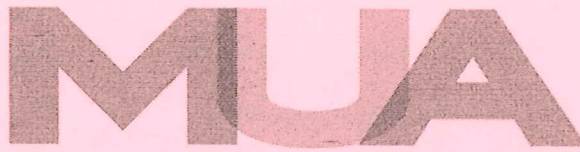


The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

ACC 323: TAXATION LAW AND PRACTICE

DATE: 2ND APRIL 2025

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

Professor Ujuzi, a Kenyan, came back to Kenya from USA on 1 August 2023 to take up an appointment as a managing director of Good Metal Limited after a 15 year absence from Kenya. The letter of offer sent to him from the Good Metal Limited indicated that he would:

1. Receive a monthly basic salary of Sh.200,000.
2. Be provided with a company car for his own personal use of 2,000cc rating. The company had bought the car for sh.2,000,000.
3. Be provided with school fee support for his two children in America. The company is to spend sh.300,000 per annum for this purpose.
4. Have his baggage moved from America to Kenya by Express Cargo who were paid Sh.1,500,000 to move the four containers of personal effects and the air tickets for Professor Ujuzi, his wife and children.
5. Buy 10 per cent of the share capital of the company at US\$50,000 (Sh.3,000,000). For the year ended 31 December 2023, the company paid him Sh.400,000 (gross) as dividends. Withholding tax for the dividends were paid by the company.
6. Be covered by the company on his life with Fedlife, an American Insurance Company based in New York. Premium of Sh.60,000 was to be paid for a sum insured on death of Sh.6,000,000.

Upon arrival in Kenya on 1 August 2023, Professor Ujuzi purchased a house in Runda Estate using a loan from Housing finance Company of Kenya. The loan advanced was for Sh.2,000,000 at 25 per cent interest rate. All instalments in the year were paid. He lived in the house from 1 August 2023 to 31 December 2023. The wife did not like the house and on 31 December 2023, they sold the house and made a gain of Sh.400,000.

The wife, Mrs Ujuzi enrolled for the external degree programme at the University of Nairobi. While there, she was requested to teach American English. The University

paid her a honoraria of Sh.2,000 per hour for 60 hours. She did not receive the money in cash but the amount was used to offset her fees as an external student.

Required:

- (a) i) Comment briefly on the tax implications of Professor Ujuzi's return to Kenya, using the Income Tax Act, the Customs and Excise Act. **(4 Marks)**
- ii) According to the Customs and Excise Act, are the personal effects chargeable to tax? **(2 Marks)**
- (b) Analyze the income tax effects of each item in Professor Ujuzi's employment contract. **(7 Marks)**
- (c) Determine the taxable income of Professor and Mrs Ujuzi for the year of income 2023. **(8 Marks)**
- (d) Calculate the tax payable by Professor Ujuzi and Mrs. Ujuzi. **(4 Marks)**

QUESTION TWO

- a) Discuss taxation of royalties under the Income Tax Act. **(4 Marks)**
- b) Wanga Ltd is seeking a tax refund from the commissioner of BAT. In this connection, the company has engaged Koech and Otieno (CPAs) so that they may issue an auditor's certificate in conformity with regulation 13A of the VAT Act (Cap. 476) Regulations. Required: As the audit senior of Koech and Otieno Associates (CPAs), prepare a program of work that you and your team will follow to enable you determine whether Wanga Ltd should obtain the refund it seeks from the Commissioner of VAT. **(11 Marks)**

QUESTION THREE

Daniel Otworu a resident of Kenya, earned income from the countries listed below during the year ended 31 December 2023.

Income from Kenya:	Ksh. 765,000
Income from United Kingdom (UK):	UK£4800 net. Tax deducted amounted to UK £960.

The average exchange rate during the year 1UK£=140 Ksh. A double taxation agreement exists between Kenya and United Kingdom.

Required:

- The double taxation relief (in Kenya Shillings) due to Daniel Otworu for the year ended 31st December 2023. (6 Marks)
- The Income Tax Act (Cap 470) grants the Commissioner General the power to effect the recovery of unpaid taxes. Outline three ways through which the Commissioner General may exercise this power. (6 Marks)
- Outline specific measures under the custom and Excise Act (Capt 472) designed to prevent dumping in Kenya. (3 Marks)

QUESTION FOUR

- With reference to the Customs and Excise Act (Cap. 472), examine four circumstances under which the Commissioner may grant a refund for import duty paid. (4 Marks)
- With reference to the provisions of the Income Tax Act, identify four methods which the Commissioner of Income Tax is empowered to use in order to collect overdue tax from a taxpayer. (8 Marks)
- Discuss whether an individual person can raise an objection for tax assessed under the Income Tax Act now that there is self-assessment. (3 Marks)

QUESTION FIVE

- a) Discuss the taxation treatment of resident and non-resident individuals in Kenya. **(5 Marks)**
- b) With reference to the VAT Act (Cap. 476), define the following terms:
- (i) Time of supply **(2 Marks)**
 - (ii) Minimum turnover **(2 Marks)**
 - (iii) Tax invoice **(2 Marks)**
 - (iv) VAT tribunal **(2 Marks)**
- c) With the help of examples, discuss allowable and non-allowable deductions for individuals. **(2 Marks)**

QUESTION SIX

- (a) Discuss five roles of transfer pricing in international taxation. **(5 Marks)**
- (b) Discuss four risks associated with the manipulation of transfer prices by multinational corporations. **(8 Marks)**
- (c) Examine the arm's length principle and how it applies to transfer pricing in Kenya. **(2 Marks)**

