CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 412: TAX MANAGEMENT

STREAMS: BCOM (Y4S1) (ODEL) TIME: 2 HOURS

DAY/DATE: WEDNESDAY 07/08/2024 8.30 A.M. – 10.30 A.M.

INSTRUCTIONS:

- **Answer question ONE and any other TWO questions.**
- **Do not write anything on the question paper**

QUESTION ONE

a) Mr. Mwendwa is a Company secretary with Metal Limited, a local company and was resident in Kenya for the whole of 2023. The following extracts relate to information about his income and related benefits for 2023.

i. Basic salary from Metal Limited was at the rate of Sh. 70,000 per month up to 30

June 2023.

It was raised to Sh. 76,000 with effect from 1 July 2023.

ii. The Company made the following payments to him per month:

- Home to office car allowance- Sh 3,500
- House allowance of Sh. 10,000 (up to 30 June)
- Sh. 3,000 for making sales check trips

iii. He earned Kshs. 5,000,000 from UK where he paid Kshs. 400,000 as tax in 2023.

Required:

i. Compute gross taxable income for Mr. Mwendwa (7 Marks)

ii. Show the tax liability for the year (10 Marks)

b) Subsidies and dumping are often confused by customs tax officers. Advise them on how to distinguish (10 Marks)

c) What are the main objectives of customs and excise duty at the seaport (3 Marks)

QUESTION TWO

a) The Capital structure of 4 companies are as follows.

	Useless Ltd	Mabati Ltd	Bamburi Ltd	Shah Bros
	Kshs.	Kshs.	Kshs.	Kshs.
Ordinary share capital	900,000	800,000	600,000	300,000
6% Preference share capital	-	50,000	250,000	300,000
10% Debentures	-	50,000	50,000	300,000
	900,000	900,000	900,000	900,000

Each Company made the following profits but did not pay tax in the year of Income.

Year 1 Kshs. 180,000

Year 2 Kshs. 340,000

Year 3 Kshs. 100,000

Corporation tax rate applicable to each year is 50%.

i. Calculate the tax liability for each company in year 1 to 3 assuming there are no penalties. (8 marks)

ii. Make a deductive comment on the results in (i) above (4 marks)

b) Evaluate the COMESA DTA in relation to East Africa Community DTA (8 marks)

QUESTION THREE

a) Distinguish tax audit and tax investigations

b) Identify and discuss five factors that may trigger backduty investigations in a partnership (10 Marks)

QUESTION FOUR

a) Discuss five common tax planning measures for customs and excise duty applicable in corporates (10 Marks)

b) ldentify cross cutting tax planning issues worldwide (10 Marks)

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