

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

### THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

**BCOM 412: TAX MANAGEMENT**

**STREAMS: BCOM Y4S1**

**TIME: 2 HOURS**

**DAY/DATE: WEDNESDAY 24/3/2021**

**8.30 AM – 10.30 AM**

**INSTRUCTIONS:**

- Answer question ONE (Compulsory) and any other Two.
- Do not write on the question paper.

1.(a) Explain the objectives of tax planning.

[8 Marks]

(b) Rangi Nyingi Ltd is a registered VAT Company. The company deals with both taxable and non taxable products. The following data was extracted from the financial statement for the year ended 31<sup>st</sup> December, 2020.

**Ksh.000**

Purchases zero rated	6,900
Sales standard rate current 16%	31,500
Purchases standard rate last Sept 15%	4,500
Audit fees paid	900
Salaries	3,600
Fuel for motor vehicle	300
Electricity bill	120
Purchase of motor cycle	600
Staff Entertainment services	75
Purchases standard rate 16%	18,000
Exemp sales	5,100
Sales standard rate 0%	9,000

The above transactions are exclusive of VAT.

Required compute VAT payable or claimable [10 Marks]

(c ) Distinguish the following terms

(i) Civil tax investigation and criminal tax investigation [4 Marks]

(ii) Tax audit and tax investigation. [4 Marks]

(iii) Tax evasion and Tax avoidance

2. Describe the various tax planning techniques that can be applied by the following persons with an aim of reducing tax liability.

(a) Individual persons. [10 Marks]

(b) Corporate sector [10 Marks]

(Support the techniques by stating the provisions of income tax act cap 470.)

3(a) The developed countries particularly European Union have put up various measures and plans of reducing tax evasion. Explain those measures the government of Kenya may need to apply to minimize tax evasion and fraud. [10 Marks]

(b) Keroka – Gesima Ltd was under tax investigation for tax liability during the financial year ended 31<sup>st</sup> December 2020. The following information was extracted by the investigators from the financial statements.

-Declared dividends income for the year was Sh.1, 800,000.

-Retained earnings after tax was Sh.1,738,200

-Income for the year were as follows:-

	Ksh
▪ Taxable income from operations	2,400,000
▪ Interest from fixed deposit (Net)	207,000
▪ Interest from treasury bills (Net)	2,070,000
▪ Rental income	1, 560,000
▪ Dividends from subsidiary 20% of share capital	157,500

Required to determine the tax shortfall (if any) payable during the year. [10 Marks]

4(a) In relation to cross-border taxation activities in Kenya, the government through its neighbours have tried to sign treaties both in East African Community (EAC) and also COMESA treaties. But still remains challenges in solving taxation issues.

(i) Highlight the proposals the inter-government states have put in place to solve and improve tax system in the region. [6 Marks]

(ii) Explain the problems or challenges facing the East African Community stated on cross border taxation. [8 Marks]

(c) Highlight the objectives of COMESA in relation to cross-border taxation processes. [6 Marks].

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