The Management University of Africa

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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

ACC 323: TAXATION LAW AND PRACTICE

DATE: 28TH JULY 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.

7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

TAX DISPUTESAND CHALLENGES IN KENYA

In recent years, the Kenya Revenue Authority (KRA) has intensified audits on multinational corporations operating in Kenya, particularly in the telecommunications, banking, and digital services sectors. Several firms have been flagged for underreporting taxable income through complex cross-border transactions. These audits have revealed gaps in compliance with the Income Tax Act and transfer pricing regulations, raising concerns about profit shifting to low-tax jurisdictions.

One major case involved a multinational digital company that provides online advertising and cloud services in Kenya. The company reported minimal taxable income locally, claiming that most of its intellectual property and value creation occurred outside Kenya. However, KRA investigations suggested that a significant portion of its revenue was generated from Kenyan users and should therefore be taxed within the country.

The company also engaged in intercompany transactions, charging its Kenyan subsidiary high management and licensing fees. These payments significantly reduced the taxable profit base in Kenya. KRA argued that these transactions did not follow the arm’s length principle required under Kenyan transfer pricing rules, leading to suspected tax avoidance through profit shifting.

In addition, the firm faced challenges related to Value Added Tax (VAT) compliance. Some digital services provided to Kenyan consumers were either under-declared or incorrectly categorized, resulting in disputes over VAT remittance obligations. The company argued that VAT rules for digital services were unclear and inconsistently enforced.

KRA further conducted back-duty investigations covering a five-year period, imposing penalties and interest on unpaid taxes. The company objected, citing double taxation concerns due to similar taxes paid in another jurisdiction. This led to a prolonged tax dispute involving tax treaties and international tax agreements.

Required:

a) Based on the case study, examine FIVE (5) tax avoidance strategies used by multinational corporations that reduce taxable income in host countries.
(10 Marks)

b) Using the case study, analyse THREE (3) challenges faced by tax authorities in enforcing transfer pricing regulations in multinational companies.
(10 Marks)

c) From the case study, evaluate TWO (2) implications of double taxation and tax treaty disputes on multinational business operations in Kenya.
(5 Marks)

QUESTION TWO

a) List **SIX** allowable expenditure of a petroleum company while arriving at the taxable profit .
(6 Marks)

b) The following information was obtained from the books of Nyawira Ltd, for the year ended 31 Dec. 2018

Details	Kshs
Profit after Tax	4,200,000
Dividend paid	6,400,000
Dividend received	1,500,000

Additional information:

A tax refund of Kshs 360,000 was received by the company for the year ended 31 December 2018

Required:
Compensating tax, if any payable by Nyawira Ltd for the year ended 31 December 2018

(9 Marks)

QUESTION THREE

An aggrieved taxpayer may appeal against the Commissioner's decision either to the Local Committee in his Income Tax District or to the Tribunal in Nairobi.

a) Examine two circumstances under which an appeal may be made to the Tribunal?

(5 Marks)

b) Evaluate seven requirements of a valid memorandum of appeal to the Local Committee **(7 Marks)**

c) Examine three rules governing the payment of tax assessed pending the determination of the appeal to the Committee.

(3 Marks)

QUESTION FOUR

"In my judgement, not every payment made to an employee is necessarily made to him as a profit arising from his employment. Indeed, in my judgement, the authorities show that to be a profit arising from employment the payment, must be in reference to the services the employee renders by virtue of his office, and it must be something in the nature of a reward for services past, present or future":- *Justice Upjohn in **Hochstrasser v Mayes** (1960) 38 TC 673.*

Required:

In the light of the above judgement and the relevant provisions of Income Tax Act (Cap.470) of the laws of Kenya, explain the tax benefits arising out of the use of the following in the design of an "Executive Remuneration Package".

i) Expense reimbursement. **(3 Marks)**

ii) Benefits in kind. **(3 Marks)**

iii) Pension entitlement. **(3 Marks)**

iv) Bonus Schemes. **(3 Marks)**

v) Share Purchase arrangements for employees. **(3 Marks)**

QUESTION FIVE

The Income Tax Act imposes stiff penalties in order to discourage tax evasion. However, the rate of compliance is still quite low.

a) Discuss five alternative measures that have been taken by the Government to improve compliance **(10 Marks)**

b) Present five proposals to government that can aid in improving compliance **(5 Marks)**

QUESTION SIX

a) Evaluate five attributes of a good tax-planning scheme **(5 Marks)**

b) Define the term transfer pricing **(1 Mark)**

c) Discuss any three effects of Transfer Pricing on Revenue Generated **(3Marks)**

d) Examine Three circumstances under which tax is considered due and payable as per the VAT Act **(6 Marks)**