



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2016/2017**

**THIRD YEAR SECOND SEMESTER EXAMINATION  
FOR THE DEGREE OF BACHELOR OF BUSINESS  
ADMINISTRATION WITH INFORMATION  
TECHNOLOGY**

**MAIN CAMPUS**

**ABA 314: TAX PLANNING AND MANAGEMENT**

Date: 5<sup>th</sup> June, 2017

Time: 12.00 - 3.00pm

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**INSTRUCTIONS:**

- Answer ONE and any other THREE.
- Show all the workings clearly



**RATES OF TAX** (including wife's employment, self employment and professional income rates of tax).  
Year of income 2016

Monthly taxable pay (shillings)	Annual taxable pay (shillings)	Rates of tax % in each shilling
1 - 10164	1 - 121968	10%
10165 - 19740	121969 - 236880	15%
19741 - 29316	236881 - 351792	20%
29317 - 38892	351793 - 466704	25%
Excess over 38892	Excess over 466 704	30%

Personal relief Sh.162 per month) Sh.13, 944 per annum)

Prescribed benefit of motor vehicles provided by employer

	Monthly Rates (Sh.)	Annual Rates (Sh.)
<b>Capital allowances:</b>		
<b>Wear and tear allowances:</b>		
Class I	37.5%	
Class II	30%	
Class III	25%	(i) Saloons Hatch Backs and Estates
Class IV	12.5%	
<b>Industrial building allowances:</b>		
Industrial building	2.5%	Upto 1200cc 3,600 43,200
Hotels	4.0%	1201 - 1500cc 4,200 50,400
<b>Farm works allowances</b>	33%	1501 - 1750cc 5,800 69,600
<b>Investment deduction allowance:</b>		1751 - 2000cc 7,200 86,400
2003 -	70%	2001 - 3000cc 14,400 172,800
2004 -	100%	
2005 -	100%	
<b>Shipping investment allowances</b>	(ii)	Pick-ups, panel vans (Unconverted)
<b>Mining allowance:</b>		
Year 1	40%	Upto 1750cc 3,600 43,200
Year 2-7	10%	Over 1750cc 4,200 50,400
	(iii)	Land Rovers/Cruisers 7,200 86,400
		OR 2% of the initial capital cost of the vehicle for each month.

### QUESTION ONE

The directors of Kaoko Limited have identified Kenya as one of its most probable overseas investment location. One issue nevertheless arise and the directors would wish to obtain tax advice before making a decision.

They have two options:

a) Option one: to build a factory from scratch at the following costs:

Factory building	Sh. 10,000,000
New machinery fixed	Sh. 30,000,000

Executive office furniture Sh. 2,000,000

Three-phase power supply (paid to Kenya Power) Sh. 4,000,000

b) Option two: to lease a factory, fully built and ready for use. The lease will be for 10 years. The lease charges will be based on Sh. 46,000,000 on an 18 per cent per annum cost of capital.

(Present value of annuity 18%, 10% = 4.4941) (15 Marks)

b) Discuss the objectives of tax planning. (10 Marks)

### QUESTION TWO

Mr. Kirima has two offers for employment in two engineering firms. The details of the two offers are as follows:

	Firm A	Firm B
	Sh.	Sh.
Basic pay per month	45,000	41,000
Benefits:		
Housing (market rent) p.m.	50,000	60,000
Car 1600cc (cost)	600,000	600,000
Pension scheme which is registered by commissioner of income tax both employer and employee contribute 5% of the basic salary for pension scheme.		

#### Required:

- a) What offer would you recommend to Mr. Kirima? (10 marks)
- b) Explain the reasons for your recommendation. (5 marks)

### QUESTION THREE

- a) With the aid of an example explain the three methods by which an assessee can reduce his tax liability. (6 Marks)
- b) The following details relate to two companies for the year ending 31/12/2016:

Company	Cairo Ltd.	Lusaka Ltd
Number of shares	50,000 each Kshs. 5	50,000 each Shs. 5
10% Preference shares	25,000 each Kshs. 5	10% debentures Shs. 125,000
Gross income	Kshs. 250,000	Gross income

Tax rate to be maintained at 30%.

**Required**

- a) Suggest to an investor the company to invest . (7 Marks)
- b) Effective Corporate cost of debt. (2 Marks)

**QUESTION FOUR**

Wafula is employed with Solai Ltd. at a salary of Sh 40,000 per month. He is also paid House rent allowance of Sh 10,000 per month. His wife, Nekesa is also employed at a salary of Sh 20,000 per month with Winja Ltd. where Wafula holds 20% shares. Nekesa does not hold adequate qualification for the post which she is placed. Nekesa is the owner of a house, which is self occupied by the family. Municipal value of house is Sh 300,000. The house was constructed in the year 2015-16 with borrowed funds. Interest on loan is payable of Sh 1,75,000 p.a. Nekesa has insured the house and paid insurance premium of Sh 5,000 to National Insurance Company. Nekesa has also paid Sh 15,000 as Municipal taxes.

Wafula pays insurance premium of Sh 26,000 for himself, his wife and two children. He also pays school fees of Sh 24,000 for the children.

**Required:**

Suggest a scheme of tax planning to minimize the tax liability during the financial year 2015-16. (15 Marks)

### QUESTION FIVE

Okello, a Kenyan citizen, joined CIMA as a professor in UK on monthly salary of £8,000. On 1<sup>st</sup> October, 2016. He wants to proceed to Kenya for a period of 11 months to get his own house constructed in Migori.

#### Required:

- a) Suggest the dates as to how he should plan his 11 months to Kenya during 2015 and 2016 so that his salary and other foreign Income earned in London remain totally exempt in Kenya. (5 Marks)
- b) Discuss in detail the areas where the tax planning can be resorted to by an investor at the time of setting up a new business entity. (10Marks)

### QUESTION SIX

Desmond Kajos, a married Kenyan resident had income of Ksh360,000 for year of income 2015 and also received income from Ghana net of tax Ksh180,000. The tax deducted in Ghana was Ksh 60,000. Kenya has a double taxation relief treaty with Ghana.

#### Required:

- a) The double taxation relief in Kenya. (10 Marks)
- b) The tax payable by Kajos in Kenya. (5 Marks)