MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 301: TAXATION ECONOMICS AND POLICY

DATE: 9/12/2021   **TIME: 11.00-1.00 PM**

INSTRUCTIONS:

- **(i)** **This examination consists of Five questions.**
- **(ii)** **Answer question one (Compulsory) and any other two questions.**
- **(iii)** **Abide by all rules and regulations concerning this exam carefully.**
- **(iv)** **Follow the guidelines on submission of exam script to the letter.**
- **(v)** **Violating any of the rules is an exam irregularity and may lead to discontinuation from the University.**

QUESTION ONE(COMPULSORY) (30 MARKS)

a) Interpret and explain the Tax concept mentioned in each of these statements:

    i) The Revenue Authority imposes 20% tax on the amount paid for Income tax by Senior Staff members and 15% tax on the amount paid for Income tax by Junior Staff. This leads to the senior staff reducing their total utility by 10% while junior staff utility reduces by 8%. (3 marks)

    ii) Your salary increases by 10% but the amount collected as tax increases by 9%. (3 marks)

    iii) The Revenue Authority imposes 18 % tax on the amount paid for Income tax by Senior Staff members and 12% tax on the amount paid for Income tax by Junior Staff. This leads to the senior staff reducing their total utility by 10% while junior staff utility also reduces by 10%. (3 marks)

    iv) Your salary increases by 10% but the amount collected as tax increases by 12%.
. (3 marks)

b) Evaluate are the implications of the Ramsey rule and the inverse elasticity rules of optimal commodity taxation to equity in the distribution of tax burden**.** (10 marks)

c) For the following taxes levied in Kenya identify the following:

i) Base of the tax. (1 mark)

ii) Whether the tax is direct or indirect. (1 mark)

- Corporate Tax
- Excise Duty
- Capital Gains Tax (CGT)
- Customs Duty . (8 marks)

QUESTION TWO (20 MARKS)

a) There are numerous reasons why citizens evade taxes. As a policy maker elaborate on measures you would take to ensure the citizens pay Taxes. (10 marks)

b) Use the partial equilibrium approach to describe the effect of an increase in taxation on labourer's wages on the supply of labour. (10 marks)

QUESTION THREE (20 MARKS)

a) Using examples of types of taxes levied in your country, explain the conditions under which benefit tax criteria is feasible. (10 marks)

b) Explain and illustrate excess burden of taxation. (5 marks)

c) The current VAT system in a country requires the seller to install devices that calculate VAT of each transaction and produce a daily and monthly report of VAT payable. This means the seller is the one responsible to ensure VAT is charged. The country wants to move to a system where the consumer should bear a receipt for every VATable item. Discuss the applicability and efficiency of this proposed system. (5 marks)

QUESTION FOUR (20 MARKS)

a) Appraise the issues that motivate and shape tax reforms in developing countries.

(12 marks)

b) Clearly explain the concept of tax shifting. (8 marks)

QUESTION FIVE (20 MARKS)

a) Discuss how the following factors determine the taxable capacity of a country.

(i) Distribution of income. (5 marks)

(ii) Size of population. (5 marks)

(iii)Political conditions. (5 marks)

b) Citing the recent case of KRA increasing the tax levied within the Betting Industry evaluate on the harmful effects of taxation**. (5 marks)