

KASNEB

ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 23 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/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) Explain the meaning of the following terms as used in public finance management:
- (i) Supplementary bill. (2 marks)
 - (ii) County revenue fund. (2 marks)
- (b) Explain two objectives of the Public Finance Management Act. (4 marks)
- (c) Outline six oversight functions undertaken by the National Assembly Budget Committee in the management of public finance. (6 marks)
- (d) Evaluate three fiscal policy tools in your country. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Outline six general responsibilities of National Treasury with respect to public funds. (6 marks)
- (b) Propose four strategies that a county government might apply in order to enhance public participation in the planning and budget process. (4 marks)
- (c) The following transactions were extracted from the books of Plainview Traders for the month of November 2016:
1. Cash purchases from Imara Traders Sh.102,225.
 2. Purchase of goods on credit from Imani Traders Sh.113,825.
 3. Sale of standard rated goods to Umoja Enterprises Sh.211,700.
 4. Purchase of office furniture Sh.95,700.
 5. Repairs and maintenance cost for delivery van Sh.26,825.
 6. Sold goods to Mawaza Agency Sh.181,975.
 7. Credit sales to National Youth Service (NYS) amounting to Sh.264,625.
 8. Imported goods from Moseli Ltd., a company based in Egypt Sh.193,575.
 9. Exported goods to Tanzania Sh.114,550.
 10. Sold goods to unregistered customers Sh.70,470.
 11. Mawaza Agency returned goods worth Sh.41,325 and was issued with a credit note.
 12. The owner of the business took some goods for own use worth Sh.55,825.
 13. Received a debit note from Imani Traders worth Sh.35,525.
 14. Other expenses during the month were as follows:

	Sh.
Electricity bill	17,400
Water bill (County Government)	11,600
Salaries and wages	172,550
Stationery	20,300

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

Required:

- A value added tax (VAT) account for Plainview Traders for the month of November 2016. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Discuss the four principles of an optimal tax system as advocated by Adam Smith. (8 marks)
- (b) Shokoh Manajah works as a Finance Manager for Zaylam Motors Ltd. He has provided the following information relating to his income for the year ended 31 December 2016:
1. Basic monthly salary Sh.180,000 payable in arrears. (PAYE Sh.42,000 per month).
 2. He was provided with free clothing from the company's clothing line worth Sh.250,000 semi-annually to enable him maintain the company dress code.
 3. The company caters for medical expenses up to the tune of Sh.80,000 per month under a medical scheme for the senior staff. In the event the amount is not fully utilised at the end of the year, the senior staff receive the balance in cash. He spent Sh.420,000 on medical expenses during the year and claimed the balance.
 4. The company caters for staff lunch on an equal basis at the staff canteen. During the year, the company spent Sh.320,000 on his lunch.

5. He contributes 5% of his monthly basic salary to a registered pension scheme while the company contributes a further 10% on his behalf.
6. He was provided with a company car of 2,500 cc which was acquired by the company on 1 July 2016 at the cost of Sh.3,500,000.
7. He was paid a hardship allowance of Sh.280,000 during the year when he was deployed to supervise the company's branches in remote parts of the country in addition to the normal subsistence allowance.
8. He was reimbursed private entertainment expenses of Sh.120,000 during the year.
9. The company paid his monthly rent of Sh.85,000.
10. The following domestic expenses were paid for him by the company during the year:

	Sh.
Electricity bills	65,000
Telephone bills	140,000
Furniture	280,000

11. The company paid subscription fees on his behalf to the golf sports club amounting to Sh.180,000.
12. He has a life insurance cover for self and family for which he paid premiums of Sh.48,000 per month.

Required:

- (i) Taxable income for Shokoh Manajah for the year ended 31 December 2016. (10 marks)
 - (ii) Tax payable (if any) on the income computed in (b)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) (i) Explain the term "turnover tax" as used in taxation. (2 marks)
- (ii) John Moseti is a fresh farm produce trader based in Kiderby. He has informed you that he was recently registered as a taxpayer under the turnover tax (TOT) regime. He has provided you with the following information on his trading activities for the year ended 31 December 2016:

Month(s)	Sales (Sh.)	Purchases (Sh.)
January - April	123,750	74,000
May - July	98,000	130,000
August - October	120,000	62,000
November - December	84,000	100,000

Additional information:

1. The sales and purchases as given above are the monthly average for the relevant time period.
2. John Moseti incurred the following operation expenses during the year ended 31 December 2016:

	Sh.
Telephone and electricity	64,000
Rent and rates	36,000
Shop assistant's wages	108,000
Transport and travel expenses	19,000
General expenses	42,000

Required:

Compute the turnover tax payable if any by John Moseti for the year ended 31 December 2016, showing the dates on which it is due and payable. (6 marks)

- (b) Balozi Ltd. is a coffee processing company. The company commenced its operations on 4 January 2016 after incurring the following expenditure:

	Sh.
Factory building	9,600,000
Coffee milling machinery	2,500,000
Motor vehicle (Toyota Prado)	3,200,000
Furniture and fittings	800,000
Sports pavilion	1,600,000
Delivery vans	2,800,000
Staff canteen	620,000
Parking bay	380,000
Computers	150,000
Land	2,500,000
Mobile forklift	1,200,000

Additional information:

1. A recreation hall was constructed at a cost of Sh.800,000 and utilised with effect from 2 October 2016.
2. The cost of computers includes Sh.80,000 spent on acquisition of computer software.
3. A lorry (4 tonnes) was acquired on 30 June 2016 at a cost of Sh.2,500,000.
4. The following assets were disposed of on 31 December 2016:

Asset	Disposal proceeds
	Sh.
Computers	30,000
Delivery van	600,000
Office furniture	120,000

5. A borehole was drilled at a cost of Sh.1,800,000 and utilised with effect from 1 July 2016 after fitting a water pump costing Sh.600,000.

Required:

Capital allowances due to Balozi Ltd. for the year ended 31 December 2016.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Outline four items that the Commissioner of Tax is required to specify in writing, while notifying the taxpayer assessed under default assessment. (4 marks)
- (b) Describe four ways through which the government might prevent loss of revenue from imports. (4 marks)
- (c) Asman and Kamanda have been trading as partners for the last several years under the name Askam Traders. They have provided you with the following income statement for the year ended 31 December 2016:

Income:	Sh.	Sh.
Sales	10,290,000	
Closing inventory	<u>1,310,000</u>	11,600,000
Rental income		1,200,000
Discount received		108,000
Foreign exchange gain (unrealised)		<u>240,000</u>
		13,148,000
Less Expenses:		
Salaries and wages	2,600,000	
Office expenses	720,000	
Telephone and postage	340,000	
Depreciation	500,000	
Marketing and promotion	240,000	
Rent and rates (relate to rental income)	480,000	
Consultancy and professional fees	840,000	
Loss on disposal of a motor vehicle	400,000	
Insurance	250,000	
Customs duty paid	204,000	
Legal expenses	820,000	
Permits and licences	200,000	
Interest on bank overdraft	160,000	
Contributions to National Social Security Fund	198,000	
Computer repairs and maintenance	<u>946,000</u>	<u>(8,898,000)</u>
Net Profit		4,250,000

Additional information:

1. Salaries and wages include salaries to partners of Sh.900,000 and Sh.700,000 to Asman and Kamanda respectively.
2. Marketing and promotion expenses represent the cost of putting up a huge billboard in a conspicuous location of the central business district.
3. Consultancy and professional fees include Sh.700,000 paid to tax law expert to defend the partnership in a tax dispute.
4. Included in the rent and rates is Sh.180,000 stamp duty in relation to lease of the rental premises. The lease is for a period of less than 100 years.
5. Capital allowances were agreed to be Sh.1,750,000 by the Commissioner of Domestic Taxes.

Required:

- (i) Adjusted taxable profit or (loss) for Askam Traders for the year ended 31 December 2016. (10 marks)
- (ii) Allocation of the profit or (loss) in (c)(i) above to the partners. (2 marks)

(Total: 20 marks)