

# The Co-operative University of Kenya

## END OF SEMESTER EXAMINATION DECEMBER-2018

### EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS

UNIT CODE: HBA 2302/HCOB 2322

UNIT TITLE: ADVANCED TAXATION/TAXATION II

**DATE: DECEMBER, 2018**

**TIME:**

#### **INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

#### **QUESTION ONE**

- (a) Transfer pricing has become a critical consideration in location of production as well as employment because multinational corporations tend to open subsidiaries in countries where production is most profitable and the tax burden is less.

Based on the OECD guidelines, discuss the various methods of transfer pricing  
(15 marks)

- (b) Define the key as use in taxation

- Co-operative society
  - Tax planning
  - Unit trust
- (9 marks)

- (c) COPE Ltd made a pre-tax profit of Kshs 200 million comprising of;

- Trading profit shs 120 million
- Investment income shs 20mmilion
- Dividends from B Ltd (a subsidiary company) Kshs 60 million

State how much the company should distribute as dividends in order to comply with the section 24 provision if corporation tax is 30%  
(6 marks)

#### **QUESTION TWO**

- (a) Charis, a married Kenyan resident, had income of shs 750,000 for year of income 2017 and also received income from Zambai net of tax shs 360,000. The tax deducted in Zambia was sh 120,000. Kenya has a double taxation relief treaty with Zambia

##### **Required:**

- The double taxation relief of Kenya
  - The tax payable by Charis in Kenya
- (10 marks)
- (b) Discuss FIVE strategies that can be used by an individual person in tax planning in order to mitigate tax liability and still remain within the law  
(10 marks)

#### **QUESTION THREE**

- (a) Explain any THREE aim of tax planning  
(6 marks)
- (b) Highlight the SIX main methods that the commissioner of income taxes (CIT) can use to recover due and unpaid taxes  
(6 marks)
- (c) The following books relate to the books of Maku Union Co-op Society Ltd for the year 2017

**MAKU UNION CO-OP. SOCIETY LTD**  
**STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31.12.2017**

	Shs '000'	Shs '000'
Gross profit		64,000
Less expenses		
Salaries and wages	8,800	
Director's fees	2,000	
Rent and rates	2,400	
Travel and entertainment	800	
Donations	2,000	
Legal fees-bank overdraft	5,200	
Income tax paid	4,800	
Bad debts reserve	1,600	
Provision for leave passages	1,000	
Loss on sale of investment	600	
Furniture and fittings	2,000	
General expenses	4,400	
Tax consultations fees	280	
Depreciation	<u>4,000</u>	<u>(37,880)</u>
Surplus income		<u>26,120</u>

N/B: The society has declared 80% of adjusted surplus as dividends and bonuses.

**Required:**

- i. Compute the adjusted surplus for Maku Union Co-op Society Ltd (7 marks)
- ii. Compute the tax payable for the year 2017 (1 mark)

**QUESTION FOUR**

- (a) The tax planning measures of an individual would depend on whether they are employed or unemployed. Discuss any FIVE measures an employee can undertake in regard to tax planning so as to maximize on tax payment (10 marks)
- (b) The Kenyan government in an attempt to widen its tax base has vehemently defended the importance of the amended VAT Act 2013. Presuming you were the treasury cabinet secretary, explain the reasons you would advance in support of the current system of collecting value added tax (10 marks)

**QUESTION FIVE**

Complico General Insurance Company Ltd has provided the following details with respect to its financial year ended 31<sup>st</sup> December 2017

		Shs
Gross premium	19,000,000	
Claims paid		5,400,00
Claims outstanding: 1 January 2017	740,000	
31 December 2017		1,640,000
Claims recovered on reinsurance		400,000
Legal expenses relating to claims		540,000
Commission of reinsurance accepted		2,800,00

**Required:**

- (a) Assuming that VAT was charged at 16% on all products, compute the total VAT payable or refundable (20 marks)

**QUESTION SIX**

Mr. Mallo runs a bakery at Nakuru. He gives his profit and loss account for the year ended 31<sup>st</sup> December 2015 as follows;

Receipt	Kshs	Kshs	Kshs
Sales			480,000
Postbank interest			700
Dowry for daughter			4,500
Harambee collection for his Hospital bill			30,000
Inheritance from uncle		8,000	
Sweepstake winnings		5,000	
Profit on sale of old furniture		1,200	
Cash gift while in hospital			1,600
Horse race winnings			4,000
			<u>535,000</u>
Less: Expenses			
Purchases			
Water-business	360,000		
Water-business	11,000		
Electricity – business	19,000		
Family	6,000		
Rent – business	12,000		
Family	6,000		
Subscriptions to golf cycle	4,000		
Drawings	20,000		
School fees	10,000		
Loss on sale of motor cycle	800		
Payment of his tax	7,200		
Wedding party for daughter	6,500		
Salary for employees	36,000		
Medical expenses for family	5,500		
Harambee for local Mo	1,000		
	<u>505,000</u>		
Net profit			<u>30,000</u>

**Required:**

- Determine the adjusted net profit to show his taxable income for the year 2017 and the tax payable there from (20 marks)