**RCM ONLINE**

**HIGHLIGHT CORRECT ANSWERS IN YELLOW**

**ATD 11**

**PRINCIPLES OF TAXATION Time (2hours)**

# 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.

**RATES OF TAX (Including wife’s employment, self-employment and professional income rates of tax). Year of income 2022.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Monthly taxable pay** | | | **Annual taxable pay** | | | **Rate of tax** |
| **(Sh.)** | | | **(Sh.)** | | | **% 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:**  **Capital expenditure incurred on:** | **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 Annual**  **rates rates**  **(Sh.) (Sh.)** | | | |
| 1. **Buildings:**    * Hotel building    * Building used for manufacture    * Hospital buildings    * Petroleum or gas storage facilities    * Educational/hostels building    * Commercial building | 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use  10% per year on straight line basis 10% per year on straight line basis | 25%  25%  25%  25% | Up to 1201 -  1501 -  1751 -  2001 -  Over - | 1200 cc  1500 cc  1750 cc  2000 cc  3000 cc  3000 cc | 3,600  4,200  5,800  7,200  8,600  14,400 | 43,200  50,400  69,600  86,400  103,200  172,800 |
| 1. **Machinery:**    * Machinery used for manufacture    * Hospital equipment    * Ships or aircraft    * Motor vehicles and heavy earth moving equipment    * Computer software, calculators, copiers and duplicating machines    * Furniture and fittings    * Telecommunication equipment    * Film equipment by a local producer    * Machinery used to undertake operations under prospecting rights and exploration under mining rights    * Other machinery | 50% in the first year of use 50% in the first year of use 50% in the first year of use  25% per year on straight line basis 25% per year on straight line basis  10% per year on straight line basis  10% per year on straight line basis 25% per year on straight line basis 50% in the first year of use  10% per year on straight line basis | 25%  25%  25%  25% | (ii) Pick-ups, Panel Vans (unconverted)  Up to - 1750 cc Over - 1750 cc | | 3,600  4,200 | 43,200  50,400 |
| (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 Services (Sh.)**

**Annual rates (Sh.)**

1. Electricity (Communal or from a generator)
2. Water (Communal or from a borehole)

**Agriculture employees: Reduced rates of benefits**

1,500 18,000

500 6,000

(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)?
   1. 20th of following month
   2. 30th of following month
   3. 9th of the following month
   4. 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)

1. Which is the applicable rate for catering levy?
   1. 3.5% of gross sales value
   2. 3% of gross sales value
   3. 2% of gross sales value
   4. 1% of gross sales value (2 marks)
2. A tax regime that allows taxpayers to determine of their chargeable income and tax payable is referred to as .
   1. Estimated assessment
   2. Additional assessment
   3. Self-assessment
   4. Amended assessment (2 marks)
3. Kasuku Ltd. had the following expenses in their financial statement for the accounting period ended 31 December 2022:
4. Entertainment for directors
5. Depreciation for the year
6. Purchase of equipment
7. Subscription to chambers of commerce

Which of the above expenses can be treated as allowable expenses?

1. i, ii, and iii only
2. ii and iii only
3. iv only
4. ii only (2 marks)
5. Which of the following documents or instruments is subject to stamp duty?
   1. Adoption deed
   2. Affidavit
   3. Charter party
   4. Partnership deed (2 marks)
6. An objection to a tax decision of the commissioner of domestic taxes must be done within a period not exceeding?
   1. 30 days
   2. 14 days
   3. 60 days
   4. 21 days (2 marks)
7. What is the tax position of an agricultural employee provided with a house in a farm or plantation?
   1. Taxable amount is 10% of the total income less own contribution towards the house
   2. Taxable amount is 15% of the total income less own contribution toward the house
   3. Taxable amount is 10% of the employment income less own contribution towards the house
   4. Taxable amount is 15% of the employment income less own contribution towards the house

(2 marks)

1. 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)

1. What is the tax position on furniture provided by an employer to an employee?
   1. The taxable amount is the value given to the furniture
   2. It is a tax-free benefit
   3. The taxable amount is 2% per month on the cost of the furniture
   4. The taxable amount is 1% per month on the cost of the furniture (2 marks)
2. When a taxpayer is dissatisfied with a tax decision of the commissioner, the tax taxpayer is supposed to petition through?
   1. A letter of protestation
   2. A letter of objection
   3. A letter of appeal
   4. A letter of amendment (2 marks)
3. 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)

1. Cosmas Kimanthi 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)

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

1. Define the term advance tax?
   1. Tax levied on commercial vehicles before being licensed to operate in Kenya
   2. Tax levied by the government for certain transactions and documents
   3. Tax levied on locally manufactured goods
   4. Tax levied on incomes earned by an individual (2 marks)
2. A whole-time service director is one?
   1. Who controls more than 12% of the company’s share capital
   2. Who is a beneficial owner of the company
   3. Who does not control more that 12% of the company’s share capital
   4. Who does not control more than 5% of the company’s share capital? (2 marks)
3. Which of the following levies and charges is imposed by the county government?
   1. Property rates
   2. Catering levy
   3. Petroleum levy
   4. Stamp duty (2 marks)
4. 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)

1. 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)

1. Stanley Mogaka 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)

1. Which among the following actions can the revenue authority **NOT** take to recover overdue tax?
   1. Holding property of the tax payer as security for unpaid tax
   2. Ask the bank to freeze the bank account of the defaulters
   3. Issue a distrait order where the asset of the taxpayer is auctioned to recover the tax due and payable
   4. Jail the tax payer for the tax due and payable (2 marks)
2. 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)

1. Which one of the following statements explains the meaning of the term pay as you earn (PAYE)?
   1. Tax charged on locally manufactured goods
   2. Tax levied on goods imported into the country
   3. Tax charged on incomes earned by a limited company
   4. Tax charged on incomes of an individual (2 marks)
2. Which one of the following offenses matches the right penalty?
   1. 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
   2. 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
   3. Failure to remit Excise Duty or VAT, penalty of 25% of the amount of the tax due or Sh.10,000
   4. Failure to pay tax on due date, penalty of 5% of the tax involved is charged (2 marks)
3. Which of the following benefits is not taxable?
   1. Subsistence allowance of up to Sh.2,000 per day
   2. Meals provided by the employer up to a maximum of Sh.5,000 per month.
   3. Pension contribution paid by a tax-exempt employer to an unregistered scheme
   4. Benefit in kind given by employer up to a maximum of Sh.4,000 per month (2 marks)
4. What is the treatment of increase in general provisions for bad debts in computations of taxable business income?
   1. It is a disallowable expense
   2. It is an allowable expense
   3. It is an allowable income
   4. It is a disallowable income (2 marks)
5. Which of the following is **NOT** allowable expense under the commercial rental incomes?
   1. Land rent and rates
   2. Repair before letting the house
   3. Agents fees
   4. Mortgage interest (2 marks)
6. Matilda Waswa’s gross commercial rental income for the month of November 2022 was Sh.750,000. The expense 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)

1. Taxable income is recognized when?
   1. Taxpayer fails to include the income in his returns
   2. The income has been received in money or its equivalent
   3. Income has been received either actually or constructively
   4. Transaction that is the source of income is completed (2 marks)
2. The term given to an outright dishonest action where the taxpayer seeks to minimize his tax liabilities through illegal means is known as .
   1. Tax avoidance
   2. Tax deductions
   3. Tax evasion
   4. Tax allowance (2 marks)
3. 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 amortization 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)

1. It is mandatory to have a personal identification number (PIN) for the following transactions, **EXCEPT**?
   1. Land transfer
   2. Motor vehicle registration
   3. Application of insurance cover
   4. Application for birth certificate (2 marks)
2. Which of the following assets is **NOT** considered for investment allowance purpose?
   1. Land
   2. Demolition of old building site
   3. Labour quarters
   4. Sewerage system (2 marks)
3. 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)

1. Which one of the following is subject to monthly rental income (MRI) tax regime?
   1. Non-residents
   2. Landlords with less than Sh.1million per annum
   3. Landlords earning more than Sh.15 million per annum
   4. Taxpayer in the old regime with authority of the commissioner (2 marks)
2. Daniella Mwenda 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)

1. What is Digital Service Tax (DST)?
   1. A tax payable on income derived or accrued in Kenya and other countries from services offered through a digital market place.
   2. A tax payable on income derived or accrued in Kenya only from services offered through a digital market place.
   3. A tax payable on profit derived or accrued in Kenya and other countries from services offered through a digital market place.
   4. A tax payable on profit accrued in Kenya only from services offered through a digital market place.

(2 marks)

1. Which of the following statements defines bad debt relief for VAT purpose?
   1. It is a relief granted if the debt of a taxable person remains unpaid for a period of 2 years or more
   2. It is a relief granted if the input tax exceeds output tax and this is a common feature in a business
   3. It is a relief granted if a debt of a taxable person remains unpaid for a period of 3 years or more
   4. It is a relief granted to a taxable person if a debtor refuses to settle his debt (2 marks)
2. 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)

1. 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, 000,000

C. Sh.5, 700,000

D. Sh.700, 000 (2 marks)

1. Select one of the following statements that describe how tax evasion is practiced.
   1. Operating with incomes that are tax exempt
   2. Claiming tax relief and allowances
   3. Filing of fraudulent returns using fraudulent means
   4. Use of debt capital where interest is tax allowable in the equity capital (2 marks)
2. Which of the following explains the tax position for school fees paid by an employer on behalf of an employee’s children?
   1. It is tax free benefit provided that it is taxed on the employer.
   2. It is taxed on the employee
   3. It is always taxed on the employer
   4. It is taxed on both the employer and employee (2 marks)
3. 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)

1. Jane 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)

1. There are circumstances where provision for accommodation by employer to employee is not considered as taxable benefit. Identify one such circumstance below.
   1. If the accommodation is for low income earners
   2. If it is considered a necessity for the employer to house the employee
   3. If the accommodation is for a non-resident
   4. If accommodation is provided to directors other than whole time service directors (2 marks)
2. 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)

1. 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)

1. Grace Wanana, 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)

1. What is the tax position of meals provided by an employer to employees?
   1. The value of the meals is included as emoluments and taxed accordingly if it exceeds Sh.48,000
   2. The value of the meals is tax free benefit to the employees
   3. The value of the meals is treated as a tax-free benefit to the low-income earners
   4. The value of the meals is a taxable benefit to the employees (2 marks)

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