KENYATTA UNIVERSITY

EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN REAL ESTATE

BRE 305: REAL ESTATE TAXATION

1ST SEMESTER 2021/2022 **TIME: 2 HOURS**

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO

Question 1 – (30 Marks)

(a) Explain the concept of the "incidence of a tax" clearly outlining its importance to policy makers. [6 Marks]

(b) There is self assessment under the Income Tax Act, does the Commissioner of Income Tax have to issue any assessment? Explain. [3 Marks]

(c) Discuss the principle of cost sharing and the extent of its influence the level taxation. [6 Marks]

(d) In the context of the administration and recovery of income tax, discuss the following:

(i) Withholding Tax [3 Marks]

(ii) Taxation of Residential rental income. [4 Marks]

(e) The following information Joanne a real estate investor.

Joanne bought a piece of land as an investment for KES.2,000,0000 in 2018. The legal cost of purchase were KES 25,000. The cost of changing the roof was 130,000. Valuation fees were KES 70,000. And the cost of defending the titles was KES 25,000. Joanne sold the land in December 2018 for KES 3,500,000. She incurred estate agency fees of KES 65,000 and legal costs of KES 50,000 on the sale. Industrial Building Deduction was agreed at 300,000. Calculate her capital gain Tax Liability. [8 Marks]

Question 2 – (20 Marks)

(a) The recent debate relating taxation of rental income has identified the issue of the amount tax assessed. Specify and explain FOUR strategies the Government of Kenya has put in place to prevent loss of tax revenue from rental income. [8 Marks]

(b) With reference to The Tax Legislation in Kenya, Briefly Discuss the following:

- (i) Valuation of housing for employees. [3 Marks]
- (ii) Farm Work Deduction. [3 Marks]
- (iii) Memorandum of Appeal & Statement of Facts. [3 Marks]
- (iv) Residence in relation to Body of Persons. [3 Marks]

Question 3 – (20 Marks)

(a) In view of the constitutional provisions, Capital Gains Tax was reintroduced through the Finance Act, 2014.

- (i) Discuss the rationale of Introducing Capital Gains Tax. [5 Marks]
- (ii) Discuss any FIVE exemptions of any exclusions to Capital Gain Tax.[5 Marks]
- (iii) In your opinion does it comply with the principle of fairness and justice? [2 Marks]

(b) Discuss the following bases of rating as applied in Kenya.

- (i) Agricultural Rental Value Rate.
- (ii) Site Value Rate. [8 Marks]

Question 4 – (20 Marks)

(a) With support of relevant theories discuss the problems experienced in attempting to achieve justice in property taxation in Kenya. [8 Marks]

(b) Discuss the taxes listed below in each case indicate whether the tax complies with the main principles of a good tax system.

- (i) Trade License chargeable to professionals [4 Marks]
- (ii) Road maintenance fee. [4 Marks]
- (iii) Stamp duties on transfer of properties. [4 Marks]

Question 5 - (20 Marks)

(a) Name and briefly explain items which may be included in the qualifying Expenditure for the purpose of investment deductions. [6 Marks]

(b) KIM Construction Ltd purchased a building on 1 January 2015, for Kshs.8,000,000. It was brought into use on the same day. The sellers construction cost comprised:

	Sh.
Land	400,000
Architects fees	80,000
Leveling Land	120,000
Construction (including offices shs.320,000)	3,400,000
	2,000,000

B.B. Lt. purchases the whole of the KIM Construction Ltd on 31st December 2015 and continued with the dame business of making bricks. The following amounts were paid for assets purchased.

	Sh.
Good will	20,000
Land and Buildings	8,000,000
Milling Machines	3,600,000
Tractor and Lorry	3,200,000
Motor Vehicle	2,400,000
New Machinery installed:	8,000,000
Fixed	2,000,000
	4,800,000
Moveable	1,600,000
Delivery trucks (6980cc each)	2,400,000
Office furniture	800,000
Computers	
Workers 'canteen	

B.B Ltd. incurred the following additional costs:	**Sh.**
Extension to building	1,600,000
Security Wall	200,000
Additional boiler	2,000,000
New sorter and conveyor – fixed to fabrics of building.	2,400,000
Fixtures and fittings.	1,200,000

In 2016, additional machinery worth Sh.1,200,000 was purchased and installed in the store at a cost of Sh.320,000, A saloon car worth 600,000 was also purchased.

In 2016 B.B Ltd. Sold some surplus assets as follows:

Asset	**Sh.**
Milling machines	400,000
Damaged fixtures and fittings	8,000
Lorry	180,000

B.B. Ltd's financial year ended on 30th December 2016.

Required:

The capital deductions claimable for the year ended 31st December, 2016. [14 Marks]