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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 31 August 2021.

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 2020.

Assume that the following rates of tax applied throughout the year of income 2020:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 40,667	288,001 - 488,000	15%
40,668 - 57,334	488,001 - 688,000	20%
Excess over - 57,334	Excess over - 688,000	25%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates																					
			<table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table>		Monthly rates (Sh.)	Annual rates (Sh.)	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
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(a) Buildings: <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building 	50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on reducing balance 10% per year on reducing balance	25% 25% 25% 25%	(ii) Pick-ups, Panel Vans (unconverted) Up to 1750 cc 3,600 43,200 Over 1750 cc 4,200 50,400																					
(b) Machinery: <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery 	50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on reducing balance 25% per year on reducing balance 10% per year on reducing balance 10% per year on reducing balance 25% per year on reducing balance 50% in the first year of use 10% per year on reducing balance	25% 25% 25% 25% 25% 25% 25%	(iii) Land Rovers/Cruisers 7,200 86,400																					
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance																							
(d) Farm works	50% in the first year of use	25%																						

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 term “county government revenue” as provided under the Public Finance Management Act. (2 marks)
- (b) Highlight five sources of non-tax revenue that the state uses to finance the national budget. (5 marks)
- (c) Identify five areas where the Public Finance Management Act shall prevail in case of any inconsistency with any other legislation. (5 marks)
- (d) Propose four benefits that could arise from citizen participation in the budget process and public finance management in your country. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Describe three functions of the Revenue Authority or similar body in your country. (6 marks)
- (b) Summarise four roles of the County Assembly in public finance management. (4 marks)
- (c) Mambo PLC is a registered company for value added tax (VAT) purposes. During the month of April 2021, the company made the following transactions:

April 4: Purchased goods on cash for Sh.64,960.

April 8: Imported goods from China whose cost, insurance and freight amounted to Sh.150,000. Import duty on those goods was at the rate of 25%.

April 12: Sold goods on cash valued at Sh.151,380 to the local market.

April 16: Exported goods valued at Sh.70,000 to Malawi.

April 18: Purchased goods on credit for Sh.91,060 from local markets.

April 20: Sold goods to Mbao Ltd. on credit for Sh.41,064.

April 24: Received debit notes of Sh.22,852 in respect to goods purchased from the local market.

April 26: Issued a credit note of Sh.34,220 to Mbao Ltd. in respect to under invoicing of supplies.

April 28: Paid for catering services from Safi restaurant of Sh.28,536.

April 30: Paid electricity bills of Sh.17,052 and for bottled mineral water for drinking worth Sh.9,164.

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

Required:

A value added tax (VAT) account for the month of April 2021.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Highlight four benefits of an effective tax system to a developing country. (4 marks)
- (b) Explain the following terms as used in the Custom and Excise Act:
- (i) Drawback. (2 marks)
- (ii) Uncustomed goods. (2 marks)

- (c) Erick Jawabu works for Tacos Ltd. as an Assistant Finance Manager. He has provided the following details relating to his income during the month of December 2020:

1. Basic salary Sh.150,000 per month.

2. Monthly allowance include:

Sh.

Entertainment allowance 40,000

Transport allowance 60,000

Responsibility allowance 25,000

3. He contributed 12% of his monthly basic salary towards the company’s provident fund approved by the Pension Authority.

4. He has a life insurance policy where the company pays Sh.35,000 per month for him. He also pays an equal amount for the policy on monthly basis.

5. He is a member of a House Ownership Savings Plan (HOSP) where he contributes Sh.10,000 per month.

6. He received medical benefits amounting to Sh.42,000 from the employer during the month. The company has a medical scheme for all its senior staff members.

7. The employer provided him with electricity, water, telephone and a cook at a cost of Sh.1,200, Sh.1,800, Sh.6,000 and Sh.16,000 during the month respectively.

8. He worked out of office for 5 days during the month and the company paid him an allowance of Sh.4,500 per day.

9. He received an overtime allowance of Sh.29,000 during the month.

Required:

(i) Total taxable income for Erick Jawabu for the month of December 2020. (10 marks)

(ii) Tax payable (if any) from the income computed in (c) (i) above. (2 marks)

(Total: 20 marks)

QUESTION FOUR

(a) With reference to Tax Procedures Act, propose four ways through which the Revenue Authority could use to recover unpaid taxes from a taxpayer. (8 marks)

(b) Tengeza manufacturers Ltd. commenced manufacturing on 1 May 2020 after having incurred the following capital expenditure:

	Sh.
• Factory building	19,600,000
• Processing machinery	8,400,000
• Godown	900,000
• Motor vehicle-saloon car	2,400,000
• Computers	600,000
• Staff canteen	700,000

Additional information:

1. The factory building above includes: showroom Sh.450,000, retail outlet Sh.300,000 and warehouse Sh.500,000.

2. During the month of August 2020, the company constructed and put into use the following structures:

	Sh.
• Factory extension	4,800,000
• Processing machinery	2,000,000
• Warehouse	800,000

3. Other capital items acquired during the month of October 2020 were as follows:

	Sh.
• Computers and printers	420,000
• Furniture and fittings	360,000
• Switchboard	180,000
• Saloon car	3,800,000
• Pick up	3,500,000
• Tractor	1,400,000
• Carpets	250,000
• Water tanks	120,000
• Borehole sunk	940,000

Required:

Investment allowances for the year ended 31 December 2020. (12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain the term “withholding tax” as provided under the Tax Procedures Act. (2 marks)

(b) Summarise four changes to the turnover tax regime that were introduced through Tax Laws (Amendment) Act, 2020. (4 marks)

(c) Kamali and Wanjiku are running Kawa Enterprises as partners, sharing profits and losses in the ratio of 2:3 respectively. The following is the statement of profit or loss of the business for the year ended 31 December 2020:

	Sh.	Sh.
Turnover (inclusive of VAT at the rate of 16%)		2,850,004
Profit on sale of motor vehicle		396,500
Interest on fixed deposit (Net)		185,000
Dividends from Wakeh Cooperative Society (Net)		68,000
Insurance recovery for stock stolen		<u>169,500</u>
		3,669,004

	Sh.	Sh.
Less expenses:		
Purchases	1,640,000	
Purchase of furniture	840,000	
Legal expenses	420,000	
Salaries and wages	650,000	
Travelling expenses	148,800	
General expenses	320,000	
Freight charges	360,000	
Insurance	124,800	
Loan repayment	240,000	
Purchase of computers	180,000	
Motor vehicle expenses	<u>156,200</u>	
Net loss		<u>5,079,800</u> <u>(1,410,796)</u>

Additional information:

- The partners' salaries included in the salaries and wages amounted to Sh.350,000. Their salaries were paid in the proportion to their profit and loss sharing ratio.
- The opening stock was valued at Sh.472,000 while closing stock was valued at Sh.600,000. It was discovered that closing stock was overstated by 20%.
- Legal expenses comprise:

	Sh.
Appeal against tax tribunal decision	164,800
Conveyance of parcel of land	32,000
Negotiating a business loan	36,400
Registration of trade mark	150,000
Debt collection fees	<u>36,800</u>
	<u>420,000</u>
- General expenses comprised:

	Sh.
• Cost of advertisement billboard	30,000
• Installation of advertisement Billboard	6,000
• Office partitions	24,000
• Renewal of patent rights	180,000
• Valuation of parcel of land	<u>80,000</u>
	<u>320,000</u>
- Freight charges included import duty of Sh.160,000 in respect to a motor vehicle imported from Japan. The motor vehicle cost of Sh.800,000 is included in the purchase figure.

Required:

- Adjusted taxable profit or loss for the partnership for the year ended 31 December 2020. (10 marks)
- A schedule of allocation of taxable profit or loss in (c) (i) above to each partner. (4 marks)

(Total: 20 marks)

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