CAC403: ADVANCED TAXATION
END OF SEMESTER EXAM
APRIL 2026

INSTRUCTIONS:
Answer **Question One** (compulsory) and **any other THREE** questions

QUESTION ONE (30 Marks)

Case Study: Implementation and Use of iTax in Kenya

The Kenya Revenue Authority (KRA) implemented the iTax system as part of its broader digital transformation strategy aimed at enhancing efficiency, transparency, and effectiveness in tax administration in Kenya. The iTax platform provides a centralized online system through which taxpayers can register, file returns, make payments, and access tax records for various tax heads. The system supports the administration of Pay As You Earn (PAYE) for employees, Value Added Tax (VAT) for registered businesses, Customs Duty for importers and exporters, Corporate Income Tax for companies, and other taxes such as excise duty and withholding tax. By integrating these tax types into a single platform, iTax replaced manual and semi-automated processes that were characterized by delays, high administrative costs, errors, and opportunities for corruption.

Since its rollout, iTax has significantly expanded the tax base by increasing taxpayer registration and improving compliance across different categories of taxpayers. Employers can now deduct and remit PAYE electronically, VAT-registered businesses can file monthly VAT returns online, corporations can submit annual income tax returns, and traders can comply with customs tax obligations through integrated systems linked to iTax. Despite these achievements, users continue to face challenges such as system downtimes during peak filing periods, difficulties in registration and password recovery, filing errors for complex taxes like VAT and corporate tax, and limited access in areas with poor internet connectivity. To address these issues, KRA has continued to upgrade the iTax platform, enhance user support services, and conduct taxpayer education programs.

Generally, iTax represents a critical milestone in modernizing Kenya's tax system by promoting voluntary compliance, reducing administrative inefficiencies, and improving revenue mobilization across PAYE, VAT, customs duty, corporate tax, and other revenue streams essential for national development.

a) Explain five objectives that KRA intended to achieve by implementing the iTax system. (5 marks)

b) Identify and discuss five challenges experienced by taxpayers when using iTax for PAYE and VAT compliance. (5 marks)

c) Identify and explain five benefits of iTax to the government and tax administration in managing corporate income tax and customs duty in Kenya.(5 marks)

d) Explain how the iTax system promotes voluntary tax compliance and transparency across different tax categories such as PAYE, VAT, and corporate tax. (5 marks)

e) Discuss the role of digital transformation in improving the efficiency of tax administration in Kenya, with reference to iTax. (5 marks)

f) Suggest five measures that KRA can implement to address challenges associated with the iTax system for PAYE, VAT, customs duty, and corporate tax users. (5 marks)

QUESTION TWO (10 Marks)

a) Mrembo Traders Ltd, a registered VAT trader in Kenya, sells beauty products. The following transactions took place during the month of August 2025:

Description	**Amount (KSh)**	**VAT Rate**
Purchases of raw materials (exclusive of VAT)	480,000	16%
Local sales of finished goods (exclusive of VAT)	900,000	16%
Export sales (zero-rated)	300,000	0%
Office equipment (inclusive of VAT)	232,000	16%

Required: Calculate the output VAT, input VAT, and VAT payable or refundable for the month of August 2025**. (5Marks)**

b) Discuss the ethical considerations that should guide taxpayers and tax practitioners when engaging in tax planning under Kenyan tax law. **(5 marks)**

QUESTION THREE (10Marks)

a) Ms. Achieng is employed by Beta Solutions Ltd as an IT consultant. Her employment details for the year ended 31 December 2025 are as follows:

Income and Benefits

- Basic salary: KSh 180,000 per month
- Employer-provided housing:
  - Fair rental value: KSh 50,000 per month
  - Rent paid by employer: KSh 45,000 per month
- Entertainment allowance: KSh 20,000 per month
- Domestic servant provided by employer at a cost of KSh 12,000 per month
- Interest-free loan from employer of KSh 3,000,000 outstanding throughout the year
  - Prescribed rate of interest by the Commissioner: 10% per annum

Deductions and Reliefs

- Contribution to a registered provident fund: KSh 30,000 per month
- Medical insurance premium paid by employee: KSh 7,000 per month
- Ms. Achieng is a resident individual eligible for personal relief.

Required

i. Compute the total taxable benefits for Ms. Achieng. **(5 marks)**

ii. Compute her monthly taxable pay and PAYE payable, using the applicable resident individual tax rates for 2025. **(5 marks)**

QUESTION FOUR (10 Marks)

a) The following information relates to ABC General Insurance Ltd for the year ended 31 December 2025:

Item	**Amount ksh**
Gross premiums written	48,000,000
Unearned premium reserve at 1 January 2025	6,000,000
Unearned premium reserve at 31 December 2025	8,000,000
Claims paid during the year	22,000,000
Outstanding claims at 1 January 2025	4,500,000
Outstanding claims at 31 December 2025	5,500,000
Reinsurance premiums paid	3,000,000
Reinsurance recoveries	2,000,000
Investment income	5,000,000
Management and operating expenses	7,000,000
Corporate income tax rate	30%

Required: Determine the taxable profit of the company and calculate the corporate income tax payable. (**5marks)**

b) On 1st February 2015, Mr. Kamau, a Kenyan resident, purchased a piece of land in Nakuru for KSh 4,500,000.He incurred legal fees of KSh 150,000 and valuation fees of KSh 50,000 at the time of purchase. On 30th June 2025, he sold the land for KSh 8,000,000.In connection with the sale, he incurred agent's commission of KSh 200,000 and legal fees of KSh 100,000.

Required:

i)Compute the chargeable gain arising from the disposal of the land**(3Marks)**

ii) Calculate the Capital Gains Tax (CGT) payable by Mr. Kamau (**2Marks)**

QUESTION FIVE (10 MARKS)

a) On 1st January 2024, Bidii Manufacturers Ltd, a company based in Nairobi, acquired the following assets for use in its business:

Asset Description	**Cost (KSh)**	**Applicable W&T Rate**
Factory machinery	5,000,000	37.5%
Motor vehicles (for delivery)	3,200,000	25%
Computers and accessories	1,200,000	30%
Office furniture and fittings	800,000	12.5%

All the assets were put into use immediately.

Required: Compute the wear and tear deductions for the year ended 31 December 2024. **(5marks)**

b) Discuss two recent tax reforms in Kenya and their implications for economic growth and compliance**.(5marks)**