

# 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

TUESDAY: 24 November 2015.

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 2014.**

| Monthly taxable pay<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.)                  | Annual rates<br>(Sh.) |
|---|---|-----------------------|
| <b>Capital allowance:</b>   |   |                       |
| <b>Wear and tear allowance:</b>   |   |                       |
| Class I 37.5%   | (i) Saloons, Hatch Backs and Estates    |                       |
| Class II 30%  | Up to 1200 cc                           | 3,600                 |
| Class III 25%   | 1201 - 1500 cc                          | 4,200                 |
| Class IV 12.5%  | 1501 - 1750 cc                          | 5,800                 |
| Software 20%  | 1751 - 2000 cc                          | 7,200                 |
|   | 2001 - 3000 cc                          | 8,600                 |
|   | 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-<br>Commercial building:<br>(Shop, office or show room) 25% |   |                       |
| <b>Farm works allowance</b> 100%  | (ii) Pick-ups, Panel Vans (unconverted) |                       |
| <b>Investment deduction allowance</b> 100%                                      | Up to 1750 cc                           | 3,600                 |
|   | Over 1750 cc                            | 4,200                 |
|   | (iii) Land Rovers/Cruisers              | 7,200                 |
| <b>Shipping investment deduction</b> 40%  |   | 86,400                |
| <b>Mining allowance:</b>  |   |                       |
| Year 1 - 40%  |   |                       |
| Years 2 - 7 - 10%   |   |                       |

### Commissioner's prescribed benefit rates

|   | Monthly rates<br>Sh. | Annual rates<br>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) Outline four benefits of an effective tax policy to an economy. (4 marks)
- (b) Discuss four roles played by the Controller of Budget in the budgeting process in your country. (8 marks)
- (c) One of the challenges facing developing countries is how to finance their budget deficits. This problem is further compounded by the fact that some alternatives of financing the deficit might negatively impact on the country's economy.

#### Required:

Citing one disadvantage in each case, explain four measures that a government could undertake to finance a budget deficit. (8 marks)

(Total: 20 marks)

### QUESTION TWO

- (a) Distinguish between "consolidated fund" and "contingencies fund". (4 marks)
- (b) Describe six roles of the Commission on Revenue Allocation. (6 marks)
- (c) In the context of the Public Procurement and Disposal Legislation:
- (i) Outline four recognised methods of disposing stores and equipment. (4 marks)
- (ii) Summarise three criteria that a person is required to satisfy in order to qualify for an award of procurement contract. (6 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) List four non taxable benefits that an employee might receive from the employer. (4 marks)
- (b) Suggest four areas that a tax officer should pay attention to in the audit of a pay as you earn (PAYE) system. (4 marks)
- (c) Jorum Bundi is employed as the manager in charge of human resource at Fanaka Limited. He has provided the following information relating to his income for the year ended 31 December 2014:
1. Basic salary of Sh.150,000 per month. (Monthly PAYE was Sh.30,000).
  2. He was given an annual clothing allowance of Sh.91,000 for purchase of office attire appropriate for his position. He also earned a management monthly allowance of Sh.2,500 for attending meetings from 1 April 2014 to the end of the year.
  3. The company provided him with a saloon car of 3,000cc. The car had cost the company Sh.2,500,000 in 2012. Depreciation policy on motor vehicles is at the rate of 10% per annum on cost.
  4. He was provided with a company house leased at Sh.25,000 per month. A nominal rent equivalent to 8% of his monthly basic salary was deducted by the company to cater for the rent.
  5. The education fees for his two daughters amounting to Sh.100,000 were paid by the company during the year. This amount was charged to the company's income statement.
  6. Jorum Bundi has a life insurance policy for self and family for which he pays total annual premiums of Sh.150,000.
  7. He is contemplating purchasing a residential house in the near future. During the year, he invested Sh.250,000 in a registered home ownership savings plan from which he earned an interest of Sh.10,000.
  8. He contributed Sh.25,000 per month towards a registered pension scheme.
  9. His private telephone charges averaging Sh.2,500 per month were paid by the company.
  10. He earned interest income of Sh.150,000 during the year from his investments in housing development bonds.
  11. In the month of November 2014, he received a bonus of Sh.75,000 from the employer for good performance.
  12. Jorum Bundi reported a gross income of Sh.900,000 for the year ended 31 December 2014 from his pig rearing farm. This was before deducting the following expenditure:

|                                  | Sh.     |
|----------------------------------|---------|
| Purchase of pig feed             | 205,000 |
| Wages to farm labourers          | 80,000  |
| Purchase of a plastic water tank | 11,000  |
| Salary for farm manager          | 150,000 |
| Farmhouse renovation costs       | 65,000  |

#### Required

- (i) Taxable income of Jorum Bundi for the year ended 31 December 2014. (10 marks)

(ii) Tax liability (if any) from the income computed in (c) (i) above.

(2 marks)

(Total: 20 marks)

#### QUESTION FOUR

(a) Identify four areas designated as customs areas under the Customs and Excise Act.

(4 marks)

(b) Highlight four qualifying costs for tax purposes under mining business.

(4 marks)

(c) Pesa Ltd., commenced manufacturing on 1 January 2014 after incurring the following capital expenditure:

|                            | Sh.       |
|----------------------------|-----------|
| Factory buildings (note 1) | 8,000,000 |
| Processing machinery       | 2,400,000 |
| Saloon car                 | 2,800,000 |
| Neon advertising sign      | 48,000    |
| Computers                  | 150,000   |
| Delivery van               | 960,000   |
| Furniture and fittings     | 200,000   |
| Water tank                 | 90,000    |
| Water pump                 | 40,000    |
| Computer software          | 120,000   |
| Lorry (3 tonnes)           | 2,750,000 |

#### Additional information:

1. Factory buildings include; a dwelling house of Sh.1,180,000 and a commercial building comprising an office of Sh.1,200,000, a shop of Sh.800,000 and a showroom of Sh.600,000.
2. Processing machinery excludes an interest on loan of Sh.240,000 paid for a loan of Sh.2,000,000 used to acquire the machinery, and installation costs amounting to Sh.60,000.
3. The saloon car was disposed of on 1 December 2014 for Sh.1,800,000.
4. A staff canteen constructed during the year at a cost of Sh.840,000 was put into use on 1 September 2014.
5. A section of workers quarters burned down by fire had been renovated at a cost of Sh.1,500,000. The remaining section which was not affected by the fire had been valued by an insurance company at Sh.1,000,000. The workers quarters were reoccupied on 1 October 2014.

#### Required:

Capital allowances due to Pesa Ltd. for the year ended 31 December 2014.

(12 marks)

(Total: 20 marks)

#### QUESTION FIVE

(a) Propose four benefits that might arise from tax amnesty declared by the revenue authority.

(4 marks)

(b) Summarise six obligations of a registered person for value added tax (VAT) purposes.

(6 marks)

(c) The following transactions were extracted from the books of Info Link Communications Ltd., for the month ended 30 April 2015. The company is registered for VAT.

- 2 April: Purchased goods from Mambo Enterprises on credit worth Sh.1,800,000.
- 2 April: Purchased office furniture for Sh.720,000 from Excel Furniture Mart.
- 3 April: Sold goods worth Sh.860,000 to Ken Link Communications Ltd. on credit.
- 4 April: Purchased spare parts for motor vehicles worth Sh.230,000.
- 5 April: Returned office furniture worth Sh.180,000 to Excel Furniture Mart and was issued with a debit note of the same amount.
- 6 April: Goods worth Sh.120,000 were found to be defective and Ken Link Communications Ltd., returned them.
- 9 April: Purchased goods worth Sh.2,400,000 from Japan, exclusive of import duty of 15% and VAT at the rate of 16%.
- 10 April: Sold goods for cash worth Sh.3,200,000.
- 12 April: Exported goods worth Sh.4,200,000 to Annex Enterprises Ltd., in Rwanda.
- 16 April: Paid catering expenses worth Sh.160,000.
- 18 April: Imported goods worth Sh.1,600,000 from India exclusive of import duty of 25% and VAT at the rate of 16%.
- 20 April: Renovated the existing buildings at a cost of Sh.800,000.
- 22 April: Paid rent and rates amounting to Sh.490,000.
- 24 April: Exported goods worth Sh.2,400,000 to South Africa.
- 28 April: Sold goods worth Sh.980,000 to Vista Communications Ltd. in cash.
- 29 April: Hired a taxi to transport staff and paid Sh.9,000.

30 April: Paid the following expenses for the month of April 2015.

|                    | <b>Sh.</b> |
|--------------------|------------|
| Water bill         | 30,000     |
| Salaries and wages | 2,800,000  |
| Telephone bill     | 48,000     |
| Electricity bill   | 180,000    |

The above transactions are stated inclusive of VAT at the rate of 16% where applicable and unless otherwise stated.

**Required:**

The VAT payable by or refundable to Info Link Communications Ltd., for the month of April 2015. (10 marks)  
(Total: 20 marks)

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