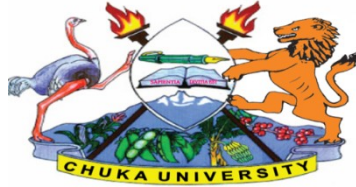


CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF
BUSINESS ADMINISTRATION**

MBAD 815: BUSINESS TAXATION**STREAMS: MBA Y2S1****TIME: 3 HOURS****DAY/DATE: WEDNESDAY 6/10/2021****11.30 A.M – 2.30 P.M****INSTRUCTIONS****Answer question one and any other three questions****Do not write on the question paper**

Rates of tax (including wife’s employment, self-employment and professional income rates of tax). year of income 2020.

Assume that the following rates of tax are applied throughout the year of income 2020.

Monthly taxable pay(ksh)	Annual taxable pay (ksh)	Rate of %
1 -24,000	1 – 288,000	10
24,001 – 40,667	288,001 – 488,000	15
40,668 – 57,334	488,001 – 688,000	20
Excess over 57,334	Excess over 688,000	25

Personal relief ksh 2,400 per month (ksh 28,800 per annum)

QUESTION ONE

- (a) Briefly explain the extent to which the following taxes can be shifted.
- (i) Income tax [2 marks]
 - (ii) Customs duty [2 marks]
- (b) With reference to section 7A of the income tax act (Cap 470), define the term ‘compensating tax’. [2 marks]
- (c) The following information relates to ABC ltd for the year ended 31 December 2020:
- | | |
|---------------------------------------|---------------|
| Profit before tax | ksh 4,000,000 |
| Import duty refunded by tax authority | ksh 400,000 |

Dividend distributed by ABC Ltd	ksh 8,800,000
Dividend received by ABC Ltd	ksh 3,000,000
Corporation tax rate	30%

Required : Compensating tax payable by ABC ltd for the year ended 31 December 2020.

[4

marks]

- (d) List and explain any three deductions that may be allowable against profits or gains from employment. [6 marks]
- (e) The following details were obtained from the records of Maendeleo Bank Ltd for the year ended 31st December 2020.
- (i) Th net loss for the year was ksh 22,160,000 after the following had been recorded:

	Ksh
Income from trading activities of a foreign bank subsidiary	980,000
Gain on sale of shares	294,000
Fees and commission income	460,500
Interest from government treasury bills	936,400
Interest on deposits with other banks	740,600
Interest on loans and advances to customer	2,460,300
Contributions to deposit protection fund	428,000
Interest on customer deposit	484,000
Rent and rate	864,000
Directors emoluments	480,000
Income from foreign exchange dealings	243,600
Depreciation	445,300
Provision for interest expenses	84,400
Auditors fees	236,800
Loss on disposal of collaterals	560,000
Installment tax	724,800
Installation of a new on line banking system	820,000
Staff costs	680,000
Operating lease rentals	268,200
Capital redemption reserve	920,000
2% debenture stock	200,000
Purchase of double cabin pickup – October 2020	2,400,000
Profit and loss account	964,000 Dr
Rebate on bills discounted	296,000

- (ii) Staff costs include :

Provision for salary increase	220,000
Cost of negotiating loans for staff	40,000
Senior staff club membership	360,000

- (iii) The online banking system was installed in May 2020 and included the cost of computer software of ksh 200,000 and new computers at a cost of 620,000.

Required :

Statement of adjustable taxable income or loss for Maendeleo bank ltd for the year ended 31st Dec 2020. [10 marks]

- (f) Distinguish between the tax treatment of rent income on resident and non resident individuals. [4 marks]
- (g) Briefly explain the responsibility of partners with respect to:
 (i) filling of the partnership tax returns [2 marks]
 (ii) Penalties for late payment of tax. [2 marks]
- (h) (i) Define the term ‘fiscal policy’. [2 marks]
 (ii) State eight objectives of fiscal policies with specific reference to the needs of developing countries. [4 marks]

QUESTION TWO

- (a) Distinguish between taxation of partnerships and private limited companies. [4 marks]
- (b) Mark Koech works for Bora ltd. During the year ended 31st ended 31st December 2020, he received the following incomes and emoluments.
1. Basic salary of ksh 160,000 per month (PAYE ksh 42,000 per month)
 2. He was provided with a 2,200 cc Land Rover which had cost the company ksh 4.6 million in the year 2012.
 3. In the month of December 2020, he received a sitting allowance of ksh 280,000
 4. He is a member of the registered retirement benefits scheme of which he makes monthly contributions of ksh 30,000.
 5. He was housed by the company in a rented house. The house had a market rental value of ksh 64,000 per month and he paid a nominal rent of ksh 25,000 per month.
 6. The company paid annually electricity, water and telephone bills averaging to ksh 18,000, ksh 12,500 and ksh 16,000 respectively.
 7. During the year, the company paid school fees for his son amounting to ksh 280,000. This amount was disallowed for tax purposes on Bora ltd.
 8. In December 2020, Mark Koech received an entertainment allowance of ksh 120,000. Half of this amount was spent on entertaining customers.
 9. Mark Koech has a life insurance policy and contributes a monthly premium of ksh 15,000 per month.

Required:

- (i) Taxable income for Mark Koech for the year ended 31st December 2020. [12 marks]
 (j) Tax liability (if any) Mark Koech’s for the taxable income. [4 marks]

QUESTION THREE

Jericho is a distributor of mobile phones and accessories. The statement of financial performance for the year ended 31st December 2019 is as follows.

Purchases	6,000,000	Sales	9,000,000
Salaries and wages	1,000,000	Discount received	200,000
Rent and rates	62,500	Insurance recovered	200,000
Distribution expense	240,000	Profit on sale of assets	90,000
Travelling and substance	168,000	Profit on bad debts	40,000
Subscriptions	100,000		
Licenses	218,000		
Legal expenses	335,000		
Depreciation	65,000		
Audit and professional fees	120,000		
Loss on sale of assets	48,000		
Bank charges and interest	207,000		
Bad debts	168,000		
Discount allowed	353,000		
Repairs and maintenance	340,000		
Profit for the period	<u>9,450,000</u>		<u>9,450,000</u>

Additional information

- Distribution and office expenses include the following:
 - Subscription to member sports clubs for employees benefits 90,000
 - Directors personal expenses 48,000
 - Donation to charities 25,000
- 15% of rent and rates relates to payments in connection with directors private office.
- Insurance recovered is in connection with mobile phones stolen while on transit to a client.
- Bad and doubtful debts provision represents a reduction in general provision for bad debts.
- Legal fees include;
 - Legal suit in relation to counterfeit hand set found in company warehouse 58,000
 - Debt collection 40,000
 - Employment contracts 30,000
 - Renewable of lease 50 years 30,000
 - Acquisition of trade mark 60,000
- Subscription are to the mobile dealers association (MDA)
- Licenses and permits represents ksh 75,000 paid to the communication commission of Kenya (CCK) and ksh 25,000 relates to the single business permit paid to Mombasa city council.
- Repairs and maintenance include and extension to the warehouse at a cost of ksh 225,000

9. Travelling and expense include ksh 120,000 incurred by the sales manager when he travelled to South Africa to attend a mobile phone and accessory and trade affairs.
10. Capital allowances have been agreed with the commissioner of income tax at ksh 430,000.

Required :

- (i) Complete Jericho ltd profit for the year ended December 2019. [16 marks]
- (ii) Compute the tax payable thereon. [4 marks]

QUESTION FOUR

- (a) With reference to the provisions of the income tax act, identify four methods which the commissioner of domestic taxes is empowered to use in order to collect overdue tax from a taxpayer. [4 marks]
- (b) Discuss the provisions of the Income Tax Act (Cap 470) relating to shortfall tax on non distribution of dividend. [10 marks]
- (c) Samia ltd reported the following income during the year ended 31st December 2017.

	Ksh
Operating Income (before tax)	12,000,000
Investment income	650,000
Rental income (gross)	1,600,000

Additional information:

1. Investment income compromised
 Dividend from a company in which Samia ltd
 Holds 20% of the share capital 100,000
 Interest from fixed deposit accounts (net) 50,000
 Interest from treasury bills (net) 500,000
2. Samia ltd declared a dividend of ksh 1,300,000 for the yea ended 31 December 2017.

Required :

Determine the shortfall tax (if any) payable by Samia ltd for the year ended 31st Dec 2017. [6 marks]

QUESTION FIVE

- (a) Write brief notes on the taxation of the incomes received three following institutions:
 - (i) Charitable trusts [4 marks]
 - (ii) Amateur sporting associations. [4 marks]

(b) Ukulima savings and credit co-operative society ltd has presented you with the following income and expenditure account for the year ended 31st December 2017:

	Ksh	Ksh
Income		
Rental income		2,252,500
Investment income -dividends		424,000
		5,750,500
Interest from savings and loans Kenya ltd		747,300
		9,174,300
Expenses		
Travelling	443,875	
Printing and stationery	236,910	
Legal expenses	132,500	
Medical expenses for staff	271,625	
Salaries and wages	4,253,350	
General office expenses	<u>100,000</u>	<u>5,438,260</u>
		<u>3,736,040</u>

Required :

- (i) The taxable income for the year and tax payable. [8 marks]
- (ii) Comment on any information not used in (i) above. [2 marks]
- (iii) Explain the basic principles followed in the taxation of the income of cooperative societies. [2 marks]
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