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PUBLIC FINANCE AND TAXATION REVISION KIT

PAST EXAMINATION PAST PAPERS WITH
SUGGESTED ANSWERS

Updated With
AUGUST 2025
Past Paper with Answers

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TOPIC 8

TAXATION OF INCOME

QUESTION 1

August 2025 Question Two C

Jamlik Wesonga is employed as the Chief Financial Officer of speedway Ltd., a multinational corporation operating in Kenya. During the year ended 31 December 2024, he provided the following details regarding his income:

1. He received a net monthly basic salary of Sh.250,000 after deducting PAYE of Sh.95,000 per month.
2. From 1 January 2024, he was assigned a company vehicle of 3500cc, which the company had purchased in December 2020 at a cost of Sh.5,500,000. However, from 1 August 2024, the company leased a land cruiser of 4500cc for him at a monthly hire charge of Sh.80,000. The leasing company had purchased the land cruiser at a cost of Sh.4,000,000 in the year 2023.
3. He lived in a company provided house, where he paid a nominal rent of Sh.20,000 per month. The employer paid a monthly rent of Sh.90,000 for the house.
4. On 1 September 2024, he bought and moved to his own house financed through a Sh.2,000,000 mortgage loan at an interest rate of 9% per annum. At the end of the year, the employer paid for him Sh.200,000 relating to principal repayment and interest for the year.
5. He was registered for medical scheme and life insurance scheme on 1 August 2024 where the employer paid his annual premiums of Sh.350,000 and Sh.210,000 respectively. The schemes were non discriminatory.
6. He received gross dividend of Sh.150,000 from a listed company and Sh.110,000 from Jijenge Co-operative society.
7. He received entertainment allowance of Sh.180,000 during the year, out of which Sh.100,000 was spent on personal entertainment and the balance for entertaining customers.
8. His wife had invested in foreign securities where she received Sh.90,000 in foreign dividends.
9. He received net rental income of Sh.1,200,000 from his residential property after deducting the following expenses:

• Caretaker salary	Sh.90,000
• Mortgage interest	Sh.200,000
• Replacement of wooden doors with steel doors	Sh.130,000
• Purchase and installation of CCTV security system	Sh.75,000

- Depreciation Sh.110,000
10. On 1 July 2024, he was awarded 10,000 share options by his employer at a price of Sh.5 per share, while the market price was Sh.30 per share. The shares had a nominal value of Sh.20,000 per share.
 11. He received a loan of Sh.6,000,000 interest free from his employer on 1 July 2024 while the market interest rate was 12% per annum. The commissioner prescribed interest rate was 9% per annum.
 12. On 15 December 2024, he was gifted a holiday trip to the Maldives worth Sh.850,000 for exceeding company's performance targets.
 13. He operates a consulting practice on a part-time basis, where he earned a gross revenue of Sh.2,500,000 before deducting the following expenses:

	Sh.
• Office rent	400,000
• Marketing and travel	320,000
• Salaries to staff	600,000
• Purchase of office laptops	280,000
 14. Assume the employer did not deduct the affordable housing levy during the year.

Required:

- (i) Compute the total taxable income of Jamlik Wesonga for the year ended 31 December 2024. (10 marks)
- (ii) Compute the tax payable if any on the income computed in (c) (i) above. (2 marks)

QUESTION 2**August 2025 Question Three B**

The following is an income statement of ABC Traders, a partnership business for the year ended 31 December 2024, where the partners Abdi, Baraka and Caleb share profits and losses in the ratio of 2:2:1 respectively:

	Sh. "000"	Sh. "000"
Sales		2,784,000
Foreign exchange gains		180,000
Interest income from bank deposits (gross)		250,000
Profit from sale of motor vehicles		196,000
Input tax refund		360,000
Royalty from patents		140,000
Insurance compensation for stolen goods		<u>90,000</u>
		4,000,000

Expenses:

Purchases	1,044,000
Purchase of furniture	240,000
Legal fees	300,000
Rent and rates	180,000

Donations to school of blind	150,000	
Depreciation	284,000	
Salaries and wages	480,000	
Purchase of motor vehicles	720,000	
Purchase of computers	450,000	
Motor vehicle expenses	148,000	
General expenses	260,000	
Tax consultancy fees	78,000	
General provision for bad debts	20,000	
Commission to Abdi	36,000	
Drawings of goods by Baraka	<u>100,000</u>	<u>(4,490,000)</u>
Net loss		<u>(490,000)</u>

Additional information:**1. Legal fees included: Sh.“000”**

- Negotiation fees for a bank loan 29,000
- Tax appeal expenses 15,000
- Debt collection costs 20,000
- Conveyance fees for a parcel of land 18,000
- Defending the firm against breach of contract 28,500
- Court fines 9,200
- Registration of patents 36,300

2. Rent and rates include accrued rates for 2023 Sh.40,000,000.

3. General expenses included: Sh.“000”

- Interest on shylock loan 28,200
- Partners' entertainment allowance 30,000
- Medical expenses incurred by Caleb 24,000
- Purchase of computer software 20,000

4. The motor vehicles purchased during the year were partially used for private purposes by Baraka, with estimated private usage at 40%.

5. Purchases of goods are inclusive of value added tax at the rate of 16%.

Required:

- (i) Statement of adjusted taxable profit or loss for the year ended 31 December 2024. (10 marks)
- (ii) A schedule of allocation of taxable income to the partners for the year of income 2024. (4 marks)
- (iii) Comment on the filing of income tax returns for each partner. (2 marks)

PART B

SUGGESTED ANSWERS AND SOLUTIONS

TOPIC 8

TAXATION OF INCOME

QUESTION 1

August 2025 Question Two C

i) Computation of the total taxable income of Jamlik Wesonga for the year ended 31 December 2024

Jamlik Wesonga 2024 income and tax computation

	Sh.	Sh.
Basic salary $(250,000 + 95,000) \times 12$		4,140,000
Vehicle benefit: Quantified benefit 3500cc=	100,800	
Percentage value: $2\% \times 5.5m \times 7 =$	770,000	770,000
Leased vehicle benefit $80,000 \times 5$		440,000
Housing benefit: $15\% E.1 6,797,500 \times \frac{8}{12} = 679,750$	720,000	
:Rent by employee $90,000 \times 8 = 720,000$		
Less: Own contribution $20,000 \times 8$	(160,000)	560,000
Less: Mortgage interest:		
Actual amount: $2,000,000 \times 9\% \times \frac{4}{12}$	60,000	
Set limit $25,000 \times 4$	100,000	(60,000)
Interest and loan paid by employer		200,000
Life insurance benefit $(210,000 \times \frac{5}{12})$		87,500
Medical benefit (non taxable)		-
Entertainment allowance		100,000
Share benefit $10,000 (30 - 5)$		250,000
Fringe benefit (non taxable)		-
Holiday trip gift		110,000
Other incomes:		
Dividend: Listed company (Withholding tax is final)		
: Jijenge co-op society		110,000
Consultancy fee: Gross amount	2,500,000	
Less: Rent	(400,000)	
Marketing	(320,000)	
Salaries	(600,000)	
Wear and tear on laptops $(25\% \times 280,000)$	(70,000)	1,110,000
Taxable income		<u>8,517,500</u>

(ii) Tax payable

Item	Amount	Rate	PAYE
On the first Sh.288,000	288,000	10%	28,800
On the next Sh.100,000	100,000	25%	25,000
On the next Sh. 5,612,000	5,612,000	30%	1,683,600
Balance (8,517,500-6,000,000)	2,517,500	32.5%	<u>818,187.5</u>
Gross tax payable			2,555,587.5
Less: Personal relief			(28,800)
PAYE 95,000×12			(1,110,200)
Insurance relief 15% ×87,500	13,125	}	(13,125)
Set limit 5,000 × 5	25,000		
<i>Withholding tax on:</i>			
Dividends: Jijenge 15% × 110,000			16,500
Consultancy fee 5%×2,500,000			<u>125,000</u>
<i>Net tax payable</i>			<u>1,232,162.5</u>

QUESTION 2**August 2025 Question Three B****(i) Statement of adjusted taxable profit or loss for the year ended 31 December 2024.****ABC Traders****Statement of adjusted taxable profit or loss for the year ended 31 December 2024:**

	Sh. "000"	Sh. "000"
Net loss as per accounts		(490,000)
Add back:		
Negotiation loan fees	29,000	
Tax appeal expenses	15,000	
Conveyance fees	18,000	
Court fines	9,200	
Registration patents	36,300	
Rates accrued — 2023	40,000	
Interest on shylock loan	28,200	
Partners' entertainment allowance	30,000	
Medical expenses — Caleb	24,000	
Purchase of computer software	20,000	
Motor vehicle expenses (40% × 148,000)	59,200	
Input tax on purchases	144,000	
Purchase of furniture	240,000	
Donations to School of Blind	150,000	
Depreciation	284,000	
Purchase of motor vehicles	720,000	
Purchase of computers	450,000	
Tax consultancy fees	78,000	

General provision for bad debts	20,000	
Commission to Abdi	36,000	
Drawings of goods by Baraka	<u>100,000</u>	<u>2,530,900</u>
		2,040,900

Deduct:

Interest income from deposits	250,000	
Profit on sale of motor vehicles	196,000	
Input tax refunds	360,000	
Royalty from patents	140,000	

Investment allowances:

Furniture (240,000 × 10%)	24,000	
Computers (450,000 × 25%)	112,500	
Computer software (20,000 × 25%)	5,000	
Motor vehicle (720,000 × 25% × 60%)	108,000	1,195,500

Other incomes:

Royalty from patents		<u>140,000</u>
Adjusted taxable profit		<u>985 400</u>

(ii) Schedule of allocation of taxable income to partners:

	Abdi Sh. "000"	Baraka Sh. "000"	Caleb Sh. "000"	Total Sh. "000"
Partners, entertainment allowance	12,000	12,000	6,000	30,000
Commission to Abdi	36,000	-	-	36,000
Royalty	56,000	56,000	28,000	140,000
Drawings to baraka	-	100,000	-	100,000
Motor vehicle expenses		59,200		59,200
Share of profit	<u>248,080</u>	<u>248,080</u>	<u>124,040</u>	<u>620,200</u>
Total taxable income	<u>352,080</u>	<u>475,280</u>	<u>158,040</u>	<u>985,400</u>

(iii) Comment:

Individual partners should file income tax returns on or before 30 June 2024 and pay tax using progressive rate of tax on their taxable income as shown in (c) (ii) above.

QUESTION 3**April 2025 Question Three C****i) Computation of the total taxable income for Jackson Mutiso for the year ended 31 December**

	Sh.	Sh.
Basic Salary ($198,000 \times 12$)		2,376,000
Housing benefit ($15\% \times \frac{9}{12} \times 3,129,140 = 352,028$)		
Less: Rent paid ($8,000 \times 9$) (72,000)		280,028
Telephone bills ($7,200 \times 9 \times 30\%$)		
Pension contribution:		
Actual	360,000	250,000
Set limit	250,000	
30% \times Pensionable pay (30% 2,376,000)	712,800	
Employer contribution (excess)		
Motor vehicle – Land cruiser		
% base ($2\% \times 12 \times 2,400,000$)	576,000	576,000
CC rating	86,400	
Furniture benefit ($1\% \times 9 \times 380,000$)		34,000
Mortgage interest		
Max ($300,000 \times \frac{8}{12}$) + 30,000	230,000	(230,000)
($15\% \times \frac{9}{12} \times 6,000,000$)	675,000	
Per diem (excess of 2,000) ($2,700 \times 5$)		13,500
Other incomes		
Dividends (Gross)		60,000
Royalties (Gross)		<u>100,000</u>
Total taxable income		<u>3,089,168</u>

(ii) Tax payable

Item	Amount	Rate	PAYE
On the first Sh.288,000	288,000	10%	28,800
On the next Sh.100,000	100,000	25%	25,000
On all income above Sh.388,000	2,701,168	30%	<u>810,350</u>
Gross tax payable			864,150
Less: Personal relief			(28,800)
PAYE $44,600 \times 12$			(535,200)
Insurance relief 15% $9 \times 8,000$			(10,800)
WHT Dividends 15% $\times 60,000$			9,000
Royalties 5%			<u>5,000</u>
Net tax payable			<u>275,350</u>