

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE  
BCOM 412: TAX MANAGEMENT**

**STREAMS: BCOM Y4S1 ODEL**

**TIME: 2 HOURS**

**DAY/DATE: THURSDAY 7/10/2021**

**11.30 A.M – 1.30 P.M**

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**INSTRUCTIONS**

**Answer question one and any other two questions**

**Do not write anything in the question paper**

**QUESTION ONE**

(a) Explain four categories of goods which are subject to custom control under the customs and excise act. [4 marks]

(b) Karen imported a pick up motor vehicle from Japan for use in business. The cost details of the motor vehicle were as follows:

Purchase cost	ksh 700,000
Customs duty	ksh 70,000
Excise duty	ksh 140,000
Logistics costs	ksh 200,000
Insurance cost	ksh 180,000

**Additional information**

40% of the logistics cost related to freight for the vehicle and the balance was a clearing agent's fee 25% of the insurance costs was for endurance in transit and the res was for third party insurance.

**Required:**

Value of motor vehicle imported.

[5 marks]

- (c) The management of Kasuku Rolling Mills Ltd appointed your firm their auditor with effect from 1 January 2007. The senior partner of your firm assigned you the responsibility of dealing with the company's tax affairs. You have just completed performing the audit of the company's VAT refund claim. You have also confirmed that the VAT refund is properly due under the VAT regulations.

Prepare a draft VAT audit refund certificate for your senior partner's review. [6 marks]

- (d) After your firm issued the VAT refund certificate in (c) above the VAT department made their own independent investigations and established that the company's refund claim was grossly misstated. What are the consequences of this error to the management of Kasuku Rolling Mills Ltd and to your audit firm? [2 marks]

- (e) Chris Ouma, a married Kenyan resident, had income of ksh 360,000 for year of income 2007 and also received income from Zambia net of tax ksh 180,000. The tax deducted in Zambia was ksh 60,000. Kenya has a double taxation relief treaty with Zambia.

**Required:**

- (i) The double taxation relief in Kenya. [4 marks]  
 (ii) The tax payable by Ouma in Kenya. [4 marks]  
 (f) Briefly explain the concept of 'Back duty' and indicate its importance. [5 marks]

**QUESTION TWO**

- (a) (i) Define the term 'tax planning'. [2 marks]  
 (iii) Briefly explain two instances in which a business may apply the concept of tax planning. [4 marks]  
 (b) With reference to the customs and excise act (Cap 472), outline four circumstances under which the commissioner may grant a refund for import duty paid. [4 marks]  
 (c) Mr. Okello a former investment analyst in Kenya, resides in Kenya since 2012. In 2019, he received the following income:

Rental income property in Isiolo	3,200,000
Directors' fees ABC investment ltd	4,000,000
Consultancy fees paid by British govt	600,000
Consultancy fees paid by Kenya govrt for spying	800,000
Pension paid for services rendered in Kenya	500,000

Calculate Mr. Okello's taxable income for the year 2019. [5 marks]

- (d) Describe the conditions that ought to be fulfilled for a double taxation relief to be granted. [5 marks]

### QUESTION THREE

- (a) With reference to the customs and excise act (Cap 476)
- (i) Define the term 'bonded warehouse' and 'dumping'. [2 marks]
  - (ii) 'Prohibited' and 'restricted' goods. [2 marks]
- (b) Under what circumstances are imported goods considered to have been dumped in your country? [6 marks]
- (c) Describe the factors that trigger tax audit and investigation. [4 marks]
- (d) A company incorporated in Kenya (resident company) received dividends of ksh 210,000 in the year 2015. In the course of the year the company sold a piece of land and made a gain of ksh 1,000,000 in the same year. The directors of the company made a decision to pay dividends amounting to ksh 700,000 to the shareholders. Find out whether compensating tax arise. [6 marks]

### QUESTION FOUR

- (a) Distinguish between tax avoidance and tax evasion. [4 marks]
- (b) Describe the term 'tax havens' and give examples of countries considered to manifest status of tax havens. [5 marks]
- (c) What are the factors that contribute to failure by revenue authority to achieve its tax targets. [6 marks]
- (d) Explain how tax planning could be undertaken in the context of:

- (i) Income from investments
- (ii) Capital structure decision in corporate entities. [6 marks]

