QUESTION ONE

(a) **Low interest benefit tax and the fringe benefits tax**

Low interest benefit results from the charging of a low rate of interest on an employment benefit as compared to the commissioner's prescribed marked rate of interest. The employment benefit applicable is normally staff loan(s) advanced to staff at a concessionary rate(s) of interest.

The difference between the commissioner's prescribed market rate (currently 15%) and the concessionary rate of interest charged to staff by the employer constitutes a taxable benefit for all loans given before 12 June 1998. The benefit is taxable on the employee based on the ruling PAYE rates.

Fringe benefits tax (FBT)

Fringe benefits tax is applicable to all employment benefits (loans) given to employees or their relatives on or after 12 June 1998 at concessionary rates of interest. It is based on the 91 days average treasury bill rates. The average rate is computed and issued by the Kenya Revenue Authority through the press.

The tax is payable by the employer at the average treasury bill rate less the interest rate charged to the employees. The tax is based on the ruling corporate tax rate which is currently 30%.

FBT is submitted together with PAYE before 10^{th} of the following month together with PAYE.

(b) **Four methods the Commissioner of Income Tax is empowered to use in collecting overdue tax**

- Commissioner of Income Tax can use for the recovery of the tax through a court of law.
- Commissioner of Income Tax can collect the tax through authorized agents under Section 96
- Can collect under Section 102 by distress i.e. can seize property
- Commissioner of Income Tax under Section 103 can attach property of a tax payer as security for unpaid tax.

(c) **Three circumstances under which CIT can send notices or raise assessments:**

- A person has not submitted a return of income and the CIT considers that the person has income chargeable to tax for that years
- CIT considers that a person has been assessed or has assessed himself at a less amount in relation to income or tax payable.
- Where CIT issues an agreed amended assessment but later discovers unassessed income.

(d) **Matters that are contained in a notice of assessment**

- Notice to the taxpayer that he has been assessed under the Income Tax Act (ITA)
- Information to the taxpayer that he has a right to object to the notice of assessment
- Amount of tax assessed or loss to be carried forward
- Amount of relief available (in case of individual)
- Any amount of tax paid at source
- Personal identification number (PIN)
- Interest and penalties where applicable
- Amount of tax payable, due date, or where tax is overpaid amount of refund
- Name/and address of taxpayer

(e) **Stamp duty**

Stamp duty is charged on a large number of legal documents and agreements e.g cheques, bonds, marketable securities etc.
Payable within 30 days after transaction.

QUESTION TWO

(a) Mobile Options Ltd.
Computation of Taxable Profit for the year ended 31 December 2005

	Sh.	**Sh.**
Net profit as per a/cs		681,000
Add back:		
Donations	50,000	
Director expenses	96,000	
Rent and rates	18,750	
Depreciation	670,000	

Legal fees – criminal	116,000	
Trade mark	120,000	
Repairs and maintenance	450,000	1,760,750
Loss on sale of assets	240,000	1,820,750
Adjusted profit		2,441,750
Less:		
Capital allowances	860,000	
Profit on sale of assets	240,000	
Provision for bad debts	80,000	(1,180,000)
Taxable profit		1,261,750

(b) **Tax payable thereon:**

30% of 1,261,730 - Sh.378,525

(c) **Due dates**

Date	Description	**Sh.**
20th April 2005	1st instalment	220,000
20th June 2005	2nd instalment	220,000
20th September 2005	3rd instalment	220,000
20th December 2005	4th instalment	220,000
30th April 2006	Final tax refundable	(501,475)
		378,525

(d) Penalty P = 20%(A-B) 110%: A = Actual tax
B = Estimated tax

QUESTION THREE

(a) (i) **Income assessable on Mr. Hassan Ali**

Annual salary – Sh.30,000 x 12 = Sh.360,000

Income assessed as follows:

Year 2006	-	Sh.480,000
Year 2007	-	Sh.480,000
		Sh.960,000

(ii)

Year 2006	-	Sh.360,000
Year 2007	-	Sh.360,000

Year 2008	-	Sh.240,000
	-	Sh.960,000

(iii)

- Rate of tax should be the last known rates in this case year 2005. For each of the 2 years, he would be taxed on Kshs. 480,000 as follows:

	Shs.
1st Kshs. 466,704 = (121,968 @ 10%) + 114,912 @ (15% + 20% + 25%) =	81,144
Surplus (480,000 – 466,704) @ 30%	3,989
Gross tax	85,133
Less p/relief	(13,944)
Net tax	71,189

Total = 71,189 p.a. x 2 yrs = 142,372

(iv) The tax is payable together with normal PAYE (but shown separately) by 9th of January 2006.

(b) (i) **Circumstances that may trigger off a PAYE Audit**

- PAYE not paid on time
- Salaries and wages figure as per annual accounts is high compared to that reflected in PAYE returns.
- Major month to month variances on PAYE payments
- Third party information/complaints
- Newspaper/Media reports
- Non-compliance detected during a normal tax audit
- Failure to submit PAYE Returns
- Failure to keep proper records.

(ii) **Taxation of School fees**

Since Kusoma Institute is tax exempt,, school fees will be taxed on the employees concerned as a benefit.

(iii) **Unique disallowable partnership expenses**

- Remuneration/salary paid to partners
- Interest on capital paid to partners
- Drawings by partners
- Commission paid to partners

QUESTION FOUR

(a) Bimak Ltd
Capital Deductions (using year 2004 rates)
Investment Deductions Schedule

Year	Asset	Q.Cost Sh.	**I.D @ 100% Sh.**	Residue **Sh.**
2003	Factory building	8,100,000	8,100,000	-
2003	Factory extension	4,200,000	4,200,000	-
2003	Processing machine	5,200,000	5,200,000	-
			17,500,000	
2004	Processing machine	2,400,000	2,400,000	-
2004	Factory extension	3,600,000	3,600,000	-
			6,000,000	

Industrial Building Deduction Schedule

Year	Building	Q. Cost **Sh.**	Bal b/d **Sh.**	IBD @ 25% **Sh.**	**Bal C/d Sh.**
2003	Workers canteen	2,400,000	-	30,000	2,370,000
	Warehouse	3,600,000	-	45,000	3,555,000
	Labour quarters	2,400,000	-	30,000	2,370,000
	NB: I.B.D for 6 months only			105,000	
2004	Workers canteen	2,400,000	2,370,000	60,000	2,310,000
	Warehouse	3,600,000	3,555,000	90,000	3,465,000
	Labour quarters	2,400,000	2,370,000	60,000	2,310,000
	Fire exit	900,000	-	11,250	888,750
	6 months IBD			221,250	
	Factory extension			322,500	

*1,080,000 x 2.5% x 9,000
3/12

Year	Building	Q. Cost **Sh.**	Bal b/d **Sh.**	IBD @ 25% **Sh.**	**Bal C/d Sh.**
2005	Workers canteen	2,400,000	2,310,000	60,000	2,250,000
	Warehouse	3,600,000	3,465,000	90,000	3,375,000
	Labour quarters	2,400,000	2,310,000	60,000	2,250,000
	Fire exit	900,000	888,750	22,500	866,250
	Security fence	1,800,000		26,250	1,773,750
				258,750	

Wear and Tear Schedule

Class	I	**II**	**III**	**IV**
Land cruiser	-	-	1,000,000^R	-
Lorry	2,600,000	-	-	-
Tractor	3,600,000	-	-	-
Furniture and fittings	-	-	-	1,200,000
M. Benz and saloon car @	-	-	2,000,000^R	-
Sh.1M^R	-	1,840,000	-	-
Computer and photocopier	6,200,000	1,840,000	3,000,000	1,200,000
	(2,325,000)	(552,000)	(	(150,000)
WTA for 2003	3,875,000	1,288,000	750,000)	1,050,000
WDV 1.1.2004	-		2,250,000	-
Computer	3,875,000	300,000	-	1,050,000
		1,588,000	2,250,000	
Disposals:	-			(1,200,000)
Processing machine	-	-	-	-
Computer	-	(150,000)	-	-
M. Benz	3,875,000	-	(400,000)	150,000
	(1,453,125)	1,438,000	1,850,000	NIL
WTA for year 2004	2,421,825	(431,400)	(462,500)	NIL
WDV 1.1.2005	-	1,006,600	1,387,500	-
Additions – Range rover	2,421,825	-	1,000,000^R	NIL
	(908,184)	1,006,600	2,387,500	NIL
WTA for year 2005	1,513,641	(301,800)		NIL
WDV 31/12/2005		704,200	(596,875))	

1,790,625

NB: The Shs. 150,000 in class IV is a trading receipt.

QUESTION FIVE

(a) (i) **Import declaration for**

- Import declaration form is a form supplied by the customs department for the importer to fill in order to ensure that:

- He declares/shows the goods he is importing, and that
- He indicates the correct value of the goods he is importing
- Show country of origin and destination
- Name/address of importer and exporter

(ii) **Reverse charge**

This refers to VAT charged on imported services. The VAT in this cse is paid by the person importing the service since the provider of the service is outside the scope of VAT. The importer of the service also claims the tax paid as input tax.

(iii) **Refund of duty paid on imported goods**

The commissioner of customs and excise may refund duty paid on imported goods under the following circumstances:

Where goods are returned to seller
Re-assessment leads to lower duty
Where goods are lost or destroyed in an accident while under customs control
Where goods are used in production of exports or specified duty exempt goods.

(b) **Amount of VAT payable**

	Sh.
Landed value	2,450,000
Duty 20%	490,000
	2,940,000
VAT 16%	470,400

3,410,400

(c) (i) VAT Invoice

Akuru & Associates
Akuru House, 4th Floor
Waiyaki Way
P O Box 000 Nairobi

To: ABC Ltd.
P O Box 20
NAIROBI

INVOICE NO. 101
Date: 31st December 2005
LPO No.1089

Quantity	Description	Rate	**Sh.**	**Cts.**
1	Accountancy	120,000	120,000	00
1	services	240,000	240,000	00
1	Audit fees for 2005	180,000	180,000	00
	Tax consultancy			
			540,000	00
	VAT @ 16%		86,400	00
E&OE		Total	626,400	00

VAT REG. NO.0099888A PIN NO. P120099978X

(ii)

VAT A/C

	Sh.		Sh.
Input tax	18,730	Output tax	86,400
VAT payable	67,670		
	86,400		86,400