



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF BUSINESS ADMINISTRATION

BAC 4406: TAXATION MANAGEMENT

END OF SEMESTER EXAMINATION

SERIES:AUGUST2019

TIME:2HOURS

DATE:Pick DateAug2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

QUESTION ONE

- a) i) Define the term 'tax planning' (2 marks)
- ii) Briefly explain two instances in which a business may apply the concept of tax planning (14Marks)
- (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.
- Asses the likely benefits and drawbacks to KRA arising from this integration. (4 marks).
- c) Highlight the benefits of an effective tax policy to a developing country. (4 marks)
- d) With reference to section 132(7) of the Income Tax Act (Cap.470), list six types of transactions for which personal identification number (PIN) is required. (6 marks)

QUESTION TWO

Write brief notes on the following

- (a) Withholding VAT agents (4 marks)
- (b) Compensating tax (4 marks)
- (c) Bond security (4 marks)
- (d) Fringe benefit tax (4 marks)
- (e) Exempt interest income (4 marks)

(Total: 20 marks)

QUESTION THREE

a) Write brief notes on the following:

- i) Tax-free employment benefits (6 marks)
- ii) Set off of import duty (4 marks)
- b) Local supplies of goods and services to an Export Processing Zone (EPZ) are zero rated under the VAT Act (Cap 476)

Explain the two alternative methods of zero rating such supplies. (6 marks)

- c) With reference to the Income Tax Act (Cap.470) explain how a Kenyan branch of a foreign company is taxed (4 marks)

QUESTION FOUR

Section 24 (1) of the Income Tax Act (Cap 470) requires companies to adequately distribute their profits as divided within twelve months after the end of the accounting period.

Outline the circumstances under which a company may apply for exemption from the shortfall distribution requirements. (4 marks)

b) The following information relates to Vuma Limited for the year ended 31 December 2004:

The company's operating profit before tax amounted to Ksh.2,000,000 excluding Ksh.400,000 from investment activities
The company intends to distribute Ksh.200,000 as dividend for the year ended 31 December 2004.
The corporate tax rate is 30%

Required:

Compute the short fall tax payable by Vuma Limited for the year ended 31 December 2004. (4 marks)

c) Write short notes on the following:

- i) Exemption of individuals from paying instalment tax (4 marks)
- ii) Double taxation relief (4 marks)
- iii) Refund of overpaid tax (4marks)

QUESTION FIVE

Explain briefly the key provision of Section 125 of the Income Tax Act (Cap. 470) relating to the official secrecy binding all employees of the Income Tax Department. (4 marks)

(b) Explain the term “thin capitalization.” (4 marks)

(c) Name four incentives given by the government to encourage the growth of capital market in Kenya. (4 marks)

(d) Explain briefly the meaning of “goods subject to customs control” under the Customs and Excise Act (Cap. 472) (4 marks)

(e) Explain the requirements of an application for refund of VAT paid in respect of Bad debts.

(4 marks)