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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR FOUR**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 401**

**COURSE TITLE: TAXATION II**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 09/04/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of FIVE (5) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. With proper planning an individual can reduce his tax liability. Briefly discuss any five ways that can be adopted to avoid tax or reduce gross tax liability of an individual. **(10marks)**
2. The management of Gulf Bank Ltd has provided the following income statement for the year ended 31st December 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| **Income**  | **Shs (000)** | **Shs. (000)**  | **Shs.** **(000)** |
| Interest on loans and advances to customers |  |  | 54,080 |
| Interest on government securities |  |  | 12,060 |
| Interest on placements with other banks |  |  | 4,065 |
| Fees and commission income |  |  | 3,936 |
| Rental income |  |  | 219 |
| Income from foreign exchange dealings |  |  | 3,198 |
| Gain on disposal of property and equipment |  |  | 1,230 |
| Other operating income |  |  | 4,295 |
| **Total income** |  |  | **83,083** |
| **Expenses**  |  |  |  |
| Salaries and employee benefits |  | 36,040 |  |
| Occupancy expenses |  | 2,035 |  |
| Deposit protection fund contributions  |  | 1,236 |  |
| Depreciation expense |  | 4,370 |  |
| Interest on customers deposits |  | 20,245 |  |
| Interest on deposits from other banks |  | 8,020 |  |
| Directors emoluments: Fees : Others | 1,120360 | 1,480 |  |
| Auditors remuneration: Current year : Under provision for previous year  | 21030 | 240 |  |
| Operating lease rental |  | 1,630 |  |
| Loss on disposal of equipment |  | 725 |  |
| Other administrative expenses |  | 2,062 |  |
| Provision for bad and doubtful debts |  | 8,050 |  |
| Provision for interest suspense |  | 2,095 |  |
| **Total expenses** |  |  | **88,228** |
| **Loss for the year** |  |  | **(5,145)** |

**Additional information**

1. Salaries and employee benefits comprise of:

 Shs.(000)

* Leave benefits 72
* Pension contributions 146
* Termination costs 286
* Provision for staff leave accruals 492

 996

1. Included in the director’s other emoluments are

 Shs.(000)

* School fees for chairman’s children 120
* Entertainment allowance (used on clients) 180
* Travelling costs for newly recruited expatriate director 60
1. The movement in provisions for bad and doubtful debts during the year was as follows

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Specific provision shs. (000)** | **General provision Shs. (000)** | **Total shs. (000)** |
| At 1st Jan 2020 | 63,050 | 63 | 63,113 |
| Charge for the year | 8,380 | 1,530 | 9,910 |
| Released during the year | (1,860) | - | (1,860) |
| At 31st Dec 2020 | 69,570 | 1,593 | 71,163 |

1. Provision for interest suspense represents non-performing loans and advances on which interest has been suspended. The management has confirmed that the loans and advances are fully secured.
2. Capital allowances for the year ended 31st Dec 2020 amounted to shs. 1,890,000.
3. Lease rental charges relate to office equipment leased from furniture solutions Ltd for use in the entire bank network

**Required**

1. Taxable income for the bank for the year ended 31st Dec 2020 **(12marks)**
2. Tax payable if any, on the taxable income computed above **(2marks)**
3. Given that the banks taxable income for the year ended 31st Dec 2019 was assessed at shs. 720,000, show how the tax computed in (b) above is to be paid, indicating the due dates. **(6 marks)**

**QUESTION TWO**

1. Describe any four offences under the VAT Act **(8 marks)**
2. Hassan is a Kenyan resident. In the year 2019 he had income of shs 2,400,000 from Kenya and a net income of shs. 1,200,000 from Malawi. The tax deducted in Malawi was shs 600,000. Kenya has double taxation relief agreement with Malawi. The monthly personal relief applicable is shs. 1,162. The following income tax slabs are provided

**Annual Income Tax Rate**

On first Kshs 121,968 10%

On next Kshs 114,912 15%

On next Kshs 114,912 20%

On next Kshs 114,912 25%

Over Kshs 466,704 30%

**Required:**

1. The double taxation relief in Kenya **(9 marks)**
2. The tax payable by Hassan in Kenya. **(3 marks)**

**QUESTION THREE**

1. Briefly explain any four anti-dumping measures that can be taken by a country. **(8marks)**
2. Daima Ltd is a registered supplier of vatable goods. The following information relates to the company transactions for the month of February 2020.
3. Sales of standard rate shs. 108,000,000
4. Sales of zero rate shs. 42,000,000
5. Export sales shs 12,000,000
6. Exempt sales shs. 18,000,000
7. Purchases at standard rate shs. 90,000,000
8. Purchases at zero rate shs. 36,000,000
9. Salaries and wages shs. 18,000,000
10. Purchase of ETR machine shs. 360,000

The above amounts are stated exclusive of VAT.

**Required**

1. Determine the Input tax **(5 marks)**
2. The output tax **(5 marks)**
3. VAT payable or refundable for the month of February 2020 **(2 marks)**

**QUESTION FOUR**

Imara Genaral Insuarnace Company has provided the followind details with respect to its financial year ended 31st Dec 2020

Gross premium 57,000,000

Claims paid 16,200,000

Claims outstanding: 1st Jan 2020 2,220,000

 : 31st Dec 2020 4,920,000

Claims recovered on re-insurance 1,200,000

Legal expenses relating to claims 1,620,000

Commission on re-insurance accepted 8,400,000

Commission on re-insurance ceded 2,580,000

Reserve for unexpected risks: 1st Jan 2020 2,940,000

Agency expenses 4,680,000

Bad debts 1,350,000

Life Assurance fund 4,620,000

Depreciation 1,890,000

Foreign exchange gains 1,260,000

Dividends from life assurance fund 540,000

Management salaries 5,010,000

Bonus utilized in reduction of premium 1,275,000

Rental income on premises 3,780,000

Repair of rented premises 840,000

Advertisement expense 372,000

Purchase of furniture 360,000

Returned premium 3,690,000

Re-insurance premium paid 2,010,000

**Additional information**

* + 1. The company acquired a saloon car for the general manager for shs. 6,000,000 on 1st July 2020
		2. Bad debts relate to compensation due from re-insurance under receivership
		3. Management salaries include wages amounting to shs. 2,010,000 for part time employees working in the life assurance department

**Required**

1. Taxable profit or loss for the company for the year ended 31st Dec 2020. **(14 marks)**
2. Tax payable if any. **(6 marks)**

**QUESTION FIVE**

1. Briefly discuss the following capital investment allowances
2. Industrial Building Allowance **(4 marks)**
3. Investment Deduction **(4 marks)**
4. Farm Works Deduction **(4 marks)**
5. In order to discourage transfer price manipulation by multinationals, prices have to be fixed at arm’s length. Discuss any four ways of determining arm’s length price. **(8 marks)**