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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 28 November 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%		
(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

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

Investment deduction allowance 100%

Shipping investment deduction 100%
(Ships over 125 tonnes)

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) The National Treasury is mandated to prepare annual Budget Policy Statement that guides the national and county governments in preparing the budgets for the following financial year and over the medium term and submit to Parliament by the 15th February in each year for approval.

With reference to the above statement, highlight four contents of Budget Policy Statement. (4 marks)

- (b) Summarise six considerations that should be taken into account by the National Assembly or Committee of a national assembly before passing a finance bill on raising of revenue. (6 marks)

- (c) Discuss five functions performed by the Auditor General as envisaged by the Constitution and the Public Finance Management Act. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) The Public Finance Management Act shall prevail in case of any inconsistency between this Act and any other legislation in certain matters specified under Section 6 of the Act.

In relation to the above statement, identify five such matters. (5 marks)

- (b) Explain five objectives of levying taxes in your country. (5 marks)

- (c) Mitch Enterprises Ltd. deals in wholesale of assorted vatable products sourced locally or imported.

During the month of June 2017, the company made the following transactions:

1. Sales summary for the month:

	Sh.
Sales at standard rate	2,784,000
Exempt sales	1,600,000
Zero rated sales	<u>417,600</u>
	<u>4,801,600</u>

2. The purchases recorded during the month were as follows:

	Sh.
Purchases for sale at standard rate	1,252,800
Purchase of office stationery	87,000
Isuzu truck to transport goods sold	5,568,000

3. The company paid for the following services during the month:

	Sh.
Security services fees	501,120
Insurance for company vehicles	464,000
Tax consultancy services	69,600
Garbage collection	17,400

4. During the month, the company paid Sh.8,700 and Sh.10,440 for electricity and water bills respectively.

5. Transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

Required:

Calculate for Mitch Enterprises Ltd. for the month of June 2017:

- (i) Deductible input tax. (6 marks)

- (ii) Output tax. (2 marks)

- (iii) VAT payable (or refundable). (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain the following types of tax assessment:

- (i) Self assessment. (2 marks)

- (ii) Default assessment. (2 marks)

(b) Summarise four details that are required to accompany the list submitted to the revenue authority on employees who have received lumpsum payment from the employer. (4 marks)

(c) Bakari Shoe Company Ltd. commenced operations on 1 January 2016 after incurring the following expenditure:

	Sh.
Factory building	6,800,000
Processing machinery	1,600,000
Furniture and fittings	426,000
Boilers	1,226,000
Forklift	960,000
Saloon car	2,400,000
Delivery van	3,700,000
Tractor	4,266,000
Lorry (4-tonnes)	3,200,000
Computers	600,000
Staff clinic	1,080,000
Land	25,000,000
Wheelbarrow	36,000

Additional information:

1. Factory building includes the cost of a showroom Sh.600,000, a retail shop Sh.530,000 and staff canteen Sh.720,000.
2. A perimeter wall was constructed at a cost of Sh.1,100,000 and completed on 1 April 2016.
3. A godown and staff quarters were constructed during the year at a cost of Sh.1,146,000 and Sh.1,040,000 respectively and put into use on 1 October 2016.
4. Included in the land is Sh.2,000,000 being legal fee paid to lawyers involved in acquiring the land.
5. A warehouse was constructed at a cost of Sh.940,000 and put into use on 1 September 2016.
6. On 1 October 2016, the following assets were acquired:

	Sh.
Conveyor belts	460,000
Workshop maintenance machine	440,000
Water pump	640,000
Trailer for tractor	330,000
Computers	200,000
Electrical weighing scale	150,000

7. During the year ended 31 December 2016, the following assets were disposed of:

	Sh.
Furniture	370,000
Computers	460,000

8. During the year, the saloon car was sold for Sh.1,000,000 and another one was purchased at a cost of Sh.3,000,000.
9. On 1 July 2016, a television set was purchased at a cost of Sh.64,000 and placed at the reception area.

Required:

Capital allowances for Bakari Shoe Company Ltd. for the year ended 31 December 2016. (12 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Explain the term "regressive tax" as used in taxation. (2 marks)

(b) Describe four conditions under which the Revenue Authority in your country might refund excise duty paid. (4 marks)

(c) Bonkey Magezi works for Baricho Millers Ltd. as a technical manager. He has provided the following information relating to his income for the year ended 31 December 2016:

1. Basic monthly salary of Sh.160,000 (PAYE Sh.48,000 per month).
2. He consumed food valued at Sh.180,000 during the year which was fully paid by the company. The company operates a restaurant which provides food to all staff.
3. Due to the nature of his job, he was paid hardship allowance of Sh.15,000 per month.

4. He contributed Sh.48,000 per month towards a registered pension scheme while the employer contributed 10% of his monthly basic salary towards the same scheme.
5. He was provided by the company with a pick-up of 2,000 cc which had cost the company Sh.2,800,000 in June 2010. The net book value of the motor vehicle on 31 December 2016 was Sh.1,600,000.
6. Bills paid for him by the company during the year were Sh.180,000 and Sh.120,000 for electricity and telephone respectively.
7. Bonkey Magezi's employment terms are such that in the month of taking leave, he is paid leave allowance equivalent to 70% of one month's basic salary. His leave fell due in June 2016.
8. He was provided with a gardener and a watchman who are on the company's payroll and received Sh.23,000 and Sh.26,000 per month respectively during the year.
9. The company paid life insurance premium for Bonkey Magezi of Sh.15,000 per month with effect from 1 April 2016.
10. The company operates a loan scheme for its senior staff. Bonkey Magezi took a loan of Sh.2,000,000 on 1 July 2016 at an interest rate of 3% per annum. The prescribed interest rate prevailing during the year was 11% per annum.
11. He was provided with accommodation by the company in a rented house of which the company paid a monthly rent of Sh.60,000. The house was furnished by the company on 1 January 2016 at a cost of Sh.180,000.
12. Bonkey Magezi holds a savings account with Hekima Bank Ltd. On 15 July 2016, he received Sh.68,500 as interest from his savings account.
13. His other incomes during the year were as follows:

	Sh.
Dividends from Bora Co-operative Society	380,000 (gross)
Consultancy and agency fees	160,000
Interest from Treasury Bills	230,000 (net)

Required:

- (i) Bonkey Magezi's taxable income for the year ended 31 December 2016. (12 marks)
 - (ii) Tax payable (if any) from the income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Identify three categories of imported goods that are exempted from pre-shipment inspection. (3 marks)
- (b) A notice of objection must be submitted by a tax payer within sixty days from the date of service of notice of assessment.

In relation to the above statement, examine three grounds under which the Revenue Authority might accept a late notice of objection. (3 marks)

- (c) Baraka, Bakari and Michapo are partners trading as Bami Enterprises dealing in transport business. They share profits and losses equally after allowing an interest of 10% on their capital contribution. Their income statement for the year ended 31 December 2016 reflected the following:

	Sh.	Sh.
Income:		
Sales revenue		2,800,000
Other income		<u>1,600,000</u>
		4,400,000
Operating expenses:		
Tyres and tubes	480,000	
Stationery	120,000	
Value Added Tax	160,000	
Legal fees	380,000	
Depreciation	90,000	
Subscription to trade association	48,000	
Advertisement costs	250,000	
Partner's medical expenses	140,000	
Fuel and oils	64,000	
Spares, repairs and maintenance	220,000	
Interest expense	940,000	
Commission to Bakari	120,000	
Salaries and wages	760,000	
Miscellaneous expenses	<u>800,000</u>	<u>(4,572,000)</u>
Reported loss		<u><u>(172,000)</u></u>

Additional information:

1. Legal fees comprised the following:

	Sh.
Preparation of employment contracts	125,000
Defending Baraka in a private suit	64,000
Preparation of a 90-year lease agreement	191,000

2. Advertising costs include a neon sign purchased for Sh.80,000 and erection of a sign post at Sh.25,000.

3. Salaries and wages include those paid to partners as follows:

	Sh.
Baraka	140,000
Bakari	160,000
Michapo	100,000

4. Capital allowances at Sh.195,000 had been agreed with the Commissioner of Income Tax.

5. Miscellaneous expenses include:

	Sh.
Registration of a trade mark	140,000
Cash embezzled by cashier	280,000
Parking fines	150,000
Staff catering services	230,000

6. Interest expense comprised the following:

	Sh.
Interest charged on hire purchase	340,000
Interest on partners capital accounts:	
Bakari	250,000
Baraka	180,000
Michapo	170,000

7. Other incomes comprised the following:

	Sh.
Recovered specific bad debts	240,000
VAT refund	600,000
Profit on disposal of motor vehicles	240,000
Discount received	180,000
Interest charged to Bakari on drawings	340,000

8. Spare parts and maintenance included Sh.180,000 spent on replacement of a motor vehicle engine.

Required:

(i) Taxable profit or loss of the partnership for the year ended 31 December 2016. (10 marks)

(ii) Distribution schedule of profit or loss calculated in (c)(i) above. (4 marks)

(Total: 20 marks)

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