

# KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

## PUBLIC FINANCE AND TAXATION

WEDNESDAY: 24 May 2017.

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 2016.**

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.)
<b>Capital allowance:</b>	(i) Saloons, Hatch Backs and Estates		
<b>Wear and tear allowance:</b>	Up to 1200 cc	3,600	43,200
Class I 37.5%	1201 - 1500 cc	4,200	50,400
Class II 30%	1501 - 1750 cc	5,800	69,600
Class III 25%	1751 - 2000 cc	7,200	86,400
Class IV 12.5%	2001 - 3000 cc	8,600	103,200
Software 20%	Over 3000 cc	14,400	172,800
<b>Industrial building allowance:</b>			
Up to 2009		2.5%	
From 1 January 2010		10%	
Hotels		10%	
Hostels/Education buildings		50%	
From 1 January 2010-			
Commercial building:			
(Shop, office or show room)		25%	
<b>Farm works allowance</b>	(ii) Pick-ups, Panel Vans (unconverted)		
<b>Investment deduction allowance</b>	Up to 1750 cc	3,600	43,200
	Over 1750 cc	4,200	50,400
	(iii) Land Rovers/Cruisers	7,200	86,400
<b>Shipping investment deduction</b>			
		40%	
<b>Mining allowance:</b>			
Year 1		40%	
Years 2 - 7		10%	

### Commissioner's prescribed benefit rates

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

### QUESTION ONE

- (a) Distinguish between “division of revenue” and “allocation of revenue” as used in revenue management at national and county government levels. (4 marks)
- (b) Outline five roles played by the county head of internal audit services in relation to public finance management. (5 marks)
- (c) During a recent seminar on “overview of public finance and management”, a senior National Treasury official remarked that, “there has been a very low budget absorption capacity by the county governments”.

In relation to the above statement:

- (i) Explain the meaning of “low budget absorption capacity”. (2 marks)
- (ii) Identify three possible causes of low budget absorption capacity. (3 marks)
- (d) The Commission on Revenue Allocation (CRA) is supposed to ensure equitable sharing of national revenue. Discuss three parameters used by the Commission in sharing revenue among county governments or their equivalent in your country. (6 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Explain the following terms as used under the Public Procurement and Asset Disposal Act, 2015:
- (i) Electronic reverse auction. (2 marks)
- (ii) Framework agreement. (2 marks)
- (b) According to the Public Procurement and Asset Disposal Act, 2015 the county treasury is required to establish a procurement function. In relation to the above provision, outline six responsibilities of the county government procurement function. (6 marks)
- (c) John Mpumalanga is a trader registered for value added tax (VAT). He also offers consultancy services for clients at a fee. He has provided you with the following information relating to his business for the month of March 2017:

	<b>Sh.</b>
Consultancy fee: Local clients	1,587,500
Clients in the Democratic Republic of Congo	389,375
Sale of goods: Exports	400,000
Local market	3,200,000
E-mail and webhosting expenses	92,000
Legal fees incurred	608,000
Import of goods for resale (cost, insurance and freight)	450,000
Consultancy fee: Client with goods on transit	500,000
Photocopying costs	90,000
Audit fee paid	260,000
Purchases: Zero rated	250,000
Standard rate	1,900,000
Sales (Exempt)	620,000

#### **Additional information:**

- On the goods imported for resale, John incurred transport cost of Sh.50,000 and repackaging cost of Sh.20,000 before adding a mark-up of 20% and later selling them as part of exports.
- The exempt sales had been purchased at standard rate and constituted 25% of the batch.
- On 13 March 2017, a customer owing Sh.45,000 was declared bankrupt.
- John received credit notes of Sh.25,000 and sent out debit notes of Sh.50,000 during the month.
- The rate of customs duty was 25%.

All the above transactions are quoted exclusive of VAT at the rate of 16% where applicable.

#### **Required:**

Compute the value added tax (VAT) payable by (or refundable to) John Mpumalanga for the month of March 2017. (10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Explain the meaning of the term “time of supply” in relation to excisable services. (2 marks)
- (b) Summarise four categories of goods that are subject to customs control as provided in the East African Community Customs Management Act (EACCMA) or equivalent legislation. (4 marks)
- (c) Bakahari and Kamanda trade as Bakar Associates providing accounting and taxation services. They share profits and losses equally after charging an interest of 10% on capital contributions. The capital contributions were Sh.3,000,000 and Sh.2,500,000 for Bakahari and Kamanda respectively.

The firm’s income statement for the year ended 31 December 2016 was as follows:

<b>Income:</b>	<b>Sh.</b>	<b>Sh.</b>
Accounting and advisory fees		2,400,000
Rental property income		380,000
Tax consultancy fee		1,800,000
Profit on sale of old computers		<u>260,000</u>
		4,840,000
<b>Expenses:</b>		
Administrative expenses	420,000	
Partner’s private insurance policies	960,000	
Depreciation	140,000	
Salaries and wages	850,000	
Bad debts written off	260,000	
Legal and audit fees	120,000	
Computer software	60,000	
Rental expenses	90,000	
VAT paid	360,000	
Office stationery	150,000	
General expenses	280,000	
Office partitions	<u>82,000</u>	<u>(3,772,000)</u>
Net profit		<u>1,068,000</u>

**Additional information:**

1. Rental expenses relate to the partnership’s rental houses in the city suburb from which the firm earns income.
2. Legal and audit fees include Sh.40,000 as fines paid to the county government for negligence of duty.
3. Salaries and wages include partner’s salaries as follows:

	<b>Sh.</b>
Bakahari	220,000
Kamanda	130,000

4. Bad debts written off comprised:

	<b>Sh.</b>
General provision	82,000
Trade bad debts written off	118,000
Specific provision for bad debts	<u>60,000</u>
	<u>260,000</u>

5. General expenses comprise:

	<b>Sh.</b>
Drafting tender documents	50,000
Purchase of computers	140,000
Stamp duty on lease agreements (rental premises)	18,000
Staff catering costs	<u>72,000</u>
	<u>280,000</u>

**Required**

- (i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2016. (10 marks)
  - (ii) A schedule showing the distribution of the partner’s profit or loss calculated in (c)(i) above. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) During a tax seminar, a facilitator noted that “one of the current challenges facing the revenue authority is failure to collect the targeted revenue set out in the national budget”.

Summarise four measures undertaken by the revenue authority to enhance revenue collection in your country. (4 marks)

- (b) Argue four cases against indirect taxes imposed in your country. (4 marks)

- (c) Philip Kitcher is employed as a sales manager by Salama Company Ltd. He has provided the following information relating to his income for the year ended 31 December 2016:

1. Basic salary Sh.250,000 per month (PAYE Sh.38,500 per month).
2. He is housed by the employer in a fully furnished house (cost of furniture Sh.280,000). The market rental value of the house is Sh.45,000 per month.
3. He was provided with a company car, 2200 cc which cost the company Sh.2,000,000 in 2014. It is estimated that 75% of the mileage covered by the car related to official duties.
4. The employer has a medical scheme for top managers. The employer paid a medical bill of Sh.520,000 for Philip's 10 year old daughter during the year.
5. He received 20,000 shares from the company at a price of Sh.30 per share. The par value per share is Sh.32 while the market price at the time was Sh.39 per share.
6. On 1 July 2016, he received a construction mortgage loan of Sh.3,000,000 at an interest rate of 10% per annum from Mjengo Housing Finance Company to construct a residential house. He constructed the residential house and moved in on 1 September 2016.
7. He received a bonus of 3% of his basic pay during the year for exemplary performance.
8. The company paid his son's school fees amounting to Sh.240,000 for the year. This amount was treated as an allowable expense in the employer's books of account.
9. He contributed Sh.32,000 towards a registered pension scheme.
10. On 1 May 2016, he started an auto spares shop. The shop made a net loss of Sh.200,000 during the year. This was after deducting the cost of fixtures Sh.80,000, salary to his son who operated the shop Sh.60,000 and operating expenses Sh.180,000.
11. He earned professional fees of Sh.95,000 (net) from his part-time practice.

#### Required:

- (i) Taxable income of Philip Kitcher for the year ended 31 December 2016. (10 marks)
- (ii) Tax liability (if any) from the income computed in (c) (i) above. (2 marks)

**(Total: 20 marks)**

#### QUESTION FIVE

- (a) The imposition of penalties under various tax legislation is meant to achieve certain objectives.

In relation to the above statement:

- (i) Identify two objectives of imposing tax penalties. (2 marks)
- (ii) Assess two circumstances under which the imposition of penalties might not achieve the intended objectives. (2 marks)

- (b) Outline four circumstances under which value added tax (VAT) could be refunded. (4 marks)

- (c) Kiwanda Ltd. commenced manufacturing leather bags on 2 January 2015 after incurring the following expenditure:

	Sh.
Factory building	5,800,000
Processing machinery	2,140,000
Computers	480,000
Conveyor belts	300,000
Staff canteen	1,800,000
Delivery vans	5,200,000
Sewerage system	1,600,000
Warehouse	600,000
Heating plant	1,750,000
Sports pavilion	800,000
Loose tools	120,000

The company purchased the following assets on 1 May 2016:

	<b>Sh.</b>
Furniture	280,000
Toyota Land Cruiser (for the Director)	3,200,000
Packaging machine	1,500,000
Saloon car	1,800,000
Boilers	960,000
Yamaha motor cycles	220,000
Scanners	140,000
Wheel barrows	360,000

**Additional information:**

1. A staff clinic was constructed at the cost of Sh.2,600,000 and utilised with effect from 1 October 2016.
2. One of the delivery vans was involved in an accident on 3 February 2016 and was written off. The insurance company paid Sh.1,400,000 as full compensation on 10 December 2016.
3. A borehole was drilled at a cost of Sh.800,000 and utilised with effect from 1 July 2016.
4. The company constructed a factory extension at a cost of Sh.1,200,000. The extension was put in use on 1 March 2016 after a power generator costing Sh.380,000 was installed.

**Required:**

Capital allowances due to Kiwanda Ltd. for the year ended 31 December 2015 and 2016.

(12 marks)

**(Total: 20 marks)**

.....