

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA & THARAKA

**FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF COMMERCE**

BCOM 412: TAX MANAGEMENT

STREAMS: BCOM Y4S1

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 05/12/2018

11.30 AM – 1.30 PM

INSTRUCTIONS:

- **Answer Question One and any other Two**
- **Do not write on the question paper**

QUESTION ONE

(a) (i) Mr. Maji mengi knows very little about double taxation agreements. He is a consultant, who works with many countries and in many cases, he has ended up paying taxes on the same income more than once.

Required:

Explain to Mr. Maji mengi the concept of double taxation treaty. [5 marks]

(ii) For the year of income 2017, Maji mengi (Kenyan resident) earned an equivalent of ksh 672,000 (net) from employment in united kingdom after paying tax equivalent to ksh. 134,400. In Kenya, he earned employment income of ksh. 1,765,000. A double taxation agreement exist between Kenya and United Kingdom.

Required:

Double taxation relief for Mr. Maji mengi for the year ended 31st Dec 2014 and the tax liability. [10 marks]

- (b) Caustic Ltd, a company incorporated in Kenya has recently concluded a petroleum agreement with government of Kenya. Under the terms of the petroleum agreement, the company has been allowed to explore along the Kenyan waters and share proceeds with the government on a 50:50 basis. The company has sub-contracted hi-tech ltd to carry out exploration surveys along waters for a period of 3 months. You are provided with the following information with regard to caustic ltd for the year ended 31st Dec 2015.

	‘000’
Production sales receipts	1,000,000
Geological & geophysical costs	20,000
Intangible drilling costs	10,000
Production expenditure	5,000
Salaries & wages to production staff	2,000
Directors private entertainment	4,000
Payment to government (50:50 basis)	1,000
Executive & general admin expenses	1,000
Management fees to eagle consultancy	3,000
Professional fess to HZ for consultancy services	2,000
Services fee paid to Hi-tech ltd	200,000
Interest on loan at arm’s length from KCB	10,000
Exploration machinery purchased	10,000
Industrial building for exploration purposes	20,000

Required:

- (i) Compute the taxable profit and tax payable by caustic ltd for the year ended 31st Dec 2015. [12 marks]
- (ii) Compute the amount of tax payable by Hi-tech ltd. [3 marks]

QUESTION TWO

- (a) Explain any 3 techniques or ways that individual can take advantage of to avoid tax. [6 marks]

- (b) Motor general insurance company ltd provided the following details with respect to the financial year ended 31st Dec 2015.

	Sh
Bad debts	468,000
Investment income	960,000
Reserve for unexpired risks: 1 Jan 2015	948,600
Commission on reinsurance accepted	3,484,900
Claims outstanding 1 Jan 2015	676,200
Gross premium	24,648,600

Claims paid	4,826,000
Claims outstanding: 31 st Dec 2015	1,850,000
Claims received on reinsurance	545,700
Legal expenses relating to claims	376,800
Commission on re-insurance ceded	728,900
Agency fees	1,296,400
Foreign exchange losses	392,700
Dividends from life insurance fund	216,400
Management fees	1,804,600
Bonus utilized in reduction of premium	371,700
Royalties from patent rights	1,460,000
Repairs on rented premises	264,800
Travelling expenses	89,400
Purchase of motor vehicles	800,000
Re-insurance premium paid	724,800
Returned premium	1,314,600
Rental income	560,000

Additional information:

- Agency fees include sh. 16,400 relating to life insurance fund.
- Management fees includes sh. 24,200 which relates to tax consultancy
- Repair of rented premises includes sh. 14,800 for purchases of furniture

Required:

- (i) Adjusted taxable profit or loss for moto general Insurance company for the year ended 31st Dec 2015. [12 marks]
- (ii) Tax payable (if any) for the year. [2 marks]

QUESTION THREE

- (a) Outline the events that may trigger a PAYE audit or investigation. [5 marks]
- (b) Mr. Dickson Mapesa is a businessman with interest in the manufacturing sector. He is facing a back-duty investigation by the revenue authority which suspects that he has been under-declaring income for four years from year 2010 to year 2013. You are the head of the team from the revenue authority conducting this investigation. Mr Mapesa has submitted to you records of his private and business assets and liabilities from 1 January 2010 to 31st December 2013 as shown below

	<u>1 Jan 2010</u>	<u>31 Dec 2010</u>	<u>31 Dec 2011</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>
<u>Assets & liabilities</u>	‘000’	‘000’	‘0000’	‘000’	‘000’
Factory buildings	36,000	48,000	48,000	52,000	54,000

BCOM 412

Plant & machinery	24,000	28,000	36,000	36,000	38,000
Commercial values	9,000	12,000	12,000	15,000	18,000
Stock in trade	3,600	4,200	8,000	9,000	7,000
Trade debtors	2,960	3,540	2,640	2,530	2,980
Private residence	9,240	13,600	13,600	13,600	13,600
Trade creditors	7,280	8,640	9,420	8,360	7,980
Bank loan	10,900	10,000	9,870	7,640	9,840
Loan from uncle	800	700	600	870	640
Mortgage loan	3,780	3,780	3,780	3,780	3,780
Bank balances	3,400	5,400	3,600	3,760	4,670

Additional information:

1. There were no disposals of fixed assets during the period under investigation.
2. The bank balance on 31st Dec 2011 included sh. 400,000 inherited from a relative on 31st October 2011
3. His living expenses for each of the years four were as follows:

	Year ended 31 st December			
	2010	2011	2012	2013
Living expenses	70,000	120,000	90,000	150,000

Interest on the mortgage is at a rate of 15% per annum

Required:

The taxable income of Mr. Mapesa for each of four years ended 31st Dec 2010, 2011, 2012 and 2013. (ignore capital allowances) [15 marks]

QUESTION FOUR

- (a) Outline the benefits which may accrue to a country from being a signatory to the most favoured nations status agreement. [5 marks]
- (b) The Kenya Revenue Authority (KRA) is geared towards a function-based organization rather than one structured along the types of taxes. This is evidenced by the integration of VAT, income tax and excise departments into the domestic department.

Required:

Assess the likely benefits and drawbacks to KRA arising from this integration. [5 marks]

- (c) Define tax planning and explain any four objectives for planning individuals and cooperate affairs. [10 marks]
-