Role of management Accountant in Tax Planning

CPA Samuel kiautha Nthangi

Sam & associates certified public Accountants of Kenya.

THE 9th ANNUAL MANAGEMENT ACCOUNTING CONFERENCE

DATE: 27th -29th JULY 2015

VENUE: SAROVA WHITESANDS – MOMBASA, KENYA

What is Accounting?

Accounting is "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least, of a financial character and interpreting the result thereof."

Who is a mgt Accountant

Management a/c “is a term used to describe the accounting methods, systems and techniques which coupled with special knowledge and ability assist management in its task of maximizing profits and minimizing losses.”

Distinctions Between Management Accounting and Financial Accounting

	Management Accounting	**Financial Accounting**
Primary Users	Organization managers	External parties
Choices	Costs versus benefits	G.A.A.P.
Behavioural Implications	Influence on managerial behaviour	Measurement of economic activity
Time Focus	Future orientation	Past orientation
Time Span	Flexible	Less flexible
Reports	Detailed	Summary reports
Activities	Less sharply defined	More sharply defined

Scope of Management Account

- Cost Accounting
- Tools and technique of management control
- Statistical and quantitative techniques
- Tax accounting

Functions of management account

- Furnishing relevant and vital data
- Compilation of data in suitable form
- Analysis and interpretation
- Planning
- Decision making

Tax Planning
It’s legitimate

- “…. there is nothing sinister in so arranging one’s affairs as to keep taxes as low as possible. ……… nobody owes any public duty to pay more than the law demands: taxes are enforced extractions, not voluntary contributions” (Justice Learned Hand, Comm. vs. Newman, 159 F.2d 848 [CA-2, 1947]).

Tax Planning - Introduction

- **Basic Strategies**
  - Reducing taxable income
  - Maximising allowable deductions
  - Taking advantage of tax credits

....to achieve the following

  - Tax efficient trading
  - Tax efficient investing
  - Tax efficient fund structuring

Tax planning is a daily exercise and involves more than year end tax comp review!

Tax Planning and Professionalism

- Tax Avoidance
  - Our objective
  - Legitimate
  - Legal
- Tax Evasion
  - ***Intent* to *defraud***
  - Illegal
  - “Unrelated to a professional practice”

Some strategies

- Strategies for obtaining tax deductions
- Strategies for obtaining tax offsets (credits)
- Strategies for moving income away from an entity paying a high rate of tax to an entity paying a lower rate of tax.
- Strategies for moving profits and losses between tax years, either to defer tax or take advantage of a more favourable tax rate.
- Strategies for reducing the amount of assessable capital gains from an investment sold at a profit.

Tax planning practices

- What can a management accountant do?
- In the slides below we identify examples of tax planning activities in Kenya asking our selves what can management accountants do

Investment vehicles - Branch vs Subsidiary

Branch	*Subsidiary*
■ Non-resident corporate tax rate of 37½%. ■ No WHT on remittance of profits to the parent company. Thus , the effective tax rate is 37½%. ■ Payments of management or professional fees, royalties and interest to the parent company are not subject to WHT. ■ Compensating tax provisions do not apply. ■ Thin capitalisation provisions do not apply to a branch. ■ Certain remittances to the head office such as general admin expenses generally not deductible	■ Resident corporate tax rate of 30%. ■ WHT of 10% applies on dividends paid to non-resident parent companies. ■ Payments to the parent company will be subject to WHT, depending on their nature. ■ Compensating tax provisions apply. ■ Thin capitalisation provisions apply. ■ Expenses are deductible on the basis that they are wholly & exclusively incurred for business.

Investment vehicles - Export Processing Zones

- Companies whose principal markets are export markets.

- Tax incentives
  - A 10-year corporate tax holiday;
  - A lower tax-rate of 25% for a 10- year period after the tax holiday;
  - Significant capital allowances

Repatriation of profits

- Can be done through:
  - Payment of dividends;
  - Interest payments;
  - Management fees, royalties;
  - Capital gains.
- ***Consider the most tax efficient repatriation method in light of WHT, TP regulations etc***

Repatriation of profits - Finance Leases vs Loans

- Interest on corporate debt is generally tax deductible.
- ***Finance Leasing***
- Used in acquisition of assets.
- ***Benefits***
  - No adverse cash flow impact as no outright purchase with company funds
  - Lease payments (principal and interest) are tax deductible on the lessee

Maximising deductions – capital deductions

- Companies can claim wear and tear allowances on the following classes of assets:
  - Class I: Heavy earth moving equipment (37.5%)
  - Class II: Computer and computer peripheral devices (30%)
  - Class III: Self propelling vehicles (25%)
  - Class IV: Other plant & machinery (12.5%)
  - Software – on acquisition of software; allowance at 20%
- Investment deduction can also be claimed on industrial buildings used for manufacture, as well as on hotels constructed from 2008.
  - Outside Nairobi, Kisumu or Mombasa – 150%
  - Within Nairobi, Kisumu or Mombasa – 100%

  Where value of investment is not less than KES 200mil
- Industrial building allowance – *'on commercial buildings'*
- Other allowances are available but specific to certain industries e.g. telecommunication, agriculture

Bad Debts

- *Legal Notice No. 37 clarified bad debts deductibility*
  - The creditor loses the contractual right that comprises the debt through a court order;
  - No form of security or collateral is realisable whether partially or in full;
  - The securities or collateral have been realised that but the proceeds fail to cover the entire debt;
  - The debtor is adjudged insolvent or bankrupt by a court of law;
  - The cost of recovering debt exceeds the debt itself; and
  - Efforts to collect the debt are abandoned for another reasonable cause.
- *Implication:* Keep track of bad debts, subject these to the above criteria and maintain records as evidence of bad debt write-offs meeting this criteria.

Maximising deductions – Investment income

- Where a company has invested in securities and these have unrealized gains, deferring the realization of their gains for as long as allowable would reduce the tax payable.

Double Tax Treaties (DTTs)

- Where a tax treaty is in force, the provisions of the treaty shall take precedence over the domestic legislation.
  - Treaty benefits include:
    - Reduction of instances of double taxation
    - Clear guidelines on treatment of items where no guidance exists in domestic legislation.
    - Reduced rates on withholding tax e.g.

Country	***Management & Professional fees (%)***	***Royalty (%)***
UK	*12.5*	*15*
Germany, Canada	*15*	*15*
Denmark, Norway, Sweden, Zambia	*20*	*20*
India	*17.5*	*20*

Role of mgt accounting-Tax planning

- Being knowledgeable and providing accurate and timely tax information to management for investment, financing and operational decision making.

Questions

?