

KASNEB

ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 22 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).

Year of income 2015.

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 10,164	1 - 121,968	10%
10,165 - 19,740	121,969 - 236,880	15%
19,741 - 29,316	236,881 - 351,792	20%
29,317 - 38,892	351,793 - 466,704	25%
Excess over - 38,892	Excess over - 466,704	30%

Personal relief Sh.1,162 per month (Sh.13,944 per annum)

Prescribed benefit rates of motor vehicles provided by employer

	Monthly rates (Sh.)	Annual rates (Sh.)
Capital allowance:		
Wear and tear allowance:		
Class I	37.5%	
Class II	30%	
Class III	25%	
Class IV	12.5%	
Software	20%	
Industrial building allowance:		
Up to 2009	2.5%	
From 1 January 2010	10%	
Hotels	10%	
Hostels/Education/Film producers buildings	100%	
From 1 January 2010 - Commercial building:		
(Shop, office or show room)	25%	
Farm works allowance	100%	
Investment deduction allowance	100%	
Shipping investment deduction (Ships over 125 tonnes)	100%	
(i) Saloons, Hatch Backs and Estates		
Up to 1200 cc	3,600	43,200
1201 - 1500 cc	4,200	50,400
1501 - 1750 cc	5,800	69,600
1751 - 2000 cc	7,200	86,400
2001 - 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800
(ii) Pick-ups, Panel Vans (unconverted)		
Up to 1750 cc	3,600	43,200
Over 1750 cc	4,200	50,400
(iii) Land Rovers/Cruisers	7,200	86,400

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

Services	Monthly rates Sh.	Annual rates Sh.
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (Communal or from a borehole)	500	6,000
Agriculture employees: Reduced rates of benefits		
(i) Water	200	2,400
(ii) Electricity	900	10,800

QUESTION ONE

- (a) Outline the stages to be followed in the budget process for the national government in any financial year. (10 marks)
- (b) Discuss five roles played by the controller of budget as envisaged by the Constitution and the Public Finance Management Act. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the meaning of the following terms as used in Public Finance Management:

(i) Appropriation Act. (2 marks)

(ii) County government security. (2 marks)

- (b) In a tax seminar one of the facilitators noted that, "Raising revenue is not the only purpose for which taxes are levied". With reference to the above statement, explain four other purposes of levying taxes in your country. (8 marks)

- (c) Fedha Enterprises provided the following summary of transactions for the month of June 2016:

	Sh.
Sales	6,960,000
Purchases	4,408,000
Credit notes issued to customers	62,640
Oil and fuels for delivery van	34,800
Stationery	27,840
Audit fees	58,000
Catering expenses	4,760
Debit notes received from suppliers for goods under invoiced	17,400

Additional information:

- Sales include goods exported to South Sudan amounting to Sh.232,000 and exempt supplies of Sh.406,000.
- Purchases at standard rate could not be directly identified from exempt supplies and therefore the business restricted deductible input tax.
- All transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

Required:

Calculate for Fedha Enterprises for the month of June 2016:

(i) Deductible input tax. (6 marks)

(ii) VAT payable (or refundable). (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Outline five reasons why a country might impose prohibitions and restriction measures on imports. (5 marks)

- (b) Identify three circumstances when the Commissioner of Domestic Taxes might issue an estimated assessment to a tax payer in your country. (3 marks)

- (c) Amina Moraa works for Executive Motors Ltd. as a financial controller. She provided the following details relating to her income for the year ended 31 December 2015:

- Basic salary Sh.120,000 per month (PAYE Sh.32,000 per month).
- During the year she was provided with a brand new saloon car of 3,000cc rating by the company. The car was purchased for Sh.1,800,000 and the company claimed expenditure for maintenance of the car in its books of account.
- The company has a registered pension scheme for its employees whereby it contributes 15% of each employee's basic salary. Amina Moraa contributed 5% of her monthly basic salary towards the scheme.
- She was enrolled to a medical scheme with Uzima Insurance Ltd. for Sh.480,000 annually. The medical scheme catered for senior managers only.
- She was provided with a fully furnished residential house where the value of furniture amounted to Sh.260,000. The market rental value of the house was Sh.45,000 per month.

6. The employer paid the following bills for Amina Moraa during the year:

	Sh.
Electricity	180,000
Telephone	96,000
Water	42,000

7. She is a member of a home ownership savings plan (HOSP) where she contributed Sh.12,000 per month towards the plan.
8. She received an entertainment allowance of Sh.220,000 during the year. Half of this amount was spent on entertaining her family, while the balance was utilised in entertaining customers.
9. She was provided with a gardener and a security guard who are on the company's payroll and receive Sh.18,000 and Sh.22,000 per month respectively.
10. She received interest on a 10-year Government Infrastructure Bond of Sh.78,000 during the year.

Required:

- (i) Total taxable income for Amina Moraa for the year ended 31 December 2015. (10 marks)
- (ii) The tax payable (if any) on the taxable income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) Explain the following terms as used in the context of value added tax (VAT):

- (i) Time of supply. (2 marks)
- (ii) Withholding VAT. (2 marks)

(b) Joshua and Kefa are partners trading as Joka Associates and sharing profits and losses in the ratio of 2:1 respectively.

Their income statement for the year ended 31 December 2015 reflected the following:

	Sh.	Sh.
Gross profit		3,652,000
Sale of delivery van		400,000
Advertisement	38,400	
Depreciation	144,000	
Repairs and maintenance	175,200	
Rent and rates	78,000	
Legal fees	34,720	
Value added tax (VAT)	38,400	
General expenses	241,280	
Insurance premiums	52,800	
Salaries and wages	913,600	
Interest on capital - Joshua	252,000	
- Kefa	284,000	
Bad debts	25,600	
NSSF contribution	32,800	
Purchase of furniture	96,000	
Goodwill written off	225,600	
Mortgage interest	<u>240,000</u>	<u>(2,872,400)</u>
Net profit		<u>1,179,600</u>

Additional information:

- Advertisement expenses include Sh.21,200 spent on acquisition of a neon sign.
- Insurance premiums expense include Sh.25,200 paid for Joshua's private car.
- Legal fees comprised the following:

	Sh.
• Parking fine	4,000
• Securing a bank overdraft	6,400
• Settling a dispute with the customer	15,600
• Appeal on a tax assessment	8,720

4. Salaries and wages included salaries to partners as follows:

	Sh.
• Joshua	248,000
• Kefa	496,000

5. General expenses comprised:

	Sh.
• Partners end of year party	60,000
• Embezzlement by the cashier	24,080
• Staff catering services	16,000
• Foreign exchange losses realised	44,000
• Preparation of tender documents	97,200

6. Bad debts represented the general provision as at the end of the year.

7. Half of the rent paid related to the amount paid to Joshua for letting part of his building to the partnership.

8. Mortgage interest relates to a partner's residential house.

9. It was discovered that opening stock and closing stock were overvalued by Sh.16,820 and Sh.14,340 respectively.

10. The asset register of the partnership reflected written down value of assets as at 1 January 2015 as follows:

	Sh.
• Lorry (3 tonnes)	1,680,000
• Computers	440,000
• Delivery vans	1,040,000
• Furniture and fittings	648,800
• Wheelbarrows	150,000

Required:

(i) Taxable profit or loss of the partnership for the year ended 31 December 2015. (12 marks)

(ii) The allocation of the taxable profit or loss in (b)(i) above to the partners. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Most developing countries are undertaking tax reforms and modernisation of their tax systems.

In relation to the above statement, summarise four reasons for carrying out tax reforms in your country. (8 marks)

(b) Kivu Industries Ltd., a manufacturer of leather products was established on 1 December 2013.

The company commenced its operations on 1 January 2014 after incurring the following capital expenditure:

	Sh.
Factory building	6,800,000
Drainage system	320,000
Saloon car (for finance director)	2,800,000
Office furniture	120,000
Tractor	5,800,000
Fax machine	150,000
Conveyor belts	680,000
Staff canteen	700,000
Generator	350,000
Delivery van	1,900,000
Computers	660,000

Additional information:

1. A godown was constructed and utilised with effect from 1 October 2014. The total construction cost was Sh.960,000.

2. The company acquired processing machinery from Japan at a cost of Sh.5,600,000 and was installed in the factory building on 2 February 2014.

3. The director's saloon car was disposed of for Sh.1,600,000 in November 2014.

4. On 1 January 2015, the company acquired the following assets:

	Sh.
Water pump	120,000
Air filters	360,000
Trailer for the tractor	1,200,000
Boilers	920,000
2 pick-ups	5,600,000

5. A sports pavilion and labour quarters were constructed at a cost of Sh.780,000 and Sh.1,200,000 respectively. Both were utilised with effect from 1 April 2015.
6. A perimeter wall completed on 1 October 2015 was constructed at a cost of Sh.580,000.
7. During the year ended 31 December 2015, the following assets were disposed of:

Asset	Disposal proceeds
	Sh.
Computers	360,000
Fax machine	80,000
Office furniture	64,000

Required:

Capital allowances due to Kivu Industries Ltd. for each of the two years ended 31 December 2014 and 31 December 2015.

(12 marks)

(Total: 20 marks)

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