TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE & BACHELOR OF BUSINESS ADMINITRATION

BAC 4405: ISSUES IN TAXATION

END OF SEMESTER EXAMINATION

SERIES: APRIL 2025

TIME: 2 HOURS

DATE: Pick DateApr 2025

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question One (Compulsory)

a) The Kenyan government operate under the multiple tax system; thus, several taxes are imposed on taxpayers. Discuss the purpose of imposing customs and exercise duty by the government of Kenya. **(10Mrks)**

b) Importing goods into Kenya is a process which requires several documents to be prepared. Outline the various documents required so as to facilitate the clearance of goods into Kenya through the various customs areas such as the Kenya Ports Authority (KPA) or at the Kenya Airports Authority (KAA). **(10Mrks)**

c) Discuss circumstances under which duty paid on imported goods may be refunded by the commissioner **(5Mrks)**

d) Discuss the tax planning (Avoidance) opportunities which can be espoused by entities in their quest to reduce their tax liability in a legal way **(5Mrks)**

Question Two

a) Stamp duty is one of the miscellaneous taxes in Kenya and is a tax which is levied on various transactions such as transfer of properties and shares. With this in mind, outline the various instruments which require stamping of the stamp duty in Kenya. **(8Mrks)**

b) The following information relates to transactions around property purchase and transfer between Awendo ltd and Kiambu ltd. Sales proceeds was KES 2,800,000. The incidental costs around the sale were as follows:

Legal fees	KES 115,000
Advertisement	KES 56,000
Agent commission	KES 240,000
Valuation fees	KES 170,000

Kiambu Ltd herein being the company selling the property to Awendo Ltd, had initially acquired the property from the its first owner at KES 1,35,000. Kiambu ltd also incurred the following incidental cost around the purchase of the property:

Legal cost on acquisition	KES 50,000
Valuation on acquisition	KES 60,000
Cost to change the roof of the property	KES 150,000
Legal cost to defend title deed	KES 30,000
Industrial building deductions (IDB) over the years	KES 395,000

Required

i. Determine the transfer value of the property **(4Mrks)**

ii. Determine adjusted cost on the transfer of the property **(4Mrks)**

iii. Determine the gain on transfer **(2Mrks)**

iv. Determine the Capital Gains Tax (CGT) payable, (Given that CGT is 5% of the Net Gains) **(2Mrks)**

Question Three

a) Differentiate between tax warranties and tax indemnities **(4Mrks)**

b) Tax warranties are assurances given by the seller to the buyer about the tax position of the company or business being sold. Outline the various aspects of the business being sold which are confirmed by tax warranties. **(5Mrks)**

c) Double taxation occurs when the same income is taxed in two different jurisdictions, as a result of this, Double Taxation Agreements have been put in place. Discus the benefits of Double Taxation Agreements **(8Mrks)**

d) Retirement benefits rules govern how retirement savings are accumulated, managed, and disbursed to employees or individuals upon retirement. Outline 3 retirement benefits plan practiced around the globe **(3Mrks)**

Question Four

a) Presumptive tax is a simplified tax system where the tax liability is estimated based on indirect indicators like turnover, gross receipts, or assets rather than actual income. Discuss the features of presumptive tax **(6Mrks)**

b) Discus the rights and obligation of a VAT registered person **(10Mrks)**

c) Outline circumstances upon which a VAT registered person/entity maybe deregistered in Kenya **(4Mrks)**

Question Five

a) Write short notes on the following

i. Tax Shifting **(2Mrks)**

ii. Incidence of a tax **(2Mrks)**

iii. Impact of a tax **(2Mrks)**

iv. Effect of a tax **(2Mrks)**

v. Tax Evasion **(2Mrks)**

vi. Tax Avoidance **(2Mrks)**

b) The government of Kenya prepares an ambitious budget every year. However, there are several factors which play in hindering the government from fully realizing its budget. Discuss the tax issues which prevent the Kenyan government from fully realizing its budget **(8Mrks)**