

INCOME AND TAXATION

TERM

1. GROSS INCOME

It is the employee's salary including the allowances. It is the money before taxation is done.

2. ALLOWANCES

It is income which is not taxed because it just aids the employee

3. TAXABLE INCOME

It is the income which is taxed.

Taxable income = Gross income – allowances.

4. INCOME TAX

It is the money calculated from taxable income as per given rates.

5. NET INCOME

This is the employee's income after income tax is deducted.

NOTE

In calculating family allowance, children with a higher allowance are considered first in case all are not to benefit.

Examples.

1. According to U.R.A tax department, income tax is calculated as follows

The first shs 120,000 is tax free and the remaining income is taxed at a rate of 25%.

Find the tax payable on earned income of;

(a)shs100,000

(b)shs440,000

2. A manager of an industry earns a gross salary of shs2,000,000 per month which includes an

allowance of shs500,000 tax free. The rest of her income is subjected to an income tax which is calculated as follows

7.5% on the first shs800,000

12.5% on the next shs500,000

20% on the next shs100,000

30% on the next shs60,000

35% on the remainder

- a) Find her taxable income
- b) Calculate her monthly income tax
- c) Express her monthly income tax as a percentage of her gross monthly salary.

3. The table below shows the income tax rates of a certain country for government employees

<i>Taxable income</i>	<i>Tax</i>
<i>1-100,000</i>	<i>5</i>
<i>100,001-200,000</i>	<i>13</i>
<i>200,001-300,000</i>	<i>20</i>
<i>300,001-400,000</i>	<i>30</i>
<i>400,001-500,000</i>	<i>40</i>
<i>500,001 and above</i>	<i>45</i>

An employee has a gross monthly income of shs 753,500. He is entitled to the following monthly allowances

Marriage and children shs 115,500

Housing and transport 10% of the gross income

Medical care of shs81,600

Insurance premium of shs25,500

Calculate the

- a) taxable income
- b) income tax
- c) net income

4. Opio is an employee with a construction firm that pays him a gross annual salary of shs6,600,000. He is married with 4 children two of whom are aged 17 and 19 years respectively while the other two are aged 11 and 14 years. The company pays allowance for three children only for every employee

A summary of allowances is as follows

Marriage one-tenth of gross monthly income

Medical shs30,000 per annum

Transport *shs2,000 per day*

Children above 15 but below 19 years *shs1,000*

Children above 10 years but below 15 years *shs6,000*

a) Calculate Opio's taxable income for the month of June

b) The income tax structure is as below

Taxable monthly income	Tax rate%
1-100,000	10
100,001-150,000	15
150,001-220,000	20
220,001 and above	25

i) Calculate the income tax paid by Opio

ii) Express the income tax paid by Opio as a percentage of his taxable income.

5. The table below shows the tax structure on taxable income of citizens of a country

Taxable income per annum	Tax rate%
First shs 80,000	7.5
Next shs 80,000(80,001-160,000)	12.5
Next shs80,000(160,001-240,000)	20.0
240,001-320,000	30.0
320,001-400,000	36.5
400,001-480,000	45.0
480,001 and above	52.6

A man's gross annual income is shs 964,000. The allowances include

Housing *shs 14,500 per month*

Marriage *one tenth of his gross annual income*

Medical *shs50,700 per annum*

Transport *shs10,000 per month*

Insurance *shs68,900 per annum*

Annual family allowance for four children at the following rates

Shs3,400 for each child above 18 years, shs4,200 for each child above 10 years but below 18years andshs5,400 for each child below 9 years.

Given that he has a family of five children with three of them below the age of 8, one 16 years and the elder child 20 years.

Omoja is married with 3 children two below 10 years of age and the other 12 years old. Mbili is single but has two dependents aged 11 and 15 years. Each month Omoja and Mbili earn gross incomes of sh. 130,000 and shs 120,000 respectively. The income tax is calculated as follows

<i>Taxable income</i>	<i>% rate</i>
<i>1-10,000</i>	<i>20</i>
<i>10,001-50,000</i>	<i>15</i>
<i>50,001- above</i>	<i>10</i>

a) Calculate the

i) taxable income for Omoja and Mbili

ii) income tax for Omoja and mbili

b) Express the total income tax for each man as a percentage of their respective taxable incomes.

8. In a certain school a teacher's salary includes the following tax free allowances

<i>Type of allowance</i>	<i>Amount</i>
<i>Legally married teacher</i>	<i>Sh 10,000</i>
<i>Each child under 10 years</i>	<i>Sh 2,500</i>
<i>Each child above 10 years</i>	<i>Sh 2,000</i>
<i>P.T.A</i>	<i>Sh 50,000</i>
<i>Head of department/ subject</i>	<i>Sh 10,000</i>
<i>Class teacher</i>	<i>Sh 5,000</i>
<i>House master/mistress</i>	<i>Sh 5000</i>
<i>Unmarried teacher</i>	<i>Sh 6,000</i>

Mr. Mugisha and Mr Ofuti are senior teachers in this school. Mr Mugisha is married with two children under 10 years and one child above 10 years. He is also a class teacher and a head of department. Mr Ofuti is single but has two dependents under 10 years and is a house master and a class teacher. Their income is subjected to PAYE (pay as you earn) monthly at the following rates

For the first sh 10,000 taxable income tax is 20 % while the rest is taxed at 15 %.

At the end of each month, Mr Mugisha's gross income was sh 150,000 and Mr Ofuti's gross income is sh 130,000.

Calculate the

a) taxable income for each teacher

b) tax paid by each teacher

c) tax paid as a percentage of the gross income for each teacher.

9. The monthly income tax system of a certain country is given as below

Basic pay(ush)	Rate
0-150,000	Free
150,001-250,000	10.0
250,001-350,000	12.5
350,001-450,000	16.0
450,001-550,000	22.5
550,001-600,000	30.5

An allowance in excess of sh 80,000 is subjected to a tax of 25 % of the monthly allowance.

Two employees A and B are such that A earns a basic monthly pay of sh 355,000 and a top up allowance of sh 185,000 per month while B earns only a basic monthly pay of sh 540,000.

- Who of the two employees pay more monthly income tax than the other and by how much
- Express employee A's income tax as a percentage of his monthly earnings.

Calculation of taxable income for given tax

1. The income tax structure of a certain country is as below

Taxable income (sh)	Rate(%)
1-120,000	5
120,000-220,000	10
220,001 and above	15

Calculate the taxable income for a person who paid a tax of sh 20,500.

2. The table below shows the income tax rates on taxable income in a certain country.

Taxable income	Rate(%)
20,001-90,000	8.5
90,001-190,000	12.0
190,001-305,000	13.5
305,001-435,000	14.0
435,001 and above	17.0

Find the taxable income for a person who paid a tax of

- sh 13,150
- sh 32,800
- sh 62,725

3. An accountant in a certain company is entitled to a tax free allowance of sh 500,000. The income tax rates on taxable income are as follows

Taxable income	Rate(%)
1-800,000	7.5
800,001-1,300,000	12.5
1,300,001-1,400,000	20.0
1,400,001-1,460,000	30.0
1,460,001 and above	35.0

Given that the accountant pays a tax of sh 174,500 , calculate his

- i) taxable income
- ii) gross income
- iii) net income

4. In an organization employees are given the following allowances which are tax free

Transport	sh 80,000 per month
Medical	sh 600,000 per annum
Housing	sh 100,000 per month
Insurance	sh 360,000 per annum
Water and electricity	sh 30,000 per month

The following tax rates apply on taxable income

Taxable income	Rate %
1-230,000	Free
230,001-320,000	10
320,001-420,000	15
420,001 and above	20

Find the

- i) total allowance given to each employee per month
- ii) gross income for an employee who paid a tax of sh 32,000
- iii) net income for the employee in ii) above.

INCOME AND TAXATION

Summary:

- 1. GROSS INCOME:** is the income before income tax is deducted.
- 2. AN ALLOWANCE:** is a nontaxable income (Tax free income). In case of a discriminative policy on children allowance, children attracting a higher allowance take up the benefit
- 3. TAXABLE INCOME:** is the income to be taxed.

$$\text{Taxable income} = \text{Gross income} - \text{allowances}$$

- 4. INCOME TAX:** is a tax imposed on the taxable income
- 5. NET INCOME:** is the income after income tax is deducted.

$$\text{Net income} = \text{Gross income} - \text{income tax}$$

EXAMPLES:

- 3. In a certain country, income tax is calculated as follows:**

<i>Income(Shs)per month</i>	<i>Tax rate(%)</i>
<i>01-30,000</i>	<i>10.0</i>
<i>30,001-90,000</i>	<i>16.5</i>
<i>90,001-270,000</i>	<i>23.5</i>
<i>270,001-390,000</i>	<i>32.0</i>
<i>390,001-500,000</i>	<i>40.0</i>
<i>Above 500,000</i>	<i>49.5</i>

A man earns a gross monthly income of Shs 900,000. He is entitled to the following allowances:

<i>Married</i>	<i>one–fifteenth of the gross income</i>
<i>Unmarried</i>	<i>10% of the gross income</i>
<i>Transport</i>	<i>sh 40,000 per month</i>
<i>Medical</i>	<i>sh 600,000 per annum</i>
<i>Housing</i>	<i>sh 100,000 per month</i>
<i>Insurance</i>	<i>sh 360,000 per annum</i>

Electricity sh 25,000 per month

Family allowance for only four children at the following rates:

Shs 30,000 for each child above 18 years, Shs 45,000 for each child above 10 but below 18 years and Shs 60,000 for each child below 9 years.

Given that the man is married with five children of whom three are aged below 8 years, one aged 16 years and the elder child 20 years

Calculate his

(i) taxable income

(ii) income tax

(iii) net income

(iv) income tax as a percentage of his gross monthly salary

2. The income tax of an employee is calculated as follows:

<i>Income(Shs)per month</i>	<i>Tax rate(%)</i>
<i>50,001– 100,000</i>	<i>20</i>
<i>100,001– 200,000</i>	<i>30</i>
<i>200,001– 400,000</i>	<i>35</i>
<i>400,001– 550,000</i>	<i>40</i>
<i>Above 550,000</i>	<i>45</i>

Calculate the taxable income of an employee whose tax pay is Shs 89,000

3. The table below shows the tax rates in 2018

<i>Income(Shs)per month</i>	<i>Tax rate(%)</i>
<i>01-450,000</i>	<i>18</i>
<i>450,001-800,000</i>	<i>25</i>
<i>800,001-950,000</i>	<i>30</i>
<i>Above 950,000</i>	<i>40</i>

Bob earns a gross monthly salary of Shs 750,000 which includes an allowance of Shs 120,000. Calculate his:

(i) taxable income

(01 mark)

(ii) *monthly income tax*

(03 marks)