

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.) |
|---|------------------------|-----------------------|
| 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 buildings 50% | | |
| From 1 January 2010- | | |
| Commercial building: | | |
| (Shop, office or show room) 25% | | |
| Farm works allowance 100% | | |
| Investment deduction allowance 100% | | |
| Shipping investment deduction 40% | | |
| Mining allowance: | | |
| Year 1 - 40% | | |
| Years 2 - 7 - 10% | | |
| 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 |
|--|-------|--------|

QUESTION ONE

- 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

- 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:

| | Sh. |
|--|-----------|
| 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:

1. 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.
2. The exempt sales had been purchased at standard rate and constituted 25% of the batch.
3. On 13 March 2017, a customer owing Sh.45,000 was declared bankrupt.
4. John received credit notes of Sh.25,000 and sent out debit notes of Sh.50,000 during the month.
5. The rate of customs duty was 25%.

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

Required:

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)

The company purchased the following assets on 1 May 2016:

| | Sh. |
|--|-----------|
| 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)

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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:

| | Sh. |
|--|-----------|
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