (2 marks)
- (ii) Contingency fund. (2 marks)
- (iii) Equalisation fund. (2 marks)

(b) Summarise six roles of the council of governors in public finance management. (6 marks)

(c) Outline the stages to be followed in the budget process for the county government in any financial year. (8 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the following terms as used in supply chain management in public entities:

- (i) Procuring agent. (2 marks)
- (ii) E-procurement. (2 marks)
- (iii) Tender. (2 marks)

(b) Summarise two functions of the Deputy President as envisaged by the Constitution. (4 marks)

(c) Mavunoh Ltd. is a registered business for value added tax (VAT) purposes. The following transaction relates to the business for the month of June 2021:

June 1: Opening stock was valued at Sh.750,000.

June 2: Purchased goods from Mwangaza Ltd. worth Sh.342,000.

June 3: Sold goods to Kerich traders for Sh.570,000.

June 5: Purchased furniture for Sh.228,000 for business use.

June 6: Imported goods valued at Sh.800,000 being cost, insurance and freight excluding import duty and VAT. Import duty rate was 20% during the month.

June 8: Paid Sh.11,400 for printing papers and other stationeries.

June 10: Sold goods to Pengo Ltd. for Sh.407,800.

June 15: Sold goods to Pendo Hospital for Sh.293,800.

June 20: Purchased goods from Jawabu Ltd. for Sh.168,000.

June 22: Paid electricity expenses Sh.17,100 and telephone expenses Sh.10,400.

June 26: Paid for motor vehicle repair Sh.14,800. The vehicle is used for business purposes.

June 28: Paid for legal fees, amounting to Sh.32,100.

June 30: Paid for catering expenses Sh. 21,000.

All transactions are quoted exclusive of VAT at the rate of 16% where applicable, unless otherwise stated.

Required:

A value added tax (VAT) account for the month of June 2021.

(10 marks)
(Total: 20 marks)

QUESTION THREE

(a) Highlight four advantages of direct taxes. (4 marks)

(b) List four income tax offences as provided by the Income Tax Act. (4 marks)

(c) Stephen Mwema is an employee of Ruza Enterprises Ltd. He has provided the following information relating to his income for the year ended 31 December 2020:

1. Basic salary Sh.150,000 per month (PAYE Sh.42,000 per month).
2. He was provided with a house with water and electricity. He pays a nominal rent of Sh.15,000 per month. Water consumed amounted to Sh.5,200 while electricity amounted to Sh.12,000 during the year.
3. He was entitled to an annual leave pay equivalent to one month's basic salary which was paid in December 2020.
4. The company paid for his life insurance premiums of Sh.12,000 per annum for each household member. The insurance policy covered himself, his wife and their son.
5. The company provided him with a 2,000 cc saloon car for his personal use. The car had been bought for Sh.2,500,000.
6. He is a member of registered pension scheme where he contributed Sh.40,000 per month.
7. During the year, he was reimbursed Sh.85,000 for medical expenses. The company operates a medical scheme for all its staff.
8. He was provided with a monthly travelling allowance of Sh.10,000 during the year.
9. During the year, he earned an overtime allowance of Sh.480,000.
10. He contributed Sh.8,000 per month to a registered Home Ownership Saving Plan (HOSP).

Required:

(i) Taxable income for Stephen Mwema for the year ended 31 December 2020. (10 marks)

(ii) Tax payable (if any) on income computed in (c) (i) above. (2 marks)

(Total: 20 marks)**QUESTION FOUR**

(a) Explain the following principles of taxation:

(i) Certainty. (2 marks)

(ii) Convenience. (2 marks)

(b) Describe two types of reliefs available against gross tax liability from employment income. (4 marks)

(c) Rumy Ltd. has provided the following statement of profit or loss for the year ended 31 December 2020:

| | Sh. | Sh. |
|---------------------|-----|----------------|
| Gross profit | | 8,200,000 |
| Discount received | | 180,000 |
| Bad debts recovered | | <u>200,000</u> |
| | | 8,580,000 |

Expenses:

| | | |
|---|-----------|--------------------|
| Salaries and wages | 1,800,000 | |
| General expenses | 850,000 | |
| Goodwill amortisation | 150,000 | |
| Directors fees | 550,000 | |
| Depreciation | 648,000 | |
| Provision for dividends | 620,000 | |
| Auditor's fees | 700,000 | |
| Advertising | 160,000 | |
| General bad debts provision | 156,000 | |
| Value added tax (VAT) | 247,200 | |
| Legal and professional fees | 210,500 | |
| Purchase of equipment | 250,000 | |
| Insurance | 140,800 | |
| Subscriptions to Kenya Association of Manufacturers (KAM) | 100,000 | |
| Redundancy payments | 600,000 | |
| Stationery and postage | 35,000 | |
| Installment tax | 312,000 | <u>(7,529,500)</u> |
| Net profit | | <u>1,050,500</u> |

Additional information:

1. Legal and professional fees included the following:

| | Sh. |
|---|----------------|
| Appeal to a Tax Tribunal against tax assessment | 120,000 |
| Court fines | 40,000 |
| Others | <u>50,500</u> |
| | <u>210,500</u> |

2. Capital allowances were agreed with the revenue authority at Sh.320,000 for the year.
 3. General expenses comprised of the following:

| | Sh. |
|----------------------------------|----------------|
| Cash embezzlement by the cashier | 150,000 |
| Staff catering services | 220,000 |
| Partition of staff offices | 300,000 |
| Stamp duty on land transfer | <u>180,000</u> |
| | <u>850,000</u> |

4. Advertising expenses include Sh.125,000 spent on acquisition of a neon sign.

Required:

Adjusted taxable profit or loss for Rumi Ltd. for the year ended 31 December 2020.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Outline four circumstances under which a person may apply for deregistration from value added tax (VAT) regulations in your country. (4 marks)

(b) Distinguish between “farm works deductions” and “investment allowance on building and machinery”. (4 marks)

(c) Kimaly and Kalama trade in retail goods as KK Enterprises. They share profits and losses equally. The statement of profit or loss for the partnership for the year ended 31 December 2020 was as follows:

| | Sh. | Sh. |
|-------------------|----------------|------------|
| Gross profit | 2,800,000 | |
| Discount received | <u>240,000</u> | |
| | | 3,040,000 |

Expenses:

| | |
|------------------------------|--------------------|
| Office expenses | 230,000 |
| General expenses | 140,000 |
| Commission to partners | 320,000 |
| Advertising | 150,000 |
| Depreciation | 160,000 |
| Printing and stationery | 128,000 |
| Interest on capital | 380,000 |
| Legal fees | 164,000 |
| General reserve | 250,000 |
| Capital allowances | 400,000 |
| Installment tax | 90,000 |
| Specific bad debts provision | 136,000 |
| Property taxes | <u>240,000</u> |
| Net profit | <u>(2,788,000)</u> |
| | <u>252,000</u> |

Additional information:

1. Office expenses include Sh.92,000 and Sh.82,000 paid to Kimaly and Kalama respectively as salaries.
 2. Interest on capital was Sh.180,000 to Kimaly and Sh.200,000 to Kalama.
 3. Legal fees includes Sh.80,000 as a fine for breach of regulations.
 4. Commission to partners include Sh.180,000 to Kimaly and the balance to Kalama.

Required:

(i) The adjusted partnership profit or loss for the year ended 31 December 2020. (8 marks)

(ii) Allocation of the profits or losses in (c) (i) above to the partners. (4 marks)

(Total: 20 marks)



CAMS LEVEL II

ELEMENTS OF TAXATION

MONDAY: 1 August 2022. Afternoon paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL the questions by indicating the letter (A, B, C or D) that represents the correct answer. Do NOT write anything on this paper.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax | |
|------------------------------|-----------------------------|---------------|--|
| | | % in each Sh. | |
| 1 - 24,000 | 1 - 288,000 | 10% | |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% | |
| Excess over - 32,333 | Excess over - 388,000 | 30% | |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (per year on reducing balance) | Prescribed benefit rates of motor vehicles provided by employer | | |
|---|----------------------------------|--|--|---------------------------|--------------------------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | Monthly rates (Sh.) | Annual rates (Sh.) |
| (a) Buildings: | | | Up to 1200 cc | 3,600 | 43,200 |
| • Hotel building | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 |
| • Hospital buildings | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 2001 - 3000 cc | 8,600 | 103,200 |
| • Educational/hostels building | 10% per year on reducing balance | | Over - 3000 cc | 14,400 | 172,800 |
| • Commercial building | 10% per year on reducing balance | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 |
| • Ships or aircraft | 50% in the first year of use | 25% | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on reducing balance | | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on reducing balance | | | | |
| • Furniture and fittings | 10% per year on reducing balance | | | | |
| • Telecommunication equipment | 10% per year on reducing balance | | | | |
| • Film equipment by a local producer | 25% per year on reducing balance | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | |
| • Other machinery | 10% per year on reducing balance | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on reducing balance | | (iii) Land Rovers/Cruisers | 7,200 | 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | | | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|------------------------|-----------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. Which one of the following is a basis of tax classification?
A. By time
B. By income
C. By effect
D. By volume (2 marks)

2. Identify which one of the following factors could influence tax shifting?
A. Purpose of the product
B. Elasticity of demand and supply
C. Level of production
D. Education level of suppliers (2 marks)

3. An optimal tax system is the one that fulfils most of the principles of taxation. Which one of the following principles is not a principle of taxation?
A. Equity
B. Simplicity
C. Diversity
D. Progressive (2 marks)

4. Sarah Mamito, a sole trader made a loss of Sh.1,816,000 in the year 2020 and a profit of Sh.2,043,000 in 2021. What was the taxable amount for the year 2021?
A. Sh.1,816,000
B. Sh.2,043,000
C. Sh.227,000
D. Nil (2 marks)

5. Which one of the following is not a reason why accounting profit may be different from taxable profit.
A. Inclusion of non taxable income in the income statement
B. Allowable expense may be omitted
C. Inclusion of non business income
D. Use of different methods of accounting (2 marks)

6. Azan Ltd. is a manufacturing company that prepares its accounts to 31 December every year. On 7 July 2021, Azan Ltd. imported a processing machinery and incurred the following costs:
• Cost of machinery Sh.550,000
• Freight charges Sh.100,000
• Insurance on transit Sh.20,000
• Duty on import Sh.130,000

What is the qualifying cost of investment allowance which can be claimed by Azan Ltd. in respect of the processing machines?
A. Sh.800,000
B. Sh.550,000
C. Sh.670,000
D. Sh.680,000 (2 marks)

7. Which of the following is NOT an advantage of progressive taxes?
A. Yields more revenue
B. Its economical
C. Reduced coverage
D. Promotes equality (2 marks)

8. Which one of the following is a purpose of levying tax?
A. To raise revenue
B. To increase inequalities
C. To increase import
D. To increase population (2 marks)

9. Which of the following is a function of a revenue authority?
A. File tax on behalf of the taxpayer
B. Training the taxpayers and recruiting of tax agents
C. Enforcing measures to increase sales
D. To jail tax evaders (2 marks)

10. Basatu Ltd. prepares its account every year. The company submitted its tax returns for the year of assessment 2021 on 15 May 2022 showing a balance of tax payable of Sh.59,000. The balance of tax was paid on 31 May 2022 in relation to the tax return for the year of assessment 2021. Which of the following statement is **NOT TRUE?**

A. The company has submitted the tax return within the submission due date
B. The company was late in paying the balance of the tax payable
C. The due date of the payment of the balance of Sh.59,000 is on 30 June 2022
D. The balance of tax payable will attract late payment interest (2 marks)

11. Which one of the following factors influences taxable capacity?

A. Level of income
B. Location of taxpayer
C. Age of population
D. Education level of the community (2 marks)

12. Which one of the following circumstances qualifies for a refund of value added tax (VAT) paid?

A. VAT paid on bad debts
B. VAT penalties paid
C. Death of the taxpayer soon after payment
D. Underpayment resulting from withholding VAT system (2 marks)

13. Kibet Michael received the following benefits from his employer for the year ended 31 December 2021:

- Annual basic pay Sh.2,500,000
- Travel allowance Sh.60,000
- Employer paid on his behalf insurance premiums amounting to Sh.90,000 during the year
- Medical expenses paid by the employer Sh.120,000. The employer has a medical scheme covering top management only.

Required:
Determine Kibet's taxable income for the year ended 31 December 2021.

A. Sh.2,500,000
B. Sh.2,590,000
C. Sh.2,770,000
D. Sh.2,650,000 (2 marks)

14. Which one of the following statements is true about stamp duty?

A. It is levied by the government on value added to a product
B. The rate of stamp duty in urban areas is 4% and 2% in rural areas
C. It is paid in advance and the taxpayer does not get a direct reward
D. It is payable at the end of an accounting period (2 marks)

15. Wetu Traders imported goods in December 2021 valued at Sh.900,000 being cost, insurance and freight excluding import duty and VAT, import duty rate was 20% during the month. Determine the VAT payable by Wetu Traders for the month of December 2021?

A. Sh.172,800
B. Sh.144,000
C. Sh.180,000
D. Sh.200,448 (2 marks)

16. Woodperker Ltd. is a withholding tax agent and deals with electronic goods. During the month of September 2021, the company purchased electronics from Makuti Traders worth Sh.626,400 inclusive of VAT. How much tax did the company withhold?

A. Sh.86,400
B. Sh.100,224
C. Sh.10,800
D. Sh.12,528 (2 marks)

17. Cyrus Mtuku is an employee of Chen Ltd. During the year ended 31 December 2021, he contributed Sh.12,000 per month to cater for insurance for his life insurance premium. His gross salary was Sh.150,000 per month.

Determine his total tax relief for the year of income 2021.

- A. Sh.28,800
- B. Sh.60,000
- C. Sh.50,400
- D. Sh.21,600

(2 marks)

18. The following are advantages of withholding tax **EXCEPT**?

- A. Enhances compliance
- B. It protects the health of citizens
- C. It is economical
- D. It reduces chances of tax evasion

(2 marks)

19. Which one of the following is **NOT** a reason why a person registered for VAT may be deregistered?

- A. Death of a sole trader
- B. Non payment of VAT
- C. Leaving the country
- D. Insolvency or bankruptcy

(2 marks)

20. Which one of following is a way of evading taxes?

- A. Full declaration of the taxable income
- B. Claiming expenses one of is entitled to
- C. Investing outside the country
- D. Overstating the allowable expense.

(2 marks)

21. Which one of the following is an obligation of a registered person for VAT purposes?

- A. To file returns on due dates
- B. To enforce payment of VAT charged
- C. To increase the rate of VAT charged from time to time
- D. To exempt a person from paying VAT upon request.

(2 marks)

22. Identify which one of the following is **NOT** a disadvantage of capital allowances.

- A. Enjoyed mostly by manufacturers thereby discriminating other economic players
- B. Enjoyed mostly by the poor thereby reducing the gap between the rich and the poor
- C. Investors might close shop and move to other destinations once the tax incentive cease
- D. Results in loss of revenue for the government as it reduces tax payable

(2 marks)

23. Which one of the following omissions does **NOT** constitute an offence under the pay as you earn (PAYE) regulation?

- A. Failure to deduct PAYE
- B. Failure to file returns
- C. Failure to remit PAYE deducted by 20th of next month
- D. Failure to have operational PAYE system

(2 marks)

24. Elite Manufacturers Ltd. commenced operations on 1 January 2021, after incurring the following expenditure:

| | Sh. |
|-------------------------|-------------|
| • Factory building | 240,000,000 |
| • Processing machinery | 96,000,000 |
| • Delivery vans | 7,200,000 |
| • Director's Saloon car | 3,600,000 |

Required:

Determine the investment allowance due to Elite Manufacturers Ltd. for the year 2021.

- A. Sh.336,000,000
- B. Sh.170,550,000
- C. Sh.170,700,000
- D. Sh.184,200,000

(2 marks)

25. Which one of the following is a circumstance under which a late objection might be accepted by the commissioner?

- A. When the taxpayer is committed to a new assignment to the extent to which he/she cannot handle his/her tax matters
- B. When the taxpayer is undertaking a new capital project
- C. When the taxpayer is held in a police custody
- D. When the taxpayer has no power in the office

(2 marks)

26. Earnest Washwa's gross residential rental income for the month of December 2021 was Sh.720,000. During the month of December 2021 he incurred the following expenses in relation to the rental properties:

- Caretaker salary Sh.20,000
- Repair and maintenance Sh.48,000
- Mortgage interest paid Sh.180,000

Required:
 Determine the rental income tax payable by Earnest Washwa for the month of December 2021.

- A. Sh.141,600
- B. Sh.195,600
- C. Sh.72,000
- D. Sh.14,160

(2 marks)

27. Which one of the following statements explains the earliest when value added tax (VAT) is due and payable?

- A. When goods are manufactured and packed for distribution
- B. When a quotation is requested
- C. When an invoice is issued in respect of supply
- D. When there is shortage of goods in the market

(2 marks)

28. Which of the following statements is **TRUE** about Home Ownership Savings Plan (HOSP)?

- A. Sh.96,000 per annum is allowed for tax purposes while computing PAYE
- B. Sh.48,000 per annum is allowed for tax purposes while computing PAYE
- C. It is not an allowable deduction in computing PAYE
- D. Sh.36,000 per annum is allowed while computing PAYE

(2 marks)

29. What is the taxable house benefit for an agricultural employee provided with a house in a farm or plantation?

- A. Taxable amount is 10% of the total income less own contribution towards the house
- B. Taxable amount is 15% of the total income less own contribution towards the house
- C. Taxable amount is 10% of the employment income less own contribution towards the house
- D. Taxable amount is 15% of the employment income less own contribution towards the house

(2 marks)

30. For a mortgage interest to qualify to be an allowable deduction, it must meet the following criteria **EXCEPT?**

- A. The loan must be acquired from the employer
- B. The loan is obtained from a recognised financial institution
- C. The loan was acquired to purchase own residential house
- D. The loan was acquired to construct or repair own residential house

(2 marks)

31. Which one of the following statements explains the meaning of advance tax?

- A. Tax levied on commercial vehicles before being licensed to operate in Kenya
- B. Tax levied by the government for certain transactions and documents
- C. Tax levied on locally manufactured goods
- D. Tax levied on incomes earned by an individual

(2 marks)

32. Jack Too is an employee of Taly Ltd. During the year 2021, he received an income Sh.3,000,000 before housing benefit. He was housed by the employer in a rented house where the employer paid Sh.30,000 per month and the market value of the house was Sh.45,000. How much is housing benefit due to Jack Too for year 2021?

- A. Sh. 450,000
- B. Sh. 540,000
- C. Sh. 360,000
- D. Sh. 720,000

(2 marks)

33. Which of the following taxes is not a pseudo tax?
 A. Petroleum levy
 B. Airport levy
 C. Excise duty
 D. Catering levy (2 marks)

34. The following circumstances can lead to import duty paid to be refunded **EXCEPT?**
 A. It was paid in error as a result of wrong calculation or overpayment
 B. Where the imported goods are returned to the seller
 C. Where the goods are used to manufacture for local consumption
 D. Where goods are destroyed or damaged while under custom control (2 marks)

35. Which among the following actions can the revenue authority **NOT** undertake to recover overdue tax?
 A. Holding property of the tax payer as security for the unpaid tax
 B. Ask the bank to freeze the bank accounts of defaulters
 C. Issue of distress order where the assets of the tax payer are auctioned to recover the tax due and payable
 D. The commissioner can jail the tax payer for the tax due and payable (2 marks)

36. The following are benefits of integrating functions of various departments of the revenue authority **EXCEPT?**
 A. Results to efficiency
 B. Reduction of operational cost
 C. Reduction of tax collected
 D. Increase customer satisfaction (2 marks)

37. Goods and services exempted from value added tax (VAT) are listed under which schedule?
 A. First schedule
 B. Second schedule
 C. Third schedule
 D. Forth schedule (2 marks)

38. When a trader is able to pass an increase in tax to the consumer and occurs through sales when the demand for the product is inelastic. This kind of shifting is referred to as _____.
 A. Straight shifting
 B. Online shifting
 C. Backward shifting
 D. Forward shifting (2 marks)

39. Kenland Ltd. had the following expenses in their financial statement for the year ended 31 December 2021:

| | Sh. |
|---------------------------------------|---------|
| • Christmas party for directors | 450,000 |
| • Entertainment expense for customers | 390,000 |
| • Meals to employee of the company | 240,000 |
| • Entertainment for directors | 140,000 |

Required:
 Determine the total allowable expense for Kenland Ltd. for income tax purposes.
 A. Sh.840,000
 B. Sh.630,000
 C. Sh.590,000
 D. Sh.1,220,000 (2 marks)

40. What is the tax position on telephone bills paid by an employer on behalf of an employee?
 A. It is a tax-free benefit
 B. The taxable amount is 2% per month on the telephone bills
 C. The taxable amount is 30% of the total telephone bill
 D. The taxable amount is the actual telephone bill (2 marks)

41. Ezekiel Mwema is registered for value added tax (VAT) purposes. During the month of May 2022, he had an operating stock valued at Sh.2,784,000. He made purchases during the month amounting to Sh.10,440,000 and sales amounting to Sh.16,240,000. Closing stock was valued at Sh.2,900,000. All transactions are inclusive of VAT at the rate of 16% where applicable.

Required:

Determine the VAT payable by or refundable to Ezekiel Mwema for the month of May 2022.

- A. Sh.816,000
- B. Sh.800,000
- C. Sh.756,000
- D. Sh.1,440,000

(2 marks)

42. Which of the following are the correct due months for payment of instalment tax?

- A. 1st, 4th and 9th month
- B. 4th, 6th, 9th and 12th month
- C. 6th, 9th and 12th month
- D. 4th, 6th, 8th and 12th month

(2 marks)

43. Identify which of the following income that has the correct withholding tax rate for a resident person.

| | |
|-------------------------------------|-----|
| A. Management fees | 10% |
| B. Interest from bank | 10% |
| C. Professional fee | 5% |
| D. Winning from betting and gaining | 5% |

(2 marks)

44. Which one of the following expenses is not allowable for the purpose of computing capital gains tax (CGT)?

- A. Mortgage interest
- B. Cost of advertising to find a buyer
- C. Allowance for bad debt
- D. Legal fee

(2 marks)

45. Jack Oloo, an employee of Emberk Ltd. was provided with a saloon car of 2500cc by the company on 1 September 2021. The car had been purchased for Sh.2,500,000 in the year 2018. The net book value as at 1 January 2021 was Sh.1,800,000.

Required:

What is Jack's taxable benefit for the year of income 2021 in relation to the saloon car provided by the employer?

- A. Sh.600,000
- B. Sh.432,000
- C. Sh.200,000
- D. Sh.103,200

(2 marks)

46. Which of the following statements explains the meaning of proportional tax?

- A. This is where tax is levied at a flat rate on income earned by a person
- B. This is a tax which each individual pays a fixed amount in a month or a year
- C. This is a tax adjusted in a manner that as the rate decreases income increases and more tax is levied
- D. This is where a tax is levied at a graduated scale rate on income earned by a person

(2 marks)

47. Which of the following instruments is not exempted from stamp duty?

- A. Instruments of divorce
- B. Adoption of deed
- C. Insurance policies
- D. Letter of allotment of shares

(2 marks)

48. Ellim Ltd.'s net taxable profit for the year ended 31 December 2021 was Sh.18,720,000. The total instalment tax paid during the year ended 31 December 2021 was Sh.4,972,000.

Required:

Determine the net tax payable (if any) by Ellim Ltd. for the year ended 31 December 2021

- A. Sh.5,616,000
- B. Sh.4,680,000
- C. Sh.4,972,000
- D. Sh.644,000

(2 marks)

49. Which one of the following is not a positive role of import duty in an economy?

- A. Protect local industries from cheap imports
- B. It raises revenue for the government
- C. Discourage consumption of harmful products
- D. Discourage growth of local industries

(2 marks)

50. Which of the following is not considered as an employer for Pay As You Earn (PAYE) purposes under definition of an “employer”?

- A. Any person having control of payment of remuneration
- B. Any paying officer of government or the public authority
- C. Any person owing money to an individual taxpayer or a company
- D. Any agent, manager or other representative in Kenya of any employer who is outside Kenya (2 marks)

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CAMS LEVEL II

ELEMENTS OF TAXATION

MONDAY: 4 April 2022. Afternoon paper.

Time Allowed: 3 hours.

This paper is made up of a hundred (100) Multiple Choice Questions. Answer ALL the questions by indicating the letter (a, b, c or d) that represents the correct answer. Do NOT write anything on this paper.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| Excess over - 32,333 | Excess over - 388,000 | 30% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (per year on reducing balance) | Prescribed benefit rates of motor vehicles provided by employer |
|---|----------------------------------|--|--|
| Capital expenditure incurred on: | | | |
| (a) Buildings: | | | (i) Saloons, Hatch Backs and Estates |
| • Hotel building | 50% in the first year of use | 25% | Up to - 1200 cc 3,600 43,200 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1201 - 1500 cc 4,200 50,400 |
| • Hospital buildings | 50% in the first year of use | 25% | 1501 - 1750 cc 5,800 69,600 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 1751 - 2000 cc 7,200 86,400 |
| • Educational/hostels building | 10% per year on reducing balance | | 2001 - 3000 cc 8,600 103,200 |
| • Commercial building | 10% per year on reducing balance | | Over - 3000 cc 14,400 172,800 |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc 3,600 43,200 |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc 4,200 50,400 |
| • Ships or aircraft | 50% in the first year of use | 25% | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on reducing balance | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on reducing balance | | |
| • Furniture and fittings | 10% per year on reducing balance | | |
| • Telecommunication equipment | 10% per year on reducing balance | | |
| • Film equipment by a local producer | 25% per year on reducing balance | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | |
| • Other machinery | 10% per year on reducing balance | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on reducing balance | | (iii) Land Rovers/Cruisers 7,200 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|------------------------|-----------------------|
| Services | | |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. Which one of the following statements explains the meaning of Pay As You Earn (PAYE)?
(a) Tax charged on locally manufactured goods.
(b) Tax levied on goods imported into a country.
(c) Tax charged on incomes earned by limited company.
(d) Tax charged on the incomes of an individual. (1 mark)

2. What is the meaning of the term “Tax”?
(a) It is compulsory contributions by persons to the state to enable it meet its obligations and service delivery.
(b) It is a voluntarily contributions by persons to the state to enable it meet its expenses.
(c) It is a compulsory contribution by individuals to registered organisations for purpose of saving.
(d) It is a contribution by persons to the state for the purpose of development of health system. (1 mark)

3. Under classification of taxes, identify which one of the following is **NOT** used for tax classification:
(a) By base.
(b) By rates.
(c) By volume.
(d) By effect. (1 mark)

4. Which of the following factors **DOES NOT** influence tax shifting?
(a) Elasticity of demand and supply.
(b) Purpose of the product.
(c) Nature of the market.
(d) Geographical location. (1 mark)

5. Which of the following statements **DOES NOT** explain the meaning of a resident in regard to an individual for tax purposes?
(a) A person who has no permanent home in Kenya and was in Kenya during the year of income under consideration for any period.
(b) A person who has a permanent home in Kenya and was in Kenya during the year of income under consideration.
(c) A person who has no permanent home in Kenya but was in Kenya for an aggregate of 183 days or more during the year of income under consideration.
(d) A person who has no permanent home in Kenya but was in Kenya for a period averaging to more than 122 days for the year of income under consideration and two preceding years. (1 mark)

6. Which one of the following is **NOT** a way of tax avoidance?
(a) Claim allowable deductions.
(b) Claiming investment allowances.
(c) Overstating the allowable expenses.
(d) Investing in countries with low tax rates. (1 mark)

7. Which one of the following factors **DOES NOT** influence taxable capacity?
(a) Level of income.
(b) Distribution of wealth.
(c) Size of population.
(d) Education level of the community. (1 mark)

8. An optimal tax system is the one that fulfills most of the principles of taxation. Which one of the following principles is **NOT** among the four principles advocated by Adam Smith?
(a) Canon of equity.
(b) Canon of simplicity.
(c) Canon of economy.
(d) Canon of certainty. (1 mark)

9. Which one of the following is **NOT** a purpose of levying tax?
(a) To raise the revenue.
(b) To stabilise the economy.
(c) To protect local industries.
(d) To increase population. (1 mark)

10. The following are functions of a revenue authority **EXCEPT**.

- (a) File tax on behalf of the tax payer.
- (b) Training the tax payers and recruiting of tax agents.
- (c) Enforcing measures to collect the tax evaded.
- (d) Act as agent of the government in relation to tax collection.

(1 mark)

11. All of the following are measures used by the customs and excise duty departments of your country to prevent dumping **EXCEPT**.

- (a) Establishment of the advisory committee to recommend to the minister the imposition of antidumping or countervailing measures on investigated products imported into the country.
- (b) Prohibition and restriction of all imports from time to time.
- (c) Pre-shipment and pre-verification of exports done by qualified and reputable inspection firms and institutions of regular off-shore inspections.
- (d) Collusion between customs officers and importers are policed strictly and heavily penalised.

(1 mark)

12. Which of the following strategy **CANNOT** be used by revenue authority to enhance tax compliance?

- (a) Creating awareness by the revenue authority on the roles of taxes and the civic duty to pay taxes.
- (b) Increasing the rates of various taxes for example customs duty and VAT.
- (c) Enhancing efficiency in tax collection for example requiring PIN in some transactions.
- (d) Providing more tax incentives for example tax reliefs and allowances.

(1 mark)

13. Binding assessments are assessment which are final and conclusive. Which among the following is **NOT** a binding assessment?

- (a) Assessment determined by local committee.
- (b) Assessment made and no appeal has been made.
- (c) Assessment made and no objection has been raised within the statutory period.
- (d) Assessment awaiting determination by local committee.

(1 mark)

14. Leah Kerubo obtained a loan amounting to Sh.3,000,000 from the employer, Letto Limited at an interest rate of 8% per annum while the market rate was 12% per annum. What is the fringe benefit tax per month?

- (a) Sh.3,000.
- (b) Sh.10,000.
- (c) Sh.12,000.
- (d) Sh.6,000.

(1 mark)

15. Which one of the following is **NOT** a disadvantage of indirect taxes imposed in your country?

- (a) Lack of civic consciousness.
- (b) Feed inflation.
- (c) Uncertain revenue.
- (d) It is imposed on wide range of businesses.

(1 mark)

16. Which one of the following circumstances **DOES NOT** qualify for a refund of value added tax (VAT) paid?

- (a) VAT paid on bad debts.
- (b) VAT paid in error.
- (c) Death of the tax payer soon after VAT payment.
- (d) Overpayments resulting from the withholding VAT system.

(1 mark)

17. Which one of the following is **NOT** a characteristic of tax?

- (a) It has a direct reward.
- (b) It is usually levied where there is an income.
- (c) Tax rates differ from one country to another.
- (d) There are penalties due to failure to pay tax.

(1 mark)

18. Which of the following statements is **NOT** true about stamp duty?

- (a) It is levied by the government on certain transactions and documents.
- (b) The rate of stamp duty on properties in urban areas is 4% and 2% in rural areas.
- (c) It is paid in advance and the tax payer does not get a direct reward.
- (d) Its purpose is to legalise the transaction.

(1 mark)

19. The following instruments are chargeable to stamp duty. Which is **NOT**?
(a) Title deeds.
(b) Mortgage agreements.
(c) Insurance policies.
(d) Letter of allotment of shares. (1 mark)

20. Which one of the following is **NOT** a cause of tax evasion?
(a) High tax rates.
(b) Adequate collection points.
(c) Complexity of tax system.
(d) Low levels of income. (1 mark)

21. The following are methods of tax evasion **EXCEPT**?
(a) Under declaration of the taxable income.
(b) Claiming expenses one is not entitled to.
(c) Investing outside the country.
(d) Overstating the allowable expenses. (1 mark)

22. Which of the following is **NOT** a criteria of taxing income in Kenya?
(a) The income must have been earned in Kenya.
(b) The services must have been rendered in Kenya.
(c) The payment of services must have been rendered in Kenya.
(d) The tax payer must have a permanent residence. (1 mark)

23. Resident in relation to a body corporate means the following **EXCEPT**?
(a) The company was incorporated in Kenya under the Kenyan laws and regulations.
(b) The management and control of the business was exercised in Kenya during the year of income under consideration.
(c) The management and control of the business was not exercised in Kenya during the year of income under consideration.
(d) The body corporate has been declared by the cabinet secretary of finance to be a resident through the Kenyan gazette. (1 mark)

24. The following are advantages of withholding tax **EXCEPT**?
(a) Enhances compliance.
(b) It protects the health of citizens.
(c) It is economical.
(d) It reduces chances of tax evasion. (1 mark)

25. The following are sources of government revenue **EXCEPT**?
(a) Donations and grants.
(b) Fines and penalties.
(c) Insurances.
(d) Taxes. (1 mark)

26. Which one of the following building is **NOT** considered for investment allowance purposes?
(a) Residential building.
(b) Commercial building.
(c) Hotel building.
(d) Educational building. (1 mark)

27. The following documents must accompany a self-assessment return, **EXCEPT**?
(a) A set of audited final accounts.
(b) Tax computation schedule.
(c) Documents to support withholding tax.
(d) Single business permit. (1 mark)

28. The following are obligations of a registered person for value added tax (VAT) **EXCEPT**?
(a) To file VAT returns on due dates.
(b) To enforce payment of VAT charged.
(c) To keep proper books and records.
(d) To issue a tax invoice after each supply. (1 mark)

29. It is mandatory to have personal identification number (PIN) for the following transaction **EXCEPT?**

- Land transactions.
- Registration of motor vehicle.
- Application of insurance cover.
- Registration of birth.

(1 mark)

30. The following information should be contained in a VAT tax invoice **EXCEPT?**

- The name of person serving the customer.
- Name, address and VAT registration number of the person making supply.
- The serial number and date of the invoice.
- Total value of supplies and total amount of VAT charged.

(1 mark)

31. Which one of the following is **NOT** a drawback of investment allowances?

- Enjoyed mostly by manufacturers thereby discriminating other economic players.
- Enjoyed mostly by the poor thereby reducing the gap between the rich and the poor.
- Investors close shop and move to other destinations once the tax incentive cease.
- Results in loss of revenue for the government as it reduces tax payable.

(1 mark)

32. Which of the following omissions **DOES NOT** constitute an offence under the pay as you earn (PAYE) regulations?

- Failure to deduct PAYE.
- Failure to file returns.
- Failure to remit PAYE deducted by 20th of next month.
- Failure to have operational PAYE system.

(1 mark)

33. The following are circumstances under which a late objection could be accepted by the commissioner **EXCEPT?**

- When the tax payer is sick to the extent to which he/she cannot handle his/her tax matters.
- When the tax payer was out of the country.
- When the tax payer is held in a police custody.
- When the tax payer has no power in the office.

(1 mark)

34. The following are areas the commissioner of domestic taxes can get information regarding chargeable income **EXCEPT?**

- Self-confession.
- Public media.
- Act of God.
- Informers such as friends.

(1 mark)

35. The following are offences under the value added tax (VAT) Act **EXCEPT?**

- Failure to register when eligible.
- Failure to supply taxable goods.
- Failure to issue a tax invoice.
- Failure to keep proper records.

(1 mark)

36. Which among the following actions that the revenue authority should undertake to recover overdue tax?

- Holding property of the tax payer as security for the unpaid tax.
- Ask the bank to freeze the bank accounts of defaulters.
- Issue of distraint order where the assets of the tax payer are auctioned to recover the tax due and payable.
- The commissioner can jail the tax payer for the tax due and payable.

(1 mark)

37. Which one of the following is **NOT** a type of tax assessment?

- Self-assessment.
- Default assessment.
- Amended assessment.
- Appealed assessment.

(1 mark)

38. Housing benefit might be taxed under certain circumstances. Among the following, which one **DOES NOT** qualify for housing benefit not to be taxed?

- Housing was provided for better performance of duties for example caretaker of a building.
- Housing was necessary for such kind of employment for example school matron.
- Housing was provided for security reason for example soldiers in barracks.
- Housing was provided due to position or rank.

(1 mark)

39. Which one of the following is **NOT** an option available to the Commissioner upon receiving a valid objection?

- (a) Amend the assessment in light of the objection.
- (b) Keep the documents and not respond to the tax payer.
- (c) Amend the assessment in light of the objection with some adjustment.
- (d) Refuse to amend and confirm the assessment.

(1 mark)

40. The following changes must be notified the Commissioner within 14 days by the tax payer **EXCEPT?**

- (a) Change of address of the place of the business.
- (b) Additional premises to be used for the purposes of the business.
- (c) Additional machinery and motor vehicle for business use.
- (d) Change of business or trading name.

(1 mark)

41. Which one of the following statement **DOES NOT** explain when valued added tax (VAT) is due and payable?

- (a) When the goods are manufactured and packed ready for distribution.
- (b) When goods or services are supplied to the customer.
- (c) When an invoice is issued in respect of the supply.
- (d) When part or full payment for the supply is made.

(1 mark)

42. The following conditions must be fulfilled for passage to be excluded from taxation of an employee's income **EXCEPT?**

- (a) The employee must not be a citizen of Kenya.
- (b) The employee must be recruited or engaged from outside Kenya.
- (c) The employee must get travel allowances from the employer.
- (d) The employee must be solely in Kenya for the purpose of serving the employer.

(1 mark)

43. The income of a taxable person can be assessed on another person under the following circumstances **EXCEPT?**

- (a) When a taxable person is insane.
- (b) When a taxable person is a minor.
- (c) When a taxable person is deceased.
- (d) When a taxable person is illiterate.

(1 mark)

44. Agricultural employees housing benefit is 10% of employment income. Which of the following circumstances can lead to change the rate to 15%?

- (a) If the director is not a whole time service director.
- (b) If employee is housed in a leased building.
- (c) If employee is housed outside the farm or plantation.
- (d) If employee has his own house.

(1 mark)

45. Which one of the following is **NOT** a circumstance under which a taxpayer may be exempted from paying instalment taxes?

- (a) Total tax payable in any year of income is below Sh.40,000.
- (b) Income other than employment income is less than one third of total income.
- (c) Tax payer is subject to turnover tax.
- (d) Individual's only source of income is employment, and all taxes have been paid in full through PAYE tax.

(1 mark)

46. Which of the following class of asset matches its rate of investment allowance?

- (a) Hotel building - 25% first year of use.
- (b) Telecommunication equipment - 10% per year reducing balance.
- (c) Ship or aircraft -10% first year of use.
- (d) Motor vehicle - 12.5% per year reducing balance.

(1 mark)

47. Tera Limited started operations in 2020 after incurring various capital expenditures among them a Toyota pick-up which was purchased at a cost of Sh.2,400,000 on 1 August 2020. What was its wear and tear deduction for the year 2021?

- (a) Sh.600,000.
- (b) Sh.450,000.
- (c) Sh.1,200,000.
- (d) Sh.300,000.

(1 mark)

48. The following arguments are in favour of introduction of capital gains tax (CGT) in an economy **EXCEPT**?

- (a) It ensures that there is equity in taxation.
- (b) It helps in curbing inflation.
- (c) It increases chances of tax avoidance.
- (d) Increases government revenue.

(1 mark)

49. Which one of the following is **NOT** a limitation of value added tax (VAT)?

- (a) High tax avoidance and evasion where invoicing is not strictly enforced.
- (b) Enforcement of VAT is simple and easy to audit.
- (c) Its discriminatory where some goods and services are not vatable.
- (d) It requires many statutory records which are complicated to process.

(1 mark)

50. For the purpose of computing housing benefit, employees are classified into three categories. Which one of the following is **NOT** one of the categories?

- (a) Ordinary employee and a whole time service director.
- (b) Agricultural employee.
- (c) Directors other than whole time service director.
- (d) Ordinary employee and low income employee.

(1 mark)

51. Which of the following are direct taxes?

- (i) Income Tax.
- (ii) Capital gain tax.
- (iii) Corporate tax.
- (iv) Value added tax.

- (a) i, ii, iii and iv.
- (b) i and iii only.
- (c) i, ii and iii only.
- (d) i and iv only.

(1 mark)

52. Which of the following actions is practiced by tax evaders?

- (a) Claiming investment allowance.
- (b) Operating with income that are tax exempt.
- (c) Use of debt capital where interest is tax allowable instead of equity capital.
- (d) Overstating expenses.

(1 mark)

53. Hezron Kamau is a sole trader preparing accounts annually to 31 December. He used his motor car for business purposes throughout the whole year ended 31 December 2021. The car had cost him Sh.3,136,000 in the year 2021. What is the wear and tear allowance that he could claim in respect of the motor car for the year ended 31 December 2021?

- (a) Sh.3,136,000.
- (b) Sh.3,000,000.
- (c) Sh.750,000.
- (d) Sh.784,000.

(1 mark)

54. Manula Transport Ltd. provides for the wear and tear allowance on all assets. During the year ended 31 December 2021, the company purchased a saloon car for director at a cost of Sh.3,400,000. What is the wear and tear allowance for the acquired salon car for the year ended 31 December 2021?

- (a) Sh.750,000.
- (b) Sh.850,000.
- (c) Sh.340,000
- (d) Sh.1,275,000.

(1 mark)

55. The following are factors that determine the extent to which the incidence of tax could be shifted **EXCEPT**?

- (a) Type of government.
- (b) Type of market.
- (c) Type of tax.
- (d) Geographical coverage of tax.

(1 mark)

56. Which of the following is **NOT** a role of the revenue authority in your country?

- (a) Administers and enforces written laws and specific provisions concerning assessment, collection and accounting for all revenue.
- (b) Educate taxpayers thus increasing the role of compliance.
- (c) Introduce new taxes to increase collection of revenue.
- (d) Facilitate distribution of income through socially acceptable ways by effectively enforcing tax laws affecting income in various ways. (1 mark)

57. A company prepared financial statements for the year ended 31 December 2021. By which date should the company pay its corporation tax liability for the accounting period of ended 31 December 2021 to avoid incurring interest and penalties?

- (a) By 20 January 2022.
- (b) By 30 April 2022.
- (c) By 30 June 2022.
- (d) By 31 January 2022. (1 mark)

58. A company had the following expenses from its accounts for the year ended 31 December 2021:

| | Sh. |
|---|---------|
| Legal fee in respect to debt collection | 80,000 |
| Depreciation of machinery | 120,000 |
| Staff entertainment | 90,000 |
| Gift of food to clients | 60,000 |

How much should the company add back to its accounting profits to arrive at its tax adjusted profit?

- (a) Sh.270,000.
- (b) Sh.260,000.
- (c) Sh.180,000.
- (d) Sh.210,000. (1 mark)

59. Ruth pays Sh.8,000 to her registered pension scheme, while her employer contributes Sh.10,000. Which of the following statements is **TRUE**?

- (a) Ruth's taxable employment income is reduced by Sh.18,000.
- (b) Ruth has a taxable benefit of Sh.10,000 and her taxable income is reduced by Sh.8,000.
- (c) Ruth has a tax-exempt benefit of Sh.10,000 and her taxable income is reduced by Sh.8,000.
- (d) Ruth has a taxable benefit of Sh.18,000. (1 mark)

60. A sole trader who is registered for value added tax (VAT) made sales at standard rate valued at Sh.100,000 exclusive of VAT. In February 2022, a trade discount of 20% is applied to the value of Sh.100,000. How much VAT must the sole trader charge on the sales?

- (a) Sh.16,000.
- (b) Sh.19,200.
- (c) Sh.12,800.
- (d) Sh.0. (1 mark)

61. In regard to value added tax (VAT) which of the following statement is **TRUE**?

- (a) When a trader ceases to make taxable supplies, they must notify the commissioner of domestic tax within 30 days and the company will be deregistered from the day of notification.
- (b) Trader making taxable supplies with a turnover below the VAT registration threshold can voluntarily register for VAT at any time.
- (c) Traders can voluntarily deregister if at any time their turnover was below the VAT deregistration threshold in the last 12 months.
- (d) Traders do not pay VAT on purchases if they are not registered for VAT. (1 mark)

62. Imran is an employee of Tibabu Hospital which prepares accounts annually to 31 May each year. Imran is entitled to a bonus on 31 May 2021 in relation to the accounting period ended 31 May 2021. The bonus was paid to him on 30 June 2021 but expensed in the company accounts on 15 May 2021, on which date was the bonus credited as being received by Imran for tax purposes?

- (a) 31 December 2021.
- (b) 31 May 2021.
- (c) 15 May 2021.
- (d) 30 June 2021. (1 mark)

63. Which one of the following is **NOT** a limitation of a single tax system?
 (a) It reduces the amount of revenue collected.
 (b) Does not promote capital accumulation because of diversity of taxes in all income and savings.
 (c) It encourages inequalities.
 (d) It is based on estimates and therefore cannot meet the need of modern government. (1 mark)

64. What is the tax position of benefit in kind received from employer?
 (a) It is allowable deduction up to Sh.36,000 per annum.
 (b) It is a taxable benefit up to Sh.36,000 per annum.
 (c) It is a tax-free benefit.
 (d) It is a tax-free benefit if it does not exceed Sh.36,000 per annum. (1 mark)

65. Abdul received pension income of Sh.360,000 during the year ended 31 December 2021. He also received savings interest of Sh.40,000 in the year ended 31 December 2021. How much is the taxable income for the year 2021?
 (a) Sh.400,000.
 (b) Sh.0.
 (c) Sh.360,000.
 (d) Sh.60,000. (1 mark)

66. David Mulei gave a business gift to a client. The cost of the gift was Sh.8,500, which would normally sell for Sh.10,200. The amount was exclusive of VAT@16%. How much output VAT should David include in the VAT returns in respect of the gift?
 (a) Sh.1,632.
 (b) Sh.1,360.
 (c) Sh.0.
 (d) Sh.272. (1 mark)

67. What is the minimum turnover limit for a taxpayer wishing to register for value added tax (VAT) purposes?
 (a) Sh.5,000,000 inclusive of VAT per annum.
 (b) Sh.5,000,000 exclusive of VAT per annum.
 (c) Between Sh.5,000,000 and Sh.5,000,000 per annum.
 (d) Sh.5,000,000 exclusive of VAT per month. (1 mark)

68. Faith Molaa is employed by Atta Flour Ltd. She was provided with a car by the employer to use for official business and private purposes. The car had cost the company Sh.800,000 in the year 2020. The car has an engine capacity of 2,200cc. What is Faith's taxable benefit in respect to the use of the motor car for the year ended 31 December 2021?
 (a) Sh.192,000.
 (b) Sh.103,200.
 (c) Sh.800,000.
 (d) Sh.88,800. (1 mark)

69. Which of the following is **NOT** an appellant body for tax purposes?
 (a) Commissioner.
 (b) Local Committee.
 (c) Tax tribunal.
 (d) High Court. (1 mark)

70. Chale Ltd.'s trading profit for the period ended 31 December 2021 has been arrived at after deducting the following items:

| | Sh. |
|---|---------|
| A loss on sale of van used in business | 200,000 |
| Legal fees relating to trading transactions | 150,000 |
| A donation to a political party | 40,000 |

What amount should be added back to the trading profit when calculating the tax adjusted profits?
 (a) Sh.390,000.
 (b) Sh.190,000.
 (c) Sh.240,000.
 (d) Sh.350,000. (1 mark)

71. Which one of the following is **NOT** treated as an employee taxable income when computing pay as you earn (PAYE)?
 (a) End of year bonus paid to all employees.
 (b) Leave allowance.
 (c) Benefits in kind amounting to Sh.24,000 in a year.
 (d) Sales commission paid to salesman. (1 mark)

72. After how long will input tax under VAT become forfeited if it is **NOT** claimed?
 (a) 3 months.
 (b) 12 months.
 (c) 6 months.
 (d) 9 months. (1 mark)

73. Rodgers Mwema earned an annual salary of Sh.420,000 and received free meals from the company amounting to Sh.72,000 during the year ended 31 December 2021. What is Rodger's total taxable income for the year ended 31 December 2021?
 (a) Sh.420,000.
 (b) Sh.492,000.
 (c) Sh.72,000.
 (d) Sh.456,000. (1 mark)

74. The following are obligations of a registered person for value added tax (VAT) purposes **EXCEPT**?
 (a) Display VAT certificate of registered in a clearly visible place with the business premises.
 (b) Charge VAT in all the supplies made.
 (c) Issue serial numbered tax invoices or cash sale receipts generated by ETR.
 (d) File correct VAT returns within the stipulated period. (1 mark)

75. Kisuki Ltd. had the following expenses in their financial statement for the accounting period ended 31 December 2021:
 1. Entertainment for directors.
 2. Motor vehicle purchased for business.
 3. Entertainment for customers.
 4. Meals to employees of the company.
 On which of the above items could be treated as allowable expenses?
 (a) 1,2,3 and 4.
 (b) 1,2 and 3 only.
 (c) 3 and 4 only.
 (d) 2,3 and 4 only. (1 mark)

76. Alex Lugali is a registered VAT trader dealing in standard rate supplies. In the month of July 2021, he made sales of Sh.800,000 and purchased stock from an unregistered supplier for VAT purposes for Sh.460,000. Both amounts are exclusive of VAT.
 What is the VAT payable or claimable by Alex Lugali for the month of July 2021?
 (a) Sh.54,400.
 (b) Sh.128,000.
 (c) Sh.73,600.
 (d) Sh.0. (1 mark)

77. During the year ended 31 December 2021 Kilome Trading Ltd. incurred the following expenses:
 Sh.
 Staff refreshments 118,400
 Penalty for the late renewal of licence 5,400
 Maintenance cost 32,000
 What is the total allowable expenses for Kilome Trading Ltd. for income tax purposes in respect of the expenses incurred during the year?
 (a) Sh.118,400.
 (b) Sh.123,800.
 (c) Sh.150,400.
 (d) Sh.156,400. (1 mark)

78. Which of the following benefits provided by an employer to an employee is NOT exempted from tax?

- Benefit in kind not exceeding Sh.36,000.
- Insurance premiums paid by employer on behalf of the employee.
- School fees paid by employer on behalf of employees children and treated as disallowable expense in the company's books of accounts.
- Employer contribution to a registered pension scheme on behalf of an employee.

(1 mark)

79. What is the due date for payment of the first instalment of a company income tax for a company which prepared accounts to 31 December 2021?

- 31 December 2021.
- 20 January 2022.
- 20 April 2022.
- 30 June 2022.

(1 mark)

80. Peter had the following results in respect of the year ended 31 December 2021:

| | Sh. |
|-----------------------------------|---------|
| Commercial rental business profit | 252,000 |
| Commercial farming business loss | 550,000 |

What is the taxable income if any chargeable to Peter for the year ended 31 December 2021?

- Sh.252,000.
- Sh.298,000.
- Sh.0.
- Sh.802,000.

(1 mark)

81. John Busira received a monthly residential rental income of Sh.10,000. During the year ended 31 December 2021, his gross rental income was Sh.120,000.

Determine his tax payable for the year of income 2021:

- Sh.12,000.
- Sh.36,000.
- NIL.
- Sh.24,000.

(1 mark)

82. Which one of the following conditions is **CORRECT** with respect to medical benefit?

- It is a tax-free benefit to employee provided the employee is employed on permanent basis.
- It is a tax-free benefit to employee provided the employee contributes to the scheme.
- It is a taxable benefit.
- It is a tax-free benefit provided the scheme is not discriminatory.

(1 mark)

83. Eunice Lambela received a basic salary of Sh.900,000 and a house allowance of Sh.100,000 in the year 2021. The employer paid on her behalf insurance premiums amounting to Sh.60,000. While Eunice also paid an equal amount.

What is the taxable income chargeable to tax on Eunice for the year 2021?

- Sh.900,000.
- Sh.1,000,000.
- Sh.1,060,000.
- Sh.1,120,000.

(1 mark)

84. Which of the following taxes is an example of indirect taxes?

- Value added tax.
- Corporation tax.
- Withholding tax.
- Income tax.

(1 mark)

85. During the year ended 31 December 2021, Miika wholesalers made the following tax payments to the revenue authority.

1. Pay as you earn (PAYE) Sh.162,000.
2. Value added tax (VAT) Sh.230,115.
3. Corporate tax Sh.55,600.
4. Advance tax Sh.22,000.

Determine the amount of tax paid as indirect taxes.

- (a) Sh. 392,115.
- (b) Sh.230,115.
- (c) Sh.77,600.
- (d) Sh.162,000.

(1 mark)

86. Solomon Keita is a sales executive with a XYZ company, He was paid an annual basic salary of Sh. 216,000 and an entertainment allowance of Sh. 60,000. He incurred total cost of Sh. 18,000 entertaining customers.

What is the total amount of Keita's employment income assessable to tax for the year ended 31 December 2021?

- (a) Sh. 276,000.
- (b) Sh.216,000.
- (c) Sh.294,000.
- (d) Sh.258,000.

(1 mark)

87. For the financial year ended 31 December 2021, James Saida incurred the following expenses in relation to his business:

1. Repair of a leaking roof costing Sh.10,000.
2. Renovation of the office premises costing Sh.20,000.
3. Lorry maintenance expenses of Sh.15,000.

What is the amount of James Saida's deductible expenses for the year ended 31 December 2021?

- (a) Sh.25,000.
- (b) Sh.45,000.
- (c) Sh. 30,000.
- (d) Sh.35,000.

(1 mark)

88. Which of the following is **NOT** true about tax point in relation to VAT?

- (a) Earlier of when the goods are supplied or service rendered.
- (b) Earlier of when the invoice is issued.
- (c) Earlier of when an order is received.
- (d) Earlier of when payment partly or whole amount.

(1 mark)

89. Benard Kaka is a music composer, during the year ended 31 December 2021 he earned royalties amounting to Sh. 600,000 from his music composition. He had incurred Sh. 250,000 on producing the music album during that year. What is the amount of withholding tax payable on the royalties in the year ended 31 December 2021 given that Benard is a Kenyan resident?

- (a) Sh. 17,500.
- (b) Sh. 0.
- (c) Sh. 30, 000.
- (d) Sh. 42, 500.

(1 mark)

90. Mr. Mutua received a basic salary of Sh. 650,000 in the year 2021. He also received a medical allowance of Sh. 100,000. He received a pension income of Sh. 240,000 per annum from a previous employer.

How much income is taxable on Mutua for the year 2021?

- (a) Sh. 650,000.
- (b) Sh. 750,000.
- (c) Sh. 990,000.
- (e) Sh.890,000.

(1 mark)

91. Sylvia Adhiambo is registered for VAT. On 1 October 2021, she imported a machine at a cost of Sh.400,000. She paid freight charges of Sh.50,000, insurance on transit of Sh.30,000 and import duty of Sh.20,000.

Determine the amount that is chargeable to VAT on the above machine?

- (a) Sh.400,000.
- (b) Sh.500,000.
- (c) Sh.480,000.
- (d) Sh.430,000.

(1 mark)

92. Which of the following explains the tax position for earnings of a person with disability with exemption certificate from revenue authority?

- (a) His/her earnings up to Sh.50,000 per month is exempted from tax.
- (b) His/her earnings not exceeding Sh.150,000 per month is exempted from tax.
- (c) His/her earnings are fully exempted from tax.
- (d) His/her earnings not exceeding Sh.100,000 per month is exempted from tax.

(1 mark)

93. Which one of the following is **NOT** a relief against gross tax liability?
(a) Insurance relief.
(b) Personal relief.
(c) Affordable housing relief.
(d) Bad debt relief. (1 mark)

94. Individuals in Kenya are required to file self-assessment returns every year. The due date for the submission of the self-assessment returns for the year ended 31 December 2021 is on or before?
(a) 31 January 2022.
(b) 30 April 2022.
(c) 30 June 2022.
(d) 31 July 2022. (1 mark)

95. Which of the following transactions **DO NOT** require Personal Identification Number (PIN)?
(a) When registering a motor vehicle.
(b) When applying for Value Added Tax (VAT).
(c) When applying for insurance cover.
(d) When applying for adoption deeds. (1 mark)

96. Which one of the following is **NOT** a condition for a valid objection?
(a) It must mention the officer who did the assessment.
(b) It must be made in writing.
(c) It must specify the ground for objection.
(d) It must be made within 30 days from the date of service of an assessment. (1 mark)

97. What is the tax position on house furniture provided by an employer to an employee provided with a furnished house by employer?
(a) It is a tax-free benefit.
(b) The taxable amount is 2% per month on the cost of furniture.
(c) The taxable amount is 1% per month on the cost of the furniture.
(d) The taxable amount is the value of the furniture. (1 mark)

98. What are the rates applicable in the capital gains tax (CGT)?
(a) 5% not final tax.
(b) 10% final tax.
(c) 5% final tax.
(d) 10% not final tax. (1 mark)

99. Interest paid on loan acquired to purchase, construct or renovate own residential house is allowable up to a set limit of?
(a) Sh.240,000 per annum.
(b) Sh.96,000 per annum.
(c) Sh.300,000 per annum.
(d) Sh.150,000 per annum. (1 mark)

100. Penina Dale has residential rental property, during the month of 31 December 2021 she received rental income amounting to Sh.800,000. She incurred the following expenses during the month of December: Repair and maintenance cost of Sh. 200,000, advertisement cost of Sh.80,000 and installed a fire exit at a cost of Sh.50,000. Determine the tax payable if any on residential income in the month of December 2021?
(a) Sh.80,000.
(b) Sh.141,000.
(c) Sh.240,000.
(d) Sh.156,000. (1 mark)

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CAMS LEVEL II

ELEMENTS OF TAXATION

WEDNESDAY: 15 December 2021.

Time Allowed: 3 hours.

This paper has two sections. SECTION I has twenty (20) short response/computational questions. SECTION II has three (3) computational questions. All questions are compulsory. Marks allocated to each question are shown at the end of the question. Any assumptions made must be clearly and concisely stated.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2020.

Assume that the following rates of tax applied throughout the year of income 2020:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 40,667 | 288,001 - 488,000 | 15% |
| 40,668 - 57,334 | 488,001 - 688,000 | 20% |
| Excess over - 57,334 | Excess over - 688,000 | 25% |

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

| Investment allowance: | Rate of investment allowance | Residual value (per year on reducing balance) | Prescribed benefit rates of motor vehicles provided by employer | | |
|---|----------------------------------|--|--|---------------------------|--------------------------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | Monthly rates (Sh.) | Annual rates (Sh.) |
| (a) Buildings: | | | Up to 1200 cc | 3,600 | 43,200 |
| • Hotel building | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 |
| • Hospital buildings | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 2001 - 3000 cc | 8,600 | 103,200 |
| • Educational/hostels building | 10% per year on reducing balance | | Over - 3000 cc | 14,400 | 172,800 |
| • Commercial building | 10% per year on reducing balance | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | |
| • Machinery used for manufacture | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 |
| • Hospital equipment | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 |
| • Ships or aircraft | 50% in the first year of use | 25% | | | |
| • Motor vehicles and heavy earth moving equipment | 25% per year on reducing balance | | | | |
| • Computer software, calculators, copiers and duplicating machines | 25% per year on reducing balance | | | | |
| • Furniture and fittings | 10% per year on reducing balance | | | | |
| • Telecommunication equipment | 10% per year on reducing balance | | | | |
| • Film equipment by a local producer | 25% per year on reducing balance | | | | |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use | 25% | | | |
| • Other machinery | 10% per year on reducing balance | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on reducing balance | | (iii) Land Rovers/Cruisers | 7,200 | 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | | | |

| Commissioner's prescribed benefit rates: Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

SECTION I - 40 MARKS

1. Explain the meaning of “pay as you earn (PAYE)”. (2 marks)
2. State the tax position on value of meals provided by the employer. (2 marks)
3. Individual income tax returns should be filed on or before 30th June of the following year. Highlight the applicable penalty for late filing. (2 marks)
4. Identify the applicable advance tax rates for vans, pick-ups, trucks, prime movers and lorries. (2 marks)
5. Explain the term “residential rental income” as used in taxation. (2 marks)
6. In relation to Capital Gain Tax (CGT), indicate the applicable rate of tax and comment whether it is a final tax. (2 marks)
7. Explain the term “equality” as a principle of taxation. (2 marks)
8. Identify the term used when the producer transfers the tax burden to the final consumer. (2 marks)
9. Explain the term “stamp duty” as used in taxation. (2 marks)
10. Patrick Maloba works as an assistant accountant for Beta Ltd. He was provided with a saloon car of 2000cc by the company on 1 July 2020. The car had been purchased for Sh.1,800,000 in year 2019.

Required:

The taxable benefit (if any) during the year of income 2020 in relation to the saloon car provided by the employer. (2 marks)

11. James Mwatela an employee of Mamboleo Ltd. purchased a residential house through a mortgage loan advanced by XYZ Bank. The monthly interest payable on the loan was Sh.42,000.

Required:

Advice James Mwatela, on the applicable monthly mortgage relief, in computation of his pay as you earn (PAYE). (2 marks)

12. Mercy Cherono’s rental income for the month of November 2021 was Sh.246,000.

Required:

Determine Mercy Cherono’s residential rental income tax payable, indicating the due date for tax payment. (2 marks)

13. Indicate when and by what percentage should the taxpayers in the agricultural sector pay instalment tax. (2 marks)
14. Highlight the two applicable rates for value added tax (VAT) purposes. (2 marks)
15. Propose two conditions for a company to be considered as a resident in Kenya for tax purposes. (2 marks)
16. The accountant of Luckystar Ltd. listed the following expenses in relation to bad debt:

- General provision for bad debts Sh.172,000
- Bad debt written off Sh.84,000
- Specific provision for bad debts Sh.93,000

Required:

Identify the bad debt expense listed above (if any) that should be allowed for tax purposes. (2 marks)

17. Apart from pay as you earn (PAYE), state two other statutory deductions. (2 marks)
18. Kenland Enterprises generates Sh.400,000 per month on average in sales revenue. Advise the management of Kenland Enterprises whether they are supposed to register for value added tax (VAT) purposes. (2 marks)
19. After a tax presentation, Justus Mwania did not understand clearly what is meant by withholding tax.

Required:

Explain to him the meaning of “withholding tax” (2 marks)

20. Erick Mwololo a dealer in electronic goods made a profit of Sh.3,240,600 in the year 2020. However, in the year 2019 he had made a loss of Sh.1,243,800 from the same business. Determine the taxable amount for the year 2020. (2 marks)

SECTION II

QUESTION 21

(a) Citing four reasons, justify why accounting profit is different from taxable profit. (8 marks)

(b) Deborah Sitati is employed by Talak Ltd. as a manager. She has provided the following information in relation to her employment income for the year ended 31 December 2020.

1. Basic salary of Sh.87,500 per month (PAYE 35,900) per month.
2. She was provided with a monthly commuter allowance of Sh.21,000.
3. She received leave allowance equivalent to one month's basic pay.
4. She was provided with a saloon car of 2000cc. The car had been purchased at a cost of Sh.2,100,000.
5. The company paid Sh.157,500 for her husband's medical bills. The company's medical scheme covered all employees.
6. The company provided her with a fully furnished house. The cost of furniture was Sh.420,000.
7. She was provided with a security guard and a cook whom the company paid monthly salaries of Sh.15,750 and Sh.21,000 respectively.
8. She was given free goods worth Sh.60,000 by the company during the year.
9. She is a member of a registered pension scheme where she contributed Sh.49,000 per month towards the scheme.
10. The company paid Sh.315,000 for her son's school fees. This amount was deducted as an expense in the books of Talak Ltd.
11. She worked for 5 days out of her duty station during the year for which she was paid Sh.8,750 per day.

Required:

(i) Taxable income for Deborah Sitati for the year ended 31 December 2020. (10 marks)

(ii) Taxable payable (if any) from the income computed in (b) (i) above. (2 marks)

(Total: 20 marks)

QUESTION 22

(a) The following transactions were extracted from the books of Zadec Electronics Ltd, a value added tax (VAT) registered company for the month of October 2021.

- 1 October 2021: Purchased 8 phones at Sh.10,000 each.
- 4 October 2021: Purchased flash disks at Sh.25,000.
- 4 October 2021: Sold 4 cameras at Sh.15,000 each.
- 5 October 2021: Purchased 10 television sets at Sh.20,000 each.
- 6 October 2021: Sold 2 projectors for a total of Sh.250,000.
- 8 October 2021: Purchased flash bulbs at Sh.120,000.
- 9 October 2021: Sold 2 television sets at Sh.30,000 each.
- 12 October 2021: Sold 10 phones on credit to Zawadi Enterprises at a total of Sh.175,000.
- 15 October 2021: Purchased 50 wrist watches at Sh.2,500 each.
- 18 October 2021: Exported 3 television sets to Uganda at Sh.40,000 each.
- 22 October 2021: Bought energy saving bulbs at Sh.140,000.
- 25 October 2021: Sold 6 flash disks at Sh.1,000 each.
- 28 October 2021: Paid electricity bills of Sh.4,500.

The above transactions are stated exclusive of VAT at the rate of 16%, where applicable.

Required:

The VAT payable by or refundable to Zadec Electronics Ltd. for the month of October 2021.

(12 marks)

(b) Excel Cement Manufacturing Ltd. commenced operations on 2 May 2020 after incurring the following expenditure:

| | Sh. |
|--|------------|
| Factory building | 84,000,000 |
| Packaging machine | 6,000,000 |
| Crashing machine | 12,000,000 |
| Conveyor belts | 18,400,000 |
| 3-Tractors (each at Sh.3,200,000) | 9,600,000 |
| 8-Lorries (each at Sh.3,000,000) | 24,000,000 |
| 3-Saloon cars (each at Sh.3,000,000) | 9,000,000 |
| 2-Delivery vans (each at Sh.2,400,000) | 4,800,000 |
| Computers | 600,000 |
| Furniture | 540,000 |

Additional information:

1. Factory building cost is inclusive of the cost of land amounting to Sh.30,000,000.
2. The following assets were disposed of on 31 October 2020:

| | Sh. |
|----------------------------------|-----------|
| 1-Tractor | 2,800,000 |
| 2-Lorries (each at Sh.2,400,000) | 4,800,000 |

Required:

Investment allowances due to the company for the year ended 31 December 2020.

(8 marks)

(Total: 20 marks)

QUESTION 23

(a) Explain the following types of tax assessment:

- (i) Default assessment. (2 marks)
- (ii) Self assessment. (2 marks)

(b) Outline four transactions that require personal identification number (PIN). (4 marks)

(c) Haraka and Makali are partners trading as Hali Traders and sharing profits and losses equally. The statement of profit or loss for the partnership for the year ended 31 December 2020 was as follows:

| | Sh. | Sh. |
|-----------------------------|-----|---------------|
| Gross profit | | 1,816,000 |
| Profit on sale of furniture | | <u>60,000</u> |
| | | 1,876,000 |

Less Expenses:

| | | |
|-------------------------|---------------|--------------------|
| Rent and rates | 39,000 | |
| Salaries and wages | 360,000 | |
| Repairs and maintenance | 87,600 | |
| Interest on capital | 268,000 | |
| Advertising | 42,000 | |
| Value added tax (VAT) | 19,200 | |
| General Expenses | 120,640 | |
| Legal fees | 132,000 | |
| Depreciation | 72,000 | |
| Electricity | 18,000 | |
| Provision for bad debts | 22,000 | |
| Purchase of furniture | 48,000 | |
| Insurance premiums | <u>26,400</u> | <u>(1,254,840)</u> |
| Net profit | | <u>621,160</u> |

Additional information:

1. Insurance premiums expense included Sh.13,500 paid to insure Makali's private car.
2. Interest on capital relates to the partners on their capital contribution with each partner receiving Sh.134,000.
3. Legal fees include Sh.42,000 paid for appeal on a tax assessment and Sh.27,800 paid as stamp duty.
4. Salaries and wages include Sh.124,000 and Sh.90,000 paid to Haraka and Makali respectively during the year.
5. General expenses include Sh.88,000 embezzled by the cashiers.
6. Investment allowances for the year were agreed with the tax authorities at Sh.236,000.

Required:

(i) The adjusted partnership profit or loss for the year ended 31 December 2020. (10 marks)

(ii) Allocation of the profits or losses in (b) (i) above to the partners. (2 marks)

(Total: 20 marks)

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