



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
3RD YEAR 2ND SEMESTER 2024/2025 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: BAB 1304

COURSE TITLE: TAX PLANNING AND MANAGEMENT.

EXAM VENUE: LAB 12

DATE: 15/04/2025

EXAM SESSION: 15.00 – 17.00 PM

DURATION: 2 HOURS

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: Capital expenditure incurred on:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates		
				Monthly rates (Sh.)	Annual rates (Sh.)
(a) Buildings:			Up to		
• Hotel building	50% in the first year of use	25%	1200 cc	3,600	43,200
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc	4,200	50,400
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc	5,800	69,600
• Petroleum or gas storage facilities	50% in the first year of use	25%	1751 - 2000 cc	7,200	86,400
• Educational/hostels building	10% per year on straight line basis		2001 - 3000 cc	8,600	103,200
• Commercial building	10% per year on straight line basis		Over - 3000 cc	14,400	172,800
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)		
• Machinery used for manufacture	50% in the first year of use	25%	Up to - 1750 cc	3,600	43,200
• Hospital equipment	50% in the first year of use	25%	Over - 1750 cc	4,200	50,400
• 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 7,200 86,400		
(d) Farm works	50% in the first year of use	25%			

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

(Compulsory 30Marks)

- a) With reference to Tax Planning and management, explain briefly giving appropriate example each of the following Strategies:
- i. Timing strategies (3 marks)
 - ii. Conversion strategies (3 marks)
- b) Explain any Four functions of Tax Planning in corporate Governance. (8 marks)
- c) Euro Express Ltd is an Agre-business Enterprise set up in Athi River an EPZ, within Machakos County. Explain briefly four benefits the company enjoys (**EPZs**) in this region (6 marks)
- d) With reference to taxation of international trading activities, outline four advantages to a country from being accorded the “**most favoured nation**” status (4 marks)
- e) Distinguish between **Allowable** and **Disallowable expenses** citing a relevant example in each case. (6 marks)

QUESTION TWO (20 MARKS)

Mirichu Ltd Processes Milk for sale in the local market. The company started its operations on 1st January, 2022 after constructing two factory buildings @ a cost of Ksh. 9 million each. Other assets acquired by the company on commencement of its operations included:

Assets	Costs (Ksh)
Land	2,000,000
Computer Software	300,000
Photocopying Machines	450,000
Processing Machinery	4,000,000
Saloon Car	2,400,000
Curtains for managers office	100,000
Packaging Machines	800,000
Office Furniture	240,000
Computers	400,000
Duplicating Machines	300,000
Waste Recycling Machines	680,000
2-Lorries (each 5 tones)	2,000,000

Additional information:

1. The company constructed a staff canteen and Sports pavilion at a cost of Ksh. 300,000 and 800,000 respectively. These facilities were utilized from 1st of October, 2022.
2. The company constructed labour quarters for Ksh. 720,000 which were occupied by employees from 1st July 2022
3. The following assets were disposed of during the year ended 31st December, 2022:

Asset	Date of Disposal	Disposal Proceeds
Computers	5th May, 2022	120,000.00
Saloon Car	10th August 2022	1,800,000.00
Photocopier	2 nd Dec 2022	80,000.00

4. Mirichu Ltd reported a profit of Ksh.40 million for the year ended 31st December, 2022. This is after deducting the following expenses:

Depreciation	2,400,000
Directors' fees	800,000
Donations to local schools	400,000
Salaries and wages	180,000
Staff Christmas Party	300,000
Specific Allowance for bad debts	120,000
Dividend Paid	560,000
Rent and Rates	200,000
Audit fees	120,000
Value added Tax (VAT)	200,000
Stationary	117,000

Required:

- a) The capital allowances due to Mirichu Ltd. For the year ended 31 December, 2022 (12 marks)
- b) The taxable profit or loss for Mirichu Ltd. for the year ended 31 December, 2022 (6 marks)
- c) The tax payable, if any, for the year ended 31 December, 2022. (2 marks)

QUESTION THREE (20 MARKS)

Acacia enterprises Ltd. Operates a hotel complex in Kisumu. The hotel presented the following set of data from the accounting records for the year ended 31st December 2020.

	Sh “000”
Hotel accommodation fees	96,000
Gifts and tips received	4,000
Profit on sale of shares	1,480
Dividends from Kutesa 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	4,780
Net profit	102,129

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 Ukweli Club with respect to employee's good performance during a football competition.
- iii. Repair and maintenance include:

	Ksh.
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:

	Ksh.
Hotel owners' association	36,000
Animal orphanage	18,500
Federation of employers	30,000
Street Children Rehabilitation Centre	42,000

- vi) Legal fee includes;

	Ksh.
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 Acacia Enterprises Ltd. For the year ended 31 December 2020 and hence tax payable. (20 marks)

QUESTION FOUR (20 MARKS)

Mr Kivumbi is employed by Kitaeleweka Ltd. During the year of income of 2020, he presented to you the following information.

1. Mr. Babalao owns 10,000 ordinary shares of Ksh. 50 each in Benku ltd. During the year of income, he received a dividend of Ksh. 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, Ksh. 80,000 P.M (PAYE 14,095 P.M).
4. He received an end of year bonus payable to executive staff Ksh. 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. Babalao and reimbursed by his employer in full Ksh. 200,000., Maintenance and repair costs Ksh. 140,000, road license and insurance Ksh. 28,000.
6. Mr. Babalao spent 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 Ksh. 50,000 is paid for by the employer.
8. His employer pays for his medical expenses subject to a maximum of Ksh. 800,000 per annum. The medical scheme covers employees of Kitaeleweka Ltd.
9. His employer pays on his behalf life insurance premium at a cost of sh. 2,000 p.m. the employer also paid Ksh. 4,000 p.m for Mr Babalao registered pension scheme.
10. Interest received by Mr. Babalao during the year was as follows; Post bank Ksh. 120,000. Fixed deposit account at Eurobank Kshs 22,500. Savings account at NBK Ksh. 84,000.
11. Mr Babalao paid interest of Ksh 20,000 p.m on loan from Housing Finance Corporation of Kenya (HFCK) for the purchase of his residence.

Rental Income.

	Ksh.	Ksh.
Gross rent		430,000
Less; Mortgage interest	280,000	
Cost of extension	320,000	
Painting after extension	160,000	(760,000)
Net loss		(330,000)

Mrs. Babalao earned the following income for the year 2020.

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

Required:

- a) Calculate the total taxable income and tax payable by Mr. Babalao and Mrs Babalao for the year of income 2020 hence, net income (Make separate computations for each of them;) and comment on any information not used in your computations. **(18Marks)**
- b) State the tax position of Mrs.Babalao. (2 marks)

QUESTION FIVE**(20 MARKS)**

- a) Distinguish between Tax Avoidance and Evasion tax (3 marks)
- b) Describe three types of assessments that may originate from the commissioner of Domestic Taxes (6 marks)
- c) 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)
- d) State and briefly explain three tax planning opportunities available to Safaricom and East Africa Breweries Ltd in Kenya (6 marks)