

JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

KISUMU LEARNING CENTRE

ABA 314: TAXATION PLANNING

THIRD YEAR THIRD FIRST SEMESTER

EXAMINATION 2012/13

INSTRUCTION: QUESTION ONE IS COMPULSORY AND CHOOSE ANY TWO FROM SECTION B

SECTION A

Question One

- a) Explain the main objectives of raising taxes (8 mks)
- b) Briefly discuss the case for and against direct and indirect taxes (6 mks)
- c) Define the term tax avoidance and identify ways in which one could engage in the practice of tax avoidance.(4 mks)
- d) Circumstances under which a registered person may become unregistered (2mks)
- e) Tax evasion (2mk)
- f) Explain briefly what you understand about wife's income.(3mks)
- g) Impact of tax (2mks)
- h) Fringe benefit (3mks)

SECTION B

Question 2

MR. Mwengei is employed by Khushi Ltd and for the year ended 31st December 2011 he had given you information on cash and other benefits received during the year

- a. Basic salary Sh.75,000 p.m
- b. Bonus 20% of his basic salary at the end of the year
- c. Overtime Sh.2, 000 per month
- d. Staff meals provided by the employer Ksh. 2,000 per month.
- e. Leave pay of Shs. 17,000 for the year from his employer.
- f. The employer contributed Shs. 240,000 during the year to a registered pension scheme.
- g. He was provided with a medical cover which covers all employees for Sh.60,000 as medical benefit
- h. He was given a car of 2000cc with a cost of Shs. 800,000 shillings as at 1st January 2010.
- i. He's provided with ayah, cook and night watchman of which the employer pays Sh. 5,000, 1,500 and 2,000 respectively
- j. He is provided with a house of which Mwengei pays Sh. 5,000 per month. The market rate for the house is Sh 13,000 per month.

- k. Mr. Mwengei has rental house in which he earns a gross rent of Shs. 105,000. He incurred Shs. 10,000 to recover rent from tenants, Shs. 19,000 for painting and Shs 25,000 for insurance and security.
- l. He also has a poultry farm which he earns Shs. 20,000 per year.

Required

- i. Mr. Mwengei taxable income for the year 2010 (16 mks)
- ii. His tax liability (4 mks)

Question 3

- a) Explain the main canons for an effective tax system of any country (5 mks)
- b) Explain what you understand by PAYE. What are its advantages? (4mks)
- c) Income tax Act Cap 470 (laws of Kenya) Second Schedule provides for capital deduction in respect of capital expenditure. Discuss various capital deductions available to business enterprises in Kenya. (8 mks)
- d) Ombaba is a non-resident Kenyan he resides in the United Kingdom but in the year 2009 he was in Kenya from 1st June to 15th September and then he came back on 17th December and stayed until March 20th 2010. In the year 2011 he came to Kenya on business trip from 20th August to 28th August. The year 2012 he came on January 20th and stayed until June 21st same year. Determine his residential status for income tax purposes for the year of income which ended 31st March 2012.(3 mks)

Question 4

- a) Muliro Ltd a company dealing in hardware prepares its accounts to 30 June each year. The following information relates to the year ended 30th June 2012.
 - i. Written down value of assets brought forward for income tax purpose:

	Class I	Class II	Class IV
	37 $\frac{1}{2}$ %	25%	12 $\frac{1}{2}$ %
Written down Value	Shs. 175,000	Shs. 180,000	Shs. 87,000

- ii. Disposals during the year

	Cost (Shs)	Net Book Value (Sh)	Sales Proceeds (Shs)
Isuzu Lorry	280, 000	175, 000	260, 000
Motor Car (Purchased on 1.3.11)	1, 160,000	1,015,000	800, 000
iii. Additions during the year			Shs
Mercedes Benz sports car for director			4,000,000
Second Hand Tractor			80,000

Trailer occasionally used by tractor	80,000
Shop fittings	60,000
Computers	250,000
Telephones Systems	72,000
Partitions	30,000
Machinery	100,000
Motorcycle	50,000

- iv. The office safe which costs Shs. 30,000 in 2009 was traded in for a more modern safe costing Shs. 40,000. The old safe was valued at Shs. 20,000 and the company paid the balance of Sh. 20,000 to acquire the new safe. The net book value of the old safe was Shs. 22,968 at 30.6.2011

Required

Calculate the wear and tear deductions due to the company for the year 2010 (12 mks)

- b) Discuss the impact of Taxation to economic Development of your country (8 mks)

Question 5

Mwenda, Kwenda and Twenda are former school mates who are doing business together. The business is conducted as a partnership firm in which they share profits and losses equally. They keep proper books of accounts and have been able to provide the following profit and loss account for the year ended 31st December 2012.

Profit and loss Account

Shs			
Operating expenses	800,000	Gross profit	1,908,000
Rent of business premises owned by all of them jointly	180,000	Sundry receipts	80,000
Interest expenses	80,000	Interest Income	72,000
Stationery and printing	120,000	Profit on sale of shares	200,000
Lighting and heating	40,000	Gross income from farming	800,000
General farm expenses	294,000	Lottery winnings	340,000
		Divind(Gross)	120,000

Repair of premises	40,000	
Depreciation	300,000	
Interest on partner's capital		
Mwende	80,000	
Twende	120,000	
Salary to kwende	160,000	
Commission to partners		
Mwende	96,000	
Kwende	96,000	
Twende	96,000	
Bad debts	240,000	
Gifts, present and charity	40,000	
Donation to child Welfare	200,000	
Interest on loan taken to pay tax	20,000	
Legal charges	120,000	
Net profit	<u>398,000</u>	
	<u>3,520,000</u>	<u>3,520,00</u>

Additional information

Capital allowances have been agreed as follows: Wear and Tear allowances Sh. 180,000, Farm works deduction Sh. 120,000

The partners had borrowed Sh. 400,000 with a hope of investing it on fixed securities to earn more income. Interest rates nevertheless declined. Interest expense of Sh. 80,000 and interest income of Sh. 72,000 relate to this loan.

Legal charges include Sh. 40,000 paid to finish a case in the customs department.

In 2012 the partners brought forward losses amounting to Sh. 800,000 from this business.

Required

- i. Compute taxable income derived from the partnership (16 mks)

ii. Show allocation among the partners

(4mks)