



**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: 25 November 2020.**

**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 2019.**

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 12,298	1 - 147,580	10%
12,299 - 23,885	147,581 - 286,623	15%
23,886 - 35,472	286,624 - 425,666	20%
35,473 - 47,059	425,667 - 564,709	25%
Excess over - 47,059	Excess over - 564,709	30%

**Personal relief Sh.1,408 per month (Sh.16,896 per annum).**

**Prescribed benefit rates of motor vehicles provided by employer**

**Monthly rates Annual rates  
(Sh.) (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** 100%  
(Ships over 125 tonnes)

**Extraction expenditure:**

Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

**Services**

(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

(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
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### QUESTION ONE

- (a) The Public Finance Management Act requires that, not later than 30<sup>th</sup> August in each year, the Cabinet Secretary shall issue to all national government entities a circular setting out guidelines on the budget process to be followed by them.

With reference to the above provision, outline four contents of the circular.

(4 marks)

- (b) Discuss four responsibilities of the National Treasury in the administration of the Consolidated Fund. (8 marks)

- (c) Explain four fiscal responsibility principles enforced by National Treasury in managing national government public finance. (8 marks)

(Total: 20 marks)

### QUESTION TWO

- (a) Explain the single source method of procurement in public sector entities, citing two circumstances under which the method could be applied. (4 marks)

- (b) One of the functions of the Public Procurement Oversight Authority (PPOA) is to assist in the implementation and operation of the procurement system. In light of this statement, explain three aspects this function entails. (6 marks)

- (c) Beltech Ltd., a registered trader for value added tax (VAT) made the following transactions in the month of January 2020:

	Sh.
Local supplies - <i>output</i>	7,586,400
Relief supplies - <i>input</i>	1,740,000
Exports - <i>output</i>	4,408,000
Computers purchased - <i>input</i>	580,000
Electricity (factory) - <i>input</i>	278,400
Office internet (fibre) - <i>input</i>	14,500
Office rent - <i>input</i>	250,560
Raw materials (imported) - <i>input</i>	6,960,000
Hotel bills for the finance manager - <i>input</i>	139,200
Purchases from VAT registered traders - <i>input</i>	1,113,600
Purchases from VAT unregistered persons - <i>input</i>	290,000
Telephone bills - <i>input</i>	17,400

#### Additional information:

- Office rent paid relates to the month of January, February and March 2020.
- The cost of raw materials (imported) is inclusive of insurance and freight charges of Sh.360,000 and import duty amounting to Sh.1,392,000. *25%*
- All transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

#### Required:

Prepare the VAT account clearly showing the output tax, input tax and VAT payable (or refundable). (10 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) Propose three administrative challenges that the revenue authority or similar body in your country might face in the taxation of a digital economy. (6 marks)

- (b) Shirley Kaniny has been in employment as a domestic servant. Her employer works for an international organisation in the city. He had her registered and issued with a personal identification number (PIN) by the revenue authority.

Details of her earnings for the year ended 31 December 2019 were as follows:

- ✓1. She is paid a basic salary of Sh.42,000 net of PAYE Sh.14,000 per month.
- ✓2. Owing to the hands-on nature of her job, she is provided with accommodation in the employer's house. The house is a fully furnished five-bedroom bungalow with its own compound and a swimming pool. Similar houses have a rental value of Sh.200,000 per month.
- ✓3. The house above was furnished at a cost of Sh.6,000,000.
- ✓4. She is paid a house allowance of Sh.15,000 per month even though she is provided with accommodation.
- ✗5. Shirley Kaniny contributes Sh.9,000 per month towards a home ownership savings plan (HOSP) with her employer contributing Sh.10,000 per month on her behalf to the same plan.

- ✓ 6. She contributes Sh.8,000 per month towards a life assurance policy, with the employer making similar contribution for her towards the life assurance policy.
- ✓ 7. During the year, she was paid a bonus of Sh.280,000 on account of her diligence.
- ✓ 8. The employer grants her one day of rest every calendar week and pays her Sh.1,000 that off-day except for the four weeks of February when she proceeds on annual leave with full pay.
- ✓ 9. The employer agreed to sponsor her to further her education at a business college for six months. He paid the Sh.180,000 tuition fee on her enrolment.
- ✓ 10. She is provided with a car by the employer to use for her private business and a designated driver. This is a 1500cc saloon car that had cost Sh.1,500,000 when it was purchased in year 2016. The driver is paid Sh.24,000 per month.
- ✗ 11. She received dividend amounting to Sh.24,000 net from Lucky SACCO.
- Assume a 52 weeks year.

**Required:**

- (i) Taxable income of Shirley Kaniny for the year ended 31 December 2019. (12 marks)
- (ii) Tax payable (if any) from the income computed in (b) (i) above. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain the treatment of the following in taxation:

- (i) Tax losses. (2 marks)
- (ii) Capital losses. (2 marks)
- (b) Explain two distinguishing features between "tax evasion" and "tax avoidance". (4 marks)
- (c) Mafutah PLC commenced a manufacturing operation on 1 October, 2019 having incurred the following capital expenditure:

	Sh.
Factory buildings (Note 1) ✓	12,800,000
Processing machinery ✗ WT.	4,200,000
Billboard ✓	84,000
Borehole ✓	1,240,000
Staff canteen ✓	350,000
Sports pavilion ✓	470,000
Computers WT	140,000
Computer software WT.	60,000
Lorry (3 tonnes) WT.	860,000
Saloon car ✓ WT.	2,400,000
Warehouse ✓	680,000
✓ Weighing machines ✗ WT.	28,000
Fax machine WT	13,000
Motor bike WT.	68,000
Trailer WT.	120,000
✓ Workshop machinery ✗ WT.	464,000

**Additional information:**

1. Factory buildings include; an office Sh.280,000, showroom Sh.420,000 Godown Sh.800,000 and a retail shop Sh.300,000. ✓
- ✗ 2. Processing machinery was imported and includes import duty and value added tax of Sh.400,000 and Sh.160,000 respectively which were waived by the government.
3. The borehole was sunk using money borrowed from a bank amounting to Sh.1,000,000 which includes interest in bank loan of Sh.180,000.
- ✓ 4. The saloon car was disposed of for Sh.2,100,000 on 23 December 2019.
5. The company constructed a canopy at the entrance of the factory building at a cost of Sh.570,000 which was completed and utilised from 1 November 2019.
6. Purchased a water pump at a cost of Sh.90,000 and a generator Sh.120,000.

**Required:**

- Capital allowances due to Mafutah PLC for the year ended 31 December 2019. (12 marks)

**(Total: 20 marks)**

# **QUESTION FIVE**

- (a) Highlight two categories of goods liable for forfeiture under Customs and Excise Duty Act. (2 marks)
- (b) Suggest four measures that a government should put in place to prevent dumping in a country. (4 marks)
- (c) Albert and Philip are in a partnership trading as Alpha Enterprises. They share profits and losses in the ratio of 3:2 for Albert and Philip respectively after charging 10% as interest on this capital contributions.

The partners provided the following income statement for the year ended 31 December 2019:

	Sh. "000"	Sh. "000"
<b>Income</b>		
Gross profits		7,500
Interest and drawings		150
Discount received		112
Rental income		700
Profit on sale of old lorry		<u>390</u>
		8,852
<b>Expenses</b>		
Impairment loss	340	
Insurance and interest	490	
Rent and rates	810	
Depreciation	263	
Commission to Philip	440	
Purchase of saloon car	3,500	
Legal fees	670	
VAT paid	1,200	
Repairs to rental property	510	
Salaries and wages	1,760	
Medical expenses	<u>978</u>	
Net loss		<u>(10,961)</u>
		<u>(2,109)</u>

## **Additional information:**

1. The partners' capital contributions were Sh.3,000,000 and Sh.1,800,000 for Albert and Philip respectively.
2. Salaries and wages include Sh.220,000 and Sh.180,000 paid to Albert and Philip respectively during the year.
3. Legal fees is made up of the following:

	Sh.
Renewal of 15 year lease contract	200,000
Securing a bank overdraft	95,000
Defending Philip for breach of contract	180,000
Parking fines	50,000
Handling tax disputes	80,000
Collection of outstanding customers debts	<u>65,000</u>
	670,000

4. Partners' interest on capital was included in the insurance and interest expenses.
5. Half of the medical expenses relates to the medical bills paid for Albert during the year. The partnership has no medical scheme.
6. 40% of rent and rates relates to amount paid to county government as rates in relation to the partner's own residential houses.
7. The interest on drawings relates to the partners drawings during the year and should be apportioned according to their profit and loss sharing ratio.

## **Required:**

- (i) Adjusted taxable profit or loss of the partnership for the year ended 31 December 2019. (10 marks)
  - (ii) Allocation schedule of profit or loss calculated in (c) (i) above. (4 marks)
- (Total: 20 marks)**