QUESTION ONE

(a) Ten of the records a person registered for VAT must maintain are:

- Tax invoices on sales and purchases
- A record of all the taxable goods and services received or supplied by the firm including zero rated supplies.
- Separate record of any exempt supplies made.
- Summary of total input and output tax for each calendar month i.e VAT account
- Copies of all invoices issued, in serial number order
- Copies of all credit and debit notes issued in chronological
- All purchase invoices, customs entries, receipts for payment of customs duty or tax and credit and debit notes received.
- Details of goods manufactured and delivered from the factory of the taxable person
- Other business records namely – orders and delivery books, relevant business correspondence, appointment and job books, purchase and sale books, cash books, petty cash vouchers, annual accounts, import and export documents, pay in slips, record of daily takings.
- Details of cash or other discounts, whether supply is for cash or credit, etc.

(b) Practical problems experienced under VAT include:

- Complexity of interpretation of the VAT Act and regulations stemming from it. This can be overcome through regular training seminars conducted by the VAT department for the benefit of tax payers, easy to read and understand literature through the Department's taxpayers education programme as well as continuous press bulletins.
- Cash flow problem could arise especially because the taxpayer is required to account for excess VAT charged on earnings basis even where the customer has not yet paid him (credit sales). This could be overcome if the taxpayer could be allowed to account for VAT when the credit period allowed to the customers is over.
- Compliance problems of elaborate and costly accounts to be maintained, filling of returns on a monthly basis. This could be overcome by simplifying as to reduce record keeping and extending time for payment rather than on monthly basis.

(c) **Value for VAT**

		Sh.
(i)	Radio Cassette price	17,500
	Less Cash discount @ 10%	1,750
	Value for VAT	15,750
	VAT thereon @ 16% (15,750 x 16%)	2,520
	Total price (VAT inclusive)	18,270
(ii)	Uchoraji architects services (value for VAT)	125,000
	Therefore VAT thereon @ 16% (16% x 125,000)	20,000
	Total price (VAT inclusive)	145,000
(iii)	Dubai Kenya Ltd. value for duty	2,000,000
	Plus duty @ 25%	500,000
	Value for VAT	2,500,000
	VAT thereon @ 16% (16% x 2,500,000)	400,000
	Total price (VAT inclusive)	2,900,000
(iv)	Kopesha Company Limited sale price of furniture	20,000
	VAT thereon @ 16% (16% x 20,000)	3,200
	Total price (VAT inclusive)	23,200

QUESTION TWO

(a) (i) **MISS NYAKIO**
ASSESSABLE INCOME AND YEARS

Contract term	5 years
Unexpired term	2 years
Compensation	Sh.300,000

Therefore assessable income at rate of remuneration immediately before termination:

YEAR	ASSESSABLE AMOUNT SH.'000'
2006	150,000
2007	150,000
	300,000

The total compensation is wholly taxable (w.e.f 1/1/2005) and will be spread evenly forward over the remaining contract period.

(ii) Assuming Nyakio's contract to be unspecified:

Income assessable depend on whether or not there is a provision that compensation would be paid

(a) **Contract unspecified but provides for compensation**

Assessable income will be at rate of remuneration immediately before termination as follows:

YEAR	ASSESSABLE INCOME SH.'000'
1997	90
1998	90
1999	90
2000	30
Total assessable	300

(b) **Contract unspecified but does not provide for compensation**

Income assessable at rate of remuneration immediately before termination but is not to exceed three years remuneration, i.e.

YEAR	ASSESSABLE INCOME SH.'000'
1997	100
1998	100
1999	100
Total assessable	300

w.e.f 1.1.2005, compensation from termination of employment contract is taxable in full regardless of the nature of the contract of employment.

(iii) Where shareholding is more than 5% the director is other than full-time hence the total amount would be assessable however, Miss Nyakio is a full time director and therefore the assessment would be as in a(i) – (ii) above as applicable.

(b) **Items whether capital or revenue**

- Legal and professional fees on computerization is capital expenditure forming part of total computerization cost.
- Structural alterations to premises to maintain rent is tax allowable even though capital in nature.
- Legal costs and stamp duty for acquisition of lease of business premises is regarded as tax allowable (revenue) so long as such lease is not for more than or capable of extension beyond 99 years.
- Expenditure on advertising to promote sale of goods, services provided by the business is revenue in nature and tax allowable.
- Income tax is revenue item to the state but not tax allowable to firms/taxable persons.
- Reserves and provisions may be capital or revenue but are generally disallowable for tax purposes since these are not incurred. However in the case of specific provisions for bad debts, it would be tax deductible.

(c) **Five examples of non-taxable income**

- Casino and betting winnings.
- Donations received
- Gifts from friends
- Dowry received.

QUESTION THREE

(a) The pooling method refers to the classification of plant and machinery in four respective classes each reflecting a rate of wear and tear for assets in that class for the purpose of determining or calculating wear and tear allowance on a reducing method basis.

(b) **KILIMO HOLDINGS LTD**
CAPITAL ALLOWANCES FOR 2006

(i) **Investment deduction**

ASSET	QUALIFYING COST SH.	I.D @ 100%	RESIDUE FOR IBD AND W.T.A
New building	750,000	750,000	-
Old machinery	350,000	350,000	-
		1,100,000	

(ii) **Industrial Building Deduction**

ASSET	QUALIFYING COST SH.	RESIDUE B/FWD SH.	I.B.D @ 2½% SH.	RESIDUE C/FWD SH.
Industrial building	1,000,000	950,000	25,000	925,000
			25,000	

(iii) **Wear and Tear Allowance**

CLASS	I @ 37½% SH.000	II @ 30% SH.000	III @ 25% SH.000	IV @ 12½% SH.000
WDV AS AT 1/1/2006				
Motor vehicles			655	
Tractors	2,755			
Plant and Machinery				530
Furniture and fittings				225
Combine harvester	1,012			
Land rovers			1,135	
Computers		77		
Fax machine		40		
Telephones		80		
Additions:				
Office curtains				22
Engine head for trailer	500			
Saloon car			100R	
Pick-up			850	
Disposals:				
Saloon car			(166.667)	
Furniture				(25)
Computers		(80)		
Tractor	(75)	-	-	-
	4,192	117	2,573.333	752
WTA	(1,572)	3501	(643.333)	(94)
WDV 31/12/1996	2,620	8109	1,930	658

(iv) **Farm Works Deduction**

(a)	New Farmhouse 1/1/2006	200,000
	FWD = 33⅓% X 200,000	66,667
(b)	Farm works WDV b/fwd 1.1.96	7,000
	Year 2006 FWD (33⅓% x 21,000)	(7,000)
	Bal. C/fwd	NIL

(v) Dimunition on loose tools - 33⅓% x 10,000 = 3333 p.a for 3 years

Summary of Capital Allowances

	Sh.
Dimunition	3,333
I.D	1,100,000
I.B.D	25,000
WTA	
Class I	1,572,000
Class II	35,100
Class III	643,333
Class IV	94,000
FWD	73,667
Total Capital allowances	3,546,433

Note:

1) Spares for tractors are not plant and machinery and are expensed upon issue for repairs.
2) W.e.f 1.1.1996 investment in purchase and installation of machinery whether new or old will qualify for investment deduction.
3) Library books do not qualify as machinery

QUESTION FOUR

(a) **KENWIDE ENTERPRISES LTD.**
TAX COMPUTATION YEAR 2005

Adjusted profit:	Sh.000	**Sh.000**

Profit reported		917.3
Add disallowable expenditure:		
Rent and rate for directors (10% x 92,500)	9.25	
Distribution and office expenses		
Directors personal expenses.	32.55	
Contribution to Sports Club	30	
Donations	22	
Loss on staff canteen	12	
Repairs and maintenance – extension to	40	
office block	35.5	
Loss on sale of assets		
Legal fees:	25	
Acquisition of copyrights	18	
Renewal of a lease for 99 years	11	
Fines and defence of legal suits	126	360.3
Depreciation		1,287.6
Less non-taxable income:	35.5	
Provision for bad and doubtful debts	66.5	(102)
reduction		1,185.6
Profit on sale of assets		

(b) **Tax Liability & Due Date**

Taxable income Sh.1,185,600

Tax thereon @ 30 Sh.355,680

Due date for outstanding tax after instalments is by 4th month after year end, i.e. 30th April 2006 in this case.

(c) **Instalment tax payable in 2006 and due dates**

Estimate tax for 2006 = (Sh.355,680 x 110%) = Sh.391,248

Instalments payable as follows:

DATE	BY 20TH APRIL 2006	20TH JUNE 2006	20TH SEPT 2006	20TH DEC 2006
INSTALMENT	97812	97,812	97812	97,812

NB: each instalment = 25% x 391,248 = 97,812

QUESTION FIVE

(a) **Self-Assessment**

For accounting year-ended 31.12.1992 and after, a taxpayer will determine the tax liability on the basis of the final return and such bill is referred to as self-assessment and the final return itself referred to as self-assessment return. Self-assessment return may be submitted along with payment of self-assessment tax but submission of return may be delayed up to end of sixth month after year-end.

(b) **Notice of Objection**

A taxpayer who disputes or who does not agree with an assessment for any year of income has a right to lodge an objection against such an assessment by the C.I.T. Such objection is referred to as "notice of objection". For such objection to be valid it must:

- be in writing;
- state the grounds of objection;
- with effect from 1/1/2005 made within 30 days after date of service of assessment;
- return of income and support schedules must be submitted before appeal is accepted.

(c) **N.S.S.F**

Is National Social Security Fund which was established by the Nation Social Security Fund Act of 1965 for the benefit of workers. It is a compulsory savings scheme into which the employer pays a statutory contribution for every employee who is a member of this fund. The scheme is applicable to those employers having five or more employees. The average rate of contribution is 10% of the workers wage, half of which is paid by the employer and half by the worker concerned. The following benefits are provided under the scheme:-

(i) Age Benefits:

Paid to a member of age sixty or when he retires from paid employment whichever is later.

(ii) Withdrawal Benefit

Paid to a member who is at least fifty-five years of age and has not engaged in paid employment during the previous three months.

(iii) Invalidity Benefit
Paid to a member who is permanently incapable of work because of physical or mental disability.

(iv) Survivors Benefit
Paid to the dependants of deceased member.

(v) Emigration Grants
Paid to a member who is permanently emigrating from Kenya.

(d) **PIN Advantages**

PIN is personal identification number for taxpayer. PIN has the following advantages:

1. Identifies eligible taxpayers
2. Assists the Government in identifying known taxpayers who were suppressing their income to evade tax.
3. It is a deterrent to tax evaders
4. Assists in ensuring the national tax burden is distributed as fairly as possible.

(e) **Valuation of Housing for Employees**

A housing benefit arises where an employee is housed by the employer. The employer may own the house or lease it from third parties. To determine the amount of housing benefit, the employees may be classified into five groups.

(i) Ordinary Employee
The housing benefit shall be 15% of his gains from employment (i.e. monthly cash pay plus benefits), excluding the value of those premises, minus rent charged to the employee; subject to the limit of the rent paid by the employer if that is paid under an agreement made at arms length with a third party.

(ii) Agricultural Employees
Including a whole time service director on a farm housing benefit shall be 10% of gains or profits from employment minus amount of rent charged to the employee.

(iii) Director Other Than Whole Time Service Director

Housing benefit is computed as 15% of his total income excluding value of those premises, minus amount of rent charged to such director, provided that-

If employer pays rent under an agreement not made at arms length with a third party; the value of the quarters shall be, the fair market rental value of the premises in that year or rent paid by the employer, whichever is higher, OR

Where the premises are owned by the employer, the fair market rental value in that year is to be taken.

(iv) Accommodation And Meals Provided

If an employee is accommodated within the employer's premises and is also provided meals, the value of benefit shall be 10 percent of gains from employment for accommodation and another 10 percent representing meals making a total charge of 20%. This will normally apply in the case of hotel employees.