

KASNEB

ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

PILOT PAPER

September 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 (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	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) State six sources of revenue for the county government as envisaged in the Constitution. (6 marks)
- (b) Explain the stages involved in the budgeting cycle in county governments. (8 marks)
- (c) Outline the advantages of public participation in the county budgeting process. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Specify the role of the Auditor General in both the national and county government. (10 marks)
- (b) The Constitution has set out the criteria to be followed when sharing the revenue between the national government and the county government.
- Outline the various principles that define the constitutional threshold for a fair sharing of revenue between the national government and the county government as well as among the counties. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Using appropriate examples, cite any two types of taxes classified based on the administrative collection arrangements. (4 marks)
- (b) Kariandusi Ltd. processes raw diatomite into an industrial product called lime. The company had begun operations in January 2014 when they completed constructing a new factory building at a cost of Sh.40,000,000. The cost of the building included the cost of land amounting to Sh.5,000,000.

In the same year, the company added the following which were put to use on 1 July 2014:

1. Storage house at a cost of Sh.6,000,000.
2. Staff quarters costing Sh.14,000,000.
3. Extension to the factory building costing Sh.12,000,000

Before commencing manufacturing on 1 January 2014, the company had acquired the following assets:

	Sh.
Processing machinery	15,000,000
Conveyor belt	5,400,000
15 ton lorry	2,600,000
Tractor	4,000,000
Furniture and fittings	2,100,000
Computers	800,000
Photocopier	280,000
Saloon car	2,700,000
Pick-up trucks (4 in total)	9,400,000
CCTV cameras	500,000
Wheelbarrows	50,000
Trolleys	450,000
Workshop machinery	5,000,000

The company decided to strengthen the security at the factory by building a stone perimeter fence at a cost of Sh.3,800,000. This was brought to use with effect from 1 November 2014.

Required:

- (i) Kanandusi Ltd.'s capital allowances for the year ended 31 December 2014. (14 marks)
- (ii) Obtain the written down values of the assets as at 31 December 2014. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the major difference between the assessment of partnerships and that of companies for taxation purposes. (2 marks)

- (b) Billy and Mary are in partnership operating under the name BIMA Enterprises. They import second-hand shoes which they sell in the local market. In the year ended 31 December 2014, they presented the following accounts:

Particulars	Sh.
Sales	6,000,000
Closing stock	1,500,000
Sundry receipts	450,000
Interest on a deposit account (Net)	816,000
Interest on drawings	300,000
Dividend from ABC Mining	90,000
Gain on sale of old truck	44,000
Discount received from foreign suppliers	20,000
Foreign exchange gain	80,000
Insurance compensation for vandalised shop	<u>200,000</u>
	<u>9,500,000</u>

Particulars	Sh.
Opening stock	800,000
Purchases	3,500,000
Wages	2,200,000
Carriage inwards	280,000
Rent and rates to county government	40,000
Cargo clearance fees	85,000
Depreciation	300,000
Insurance premium	78,000
Advertising expenses	420,000
Transport to the outlets	86,000
Customs duty paid	46,000
Fines for late payment of import duty	70,000
Interest on capital paid to partners	300,000
VAT paid	145,000
Commissions paid to partners	160,000
Donations to county governments	900,000
Salaries to partners	800,000
Legal expenses	94,000
Net loss	<u>(804,000)</u>
	<u>9,500,000</u>

Additional information:

1. The partners' capital contribution was Sh.2,000,000 and Sh.4,000,000 for Billy and Mary respectively and the interest on capital is based on the proportion of capital contributed.
2. Profits are share in the ratio 2:1 as per their partnership deed.
3. The commission to partners was as follows:

	Sh.
Billy	82,000
Mary	78,000

4. The salary to partners was as follows:

	Sh.
Billy	200,000
Mary	600,000

5. Legal expenses relate to arbitration of personal dispute between Billy and Mary's husband.
6. Interest on drawings was as follows:

	Sh.
Billy	220,000
Mary	80,000

7. Ignore capital allowances.

Required:

- (i) Adjusted partnership profit for the year ended 31 December 2014. (10 marks)
- (ii) A distribution statement showing each partners' share of adjusted profit/loss. (4 marks)

(iii) Compute the tax payable by each partner.

(4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) State any five factors that influence tax shifting.

(5 marks)

(b) Sylvia Anderson is currently employed as an engineer with Nokia Siemens Networks Ltd (NSN). In the year ended 31 December 2014, she received the following emolument from her employment:

1. Basic salary per month Sh.225,000 net of PAYE deducted of Sh.75,000.
2. She is housed by the company in a house whose market rental value is Sh.80,000 per month. The house is supplied with water and electricity. She pays a nominal rent of Sh.16,000 per month. Water consumed was for Sh.17,500 and electricity consumed was for Sh.38,000 during the year.
3. She receives responsibility allowance amounting to Sh.40,000 per month.
4. She has free use of a vehicle assigned to her by the company since at times she works late. The vehicle, with an engine capacity of 2,200 cc is leased from Jayz Services Ltd., a car hire company, at an annual lease charge of Sh.600,000. The car had cost Jayz Ltd. Sh.3,600,000 in the year 2013.
5. On 1 July 2014, Sylvia Anderson obtained a loan of Sh.2,000,000 from the company at an interest rate of 7% per annum repayable in 2 years.
6. She is a member of the company's pension scheme where she contributes 5% of her basic pay and the employer contributes an equal amount for her. The scheme is registered with the Commissioner.
7. The company provided her with free meals at the work place worth Sh.27,500 monthly.
8. The other benefits she enjoyed from her employment during the year were:

(a) Free medical treatment valued at Sh.255,000 for the year. The company has a similar facility for all other staff members.

(b) A paid holiday to Dubai which cost the company Sh.450,000.

The prescribed rate of interest for the year 2014 was 13% p.a.

Required:

(i) Taxable income of Sylvia Anderson for the year ended 31 December 2014.

(12 marks)

(ii) Tax payable by Sylvia Anderson for the year ended 31 December 2014.

(3 marks)

(Total: 20 marks)

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