



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BUSINESS & ECONOMICS**  
**UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS**  
**ADMINISTRATION WITH IT**  
**3<sup>RD</sup> YEAR 2<sup>ND</sup> SEMESTER 2023/2024 ACADEMIC YEAR**  
**MAIN & KISUMU CAMPUS**

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**COURSE CODE: BAB 1304**

**COURSE TITLE: TAX PLANNING AND MANAGEMENT.**

**EXAM VENUE: LAB II**

**STREAM: (BBA)**

**DATE: 29/04/2024**

**EXAM SESSION: 9.00 – 11.00 AM**

**DURATION: 2 HOURS**

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**INSTRUCTIONS**

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Show ALL your workings and be as NEAT as possible.**
- 3. Explain ALL your assumptions**
- 4. Candidates are advised not to write on the question paper**
- 5. Marks allocated to each question are shown at the end of the question.**

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

**Year of Income, 2023**

Monthly taxable pay sh	Annual taxable pay. Sh	Rate of tax (%)
1 - 24,000	1 - 288,000	10
24,001 - 32,333	288,001 - 388,000	25
32,334 - 500,000	388,001 - 6,000,000	30
500,001 - 800,000	6,000,001 - 9,600,000	32.5
Excess over 800,000	Excess over 9,600,000	35

**Personal relief of sh. 2,400 per month (Sh. 28,800 per annum)**

Investment allowance:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer		
Capital expenditure incurred on:			(i) Saloons, Hatch Backs and Estates		
				Monthly rates (Sh.)	Annual rates (Sh.)
(a) <b>Buildings:</b>			Up to		
• Hotel building	50% in the first year of use	25%	1201 -	1200 cc	3,600
• Building used for manufacture	50% in the first year of use	25%	1501 -	1500 cc	4,200
• Hospital buildings	50% in the first year of use	25%	1751 -	1750 cc	5,800
• Petroleum or gas storage facilities	50% in the first year of use	25%	2001 -	2000 cc	7,200
• Educational/hostels building	10% per year on straight line basis		2001 -	3000 cc	8,600
• Commercial building	10% per year on straight line basis		Over	3000 cc	14,400
(b) <b>Machinery:</b>			(ii) Pick-ups, Panel Vans (unconverted)		
• Machinery used for manufacture	50% in the first year of use	25%	Up to	1750 cc	3,600
• Hospital equipment	50% in the first year of use	25%	Over	1750 cc	4,200
• Ships or aircraft	50% in the first year of use	25%			
• Motor vehicles and heavy earth moving equipment	25% per year on straight line basis				
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis				
• Furniture and fittings	10% per year on straight line basis				
• Telecommunication equipment	10% per year on straight line basis				
• Film equipment by a local producer	25% per year on straight line basis				
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%			
• Other machinery	10% per year on straight line basis				
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on straight line basis		(iii) Land Rovers/Cruisers		
(d) Farm works	50% in the first year of use	25%		7,200	86,400

**Commissioner's prescribed benefit rates:**

**Services**

	Monthly rates (Sh.)	Annual rates (Sh.)
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (Communal or from a borehole)	500	6,000

**Agriculture employees: Reduced rates of benefits**

(i) Water	200	2,400
(ii) Electricity	900	10,800

## QUESTION ONE

- a) Mr. Maji Mengi knows very little about double taxation agreements. He is a consultant, who works in many countries and in many cases, he has ended up paying taxes on the same income more than once. Explain to Mr. Maji Mengi the concept of double taxation treaty: **Hint:** Include the double taxation treaty concepts relating to a worldwide and Territorial tax system. (5 marks)
- b) Distinguish between **Tax evasion** and **Tax avoidance** as they relate to tax planning and management. (4 marks)
- c) Advancements in Information Communication Technology (ICT) among other areas have resulted in both positive and negative effects on the administration of tax. Discuss 2 positive effects and 2 negative effects of technological advancement on administration of tax in Kenya. (8 marks)
- d) Discuss five characteristics which constitute trading in circumstances where a taxpayer does not admit that he/she is engaging in a trading activity. (5 marks).
- e) What are the economic consequences of increasing the Value Added Tax rate to raise additional revenue for the Government. (4 marks)
- f) State and briefly explain the tax implications of the following transactions.
- i) A businessman travelled abroad and on his visit, he bought more than one million rolls of toilet paper. On his return to Nairobi, he sold them at a huge profit. (2 marks)
  - ii) Mr. Magendo is involved with illegal trade of drug trafficking from Nairobi to Mombasa. In 2023, he made a profit of sh. 4,000,000 (2 marks)

## QUESTION TWO.

Kujilaza enterprises Ltd. Operates a hotel complex in Matopeni. The hotel presented the following set of data from the accounting records for the year ended 31<sup>st</sup> December 2023.

	Sh. "000"
Hotel accommodation fees	96,000
Gifts and tips received	4,000
Profit on sale of shares	1,480
Dividends from Kuruka Co – operative ltd. (Net)	9,500
Sale of food and drinks	10,800
Salaries and wages	5,900
Staff uniform	680
Purchase of furniture	1,200
Tax consultancy fee	340
Interest expense	940
Legal fees	780
Bad debts	132
Advertisement	640
Rates to city council	848
Transport	453
Repair and maintenance	762

Security fee	248
Electric kettle and utensils	300
Donations and subscriptions	450
Loss on sale of equipment	138
VAT paid on supplies	684
NSSF contributions	376
Purchases of supplies	<u>4,780</u>
Net profit	<u>102,129</u>

**Additional information.**

- i. Sale of food and drinks includes sh. 160,000 consumed by hotel staff
- ii. Gifts and tips were compliments from customers. However, sh. 480,000 relates to gifts from Utapeli Club with respect to employee's good performance during a football competition.
- iii. Repair and maintenance include:

	<b>Sh.</b>
Replacement of leaking roof with different roofing material	42,600
Purchase of carpet	24,400
Purchase of utensils	16,800
iv) Advertisement includes sh. 40,000 spent on establishing the hotel's website and sh. 18,000 for hosting the website.	

- v) Donations and subscription include payments to:

	<b>Sh.</b>
Hotel owners association	36,000
Animal orphanage	18,500
Federation of employers	30,000
Street Children Rehabilitation Centre	42,000

- vi) Legal fee includes;

	Shs.
Parking fine to city council	8,200
Loan acquisition	9,400
Defending hotel's title to land	24,600

- vii) Security fee relates to the installation of CCTV cameras.
- viii) The company is subject to corporation tax at the rate of 30%.

**Required:**

A statement of adjusted taxable profit or loss for Kujilaza Enterprises Ltd. for the year ended 31 December 2023 and hence tax payable, explaining all assumption made during your computations. (20 marks)

**QUESTION THREE.**

**Savana Holdings Ltd.**, a company dealing in hardware prepares its accounts to 31<sup>st</sup> December each year. The following information relates to the year ended 31<sup>st</sup> December 2023.

Written down value of assets brought forward for income tax purposes are;

	Class I	Class III	Class IV
Written down value 1/1/2023	7,600,000	2,700,000	2,100,000

Disposals during the year were as follows

	Cost sh.	Net book value sh.	Sale proceeds sh.
Mitsubishi Lorry	6,800,000	4,500,000	5,350,000
Motor car (purchased 2022)	3,200,000	2,700,000	2,000,000

Additions were as follows.

Asset	Cost Shs.
Range rover sports car for the director	12,000,000
Mercedes benz for the Finance manager	2,900,000
Second hand tractor	1,200,000
Trailer; occasionally used by the tractor	800,000
Isuzu EFL Lorry (1.5 Tonnes)	2,500,000
Computer software	300,000
Shop fittings	600,000
Crane	13,000,000
Pick up for delivery of cargo	3,600,000
Computers bought on 1 <sup>st</sup> September 2023	3,000,000
Lorry (10 Tonnes)	8,600,000
Delivery van	2,800,000
Telephone system bought on 1 <sup>st</sup> March 2023	720,000

The office safe which costed sh 300,000 in 2022 was traded in for a more modern safe costing sh. 400,000. The old safe was valued at sh. 200,000 and the company paid the balance of sh.200,000 to acquire the ne safe. The Net book Value of the old safe was sh.230.000 at 1/1/2023.

Required: Calculate the wear and tear allowances due to the company for the year 2023. Explaining all the assumptions made. **(20 marks).**

#### **QUESTION FOUR.**

Mr. Kiota, a Kenyan migrated to Britain in 2020. He was offered a job as a Forensic accountant by Mawingu Ltd, a company based in Nairobi, Kenya in December 2022, the employment commenced on 1 January 2023. The following details relate to his salary and benefits for the year ended 31 December 2023;

1. Mr. Kiota owns 10,000 ordinary shares of shs 50 each in Benku ltd. During the year of income, he received a dividend of shs 2 per share.
2. Free housing for him and his family within the company's premises is provided, with free water and electricity. The water is from a borehole. The electricity is from a generator within the premises.
3. His employment earnings include shs. 80,000 p.m. (PAYE 14,095 p.m.).
4. He received an end of year bonus payable to executive staff sh. 30,000.
5. He used his own car to travel during the course of duty and the following costs were met by the employer.; Petrol paid by Mr. Kiota and reimbursed by his employer in full shs 200,000., Maintenance and repair costs shs 140,000, road license and insurance shs 28,000.
6. Mr. Kiota spent sh. 170,000 on entertainment of customers which was fully reimbursed by the employer.
7. His annual membership fee to the local golf club amounting to shs. 50,000 is paid for by the employer.
8. His employer pays for his medical expenses subject to a maximum of shs 800,000 per annum. The medical scheme covers employees of Mawingu Ltd.
9. His employer pays on his behalf life insurance premium at a cost of sh. 2,000 p.m. the employer also paid shs. 4,000 p.m. for Mr. Kiota's registered pension scheme.
10. Interest received by Mr. Kiota during the year was as follows; Post bank shs 120,000. Fixed deposit account at Eurobank shs 22,500. Savings account at NBK shs 84,000.
11. Mr. Kiota paid interest of sh. 20,000 p.m. on loan from Housing Finance Corporation of Kenya (HFCK) for the purchase of his residence.

#### **Rental Income.**

	<b>kshs</b>	<b>kshs</b>
Gross rent		430,000

Less,; mortgage interest	280,000	
Cost of extension	320,000	
Painting after extension	160,000	(760,000)
<b>Net loss</b>		<b>(330,000)</b>

Mrs. Kiota earned the following income for the year 2023.

1. Salary from Kutengeneza manufacturers of shs. 92,000 p.m. (PAYE 15,695 P.M)
2. She gets free lunch provided by employer at a cost of shs 2400p.m. she has part time business where she gets an average of shs 10,000 p.m.

**Required:**

- a) Comment on the residential status of Mr. Kiota for tax purposes for the year of income 2023. Justify your position. (2 Marks)
- b) Calculate the total taxable income and tax payable by Mr. Kiota and Mrs. Kiota for the year of income 2023 hence, net income (Make separate computations for each of them;) and comment on any information not used in your computations. (17 marks).
- c) State the tax position of Mrs. Kiota. (1 marks)

**QUESTION FIVE**

- a) Assume that you are a senior tax officer with the revenue authority in Kenya. One of your duties is to investigate cases of undisclosed income. Recently, the revenue authority received a number of anonymous letters alleging that one Mwisho Kuruka had not been disclosing all his income for tax purpose. You have been tasked by the revenue authority to investigate and determine whether indeed Mwisho Kuruka has undisclosed taxable income.

**Required:** Describe four sources of evidence you could rely on while undertaking your investigation. (4 marks)

- b) Explain the tax planning mechanism for an individual in each of the following cases;
  - i) Insurance relief (2 marks)
  - ii) Contribution to a registered pension scheme (3 marks)
- c) State and briefly explain Three tax planning opportunities available to companies (6 marks).
- d) Explain the meaning of mutual transactions in relation to cooperative societies and explain the tax treatment for the income arising from mutual transactions. (3 marks)
- e) The following is an extract from a recent working paper published by the International Monetary Fund (IMF) titled "Tax policy for emerging markets". "Setting up an efficient and fair tax system is far from simple, particularly for developing countries that want to become integrated in the international economy. The ideal tax system in these countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax systems in other countries".

**Required:** In the context of the above extract, discuss two challenges faced by Kenya in establishing efficient tax systems. (2 marks)

