

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF BUSINESS ADMINISTRATION**

(SEPTEMBER - DECEMBER 2022)

BAB 1314: TAX PLANNING AND MANAGEMENT

TIME: 2 HOURS

INSTRUCTIONS:

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.

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

Year of income 2020

Annual Bands of Taxable Income (KES) Tax Rate

1	-	288,000	10%
288,001	-	488,000	15%
488,001	-	688,000	20%
Excess over		688,000	25%

Personal relief Sh. 28, 800 per annum.

Prescribed benefit of motor vehicles provided by

employer Capital allowances:

Wear and tear allowances:

Class I 37.5%

Class II 30%

Class III 25%

Class IV 12.5%

(i) Saloons Hatch Backs and Estates

Industrial building allowances:

Upto 1200cc 3,600 43,200

Industrial building 2.5% 1201 - 1500cc 4,200 50,400

Hotels 4.0% 1501 - 1750cc 5,800 69,600

Farm works allowances 33% 1751 - 2000cc 7,200 86,400

Investment deduction allowance: 2001 - 3000cc 14,400 172,800

2018 - 100% (ii) Pick-ups, panel vans (Unconverted)

Shipping investment allowances

Mining allowance:

Upto 1750cc 3,600 43,200

Year 1 40% Over 1750cc 4,200 50,400

Year 2-7 10% (iii) Land Rovers/Cruisers 7,200 86,400

OR 2% of the initial capital cost of the

vehicle for each month.

Other benefits:

Other benefits, for example servants, security, staff meals etc are taxable at the higher of fair market value and actual cost to employer.

QUESTION ONE

Algar Ltd. wants to acquire a machine on 1st April, 2020. It will cost Ksh. 150,000. It is expected to have a useful life of 3 years. Scrap value will be Ksh. 40,000. If the machine is purchased through borrowed funds, rate of interest is 15% p.a. The loan is repayable in three annual instalments of Ksh. 50,000 each. If machine is acquired through lease, lease rent would be Ksh. 60,000 p.a.

Profit, before depreciation and tax is expected to be Ksh. 100,000 every year. Rate of depreciation is 15%. Average rate of tax may be taken at 33.99%.

Algar Ltd. seeks your advice whether it should:

- i) Acquire the machine through own funds.
- ii) Borrowed funds.
- iii) Take it on lease.

Advice whether asset should be taken on lease or on purchase. Whether it should be acquired through own funds or borrowed funds? Present value factor shall be taken @ 10%. **(24 marks)**

b) Specify whether the following acts can be considered as an act of:

(i) tax management; or (ii) tax planning; or (iii) tax evasion:

- (a) Kamau deposits Ksh 72,000 in RPF account so as to reduce tax payable.
- (b) Jambo Industries Ltd. installed an air conditioner costing Ksh 60,000 at the residence of a director as per terms of his appointment; but treats it as fitted in quality control section in the factory. This is with the objective to treat it as plant for the purposes of computing depreciation.
- (c) Mabati Industries Ltd. Maintains registers of tax deduction effected by it to enable timely compliance.
- (d) Samburu Ltd. issues a credit note for Ksh 36,000 for brokerage payable to Hausman, who is son of Gupta, managing director of the company. The purpose is to increase his income from Ksh 18,000 to Ksh 54,000 and reduce its income accordingly.

(e) Akumu is a working partner in Motor vehicles Industries. In such capacity, she is entitled to a salary of Ksh 25,500 per month. She treats this as salary instead of business income.

(f) Juma is using a motor car for his personal purposes, but charges as business expenditure. **(6 marks)**

QUESTION TWO

Mr. John Gakuo has two offers for employment in two Financial institutions. The details of the two offers are as follows:

	Firm A
	Sh.
Basic pay per month	60,000
Benefits:	
Housing (market rent) p.m.	50,000
Car 1800cc (cost)	1,800,000
Responsibility allowance per month	20,000
Life insurance cover per month	10,000

	Firm B
	Sh.
Basic pay per month	65,000
Benefits:	
Furnished Housing (market rent) p.m.	45,000
Cost of furniture	300,000
Car 2000cc (cost)	1,900,00
Entertainment allowance per month	10,000
Life insurance cover per month	6,000

The institutions run pension schemes which are registered by commissioner of income tax where both employers and employees contribute Ksh. 24,000 and Ksh. 18,000 per month respectively.

Required:

a) What offer would you recommend for him? **(18 marks)**

b) Explain the reasons for your recommendation. (2 marks)

QUESTION THREE

a) With the aid of an example explain the three methods by which an assessee can reduce his tax liability. (9 Marks)

b) The following details relate to two companies for the year ending 31/12/2019:

Company	Cairo Ltd.	Lusaka Ltd
Number of shares	50,000 each Kshs. 5	Ordinary shares 50,000 each Shs. 5
10% Preference shares	25,000 each Kshs. 5	10% debenture Loan Shs. 125,000
Gross income	Kshs. 250,000	Gross income Kshs. 250,000

Tax rate to be maintained at 30%.

Required:

- a) Suggest to an investor the company to invest. (10 Marks)
- b) Calculate the effective corporate cost of debt. (1 Mark)

QUESTION FOUR

- a) Explain the objectives of tax planning (10 Marks)
- b) Okello, a Kenyan citizen, joined West Minister Abbey College as a professor in UK on monthly salary of £7,000 on 1st July, 2017. He wants to proceed to Kenya for a period of 11 months to get his own house constructed in Siaya in 2023.

Required:

Suggest the dates as to how he should plan his 11 months to Kenya during 2023 and 2024 so that his salary and other foreign Income earned in London remain totally exempt in Kenya. (4 Marks)

c) Mawike is employed with Ratego Ltd. at a salary of Sh 40,000 per month. He is also paid House rent allowance of Sh 10,000 per month. His wife, Naisuda is also employed at a salary of Sh 20,000 per month with Winja Ltd. where Mawike holds 20% shares. Naisuda does not hold adequate qualification for the post which she is placed. Naisuda is the owner of a house, which is self-occupied by the family. Municipal value of house is Sh 300,000. The house was constructed in the year 2018-19 with borrowed funds. Interest on loan is payable of Sh 1,75,000 p.a. Naisuda has insured the house and paid insurance premium of Sh 5,000 to National Insurance Company. Naisuda has also paid Sh 15,000 as Municipal taxes. Mawike pays insurance premium of Sh 26,000 for himself, his wife and two Children. He also pays school fees of Sh 24,000 for the children.

Required:

Suggest a scheme of tax planning to minimize the tax liability during the financial year 2022-2023. **(6 Marks)**

QUESTION FIVE

Desmond Kajos, a married Kenyan resident had income of Ksh 360,000 for the year of income 2021 and also received income from Ghana net of tax Ksh180,000. The tax deducted in Ghana was Ksh 60,000. Kenya has a double taxation relief treaty with Ghana.

Required:

- a) The double taxation relief in Kenya. **(15 Marks)**
- b) The tax payable by Kajos in Kenya. **(5 Marks)**

SCHOOL OF BUSINESS AND ECONOMICS

Course Outline 2022

**BAB 1314: TAX PLANNING (Advanced Taxation)
Year 3 Semester 2**

Course Outline

The purpose of the tax planning paper is to consolidate and understanding in the process of carrying out taxation and its application in situations that could arise in real life in the context of professional application.

Programme and Course Advice

Prerequisite:

PRINCIPLES OF TAXATION,

Goals of the Course

To foster an interest in and a deeper understanding of the rules and principles as they relate to Income Tax and Goods Services Tax. The course also provides students with an opportunity to increase their research and writing skills by completing a major assignment during the semester. Emphasis is therefore placed on logical analysis and critical thinking.

Learning Outcomes

At the end of this course, the student will understand:

- The concept of tax planning, tax avoidance and tax evasion
- The tools of tax planning and
- How tax planning can be implemented
- The major areas of tax planning

- How to do tax planning with respect to non-residents
- Practical problems covering the tax planning with respect to individuals, companies and business entities

Content Outline

WEEK	TOPIC
1	Tax Planning <ul style="list-style-type: none">➤ Concept of Tax Planning➤ Tax planning➤ Tax evasion and➤ Tax avoidance
2	Objectives of tax planning Importance of tax planning and Essentials of tax planning Attributes of successful tax planning techniques

3	Types of tax planning <ul style="list-style-type: none"> ➤ Short range and long range tax planning ➤ Permissive and purposive tax planning
4	General considerations regarding new business <ul style="list-style-type: none"> ➤ Forms of business ownership ➤ Nature of business ➤ Locational aspects
5	Measures of tax planning: <ul style="list-style-type: none"> ➤ In relation to corporate restructuring ➤ In relation to financial management decisions ➤ Capital structure and taxation.
6	Tax planning for Kenyan collaborators
7	Tax Management <ul style="list-style-type: none"> ➤ Concept of Tax Management
8	Tax planning relating to non-residents <ul style="list-style-type: none"> ➤ Concept of double taxation ➤ Double taxation agreements/ treaties ➤ Reliefs and rebates
9	Practical problems covering the tax planning with respect to: <ul style="list-style-type: none"> ➤ Individuals. ➤ Companies and business entities

Learning and Teaching

There will be 4 hours of lectures per week for the entire semester. Students need to physically attend lectures in order to get a full appreciation of the subject matter. In addition to the course book there may be additional handouts, which will be made available after class.

COURSE ASSESSMENT

Assessment for this course will consist of:

Assignment –	10%
Sit in Cat	20%
End of session examination	<u>70%</u>
Total	<u>100%</u>

CORE READING MATERIALS

- Income Tax Act, VAT Act
- Latest Finance ACT/ Bill
- Companies Act

RECOMMENDED READING MATERIALS

Taxation – NTT Simiyu (Latest edition)

Several Local Study and revision texts – available in Library and Bookshops

Course Lecturer: Dr. Daniel Wayongah.