



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION (BBA With IT) FOR**

THIRD YEAR SEMESTER ONE ACADEMIC YEAR 2018/2019

KISUMU CAMPUS – PART-TIME

COURSE CODE: ABA 314

COURSE TITLE: TAX PLANNING AND MANAGEMENT

EXAM VENUE:

DATE: 13/08/19

EXAM SESSION: 9.00 – 11.00AM

DURATION: 2 HOURS

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Candidates are advised not to write on the question paper**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE (30 MARKS) - COMPULSORY

- (a) Outline four measures that can be used to enhance tax compliance in Kenya (4 Marks)
- (b) With reference to the Income Tax Act (Cap 470), explain the treatment of the following incomes received by a company:
- (i) Dividends (4 Marks)
 - (ii) Interest (2 Marks)
 - (iii) Rent (2 Marks)
- (c) Comment on the treatment for withholding tax for each of the following incomes received by a resident individual taxpayer:
- (i) Management fees (2 Marks)
 - (ii) Royalties (2 Marks)
 - (iii) Insurance commission (2 Marks)
 - (iv) Rent (2 Marks)
- (d) Outline the grounds upon which a taxpayer may appeal to the Court of Appeal concerning a tax dispute. (4 Marks)
- (e) As a tax specialist, briefly explain how you would treat the following issues for tax purposes:
- (i) Mr. Tomilo is an expatriate working for a non-resident company in Kenya. During the year ended December 31, 2018, he received a passage allowance of Sh.400,000 to enable him visit his family in his home country. He did not include the passage allowance as part of his employment income for the year ended December 31, 2018. (3 Marks)
 - (ii) Trans Country Bus Ltd. runs a public transport business in Kenya. The bus company also undertakes transport business across the borders in Uganda and Tanzania. The company did not include the revenue arising from the cross-border transport amounting to Sh.2,000,000 as its tax returns for the year ended December 31, 2018. (3 Marks)

QUESTION TWO (20 MARKS)

- (a) Explain the meaning of the term “Residence” when applied to a company under Kenya Income Tax Act (Cap 470). (5 Marks)
- (b) Lake Vic Limited prepares its accounts in December 31 each year and for the 2018, prepared the following profit and loss account.

	Notes	Sh.		Notes	Sh.
General and administrative expenses		40,000	Gross profit b/d		200,000
Repairs and renewals	(i)	12,000	Bad debts previously written off		1,000
Depreciation		10,000	Dividends (gross)	(vii)	5,000

Subscription and donations	(ii)	2,000	POSB interest	6,000
Bad debts	(iii)	8,000	Gain on sale of plant and machinery	10,000
Directors' fees and expenses		5,000	Tax refunded	20,000
Patents written off		2,500		
Preliminary expenses	(iv)	3,000		
Retirement benefits	(v)	50,000		
Rent, rates and insurances		30,000		
Legal and accountancy	(vi)	41,500		
Interest on overdue tax		2,500		
Interest in lieu of dividends		5,000		
Net profit before taxation		30,500		
		242,000		242,000

Notes:

(i) Repairs and renewals:

Redecoration of an existing business	Sh.	3,000
Renovation to new building		5,000
Partition and carpeting offices		4,000
		<u>12,000</u>

(ii) Subscriptions and donations

National Chamber of Commerce and Industry	Sh.	1,000
NE Refugee Fund		1,000
		<u>2,000</u>

(iii) Bad debts

This is on account of previous company employee who cannot now be traced

(iv) Preliminary expenses

Legal fee on issue of shares on stock exchange	Sh.	2,000
Payment for stationery before commencement of business		1,000
		<u>3,000</u>

(v) Retirement benefits

NSSF contribution	Sh.	5,000
Registered Pension Scheme for senior management		40,000
Gifts to retiring staff		5,000
		<u>50,000</u>

(vi) Legal and accountancy

Staff service agreement	Sh.	2,000
Audit fees		30,000
Legal fee for lease (non-renewable)		4,000

Legal fee - plot acquisition	5,500
	<u>41,500</u>

(vii) Dividends

These were from subsidiary company where Lake Vic owns 60% of the shares.

(viii) Capital allowances

Capital allowances for 2018 has been agreed at Sh.30,000

Required:

- (i) Compute corporation tax liability for 2018. (14 Marks)
- (ii) State the dates when such tax should be paid. (1 Mark)

QUESTION THREE (20 MARKS)

Mrs. Winnie Onyango and her husband John Onyango had the following income for 2018:

1. Mrs Winnie Onyango:

Salary per month	Sh.90,000
Life insurance paid for her by employer on monthly basis	Sh.3,000
Pension contributions paid by employer:	
Approved scheme	Sh.56,000
Unapproved scheme	Sh.120,000
Entertainment allowance paid by employer per year	Sh.48,000
Bonus paid for excellent performance per year	Sh.50,000
Day and night watchman per month per watchman	Sh. 1,000
The company provided her with a car of 1976cc. whose cost is	Sh.2,000,000
She incurred the following costs during the year in the course of duty and the amounts were refunded to her by the employer:	
Maintenance and repairs	Sh.12,000
Petrol	Sh.27,000
Insurance	Sh.25,000
Alarm system	Sh.15,000
Interest:	
Treasury bills	Sh.500,000
Fixed deposit – commercial bank	Sh.105,000
County Government rates	Sh.1,600
Mortgage interest paid per year	Sh.175,000
Pension form previous employment computed as lumpsum	Sh.450,000

Key money from a tenant of one rented house Sh.26,000

She is housed by her employer who pays rent amounting to Sh.45,000 to a landlord per month.

2. Mr. John Onyango

He works in Tanzania and his income in Kenya shillings for 2018 was as follows:

Salary per month Sh.34,000 (PAYE Sh.15,000 per month)

Interest: Fixed deposit account – bank Sh.33,000

Mortgage interest on loan Sh.80,000

Hardship allowance Sh.290,000

Business income – Tanzania Sh.500,000

Dividends from Tanzania company Sh.35,000

Free lunches paid by his employer, Mwangaza Company Sh.20,000

Required:

(a) The total chargeable income for Mr. and Mrs. Onyango (12 Marks)

(b) Comment on any information not used above. (5 Marks)

(c) PAYE was not deducted from the income of Mrs. Onyango. Are Mr. and Mrs. Onyango to blame for failure of the employer to deduct and pay PAYE? Explain. (3 Marks)

QUESTION FOUR (20 MARKS)

Mr. Patel is a wholesaler. He sometimes deals with imported goods. Given below are details of his business transactions for the months of November and December 2017 and January to March 2018:

Date	Transaction	Amount (Ksh.'000')
1-Nov-17	Imported 10 radios	150
1-Nov-17	Imported 2 tape recorders	100
6-Nov-17	Imported 10 TVs	500
10-Nov-17	Sold 5 radios	150
16-Nov-17	Sold 2 tape recorders	200
30-Nov-17	Fire destroyed the whole of his remaining stock	
5-Dec-17	Imported motor car spare parts	1,500
11-Dec-17	Sold spare parts	800
20-Dec-17	Thieves broke into his shop and stole the remaining stock	
2-Jan-18	Imported 20 cars	30,000
5-Jan-18	Sold 2 cars	4,000
15-Jan-18	Imported 4 motorbikes	1,000
31-Jan-18	Sold 3 motorbikes	900
10-Feb-18	1 car was stolen at gunpoint	
20-Feb-18	Imported clothes for himself and his family	500
28-Feb-18	Sold the remaining motorbikes	350

1-Mar-18	Sold 10 cars to local motorcar dealer	20,000
5-Mar-18	Insurance claim received in relation to radio and TVs destroyed by fire	1,000
15-Mar-18	Received compensation from insurance for stolen spare parts	600
30-Mar-18	Sold 5 cars to a local institution	10,000

Note:

1. All purchases and sales are inclusive of VAT at 16%
2. Mr. Patel had not paid any VAT pertaining to the above transactions, although he was registered for VAT.

Required:

- (a) The VAT payable or refundable for each month, clearly indicating the due date (12 Marks)
- (b) The penalties, if any, relating to the transactions undertaken. (4 Marks)
- (c) State and explain the VAT position on recoveries from insurance. (1 Mark)
- (d) State the customs and duty position of the above transactions. (3 Marks)

QUESTION FIVE (20 MARKS)

- (a) Discuss the capital expenditure implications of taxation in relation to capital allowances available to a hotel owner. (5 Marks)
- (b) Nam Lolwe Tourist Hotel Ltd. is a five star hotel located in Kisumu. The following information is related to the year ended September 30, 2018:

As at October 1, 2017, the written down values of assets brought forward for tax purposes are as follows:

1. As at October 1 2017, the written down values of assets brought forward for income tax purposes are as follows:

Hotel building Sh.	Class I Sh.	Class II Sh.	Class III Sh.	Class IV Sh.
10,000,000	875,000	2,500,000	1,750,000	3,725,000

2. Disposal during the year:

	Class I Sh.	Class II Sh.	Class III Sh.	Class IV Sh.
Cost	750,000	250,000	250,000	300,000
Net book value	325,000	75,000	90,000	100,000
Sale proceeds	900,000	125,000	200,000	90,000

Class III disposal is a private vehicle which was purchased in 2016.

Additions during the year were:

	Sh.
Computers	350,000
Fax machine	40,000
Photocopier	160,000
Beds	500,000
Mercedes benz car	1,250,000
Hotel building	5,000,000

A saloon car which cost Sh.250,000 in 2016 was traded in for a new car costing Sh.400,000. The old car was valued at Sh.200,000 and the company paid a balance of Sh.200,000. The net book value of the car was Sh.90,000.

The old hotel building was constructed in 2013 and put into use in the same year.

Required:

- (i) Calculate the capital allowances due to the company for 2018. (10 Marks)
- (ii) Show the written down values of all the assets as at September 30, 2018. Comment on Class I balances (5 marks)

END
