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Public Finance and Taxation

April 2026

Level: Intermediate Level

Question 1a

 Introduction to Public Financial Management

Outline FOUR fiscal responsibility principles applicable in management of public finances as provided under Regulation 26 of the Public Finance Management Regulations, 2015.

✓ Answer for Question 1a

Fiscal responsibility principles include:

- Prudent and responsible management of public finances.
- Maintenance of predictable fiscal policies.
- Ensuring sustainable public debt levels.
- Effective management of fiscal risks.
- Maintaining stability in tax rates.
- Efficient and effective use of public resources.
- Aligning expenditure with government priorities.
- Promoting transparency and accountability.
- Ensuring intergenerational equity.
- Making adequate contingency provisions.
- Promoting fiscal discipline.
- Adhering to medium-term fiscal objectives.

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Public Finance and Taxation

December 2025

Level: Intermediate Level

Question 1b

Oversight Function in Public Finance Management

Explain FOUR functions of the Public Sector Accounting Standard Board (PSASB) as provided under the Public Finance Management Act, 2012.

✓ Answer for Question 1b

Functions of PSASB include:

- Prescribing public sector accounting standards.
- Developing financial reporting frameworks and guidelines.
- Promoting uniformity and consistency in financial reporting.
- Advising public entities on accounting matters.
- Monitoring compliance with prescribed standards.
- Reviewing and updating accounting standards.
- Conducting training and capacity building.
- Enhancing transparency and accountability in public finance.
- Harmonising public sector accounting practices.
- Liaising with professional and international accounting bodies.
- Conducting research on accounting issues.
- Issuing implementation guidelines and interpretations.

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Public Finance and Taxation

August 2025

Level: Intermediate Level

Question 1c

 Procurement in public entities

Analyse conditions to be met by a public entity when using community participation method of procurement as provided under the Public Procurement and Asset Disposal Regulations, 2020.

✓ Answer for Question 1c

Conditions for Use of Community Participation Method of Procurement

Under the **Public Procurement and Asset Disposal Regulations, 2020 (Kenya)**, a public entity may use the **community participation procurement method** where members of the local community are directly involved in the implementation of a procurement requirement. The following conditions must be satisfied:

1. **Project Benefits the Local Community**
   - The procurement must relate to a project whose benefits accrue directly to the local community.
2. **Labour-Intensive or Community-Based Works**
   - The works, services, or projects should be of a nature that can be effectively undertaken by the local community using local skills and resources.
3. **Community Capacity Exists**
   - The community must possess the necessary technical, managerial, and organizational capacity to undertake the procurement successfully.
4. **Value for Money Must Be Achieved**
   - The method should provide economy, efficiency, and value for money in the use of public resources.
5. **Community Participation Is Cost Effective**
   - The use of the method should be more economical or appropriate than other procurement methods.
6. **Adequate Community Organization**
   - The participating community should be properly organized, represented, and capable of entering into agreements with the procuring entity.
7. **Transparency and Accountability Measures**
   - The public entity must establish mechanisms to ensure accountability, proper record-keeping, monitoring, and transparency in the use of funds.
8. **Approval by Accounting Officer**

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Level: Intermediate Level

Question 2a

 Public Debt Management

Identify FOUR causes of rising public debt in most developing countries.

✓ Answer for Question 2a

Below are **common causes of rising public debt** in most **developing countries**:

1. **Persistent Budget Deficits:**
   Many developing countries spend more than they collect in revenue, leading to borrowing to fill the gap.

2. **Heavy Reliance on External Borrowing:**
   Developing countries often rely on **external loans**, including concessional and commercial loans, to fund development projects.

3. **Weak Tax Systems:**
   Inadequate tax administration and narrow tax bases limit domestic revenue mobilization, increasing dependence on debt.

4. **High Public Expenditure:**
   Rising costs in areas such as **infrastructure, public sector wages, and subsidies** contribute to high borrowing needs.

5. **Debt-financed Infrastructure Projects:**
   Large-scale capital projects, especially in energy, roads, and water, are frequently funded through borrowing due to lack of upfront domestic resources.

6. **Exchange Rate Depreciation:**
   When local currencies depreciate against foreign currencies, **external debt burdens increase** in local currency terms.

7. **Low Economic Growth:**
   Slow or negative economic growth reduces tax revenues and makes it harder to repay or reduce existing debt levels.

8. **Corruption and Mismanagement:**
   Inefficient use or embezzlement of borrowed funds means projects fail to generate returns, making the debt unsustainable.

9. **Emergency Borrowing Due to Shocks:**
   Events such as **natural disasters, pandemics, or political instability** may force governments to borrow suddenly and heavily.

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December 2024

Level: Intermediate Level

Question 2b

Procurement in public entities

Evaluate FIVE challenges hindering the effectiveness of e-procurement systems adopted by most developing countries.

✓ Answer for Question 2b

Challenges Hindering the Effectiveness of E-Procurement Systems in Developing Countries

Despite the potential benefits of **e-procurement systems**—such as transparency, efficiency, and cost savings—many developing countries face significant barriers that undermine their effectiveness. Below are key challenges:

---

1. Inadequate ICT Infrastructure

- Poor internet connectivity, unstable power supply, and limited access to computers hinder the full functionality of e-procurement platforms.

---

2. Low Technical Capacity

- Many procurement officers and suppliers **lack digital literacy and training**, leading to incorrect system usage or resistance to adoption.

---

3. High Implementation and Maintenance Costs

- Developing countries may struggle to **finance the development, upgrading, and maintenance** of robust e-procurement systems.

---

4. Cybersecurity Risks

- Weak systems are vulnerable to **hacking, data breaches, and manipulation**, which compromises the integrity of procurement processes.

---

5. Resistance to Change

- Stakeholders accustomed to manual systems may resist digital transformation, especially when **e-procurement threatens**

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August 2024

Level: Intermediate Level

Question 2c

 Administration of Value Added Tax (VAT)

Suntec Traders is a business registered for value added tax (VAT) purposes. The following transactions were recorded in the month of May 2024:

	Sh.
May 4: Purchases of goods (local)	4,640,000
May 6: Purchase of a computer	162,400
May 8: Return outwards	139,200
May 10: Legal fees	62,640
May 12: Imports Cost, Insurance and Freight (CIF)	300,000
May 14: Advance salaries and wages	580,000
May 16: Sales (local)	5,916,000
May 18: Export sales	600,000
May 20: Exempt sales	1,840,000
May 24: Printing and stationery	27,840
May 28: Electricity	53,940

Additional information:

1. During the month, import duty was at 20% on Cost, Insurance and Freight (CIF) basis.
2. A debtor of goods valued at Sh.121,800 was declared bankrupt on 20 May 2024.
3. Input tax relating to goods sold as exempt sales could not be directly identified and it was found appropriate to restrict deductible import tax.
4. Transactions are inclusive of VAT at the rate of 16% where applicable.

Required:

(i) Output tax.

(ii) Deductible input tax

(iii) VAT payable or refundable.

✓ Answer for Question 2c

(i) Output Tax Calculation

Sales (local)	5,916,000 x (16/116)	816,000
Export sales	600,000 * 0%	0
Exempt sales	1,840,000-Exempt	0
Total Output Tax		**816,000**

- Local Sales Taxable Value = 5,916,000 / 1.16 = 5,100,000
- Local Sales Output Tax = 5,100,000 × 16% = 816,000
-
- **(ii) Deductible Input Tax Calculation**
-

Purchases of goods (local)		4,640,000 x (16/116)	640,000
Purchase of a computer		162,400 x (16/116)	22,400
Return outwards		139,200 x (16/116)	(19,200)
Legal fees		62,640 x (16/116)	8,640
Printing and stationery		27,840 x (16/116)	3,840
Electricity		53,940 x (16/116)	7,440
Imports (CIF)	300,000		
Import Duty (20% of CIF)	60,000		
Dutiable Value for VAT (CIF + Duty)	360,000		
VAT on Imports		360,000 x 16%	57,600
Bad Debts Relief		121,800 x (16/116)	16,800
Total Gross Input Tax			737,520

-

Input Tax Restriction (Apportionment)

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Public Finance and Taxation

April 2024

Level: Intermediate Level

Question 3a

Miscellaneous fees and levies

Explain the applicable rate and the due date for the affordable housing levy.

✓ Answer for Question 3a

APHLE (Affordable Housing Levy) specifics as per the Affordable Housing Levy Act, 2024:

Applicable Rate

- 1.5% of the employee's gross monthly salary, deducted by the employer.
- Employers must also remit a matching 1.5% contribution for each employee
- Non-salaried individuals (e.g., self-employed, contractors) pay 1.5% of their gross income

Due Date for Remittance

- Contributions are due by the 9th working day following the end of the income month.
- For example, levies for March 2025 income must be paid by the 9th working day in April 2025

Summary

Contributor Type	Rate	Remittance Deadline
Employed Persons	1.5% salary + 1.5% employer	9th working day after month-end
Non-Salaried Individuals	1.5% gross income	9th working day after month-end

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December 2023

Level: Intermediate Level

Question 3b

Taxation of Income

Rosemary Aswani is a resident individual who is employed as a senior financial analyst by United Homes Ltd. from the year 2022. She has provided the following information relating to her income for the year ended 31 December 2022:

1. She received a monthly basic salary of Sh.204,000 from United Homes and a bonus equal to one month basic salary for her exemplary performance. PAYE deducted during the year was Sh.607,200.
2. Terminal dues received from her previous employer for services not rendered amounted to Sh.1,400,000. Her 4-year contract of employment was terminated after 2 years in December 2021 and payment was made as per the employment contract.
3. A commission of Sh.100,000 was paid to her for promoting the sale of houses where two houses were sold to the customers she had referred to the business.
4. She attended a five day master class for financial analysts organised by her professional body and the employer paid Sh.100,000 for the seminar and she was paid daily subsistence allowance of Sh.12,000 by the employer.
5. She was given an offer to buy a house from United Homes at 20% below the market selling price. She accepted the offer and bought one house whose market selling price was Sh.8,000,000.
6. She has a fixed deposit account of Sh.2,500,000 at Maisha Bank Ltd. from which she received interest of Sh.150,000 during the year.
7. She has a life insurance policy where she pays 60% of the premiums while the employer pays the balance. Annual premiums as per the insurance policy was Sh.240,000 for the year.
8. She was provided with a leased saloon car of 2000cc by the employer for both personal use and official duties on 1 September 2022. The saloon car had an initial cost of Sh.2,800,000 and lease charges were Sh.36,000 per month.
9. United Homes has a medical cover for all management staff. She was entitled to a maximum cover of Sh.880,000 per year although she utilised Sh.420,000 on medical costs during the year.
10. She paid subscription fees to her professional body amounting to Sh.24,000 during the year.
11. Her other incomes include:
    - Royalties income of Sh.180,000 net of withholding tax.

- Gross farming income of Sh.450,000 out of which Sh.80,000 was in respect of own consumption of farm produce.
- Part time practice as content creator where she made Sh.600,000 during the year.

Required:

(i) Compute taxable income for Rosemary Aswani for the year ended 31 December 2022.

(ii) Determine tax payable (if any) on the income computed in (b) (i) above.

✓ Answer for Question 3b

(i) Computation of Taxable Income for Rosemary Aswani for the year ended 31 December 2022

Particulars	Amount (Sh.)
Employment Income:	
Basic Salary (204,000 x 12 months)	2,448,000
Bonus (1 month basic salary)	204,000
Terminal Dues	1,400,000
Commission	100,000
Daily Subsistence Allowance (12,000 - 2,000) x 5 days	50,000
Fringe benefit from Preferential House Purchase: (Market Price 8,000,000 * 20%)	1,600,000
Life Insurance Premium Paid by Employer (240,000 x 40%)	96,000
Car Benefit Higher of: • (2% of Sh. 2,800,000 = Sh. 56,000 per month; • Commissioner's rate for 2000cc = Sh. 7,200 per month) • lease charges = Sh.36,000 (Sh. 56,000 x 4 months from Sep 2022)	224,000
Gross Employment Income	6,122,000
Less: Allowable Deductions:	
Professional Body Subscription Fees	(24,000)
Taxable Employment Income	6,098,000
Other Taxable Income (Non-Final Tax Incomes):	
- Grossed-Up Royalties (180,000 / 0.95)	189,474

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Public Finance and Taxation

August 2023

Level: Intermediate Level

Question 3c

 Taxation of Income

Solomon Chuchuh is employed as the Managing Director of Utamu Millers Ltd. During the year ended 31 December 2022, he presented the following information relating to his income:

1. His basic salary was Sh.120,000 per month net of PAYE of Sh.48,000 per month.
2. He was provided with lunch by the employees from 1 August 2022 of Sh.6,000 per month.
3. He enjoyed a medical allowance from the company which is only available to senior managers. The allowance was Sh.12,500 per month.
4. The company paid for him Life Insurance premiums of Sh.4,800 per month for each member of his family from 1 September 2022. This included himself, wife and the daughter.
5. During the year, the employer paid a total of Sh.200,000 as school fees for his daughter. This amount was allowed in the company's income statement.
6. He was provided with a fully furnished house with electricity and water. The employer paid monthly rent of Sh.50,000 for the house and deducted 5% of his basic salary for rent. The cost of furniture was Sh.240,000 while the monthly electricity bill and water bill amounted to Sh.1,800 and Sh.1,000 per month respectively.
7. On 1 October 2022, the company provided him with the following:
    - A land cruiser which was acquired at a cost of Sh.3,200,000 with an engine capacity of 3000cc.
    - A house servant and a night watchman whose monthly salaries were Sh.12,500 and Sh.15,000 respectively. The fair market value was agreed with commissioner at Sh.14,000 per month for each of them.
8. He contributed 15% of his monthly basic salary towards a registered pension scheme while the employer contributed 10% of his basic salary towards the same scheme.
9. Other incomes for the year include: He has invested in the real estate and from his rental houses, he reported a net rental income of Sh.2,400,000 after deducting the following expenditure:

	Sh.
Caretaker wages	420,000

Fencing cost	640,000
Loan repayment	320,000
Monthly rental income tax	487,820
Insurance, rent and rates	248,000
Advertising	360,000
Partitioning and CCTV cameras	222,000
Repairs and maintenance	268,200
	2,966,020

10 Dividend received from United Millers Co-Operative Society was Sh.306,000 net and interest received from Fanaka Bank Ltd. was Sh.240,000 net.

Required:

(i) Compute the total taxable income for Solomon Chuchuh for the year ended 31 December 2022.

(ii) Determine tax payable (if any) from the income computed in (c) (i) above.

✓ Answer for Question 3c

(i) Computation of Total Taxable Income for Solomon Chuchuh for the Year Ended 31 December 2022

<u>Employment Income</u>	**Sh.**
Basic Salary: (120,000 + 48,000) × 12	2,016,000
Lunch Provided: (6,000 - 4,000) × 5	10,000
Medical Allowance: 12,500 × 12	150,000
Life Insurance Premiums Paid by Employer: (4,800 × 3) × 4	57,600
School Fees Paid by Employer:	200,000
Furniture 1% x 240,000 x 12	28,800
Electricity Benefit: 1,800 × 12	21,600
Water Benefit: 1,000 × 12	12,000
Vehicle Provided (Land Cruiser): <u>higher of:</u> • Commissioner's prescribed rate = 7,200 per month or • 2% of the cost of the vehicle: 2% × 3,200,000 = Sh. 64,000 per month Total Vehicle Benefit = 64,000 × 3	192,000
House Servant: <u>Higher of:</u> • Salary paid (12,500) or • FMV (14,000) = Sh. 14,000 per month Benefit for House Servant = 14,000 × 3	42,000
Night Watchman: <u>Higher of:</u> • Salary paid (15,000) or • FMV (14,000)	

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Public Finance and Taxation

April 2023

Level: Intermediate Level

Question 4a

 Introduction to Taxation

Distinguish between a “single tax system” and a “multiple tax system”.

✓ Answer for Question 4a

Distinction Between Single Tax System and Multiple Tax System

Aspect	Single Tax System	Multiple Tax System
Definition	A tax system where only one type of tax is imposed on income or activity.	A system where two or more types of taxes are levied on different incomes, transactions, or goods.
Complexity	Simple and easier to administer and comply with.	More complex due to multiple tax laws and reporting requirements.
Administrative Cost	Lower administrative and compliance costs.	Higher costs due to management of various taxes.
Examples of Taxes Involved	Typically one tax, e.g., only income tax.	Involves several taxes, e.g., income tax, VAT, excise duty, customs duty, etc.
Revenue Diversity	Limited, as government depends on a single source of revenue.	Diverse and more stable revenue base.
Fairness/Equity	May not fully address ability to pay or consumption patterns.	Can be structured to ensure progressive taxation and fairness.
Example of Jurisdiction	Rare in practice; theoretical or used in small, simple economies.	Most modern economies, including Kenya, use a multiple tax system.

Summary

- A **single tax system** imposes **one type of tax** on income or economic activity, making it simple but narrow.
- A **multiple tax system** applies **various taxes** to different bases (income, consumption, imports, etc.), making it more comprehensive but complex.

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Public Finance and Taxation

December 2022

Level: Intermediate Level

Question 4b

 Customs Taxes and Excise Taxes

Highlight THREE benefits derived by member countries of the East African Community from use of the Single Customs Territory.

✓ Answer for Question 4b

Benefits of the Single Customs Territory (SCT) to EAC Member Countries

The Single Customs Territory (SCT) is a trade facilitation framework under the East African Community (EAC) aimed at deepening integration by harmonising and simplifying customs procedures across member states.

Key Benefits to EAC Member States:

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1. Faster Clearance of Goods

- Goods are cleared at the first point of entry into the EAC, reducing duplication of customs checks at internal borders.

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2. Reduced Transit Time and Costs

- Transit time from ports to inland destinations (e.g., Mombasa to Kampala) is significantly shortened.
- Eliminates multiple customs procedures and minimizes delays.

---

3. Lower Cost of Doing Business

- Reduction in administrative costs and warehousing fees.
- Enhances competitiveness for businesses operating across EAC borders.

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4. Improved Revenue Collection

- Promotes real-time tax remittance and reduces smuggling and revenue leakage.
- Enhances inter-agency coordination among revenue authorities.

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Public Finance and Taxation

August 2022

Level: Intermediate Level

Question 4b

 Taxation of Income

Parkim Ltd., a large manufacturing company has provided you with the following statement of profit or loss for the year ended 31 December 2021:

		Sh.
Gross profit		32,000
Less: General expenses	1,400	
Loan repayment	1,600	
Directors fees	4,200	
VAT paid	2,700	
Depreciation	5,700	
Salaries and wages	2,400	
Donations to a political party	780	
Interest expense	4,200	
Instalment tax paid	600	
Dividends paid	1,005	
Repairs and maintenance	2,250	(26,835)
Net profit for the year		5,165

Additional information:

1. On 1 January 2021, Parkim Ltd. purchased an industrial building from Samba Ltd., a contractor for Sh.200 million. The following details were availed that comprised the total purchase price for the industrial building:

	Sh.“000”
Land	22,000
Demolition of old building site	10,000
Labour quarters	60,000
Factory building	90,000
Perimeter wall	5,000

Drainage and sewerage system	13,000
	200,000

2 The factory building above houses a warehouse costing Sh.7,000,000, administration block costing Sh.7,000,000 and a showroom at a cost of Sh.4,000,000.

3 Parkim Ltd. purchased and installed a processing machinery in the factory at a cost of Sh.40,000,000 on 2 January 2021 and started manufacturing leather products. The cost of processing machinery included workshop machine and a boiler at a cost of Sh.5,000,000 and Sh.6,000,000 respectively.

4 The following additional assets were acquired during the year ended 31 December 2021:

- On 5 January 2021, computers were acquired on hire purchase at Sh.620,000. Hire purchase interest included was Sh.140,000.
- Acquired furniture and other machines at Sh.720,000 and Sh.968,000 respectively.
- On 15 March 2021, Parkim Ltd. bought a pickup for Sh.2,250,000, a motorcycle for Sh.190,000, a water pump for Sh.48,000 and two delivery trucks for Sh.5,000,000 each.
- Two saloon cars were purchased at Sh.3,600,000 each in April 2021. In October 2021, one saloon car was involved in an accident and the insurance company paid Sh.2,000,000 as compensation.
- In November 2021, the pickup vehicle was traded in with a new delivery van valued at Sh.3,000,000. The pickup had a value of Sh.1,600,000 at the time of the trade in.

5 Interest expense include:

- Hire purchase interest for the computers	140,000
- Interest on overdue loan	200,000
- Provision for interest on a loan to be obtained to expand the business	752,000
- Interest on unpaid tax	448,000

6 Gross profit included anticipated foreign exchange gain of Sh.2,000,000 and a reduction in general bad debts of Sh.620,000.

Required:

(i) Parkim Ltd.'s investment allowances for the year ended 31 December 2021.

(ii) Ascertain the taxable profit or loss for the year.

(iii) Explain the tax treatment of tax losses.

✓ Answer for Question 4b

(i) Parkim Ltd.'s Investment Allowances for the Year Ended 31 December 2021

A. Investment Allowance

Asset	Qualifying Cost "000"	Rate	IA "000"	NBV "000"
Factory building (90,000 - 7,000 - 7,000 - 4,000)	72,000	50%	36,000	36,000
Perimeter wall	5,000	50%	2,500	2,500
Drainage and sewerage system	13,000	50%	6,500	6,500
Processing machinery (40,000 - 5,000 - 6,000)	39,000	50%	19,500	19,500
Boiler	6,000	50%	3,000	3,000
Water pump	48	50%	24	24
			67,524	

B. Industrial Building Deduction

Asset	Qualifying Cost "000"	Rate	IBD "000"	NBV "000"
Demolition of old building site	10,000	10%	1,000	9,000
Labour quarters	60,000	10%	6,000	54,000
Warehouse	7,000	10%	700	6,300
Administration block	7,000	10%	700	6,300
Showroom	4,000	10%	400	3,600
			8,800	

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Public Finance and Taxation

April 2022

Level: Intermediate Level

Question 4c

 Taxation of Income

Kalebu, Wekesa and Babu are in partnership trading as Kaweba Traders and sharing profit and loss equally.

The partners have presented the following statement of profit and loss for the year ended 31 December 2021:

	Sh.	Sh.
Sales		17,940,000
Opening stock	1,245,000	
Purchases	9,887,000	
Closing stock	(2,162,000)	(8,970,000)
Gross profit		8,970,000
Profit on sale of furniture		1,359,300
Insurance compensation for stolen car		713,000
Discount received		382,100
Farming income		192,050
Dividend income (net)		517,500
		12,133,950
Less Expenses:		
Mortgage interest	552,000	
Furniture at cost	138,000	
Depreciation	529,000	
General expenses	3,243,000	
Salaries and wages	4,357,000	
Custom duty	209,300	
Conveyance fee	195,500	
Legal expenses	1,867,500	

Repair and maintenance	2,070,000	
Value Added Tax (VAT) paid	94,300	
Interest on capital	959,100	
Bank charges	138,000	
Rent and rates	377,200	
Auditing and accountancy fees	529,000	
Motor vehicle expenses	486,220	
Insurance premiums	441,600	(16,186,720)
Net loss		(4,052,770)

Additional information:

1 Mortgage interest related to a partners residential house.

2 Insurance premiums include Sh.259,900 paid to insure Wekesa's private car.

3 The investment allowances were agreed with the revenue authority at Sh.1,357,000 during the year ended 31 December 2021.

4 The partners took goods for personal use which have recorded as sales which had a cost price of Sh.207,000. The gross profit margin was 20%.

5 Salaries and wages included:

	Sh.
Kalebu	1,035,000
Wekesa	1,380,000
Babu	1,150,000

6 Interest on capital comprised:

	Sh.
Kalebu	374,900
Wekesa	170,200
Babu	414,000

7	Legal fees included:	**Sh.**
	Preparation of tender document	287,500
	Parking fines paid to county government	138,000
	Court charges for breach of contract	368,000
	Appeal against tax assessment	75,000
	Defending a partner in a local committee	216,200
8	General expenses included:	**Sh.**
	Embezzlement by cashier	678,000
	Registration of trademark	337,500
	Office partition	510,000
	Directors' christmas party	575,000
9	Repairs and maintenance comprised of:	**Sh.**
	New office tables	280,000
	Laptops and computers	430,000
	Fixing broken chairs and tables	116,000

Required:
(i) Adjusted partnership statement of profit and loss for the year ended 31 December 2021.

(ii) The allocation of profit or loss computed in (c) (i) above to each partner.

✓ Answer for Question 4c

(i) Adjusted partnership statement of profit and loss for the year ended 31 December 2021.

	Sh.
Net Loss as per Accounts	(4,052,770)
Add back: Non-Allowable Expenses / Disallowed Items	
Mortgage interest (Private)	552,000
Furniture at cost (Capital)	138,000
Depreciation (Non-cash)	529,000
Salaries and Wages (Partners' salaries)	
• Kalebu	1,035,000
• Wekesa	1,380,000
• Babu	1,150,000
Interest on capital comprised:	
• Kalebu	374,900
• Wekesa	170,200
• Babu	414,000
Custom duty (Capital Expenditure)	209,300
Conveyance fee (Capital Expenditure)	195,500
Legal expenses (Disallowed portion):	

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Public Finance and Taxation

December 2021

Level: Intermediate Level

Question 5a

 Miscellaneous fees and levies

(i) Explain the term "lottery" as used in taxation.

(ii) Explain the tax charges (if any) and the due date in relation to lottery.

✓ Answer for Question 5a

(i) Explanation of the Term "Lottery" as Used in Taxation

Definition:

In taxation, a lottery refers to a scheme or arrangement where participants pay money or stake a consideration for a chance to win a prize, which is awarded based on a draw, chance, or random selection.

Key Features:

- Participants purchase tickets or pay entry fees.
- The outcome is based on chance, not skill.
- Prizes may be cash, goods, or services.
- Examples include raffles, scratch cards, SMS lotteries, and online draws.

(ii) Tax Charges and Due Dates Relating to Lotteries (Kenya Context)

Applicable Tax:

The tax applicable to lotteries in Kenya is called the Lottery Tax, provided for under the Income Tax Act and Betting, Lotteries and Gaming Act, and administered by the Kenya Revenue Authority (KRA).

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1. Tax Rate on Gross Gaming Revenue (GGR):

- 15% of the Gross Gaming Revenue (GGR) for lotteries.
  - GGR = Stakes received minus prizes paid out.

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Public Finance and Taxation

August 2021

Level: Intermediate Level

Question 5b

 Taxation of Income

Mazao Ranch Ltd. practices mixed farming and milk processing.

The following is the company's statement of profit or loss for the year ended 31 December 2020:

Revenue:	**Sh.**	**Sh.**
Sale of milk		2,400,000
Sale of livestock		1,800,000
Sale of manure		540,000
Proceeds from sale of an old tractor		820,000
Discount received		180,000
		5,740,000
Expenses:		
General expenses	430,000	
Construction of water tank	240,000	
Vaccines for livestock	640,000	
Loan repayment	350,000	
Depreciation	180,000	
Electricity and water	135,000	
Conveyance fees	156,000	
Construction of chicken sheds	480,000	
Animal feeds	200,000	
Salaries and wages	1,240,000	
Bad debts provision	150,000	
Repairs and maintenance	762,000	
Professional fees	620,000	(5,583,000)

Net profit		157,000

Additional information:

1 Farm works acquired on 1 July 2020 comprised the following:

	Sh.
Granary	420,000
Labour quarters	1,200,000
Cowshed	160,000

2 General expenses include:

	Sh.
Subscriptions to Farmers Association	96,000
Acquisition of a 50 year lease	180,000
Staff Christmas party	25,000
Parking fines	129,000

3 Repairs and maintenance comprise:

	Sh.
Provision for fencing expenditure	145,000
Repairs to machinery	240,000
Other repairs	377,000

4 Professional fees include Sh.500,000 paid with regard to pursuing a dispute with the Revenue Authority's VAT department.

5 Assume the corporate tax rate during the year was 25%.

Required:

(i) Adjusted taxable profit or loss of Mazao Ranch Ltd. for the year ended 31 December 2020.

(ii) Tax payable (if any) on the profit or loss in (b) (i) above.

✓ Answer for Question 5b

(i) Adjusted taxable profit or loss of Mazao Ranch Ltd. for the year ended 31 December 2020.

	Sh.
Net Profit as per Accounts	157,000
Add: Disallowable Expenses and Non-Trading Income deducted in P&L	
Loan repayment (Capital)	350,000
Depreciation (Non-allowable expense for tax)	180,000
Construction of water tank (Capital expenditure - Farm Works)	240,000
Conveyance fees (Capital expenditure)	156,000
Construction of chicken sheds (Capital expenditure - Farm Works)	480,000
Bad debts provision (Disallowable provision)	150,000
General expenses:	
• Acquisition of a 50-year lease (Capital expenditure)	180,000
• Parking fines (Disallowable penalty)	129,000
Repairs and maintenance:	
• Provision for fencing expenditure (Disallowable provision)	145,000
Less: Non-Taxable Income and Allowable Deductions (not yet accounted for)	
Proceeds from sale of an old tractor (Capital receipt, not trading income)	(820,000)
Wear and Tear Allowances (WTA):	