
UNDERSTANDING NATIONAL AND COUNTY GOVERNMENTS ACCOUNTING

**AN INTREPID ASSESSMENT OF
PUBLIC POLICIES AND THEIR IMPACT
ON KENYANS**

By Felix Indure

Government expenditure, public debt and taxation are tools used in combination to influence the economy. The Kenyan Constitution gives Kenyans power to rule their country and participate in what the government is undertaking. Therefore this book is meant to edify Kenyans on public finance of the two levels of governments in Kenya; the national government and the county government. It helps Kenyans to appreciate how decisions made at county level and nationally affect them.

A good tax system should be equitable thus ensuring the tax burden falls broadly on the rich. It should encourage development of trade and industry. It should yield ample revenue to the government; consequently it should be pegged on stable foundation. In addition, a good tax system should ensure economic stability. On the other hand, good government expenditure should have mechanisms to curb extravagant usage of public finances, ensure expenses are properly authorized and they should only be incurred if they are beneficial to Kenyans. Public debt should only be incurred for development purposes. The book, 'Understanding National and County Governments Accounting: An Intrepid Assessment of Public Policies and their Impact on Kenyans', delves into these issues.

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INTRODUCTION

The early forms of taxation were where the kings seized most of the goods of their defeated enemies. They held captive those they had defeated as slaves and mostly carted their beautiful women away. It was also common for a weak king to send regular gifts to a powerful king to avoid being attacked. When Abram returned after defeating Kedorlaomer and kings allied with him, the king of Sodom came out to meet him in the valley of Shaveh. Melchizedek king of Salem brought out bread and wine, he blessed Abram. Abram gave him a tenth of everything. But the king of Sodom pleaded with Abram to keep the loot and only give him the people he had freed. This was taxation in its infancy.

The Egyptians after depleting their source of money to buy food from Joseph, sold their land to obtain food. Joseph having acquired all Egyptians' land spelt to them that all land in Egypt belonged to Pharaoh. Nevertheless, the people would continue residing in their original lands but they would bring twenty percent (20%) of their harvest to Pharaoh. Before the tax introduced by Joseph, it is clear the ruling class composed of rich businessmen, magicians and priests. In addition, any nations that were subdued paid gifts to the conqueror. A brave nation would attack a weak nation and haul away its resources to maintain its leadership. Therefore, the subjects of a country did not pay taxes but offered services like going to war for their leaders freely. Jesus agreeing that citizens of a country were free asked Peter who paid taxes, whether it was sons of the kingdom or slaves. Peter quickly answered it was the slaves. Jesus then implied that since He and Peter were sons of God, they were not supposed to pay taxes. But because it is God who had allowed worldly governments to exist, Peter should fish and from the fish's mouth obtain enough money to pay the taxes of Jesus and himself. Taxes were thus paid by slaves or an enslaved nation. For that reason, even today, residents of a country have some privileges when it comes to payment of tax compared to non-residents.

But what made citizens of a country to start paying tax was, as the leaders' expenditure broadened and many gravitated towards living a luxurious showy life, they started to oppress their subjects to pay tax. God did not want the Israelites to ape the surrounding nations. The Israel lived each person doing what one knew was right. They had no leaders to be maintained by taxes but had judges. However, God required the Israelites to maintain the Levites. The Levites owned no land and they represented God's kingdom.

The Israelites were to give them ten percent (10%) of all their incomes willingly. It was a form of taxation, it was not enforced by any law but the willing giver got blessed as God made giving part of the laws of the universe. The major difference between God's form of taxation to that of humanly government was that:-

1. One was required to give 10% of his incomes willingly. Government taxation is compulsory and one has to give the money whether one desires to do so or not, most of the time the money would be deducted from ones incomes at source, then one is given the net income to avoid tax evasion.
2. God's kind of taxation was not enforceable and no one was chastised for not giving. Government tax is enforceable and punishable. Late payment attracts penalties and interests, one who had an intention to avoid it may be jailed or even fined heavily and still required to pay the outstanding taxes.
3. God's kind of taxation left the giver happy for a number of reasons. One felt happy for pleasing God by giving. One felt happy for putting a smile on another human being's face by giving. And lastly, since God ingrained giving among the laws of nature, there is joy in giving than receiving. Government taxation may leave its citizen unhappy and they may resent giving especially when the taxes are embezzled and wasted on unworthy causes.
4. God's kind of taxation was to uplift the life of the poor, the widow, the fatherless, the foreigner and maintain the landless Levites. Government taxes were initially to maintain the ruling class. But as more and more persons started resisting taxes, all governments have to justify why they tax them. Even voluntary taxation by God was resisted. When the Israelites thought that the Levites were abusing the privilege of being given 10% of their incomes, they clamoured to have a government of Kings like other nations. Despite God warning them the Kings would tax them arbitrary, take their land, daughters and sons at will, they paid no heed.

Taxation by a nation's leadership was thus formalised. Taxation by the Levite class paled into oblivion and could be termed as illegal or black tax. Every subject resented tax. The Israelites who where exiled, and paid tax to the Roman Empire wished and hoped the Messiah would free them from taxes.

When Jesus declared himself as the Messiah and most Jews were not receptive of him, they decided to give him a bad name and hang him. They trapped him by asking if it was legal to pay taxes. He asked for a coin and when he was handed one, he asked whose

image was imprinted on the coin. When they said Caesar's, he told them that they should therefore give Caesar what belonged to him and give God what belonged to God.

In essence, Jesus was saying that though it was painful to pay taxes and many disliked it, everyone was under obligation to pay taxes. This is because God has allowed worldly kingdoms to exist as human beings themselves craved them. The worldly authorities represent God by punishing evil and maintaining law and order. But still most human beings required the government to justify why it levies taxes. The governments themselves have strived to encourage people to pay taxes willingly. We shall delve deeply into this while looking at taxation as a source of National Government revenue.

Taxation is not the only source of government revenue. In the past, errant persons paid fines and an enslaved nation paid 'gifts' to a superior nation. But as it became increasingly impossible to colonise or conquer weak nations, governments had to look for other revenue sources. The government can thus trade, invest, impose fines and penalties, charge for services offered, borrow and solicit for donations.

Accounting for any government transactions obeys the General Accepted Accounting Principles and it's a bonus if a government adopts the International Public Sector Accounting Standards (IPSAS). Therefore, the simple rule in accounting would be;

$\text{Assets} + \text{Expenses} = \text{Accumulated Fund} + \text{Revenue}$
--

From the equation, expenses would reduce revenue that is why it is recommended for governments to have a balanced budget where the revenue is equal to expenses. When expenses are more than revenue, this leads to the depletion of the accumulated fund and these forces a government's assets to be dilapidated to balance the equation. When government revenue exceeds expenses, the accumulated fund would increase and this means a government's infrastructure would be robust.

CHAPTER ONE

COUNTY GOVERNMENT REVENUE

County government revenue can be expressed as the entire income measured in Kenya shillings fetched by the county government's operations for a period of one fiscal year. This amount is gross receipts before factoring any county government expenditure. A fiscal year commences on first July of any given year and ends on 30th June. It is a period of twelve months. County government revenue can also be termed as receipts or income.

Receivers and collectors of county government revenue

The Receivers (including Kenya Revenue Authority) are appointed in writing by the County Executive Committee Member for Finance. The receiver may in turn empower a county entity/government officer to be a collector of revenue and remit it to the receiver. The receiver sequentially remits the revenue within 3 days after collection to the county government. The receiver is obliged to provide quarterly statements to the County Treasury with copies to the National Treasury and the Commission on Revenue Allocation. Most counties opt to have their own revenue collectors and require levy payers to bank directly into county revenue collection accounts.

Waiver of a county levy, fee or charge.

The County Executive Committee Member for Finance is empowered to waive a county levy, fee or charge imposed by the county government/entities provided:-

- (a) The County Treasury preserves public records for each waiver with a basis for the waiver and account for each waiver.
- (b) A State Officer is not excluded from payment of a levy, fee or charge by reason of one's office.
- (c) The waiver is sanctioned by an Act of Parliament or County Legislation.

Sources of County Government Revenues

Sources of County Government revenue refer to where the county government gleans its revenue. The sources can be broadly classified as **County Own Generated Revenues** and **External Revenue Sources**.

County Own Generated Revenues

This refers to revenue collected by county governments within the county's boundaries as they execute their mandate as specified in the Constitution of Kenya and other enabling laws. The County Own Generated Revenue sources are either permanent or intermittent.

Permanent sources of county government Own Generated Revenues

These revenues recur each year and are majorly as a result of persons owning land in the county or they are renting county properties. The county can budget reliably with these revenues as it knows

beforehand the expected revenue. They include; Land Rates, Ground Rent, Parking Fees, Market Stalls Rent and House Rent.

Land Rates

A Land rate is an annual charge on land owned within the county usually as a percentage of the undeveloped land's cost. The owners of the land who have a title deed pay this revenue to the county. The justification for paying this levy is that the county freely provides its resident with free waste and sewerage disposal, freely builds and maintains access roads, provides street lighting and ensures order and sanity in the county.

Ground Rent

This is paid by persons using land for a given period of time who do not have a title deed. In the event a county allocates land to its landless residents and stipulates they pay a certain annuity for a given number of years to own the land, the beneficiaries would pay ground rent till they pay the last annuity. Upon owning the land and having a title deed, they would start paying land rates. But until then, they pay ground rent. Ground rent is also paid by telecommunication companies that erect their communication masts for an agreed period or lay their fibre optic cables on county land. Churches that would pitch tents for some time on county land would pay ground rent.

Parking Fees

County governments have parking bays in their urban centres. The number of parking bays is known and the revenue can be computed reliably. Some organizations may rent some parking slots for the whole year to ensure their workers do not lack parking slots. Parking bays also encourage order in a city, town or an urban centre.

Market Stalls Rent

County governments own all market stalls in their county. They rent these stalls to small scale traders usually those selling agricultural produce. The stalls are numbered and their revenue is permanent and is dependably determined.

House Rent

County government own houses which they let to the general public.

Intermittent sources of county government Own Generated Revenues

These are revenues whose reliability of collection is not assured as county residents may avoid them. They are usually interest and penalties on late payment of permanent sources of revenue and breach of county legislation. Others sources of these revenue are permits, approval certificates, inspection charges and sale or hire of county assets. The revenues have no standardized charges as the rates vary due many factors. Permits would be granted on basis of floor space, number of customers, location of the business and as such it is possible to have similar business of the same size being

charged differently. The extent of violation of county legislation would determine the fine, imprisonment or both.

Examples of county government intermittent revenue are; Administration Costs, Land Rates Penalties, Document Search Fee, Sales of Publications / Acts(laws), Valuation & Survey Fees, Plot Transfer Fee, Provisional Assessment Fees, Consent to Sub-Lease fees, Beacon Search pointing Fee, Subdivision & Consolidation Fees, Change of User fees, Impounding charges, Dog Licenses, Towing & Storage Fee, Training/Learning Center Fee, Debts Clearance Certificate Fee, Cheque Clearance Fee, Sand, Gravel, and Ballast Extraction Fees, Tender Documents Sale, Hotel Levy, Hire of County Grounds, Hire of County Social Halls, Sewer Connection Charges, Sewer Use Charge, Hire of County Vehicles, Fire Inspection Fees, Hearse Services Fee, Fire-Fighting Services, Landscaping fees, Buildings Plan Preparation Fee, Buildings Plan Approval Fee, Buildings Inspection Fee, Alterations and Extensions (permanent building) fee, Demolition of Structures fee, Structural Submission/Approval Fees, Business Permits, Business Subletting / Transfer Fee, Sale of County Assets, Off loading fees, Hawking Fees, Road Reinstatement charges, Drainage Certificate Charges, Road Cutting Application Fees, Matatu Levy, Penalties For Illegal Connections, Right-of-way / Way-Leave Fee (Kenya Power, Telkom, fibre optic etc), Sign Boards & Advertisement Fee, Horticulture Consultation Fee, Livestock Certificates, Livestock Permits, Slaughter Licenses, Vaccination(Dogs, Horses, Camels) fees, Dog Licenses, Cooperative Audit Charges, Cemeteries Charges, Garbage Dumping Fee, Refuse Collection Fee, Inspection of Schools Registration fee, Premises Inspection Fees, cost sharing health charges and Court Fines.

Borrowings

Counties can borrow internally from local banks, corporations and individuals.

Issue of stocks

Counties can issue stock to raise funds from county residents.

External Revenue Sources

External revenue sources are those incomes the county receives from other county governments as loans or grants, receipts from the national government and any other government in the world. It also includes donations and grants from well wishers. Such revenue include; Equitable Share, Level 5 Hospital Grant, user fees forgone, World Bank Funds, World Bank-IDA: Transforming Health Systems for Universal Care Project, Universal Health Care-DANIDA, KDSP, Development of Youth Polytechnics, Agriculture Sector Support Program II and Road maintenance fuel levy fund.

Equitable Share

This revenue is given to counties by the national government. It is etched in the Kenyan Constitution which stipulates that every financial year, revenue raised nationally should be allocated to counties and the amount should not be less than 15% of all revenue collected by the national government.

Donations

The public finance and management Act (2012) defines a donation as a gift or a contribution. County governments may receive donations.

Grants

A Grant is the provision of financial or other aid by a development partner which is not refundable. A county government/entity may receive a grant from a development partner with the approval of the County Executive Committee member for finance.

Level 5 Hospital Grant

This is given to counties by the National Government. The health sector was devolved to counties but health being an important sector, the national government would like to ensure it remains vibrant by funding its operations.

User Fees Forgone

Public hospitals used to charge a necessary fee for persons to gain access to health services. With advent of counties they lost this fee and to compensate them for this, the national government gives county government the revenue earmarked to health centres and dispensaries to replace user fees revenues and ensure people are treated freely or at a subsidized cost.

World Bank Funds

World Bank has been keen on implementation of structural alterations in developing countries. World Bank has supported the implementation of County Governments in Kenya particularly in financial reporting and enhancing transparency in their activities. It has also advised counties and trained county staff. Therefore World Bank has been disbursing funds to counties to enable them have dynamic health, education, justice, environment and financial systems.

World Bank-IDA: Transforming Health Systems for Universal Care Project

This is a conditional grant from International Development Association given to counties to improve their health system particularly in low income areas thus making health facilities accessible to poverty stricken populations.

Universal Health Care-DANIDA

Danida is a Danish International Development Agency a brand used by the Danish ministry of foreign affairs. It provides humanitarian aid and development assistance to less developed countries. Therefore Universal Health care-Danida is a conditional grant to boost health care in counties by ensuring the poor persons afford health facilities.

KDSP

Is a Kenya Devolution Support Program (KDSP) that supports funds flow to strengthen inter-governmental fiscal structure. The program transfers funds to County government in its quest to realise National government's vision through county governments.

Development of Youth Polytechnics

The national government assists the county government in revamping vocational training centres and youth polytechnics by giving them a conditional grant to do so.

Agriculture Sector Support Program II (ASDP II)

It is a nationwide programme sponsored by National Government, the government of Sweden and the European union. Its major goal is to develop sustainable income, food and nutrition security. Since agriculture is a devolved function handled by county governments, the above mentioned partners give the counties revenue to do so.

Road maintenance fuel levy fund

Kenya roads board disburses funds to counties either as conditional grant to develop specified roads or as a non-conditional grant to counties to maintain County roads of their own choice.

Illustration 1:

The County Government of Xyz obtained the following information from its Receiver of Revenue for the purposes of compiling its First quarterly report for the year 2024/2025 on 1st October, 2024.

COUNTY GOVERNMENT OF XYZ					
DETAILED MONTHLY REVENUE ANALYSIS					
	REVENUE.	ANNUAL BUDGET	July	August	September
		2024-2025	2024-2025	2024-2025	2024-2025
VOTE	VOTE HEAD	KSHS.	KSHS.	KSHS.	KSHS.
1410401	Land Rates	202,477,887	22,778,540	17,368,846	16,096,472
1410404	Housing Estates Monthly Rent	43,870,725	8,413,755	3,772,026	531
1410501	Annual Ground Rent	608,758		140,536	28,563
1420318	Sign Boards & Advertisement Fee	17,024,032	3,115,347	1,262,883	350,668
1420328	Business Permits	49,902,035	8,967,674	3,813,382	1,080,621
1420404	Matatu Levy	308,560,990	42,727,070	26,960,266	16,024,050
1420404	Street Parking Fee	509,369,010	91,452,005		50,039,386
1420501	Market Stalls Rent	28,901,210	5,233,497	1,641,824	1,152,793
1450105	Inspection Schools for	430,445	119,568		

	Registration				
1450105	Fire Inspection Fees	3,486,606	968,502		
1450105	Valuation & Survey Fees	4,412,564	191,309	1,034,403	
1450105	Dog Licenses	75,886		13,112	7,967
1450105	Document Search Fee	260,723	46,632	13,841	11,951
1450105	Plot Transfer Fee	145,224	16,261		24,079
1450105	Livestock Certificates	604,094	89,246	53,541	25,017
1450105	Consent to Sublease	612,141	143,482		26,557
1450105	Other Property Charges	1,085,527	159,026	111,526	30,984
1450105	Demolition of Structures	826,937	119,568	64,104	46,033
1450105	Subdivision & Consolidation Fees	8,202,838	1,598,626	604,252	75,688
1450105	Social Hall Hire	3,115,964	542,839	241,264	81,443
1450105	Fire-Fighting Services	2,434,451	224,788	339,022	112,426
1450105	Off loading	3,495,536	531,899	318,346	120,738
1450105	Cemeteries Charges	2,353,350	139,895	388,994	124,820
1450105	Hire of County Grounds	493,567		8,741	128,361
1450105	Court Fines	22,070,113	2,424,818	3,516,947	188,823
1450105	Garbage Dumping Fee	4,665,326	575,123	459,654	261,147
1450105	Buildings Plan Preparation Fee	4,994,570	767,556	335,307	284,518
1450105	Change of User	5,854,016	765,236	524,486	336,393
1450105	Hawking Fee	23,485,956	4,053,933	1,483,559	986,385
1450105	Hotel Levy	89,993,580	16,298,221	4,278,992	4,421,004
1450105	Buildings Plan Approval Fee	193,493,088	32,409,561	13,801,671	7,536,848
1450105	Sand, Gravel, and Ballast Extraction Fees	802,894,941	80,126,960	99,755,860	43,143,552
1450105	Premises Inspection Fees	630,366,835		117,849,617	57,252,282
TOTAL		2,970,568,926	325,000,935	300,157,000	200,000,100

The county also received the following disbursements from the National Treasury banked directly in the County Revenue Fund.

1st July, 2024, Kshs.345, 855,340

7th August 2024, Kshs.500, 000,000

10th September, Kshs.500, 000,000

Required:-

Draft the County Government of Xyz's General Ledgers

Suggested Solutions

General Ledgers

i)

Own Generated Revenues					
Date	Details	Amount Kshs. -	Date	Details	Amount Kshs. -
			31-Jul-24	Revenue Stream or Vote Head ac	325,000,935
			31-Aug-24	Revenue Stream or Vote Head ac	300,157,000
30-Sep-24	Income and expenditure acc	825,158,035	30-Sep-24	Revenue Stream or Vote Head ac	200,000,100
		825,158,035			825,158,035

ii)

Equitable Share					
Date	Details	Amount Kshs. -	Date	Details	Amount Kshs. -
			31-Jul-24	County Revenue Fund	345,855,340
			31-Aug-24	County Revenue Fund	500,000,000
30-Sep-24	Income and expenditure acc	1,345,855,340	30-Sep-24	County Revenue Fund	500,000,000
		1,345,855,340			1,345,855,340

Notes

1. When the Receiver of Revenue Bills levy payers, the Receiver of Revenue would:-

Debit Personal accounts of each levy payer.
Credit The Revenue Stream or Vote Head account.

(Being billing of rate payers)

2. When the levy payers actually pays the levy, the Receiver of Revenue would:-

Debit Cash/Bank account.
Credit Personal accounts of each levy payer

(Being receipt of money from Levy Payers)

3. When Receiver of Revenue remits the revenue to the county, the receiver of revenue would:-

Debit Revenue collection account (a commercial bank account held by the county)
Credit Cash/Bank account.

(Being remission of revenue collected to the County government)

4. When the county sees the revenue in their Revenue collection bank account they would:

Debit County Revenue Fund.
Credit Revenue collection account (which is a commercial bank account held by the county).

(Being transfer of money in the revenue collection account to County Revenue Fund)

5. The Revenue Stream or Vote Head would be closed off quarterly when Receiver of Revenue gives reports to the county for the county to fulfil its statutory role of reporting and publicising its activities. This is how it would be closed off as:-

Debit The Revenue Stream or Vote Head account..

Credit Income and Expenditure account.

(Being closure of the General Ledgers and the amount transferred to Income and Expenditure account)

6. Most Counties bill levy payers themselves and encourage them to pay directly to County Collection Accounts.

(a) When the county bills levy payers:-

Debit Personal accounts of each levy payer.

Credit The Revenue Stream or Vote Head account.

(Being billing of rate payers)

(b) When the levy payer pays:-

Debit Revenue collection account.

Credit Personal accounts of each levy payer.

(Being receipt of money from Levy Payers)

(c) When money in Revenue collection account is swiped to County Revenue fund:-

Debit County Revenue Fund.

Credit Revenue collection account.

(Being transfer of money in the revenue collection account to County Revenue Fund)

(d) The Revenue Stream or Vote Head Account would be closed quarterly as the county prepares quarterly report:-

Debit The Revenue Stream or Vote Head account.

Credit The Income and Expenditure account.

(Being closure of the General Ledgers and the amount transferred to Income and Expenditure account)

CHAPTER TWO

COUNTY GOVERNMENT EXPENDITURE

County Government Expenditure starts with the preparation of a budget. A county government budget is an estimate of projected revenue and expenditure for a county for any fiscal year. The changes in a county government levy imposition and expenditure, like the budget policy at national level, they would affect the welfare of county residents; their consumption, savings, investments and productivity. In view of the impact of the counties activities, the law requires public participation in formulation of the county finance bill and expenditure estimates.

A good County Budget should therefore, fulfil the following principles:

1. Cost-Cutting Measures – the budget should have mechanisms to curb extravagant usage of public finances. For this reason, county budgets allow real-time comparison of actual expenditure and budgeted estimates. It is upon the county officials to use this information and institute corrective measures if the variances are adverse.

2. Authorization – No public finances should be used devoid of proper sanction and money should only be used for purposes for which they were certified. County budgets allow use of vote books which ensure expenses are only committed and expended if they were budgeted for. Any expenditure not budgeted for apart from disasters and natural calamities, a supplementary budget should be approved in order to incur the expenditure. The public Finance Management Act (2012) spells out when a public officer may spend a county's money and disciplinary actions for contravening the Act.

3. Advantage – County finances should only be incurred if they are beneficial to the county residents. Counties are mandated to keep the county clean, alleviate poverty in the county and maintain county infrastructure. Therefore County funds should majorly be spend on poverty reduction, maintaining county communication and accessibility infra-structure and keeping the county clean. Expenditure on enriching county officials at the expense of counties' mandate should be avoided.

4. Balanced budget - County government should use far-sighted measures to avoid having deficit budgets. Counties should plan well to use the revenue they can obtain to meet their expenditure. They should not over spend and plunge into debt. If possible they should have surplus budgets where the total revenue exceeds the total expenditure.

In view of the above principles, there is no doubt that counties need revenue to maintain their activities, and the impact of county expenditure cannot be wished away as it has great economic influence on County residents. Therefore, careful planning has been carved in law to guide county

government budgetary process. This requires the county governments to first have, the County Integrated Development Plan (CIDP).

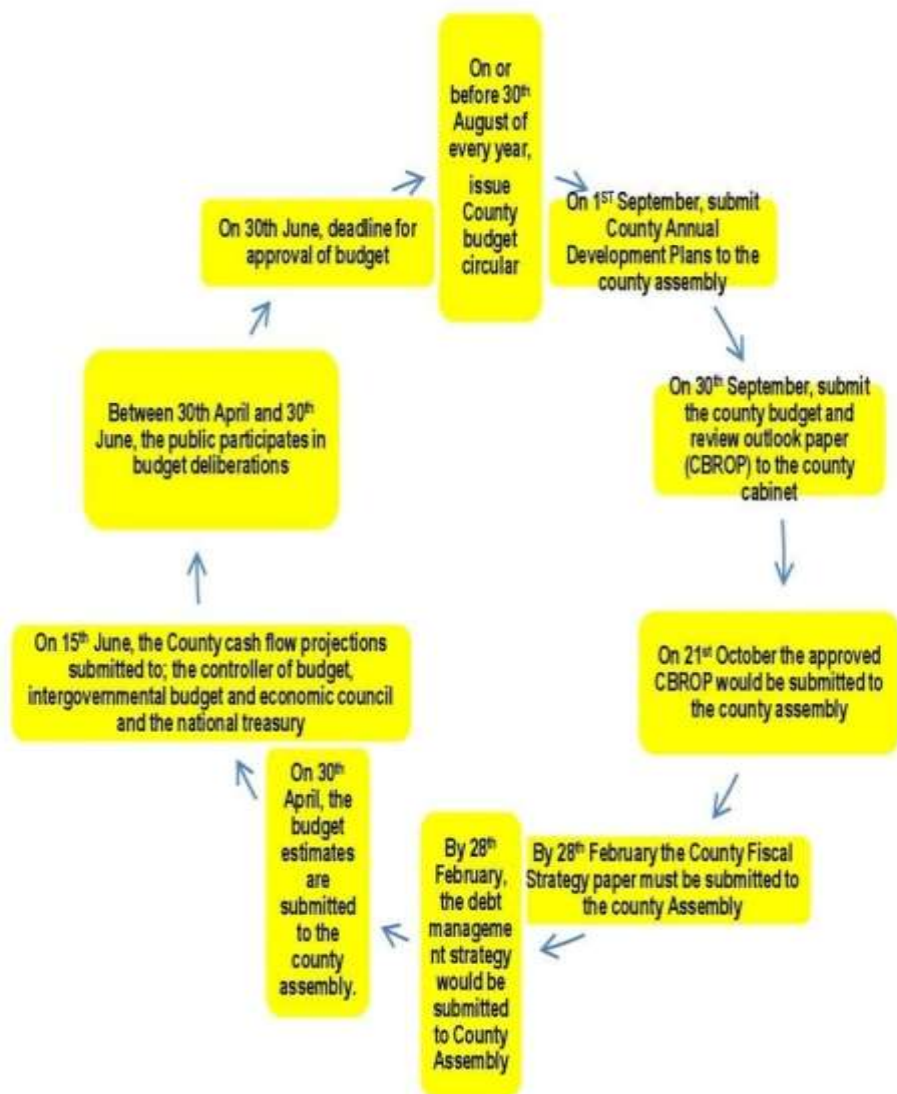
County Integrated Development Plan (CIDP)

County Integrated Development Plan is a five year development plan. It sets precedence and directs all county government spending for a period of five years. It is a Medium term planning instrument. It is a negotiated document that allowed county residents to specify the key projects they want implemented and allows the governor to implement his policies and manifesto. It also coordinates the work of both national and county government thus removes possibility of duplication of projects where the county government and national government may be implementing similar projects in the county concurrently, leading to wastage of national resources due to prevalence of white elephant projects.

The Public Finance Management Act (2012) is emphatic that a development plan should set premeditated priorities for the medium term that reflect;

- i) The county government's main concerns and plans.
- ii) An explanation of how the county government is taking action on changes in the financial and economic environment.
- iii) Programmes to be delivered with fine points for each programme namely; the strategic priorities to which the programme will contribute, the services or goods to be provided, quantifiable indicators of performance where practicable, the budget allocated to the programme.
- iv) Payments to be made on behalf of the county government, including details of any grants, benefits and subsidies that are to be paid.
- v) A description of noteworthy capital developments.
- vi) A thorough description of proposals with respect to the development of physical, intellectual, human and other resources of the county, including assessable pointers where those are practicable.
- (vii) A summary budget in the format required by regulations.

County government budgetary Circle.



1. On or before 30th August of every year, the County Treasury would issue the County Budget Circular spelling out the Budget Policy Statement. The budget policy refers to all measures designed to achieve the following year's objectives. For county government, the objectives are usually to raise enough revenue and providing unequalled services to its residents. County Budget Circular specifies a timeline for preparation of the budget, stating the key dates, by which the different progression are to be accomplished, the approach for the assessment and projection of revenues and expenditures, key strategy areas and concerns to be taken into consideration when preparing the budget, the procedures to be followed by members of the public who wish to take part in the budget process and the layout in which information and documents relating to the budget are to be submitted.

2. On 1st September of every year the county department of Economic Planning would submit County Annual Development Plans to the County Assembly. The county Annual Development Plan selects projects from the CIDP to be implemented in the next fiscal year.

3. On 30th September, the County Treasury would submit the County Budget and Review Outlook Paper (CBROP) to the County Cabinet. This paper would contain details of; the actual fiscal performance in the previous year compared to the budget appropriation for that year, the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper, how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year and reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time approximated for doing so. The paper, in simple language, compares the approved budget with actual expenditure and enables the executive to determine if the expenditure is adequately controlled and if the county is meeting its revenue targets. It also shows how far the county is implementing the CIDP projects. From the paper, the executive can take corrective action on any activity that is deviating from the goal.

4. On 21st October the approved CBROP would be submitted to the county assembly.

5. By 28th February the County Fiscal Strategy paper must be submitted to the County Assembly. The Fiscal Strategy Paper sets out the final ministry budgets for the next 3 financial years upon approval by County Assembly. The County Treasury specifies the broad strategic priorities and policy goals that would guide the county government in its budget preparation for the coming financial year and over the medium term.

6. By 28th February, the Debt Management Strategy would be submitted to County Assembly and then published immediately. The published document should be submitted to: the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council. The Debt Management Strategy would show the county government's actual liability and potential liability in respect of loans and its plans for dealing with those liabilities over the medium term. The Debt Management Strategy should have the following minimum information; the total stock of debt as at the date of the statement, the

sources of loans made to the county government, the major risks associated with those loans, the assumptions underlying the debt management strategy, an analysis of the sustainability of the amount of debt, both actual and potential.

7. By 15th March, deadline for adoption of the County Fiscal Strategy Paper.

8. 10th April, is the deadline for county ministries to adjust their budget estimates in the light of County Fiscal Strategy Paper then submit them to the County Treasury.

9. Between 10th-19th April, county budget hearings are made to review the ministry's strategic plans and estimates to ensure they align to county economic policy and fiscal framework.

10. On 20th April, Ministry's estimates are reviewed, consolidated and a draft budget submitted to the County Executive Committee.

11. Between 20th and 30th April, public sector working group would scrutinize the budget.

12. On 30th April, the budget estimates are submitted to the County Assembly.

13. On 15th June, the County cash flow projections based on the budget would be submitted to; the Controller of Budget, Intergovernmental Budget and Economic Council and the National Treasury.

14. Between 30th April and 30th June, the public participates in budget deliberations. For any budget, the county government's recurrent expenditure should not exceed the county government's total revenue, a minimum of 30% of the county government's budget should be allocated to the development expenditure, the county government's compensation to employees should not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly and the government's borrowings should only be for the purpose of financing development expenditure and not for recurrent expenditure.

15. 30th June, is the deadline for approval of the budget. County appropriation bill would be approved by the county assembly to authorize spending of the new budget.

County Government Vote Book

County Government vote book is an electronic spread sheet that shows on real-time basis the budgeted amount of each item of expenditure, commitments, payments and the balance of un-utilized budget. Commitments would show possible future payments and payments are what has been paid in reality. Though most counties operate an electronic vote book, county entities that do not have many transactions can operate a manual vote book.

How the vote book works.

A county government vote book operates on the principle of **authorization**. This principle states that no public finances should be spent without proper **authorization** and money should only be used for purposes for which they were budgeted for.

Therefore, each county ministry upon submitting their budgets to county treasury during budget preparation process, they would also submit their procurement plans. On the basis of the procurement plans, the procurement department would procure goods and services using the appropriate criteria as they are the experts in this field. They may use tendering method, restricted tendering method, inviting quotations or direct procurement.

Once the procurement process is over, let's assume it was procurement of General Office Supplies (papers, pencils, forms, small office equipment etc); the procurement commits the amount agreed with the supplier on the vote book. If a certain county ministry needs General Office Supplies (papers, pencils, forms, small office equipment etc) urgently due to the delays in procurement, it may procure through the cash advance system. If there is a balance in the vote book, they can procure, but if procurement committed the whole balance, no other procurement by way of imprest can be done.

However, the regulations allow the counties to use a vote of similar class if it is idle. In this case the budget of such item would be re-allocated to General Office Supplies (papers, pencils, forms, small office equipment etc) in its entirety such that it remains zero, or only part thereof would be taken: provided the amount is not more than 10% of the sub-vote. The balance of General Office Supplies (papers, pencils, forms, small office equipment etc) having increased, an officer can therefore process his General Office Supplies (papers, pencils, forms, small office equipment etc) imprest.

The use of idle votes as explained in the paragraph above is not allowed for swapping development and recurrent expenditure since development expenditure are real projects the county agreed with its residents to undertake during the compilation of CIDP, ADP, CFSP and the budget.

Illustration 2

The table below shows an extract of county government of Xyz vote book.

Code/Vote	Item/Vote Head	Budget FY 2023/2024	Commitme nts	Paid Payme nts	Total Commitme nts and Paid Payments	Vote Book Balance
2211100	Office and General Supplies and Services					
2211101	General Office Supplies (papers, pencils, forms, small office equipment etc)	51,256,416	51,226,163		51,226,163	30,253
2211102	Supplies and Accessories for Computers and Printers	26,031,050			-	26,031,050

2211103	Sanitary and Cleaning Materials, Supplies and Services	14,030,000			-	14,030,000
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Msaft Ltd was awarded a tender to supply papers, pencils, forms and small office equipment valued Kshs.51, 226,163. Due to the logistics in procurement which resulted to a delay in supply, the Education Ministry required Kshs. 40,000 photocopying papers urgently. The Chief Officer for Education authorized the Education Officer II to take an imprest and acquire the photocopying papers.

The cash advance control section rejected the imprest since the vote book balance for photocopying papers was only Kshs.30, 253.

The Chief Officer for Education Ministry was informed and he quickly consulted the Chief Officer for Finance and Economic Planning Ministry. After considering the Chief Officer for Education's plight, the Chief Officer for Finance and Economic Planning Ministry authorized the whole budget of Supplies and Accessories for Computers and Printers to be merged with General Office Supplies (papers, pencils, forms, small office equipment etc) and the imprest was duly processed and paid.

Required:

- Show how the new vote book would appear.
- Comment on the appearance of the vote book.

Suggested Answers

- County government of Xyz vote book

Code	Item	Budget FY 2023/2024	Commitments	Paid Payments	Total Commitments and Paid Payments	Vote Book Balance
2211100	Office and General Supplies and Services					
2211101	General Office Supplies (papers, pencils, forms, small office equipment etc)	77,287,466	51,226,163	40,000	51,266,163	26,021,303
2211102	Supplies and Accessories for Computers and Printers	-			-	-
2211103	Sanitary and Cleaning Materials, Supplies and Services	14,030,000			-	14,030,000

b) Comments

- The vote book would show codes. Codes are machine readable commands, for instance if one inputs or queries code 2211103, the computer automatically knows that is 'sanitary and cleaning materials, supplies and services' that is what the computer would output so that the general user can

understand. All government expenditure is coded and codes are important in controlling the vote book and inputting financial information into the system. Codes are what is called chart of accounts in commercial accounting and votes in government accounting.

ii) General Office Supplies (papers, pencils, forms, small office equipment etc) and Supplies and Accessories for Computers and Printers belong to the same classification namely; Office and General Supplies and Services. If one expenditure is idle, it can be merged with the other without affecting the approved budget. In addition, it does not lead to misleading reporting.

iii) There is slim a possibility that Msafi Ltd may cancel his contract with Xyz county, in the event that happens, all the committed amount of Kshs.51,226,163 would be released and the vote book balance would increase by the same amount. Paid amounts can never be released and the vote book would forever be reduced by the paid amounts.

Illustration 3

The table below shows an extract of the County Government of Wote's vote book. In the month of May, 50 days before the financial year ended, the county approved to increase the basic salary by 10%. The payroll manager committed the amount in the system in June, but the vote book showed a deficit of Kshs.273,365,412. This portrayed that the county was not authorized to spend Kshs.273,365,412.

RECURRENT EXPENSES						
Code	Item	Budget FY 2023/2024	Commitments	Paid Payments	Total Commitments and Paid Payments	Vote Book Balance
2110100	Basic Salaries - Permanent Employees					
2110117	Basic Salaries-	2,733,654,116	501,169,921	2,505,849,607	3,007,019,528	(273,365,412)
2110200	Basic Wages - Temporary Employees					
2110202	Casual Labour-Others	39,316,103	3,276,342	36,039,761	39,316,103	-
2110300	Personal Allowance Paid as Part of Salary					
2110301	House Allowance	556,273,993	46,356,166	509,917,827	556,273,993	-
2110304	Overtime - Civil Service	99,371,054	8,280,921	91,090,133	99,371,054	-
2110307	Hardship Allowance	8,404,200	700,350	7,703,850	8,404,200	-
2110309	Special Duty Allowance	5,830,651	485,888	5,344,763	5,830,651	-

211031 4	Transport Allowance	205,669,99 4	17,139,16 6	188,530,82 8	205,669,994	-
211031 5	Extraneous Allowance	127,719,19 8	10,643,26 7	117,075,93 2	127,719,198	-
211031 7	Domestic Servant Allowance	-	-	-	-	-
211032 0	Leave Allowance	78,127,337	6,510,611	71,616,725	78,127,337	-
211032 2	Risk Allowance	583,464,79 8	48,622,06 6	534,842,73 1	583,464,798	-
211032 3	Late Duty Allowance	107,097,08 6	8,924,757	98,172,329	107,097,086	-
211032 5	Car Maintenance Allowance	4,871,757	405,980	4,465,778	4,871,757	-
212010 0	Employer Contributions to Compulsory National Social Security Schemes					
212010 1	Employer Contributions to National Social Security Fund	23,506,028	1,958,836	21,547,193	23,506,028	
212010 2	Employer Contributions to Local Government Security Fund	142,640,82 9	11,886,73 6	130,754,09 3	142,640,829	
DEVELOPMENT EXPENSES						
Code	Item	Budget FY 2023/2024	Commitments	Paid Payments	Total Commitments and Paid Payments	Vote Book Balance
311040 0	Construction of Roads					
311040 1	Major Roads	140,605,365		140,605,365	140,605,365	-
311040 2	Access Roads	123,205,937		123,205,937	123,205,937	-
311050 0	Construction and Civil Works					
311050 1	Bridges	415,000,000	415,000,00 0		415,000,000	-
311050 2	Water Supplies and Sewerage	90,000,000		90,000,000	90,000,000	-
311050 3	Aerodromes and Airstrips	-		-	-	-
311050 4	Other Infrastructure and Civil Works	345,000,000		345,000,000	345,000,000	-
311050 5	Sea Walls and Jetties	-			-	-
311050 6	Railways	-			-	-

You are the Head of Treasury for the County Government of Wote. It is in the best interest of the Governor to see that the increment is paid in June, thus he has ordered the Executive member of Finance and Economic planning to ensure the increment is paid. The chief officer for Finance and Economic planning is of the view that no bridge was constructed as the abnormal rains curtailed the project and coupled with National Environmental and Management Authority order delaying the project, no construction would be done in the present financial year. Therefore, he opines that committed funds for bridges could be released and re-allocated to pay the salary increment.

Required:

Advise the Chief Officer for Finance and Economic Planning as well as the Cabinet Member of Finance and Economic Planning.

Suggested Answer

Section 154. (1) and (2) of the Public Finance Management Act 2012 is emphatic that, an Accounting Officer shall not authorise the transfer of an amount that is appropriated: for transfer to another county government entity or person, for capital expenditure except to defray other capital expenditure and for wages to non-wage expenditures. However, the officer may reallocate funds between programs, or between Sub-Votes, in the budget for a financial year if; provisions made in the budget of a program or Sub-Vote are available and are unlikely to be used. A request for the reallocation has to be made to the County Treasury explaining the reasons for the reallocation. The County Treasury may approve the request if the total of all reallocations made to or from a program or Sub-Vote does **not exceed 10% of the total expenditure approved for that program or Sub-Vote** for that year or regulations approved by the county assembly prescribes requirements for the reallocation of funds within Sub-votes or programs.

Therefore, reallocation is ruled out in **illustration 2** for the county government of Wote. But the chief officer may spend money that has not been appropriated as there is arise in expenditure for a purpose for which no amount has been appropriated.

To do so, he should submit a supplementary budget in support of the additional expenditure for authority for spending and describe how the additional expenditure relates to the fiscal responsibility principles and financial objectives. He should then seek approval of the county assembly for any spending within two months after the first withdrawal of the money. If the county assembly is not sitting during the time or is sitting but adjourns before approval has been sought, approval should be sought within fourteen days when it sits. A supplementary Appropriation Bill shall be introduced for the appropriation of the money spent after County Assembly approval. In any financial year, the supplementary budget should not be more than 10% of the original budget unless the county assembly, in special circumstances, approves a higher percentage.

Illustration 4

County Government of Xyz had the following bank balances as at 1st October 2024:

- | | |
|--------------------------|-------------------|
| 1. County Revenue Fund | Kshs.321, 013,375 |
| 2. County Recurrent Ac | Kshs.143, 112,634 |
| 3. County Development Ac | Kshs.242, 143,323 |

The Chief Officer made a request to the Controller of Budget to authorize transfer of Kshs.200,000,000 from County Revenue Fund to County Development account. The Controller of Budget rejected the request.

As the Head of Treasury of the County Government of Xyz, you go through the county's publications to find a reason to convince the Controller of Budget to accept the withdrawal and you peruse the following documents.

County xyz: County Integrated Development Plan 2022-2026 (extract)					
YEAR	2022	2023	2024	2025	2026
Total cost on projects (In Kshs.)	2,250,000,000	2,820,000,000	1,660,000,000	3,000,000,000	3,800,000,000
Summary of cost per quarter in Kshs.					
Quarter 1	375,000,000	470,000,000	690,000,000	500,000,000	633,333,333
Quarter 2	187,500,000	235,000,000	138,333,333	250,000,000	316,666,667
Quarter 3	1,125,000,000	1,410,000,000	416,666,667	1,500,000,000	1,900,000,000
Quarter 4	562,500,000	705,000,000	415,000,000	750,000,000	950,000,000

County Government of xyz: Annual Development plan 2024 (extract)					
MONTH	JUL	AUG	SEP	OCT	NOV
Total cost on projects	Kshs.250,000,000	Kshs.280,000,000	Kshs.160,000,000	0	Kshs.400,000,000
Summary of project list					
Construction of Buildings	9,137,497	10,233,997	5,847,998		14,619,995

Refurbishment of Buildings	4,057,255	4,544,126	2,596,643		6,491,608
Construction of Roads	36,052,620	40,378,934	23,073,677		57,684,191
Construction and Civil Works	1,298,303	1,454,099	830,914		2,077,284
Purchase of Office Furniture and General Equipment	5,254,360	5,884,883	3,362,790		8,406,976
Purchase of Specialized Plant, Equipment and Machinery	899,880	1,007,866	575,923		1,439,808
Rehabilitation and Renovation of Plant, Machinery and Equipment	8,017,647	8,979,764	5,131,294		12,828,234
Construction and Civil Works	179,990,367	201,589,211	115,193,835		287,984,588
Rehabilitation of Civil Works	5,292,072	5,927,121	3,386,926		8,467,315

County xyz: Cash flow 2024/2025 (extract)					
MONTH	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER
Opening Cash/Bank Balance	0	-56,144,660	22,855,340	289,855,340	5,855,340
Receipts From National Government	345,855,340	500,000,000	500,000,000	100,000,000	400,000,000
County own Generated Revenue	830,000,000	750,000,000	690,000,000	900,000,000	1,900,000,000
Total Cash Available	1,175,855,340	1,193,855,340	1,212,855,340	1,289,855,340	2,305,855,340
Less Expenses					
Recurrent	802,000,000	701,000,000	603,000,000	904,000,000	812,000,000
Development	250,000,000	280,000,000	160,000,000	0	400,000,000
Transfer To County Agencies and County Assembly	180,000,000	190,000,000	160,000,000	380,000,000	190,000,000
Total Expenses	1,232,000,000	1,171,000,000	923,000,000	1,284,000,000	1,402,000,000
Closing Cash/Bank Balance	-56,144,660	22,855,340	289,855,340	5,855,340	903,855,340

County Xyz: Budget Absorption for The First Quarter and County Budget Review Outlook Paper			
	Money Approved By Controller Of Budget In 1st Quarter 2024/25	Actual Money Spent In 1st Quarter 2024/25	Under-Absorption 2024/25
Recurrent Expenses Total	910,000,000	702,016,360	207,983,640
List of Recurrent Expense			
Compensation To Employees	600,226,273	600,226,273	0
Utilities Supplies And Services	158,972,024	17,782,172	141,189,852
Communication, Supplies And Services	20,494,489	2,292,457	18,202,032
Domestic Travel And Subsistence, And Other Transportation Costs	7,187,733	804,000	6,383,733
Foreign Travel And Subsistence Allowance	19,384,762	2,168,326	17,216,436
Printing , Advertising And Information Supplies And Services	39,067,455	4,369,978	34,697,477
Rentals Of Produced Assets	40,827,904	4,566,897	36,261,007
Training Expense (Including Capacity Building)	8,596,564	961,588	7,634,976
Hospitality Supplies And Services	33,581,690	3,756,355	29,825,334

Insurance Costs	31,525,380	3,526,342	27,999,038
Specialized Materials And Supplies	26,014,841	2,909,948	23,104,893
Office And General Supplies And Services	18,653,916	2,086,576	16,567,340
Fuel Oil And Lubricants	257,911,484	28,849,266	229,062,218
Other Operating Expenses	160,489,190	17,951,878	142,537,312
Routine Maintenance - Vehicles And Other Transport Equipment	1,812,859	202,781	1,610,078
Routine Maintenance- Other Assets	31,797,868	3,556,822	28,241,046
Other Creditors	53,681,842	6,004,703	47,677,139
Development Expenses total	690,000,000	447,856,677	242,143,323
List Of Development Expenses			
Construction Of Buildings	25,219,492	16,369,156	8,850,336
Refurbishment Of Buildings	11,198,024	7,268,275	3,929,749
Construction Of Roads	99,505,230	64,585,626	34,919,604
Construction And Civil Works	3,583,315	2,325,814	1,257,501
Purchase Of Office Furniture And General Equipment	14,502,034	9,412,801	5,089,233
Purchase Of Specialized Plant, Equipment And Machinery	2,483,669	1,612,069	871,600
Rehabilitation And Renovation Of Plant, Machinery And Equipment	22,128,704	14,363,026	7,765,678
Construction And Civil Works	496,773,414	322,439,551	174,333,863
Rehabilitation Of Civil Works	14,606,119	9,480,359	5,125,760
Total Recurrent And Development	1,600,000,000	1,149,873,037	450,126,963

Required:

After going through the documents, you realize the controller of budget was justified in refusing the request and you cannot convince him to accept it again. Give the reasons why the controller of budget might have rejected the request.

Suggested Answers

1. The County Development Account still has a lot of money unspent (Kshs.242,143,323), the county has to spend it first before requesting for more funds unless it can present prove of a vote book showing the amount is already committed.
2. The Annual Development Plan shows that the county would not be spending on any project in October; therefore, the controller was justified to reject the request of development funds in October.
3. The County Integrated plan shows that, in the second quarter in 2024, the county planned to spend only Kshs.138,333,333 on projects, the controller of budget thus rejected the request as the county has more money in the development account than what it planned to spend in the second quarter.
4. The cash flow statement shows the county was not expecting to spend any money on development project in October; therefore the controller of budget was enforcing county plans.

5. The budget absorption and County Budget Review Outlook Paper shows poor absorption of development funds. Out of Kshs.690, 000,000 the controller of budget had approved to be withdrawn from County Revenue Fund to Development Account, the county has only spent Kshs.447, 856,677. The controller of Budget would require the county to spend the balance of Kshs.242, 143,323 first before making any other request.

NOTE

The Controller of Budget may approve transfer of funds disregarding other documents if:-

- i) The County Fiscal Strategy Paper shows much deviation from plans which are beyond the county's control. But the deviation should only be on a momentary basis such as that occasioned by a major natural disaster or some other significant unanticipated event.
- ii) If there is a change of county government, the new county government may deviate from laid down plans since every governor has their own manifesto that endeared them to the public.

Illustration 5

The County Government of Xyz spends on expenditure as follows:

Recurrent expenses and transfers

- 1. On, 2-jul-24 paid Anayejadili Advocates and Company kshs.16,168,965.50 legal fees code 2211308.
- 2. On, 8-jul-24 paid Mbotu Bajo kshs.1,000,000.00 subsistence in Zhuhai china code 2210403.
- 3. On, 9-jul-24 paid Ali Mwinyipombe Wafula kshs.1,168,326.00 travelling to china code 2210401.
- 4. On, 10-jul-24 paid Open Newspaper Ltd kshs.3,615,150.00 services for public sensitization code 2210504.
- 5. On, 16-jul-24 paid Baya Mihunga kshs.104, 000.00 travel expenses code 2210301.
- 6. On, 17-jul-24 paid Sonsome Katunge kshs.700, 000.00 accommodations while on training code 2210302.
- 7. On, 26-jul-24 paid Triple T Insurance Co.Ltd kshs.1, 526,342.00 medical expenses code 2210901. Paid Cooperative bank salaries for employees Kshs. 200,000,000 code 7320199.
- 8. On, 6-aug-24 paid Ndigamwa Ngamu kshs.449, 750.00 allowances during civic education at moon ward code 2210712
- 9. On, 7-aug-24 paid Tamvi Auto Service kshs.14,363,026 pending bill code 2420499.
- 10. On, 8-aug-24 paid Kenya Power And Lighting Company Limited kshs.9,697,411.10 payment for electricity bill for July code 2210101.
- 11. On, 10-aug-24 paid Xyz County Elimu Fund kshs.20,000,000.00 code 2640101.
- 12. On, 10-aug-24 paid Kenya Power And Lighting Company Limited kshs.8,084,760.45 payment for electricity bills for august code 2210101.
- 13. On, 10-aug-24 paid Safarikom Agent kshs.490,732.76 purchase of airtime code 2210201.
- 14. On, 10-aug-24 paid Youre Destiney Limited kshs.2,245,689.65 pending bill code 2420499.
- 15. On, 12-aug-24 paid Nestling Petrol Station kshs.10,000,000.00 fuel & lubricant code 2211201.
- 16. On, 17-aug-24 paid Dlligent Bus Services kshs.1,725,862.05 hire of staff transport code 2210604.
- 17. On, 18-aug-24 paid Botom Up Printers kshs.754,827.60 printing county acts and county hand book code 2210502.
- 18. On, 18-aug-24 paid Sikolia Mpenda Mapera kshs.37,700.00 admission fees at Kenya School of Government code 2210711.
- 19. On, 18-aug-24 paid Jamkali Insurance Agency kshs.2,000,000.00 vehicle insurance code 2210903.
- 20. On, 19-aug-24 paid Genzee Company Limited kshs.1,760,512.05 digital register programming code 2211310.
- 21. On, 23-aug-24 paid Daziya Connections Limited kshs.1,801,724.15 payment for internet connections code 2210202.
- 22. On, 23-aug-24 paid Nestling Petrol Station Kshs.8,549,266.40 fuel & lubricant code 2211201.

23. On, 24-aug-24 paid Mariro Health Centre kshs.1,192,038.00 code 2640402.
24. On,24-aug-24 paid Moshila Clinic kshs.1,148,163.00 code 2640402.
25. On, 30-aug-24 paid Shkera Heavy Vehicle Limited kshs.1, 354,137.95 hire of shovel code 2210606. Paid Cooperative bank salaries for employees Kshs. 200,000,000 code 7320199.
26. On, 30-jul-24 paid Shkera Heavy Vehicle Limited kshs.1,486,896.55 hire of shovel code 2210606.
27. On, 4-sep-24 paid County Assembly of Xyz Recurrent Account kshs.42,530,805.00 code 6760103.
28. On, 9-sep-24 paid Accountants Institute kshs.22,400.00 annual subscription code 2211306.
29. On, 15-sep-24 paid Mobility Food Masters kshs.343,965.52 catering services code 2210801.
30. On, 15-sep-24 paid Grove Textiles kshs. 294,827.58 purchase of uniforms code 2211016.
31. On, 15-sep-24 paid Jisaidie Retail Stores kshs.1,379,635.85 supply of detergents code 2211103.
32. On, 15-sep-24 paid Nestling Petrol Station kshs.10,300,000.00 fuel & lubricant code 2211201.
33. On,15-sep-24 paid Yota Kenya Limited kshs. 202,781.45 repair, service & inspection code 2220101.
34. On, 15-sep-24 paid Bonoma Services Limited kshs.442,241.39 maintenance repairs of printers & servicing of networks code 2220202.
35. On, 15-sep-24 paid Bonoma Services Limited kshs.393,103.46 maintenance repairs of printers & servicing of networks code 2220210.
36. On, 15-sep-24 paid Supa Agrovet kshs.629,948.28 supply of farm implements code 2211007.
37. On, 15-sep-24 paid Supa Agrovet kshs.412,758.63 supply of farm inputs code 2211023.
38. On, 16-sep-24 paid Botom Up Printers kshs.474,137.92 printing departmental service charters code 2210703.
39. On, 16-sep-24 paid Zotez Hotel International kshs.3,168,665.40 catering services code 2210802.
40. On, 16-sep-24 paid Lipcan Computers kshs.52,629.31 flash disks and ink cartridges code 2211102.
41. On, 20-sep-24 paid General Bookshop ltd kshs.654,310.35 spring files code 2211101.
42. On, 20-sep-24 paid Lad Fumigation Services kshs.1,572,413.80 payment for fumigation services code 2211004.
43. On, 21-sep-24 paid Roma Textile Limited kshs.243,724.14 supply of national & county flags buntings & banners code 2210805.
44. On, 23-sep-24 paid Pauline Musuko Aliyebobea kshs.226,273.00 gratuity code 2710101.
45. On, 26-sep-24 paid Maro Collections kshs.2,721,476.80 refurbishment of a residential code 2220205. Paid Cooperative bank salaries for employees Kshs. 200,000,000 code 7320199.

Development expenses

46. On, 31-Jul-24 paid Viewlive Limited Kshs.6,997,701.90 Mwito Avenue Code 3110402.
47. On, 31-Jul-24 paid phexLa Trading Limited Kshs.6,473,840.25 sudani drive Code 3110402.
48. On, 31-Jul-24 paid Villebe Limited Kshs.8,047,685.80 Mutuma road Code 3110401..
49. On, 12-Jul-24 paid Camape Enterprises Limited Kshs.6,070,505.50 Tembea road Code 3110401.
50. On, 12-Jul-24 paid Kiwamu Enterprises Limited Kshs.5,611,595.95 Njia Mbili road Code 3110401.
51. On, 12-Jul-24 paid Jojoa Limited Kshs.6,027,660.60 finance road Code 3110401.
52. On, 21-Jul-24 paid Eluva Engineering Centre Kshs.5,646,283.80 bill road Code 3110401.
53. On, 11-Aug-24 paid Sleyking Construction Co. Ltd Kshs.444,190.00 Phase Moden Hospital Code 3110202.
54. On, 11-Aug-24 paid Sleyking Construction Co. Ltd Kshs.368,425.00 Phase Moden Hospital Code 3110202.
55. On, 11-Aug-24 paid Wokosi And Services Limited Kshs.3,014,732.85 Labwe market Code 3110202.
56. On, 13-Aug-24 paid Sleyking Construction Co. Ltd Kshs. 279,580.00 Phase Moden Hospital Code 3110202.
57. On, 13-Aug-24 paid Sleyking Construction Co. Ltd Kshs.282,291.00 Phase Moden Hospital Code 3110202.
58. On, 18-Aug-24 paid Madilida Construction Company Kshs. 2,287,735.65 Bwea ECD Code 3110202.
59. On, 18-Aug-24 paid Stardo Enterprises Ltd Kshs. 1,881,379.30 air conditioners Code 3111001.
60. On, 18-Aug-24 paid Sracote General Supplies Limited Kshs.1,612,068.95 networking equipment Code 3111111.
61. On, 19-Aug-24 paid Cola Works and Services Limited Kshs.3,634,699.55 Market at Bolu Code 3110202.
62. On, 19-Aug-24 paid Fowarders Nuti Limited Kshs.3,273,102.65 Street lighting at Looki Code 3111011.
63. On, 9-Aug-24 paid Sleyking Construction Co. Ltd Kshs.654,306.25 Phase Moden Hospital Code 3110202.
64. On, 9-Aug-24 paid Sleyking Construction Co. Ltd Kshs.231,264.85 Phase Moden Hospital Code 3110202.
65. On, 14-Aug-24 paid Mossbridge Limited Kshs.8,073,307.70 permanent bridges-Coptic Sea Code 3111501.
66. On, 27-Aug-24 paid Rasita Supplies and Construction Limited Kshs.22,352,086.25 Fifala Stadium Code 3110504.
67. On, 27-Aug-24 paid Rasita Supplies and Construction Limited Kshs.23,602,213.80 Fifala Stadium Code 3110504.
68. On, 27-Aug-24 paid Rasita Supplies and Construction Limited Kshs.28,900,330.75 Fifala Stadium Code 3110504.

69. On, 3-Sep-24 paid Swizz Sewerage Solutions Kshs.247,584,920.00 sewerage plant Code 3110502.
 70. On, 4-Sep-24 paid Pooliners Enterprises Limited Kshs.1,407,051.70 construction of fountain Code 3111504.
 71. On, 4-Sep-24 paid Full Investments Limited Kshs.1,362,103.45 laptops Code 3111002.
 72. On, 4-Sep-24 paid Maro Limited Kshs.2,325,813.85 radio mast Code 3110599.
 73. On, 4-Sep-24 paid Juasolar Ltd Kshs.2,896,215.50 street lighting Code 3111011.
 74. On, 4-Sep-24 paid Brickmakers Enterprises Limited Kshs.2,123,853.45 CEM office Code 3110202.
 75. On, 4-Sep-24 paid Rocke Blast Ltd Kshs.3,048,077.60 ECD at Mwawasa Code 3110202.
 76. On, 20-Sep-24 paid Top Care Investment Limited Kshs.14,363,026.10 overhaul of fire engines Code 3111201.
 77. On, 16-Sep-24 paid Kishe Investments Limited Kshs.7,268,274.90 Lubwewe Hospital Code 3110302.
 78. On, 16-Sep-24 paid Marti Construction Company Limited Kshs. 2,658,480.10 storm water drainage Code 3110402.
 79. On, 16-Sep-24 paid Super Granite Enterprises Ltd Kshs.9,601,713.65 Mukele Road Code 3110401.
 80. On, 30-Sep-24 paid Sopisot (EA) Limited Kshs.572,120.00 patching Kibo Road Code 3110401.
 90. On, 30-Sep-24 paid Sewa Engineering Limited Kshs.6,878,038.05 Bunyala Road Code 3110402.

Given that the chart of accounts(vote head) for county governments is as shown below:

CODE/VOTE	DETAILS/VOTE HEAD	
7320199	Compensation to Employees	
2210100	Utilities Supplies and Services	use of goods and services
2210101	Electricity	use of goods and services
2210200	Communication, Supplies and Services	use of goods and services
2210201	Telephone, Telex, Facsimile and Mobile Phone Services	use of goods and services
2210202	Internet Connections	use of goods and services
2210300	Domestic Travel and Subsistence, and Other Transportation Costs	use of goods and services
2210301	Travel Costs (airlines, bus, railway, mileage allowances, etc.)	use of goods and services
2210302	Accommodation - Domestic Travel	use of goods and services
2210400	Foreign travel and Subsistence Allowance	use of goods and services
2210401	Travel Costs (airlines, bus, railway, etc.)	use of goods and services
2210403	Daily Subsistence Allowance	use of goods and services
2210500	Printing , Advertising and Information Supplies and Services	use of goods and services
2210502	Publishing & Printing Services	use of goods and services
2210504	Advertising, Awareness and Publicity Campaigns	use of goods and services
2210600	Rentals of Produced Assets	use of goods and services
2210604	Hire of Transport, Equipment	use of goods and services
2210606	Hire of Equipment, Plant and Machinery	use of goods and services
2210700	Training Expense (including capacity building)	use of goods and services
2210703	Production and Printing of Training Materials	use of goods and services
2210711	Tuition Fees Allowance	use of goods and services
2210712	Trainee Allowance	use of goods and services
2210800	Hospitality Supplies and Services	use of goods and services
2210801	Catering Services (receptions), Accommodation, Gifts, Food and Drinks	use of goods and services
2210802	Boards, Committees, Conferences and Seminars	use of goods and services
2210805	National Celebrations	use of goods and services
2210900	Insurance Costs	use of goods and services
2210901	Group Personal Insurance	use of goods and services
2210903	Plant, Equipment and Machinery Insurance	use of goods and services
2211000	Specialized Materials and Supplies	use of goods and services
2211004	Fungicides, Insecticides and Sprays	use of goods and services
2211007	Agricultural Materials, Supplies and Small Equipment	use of goods and services
2211016	Purchase of Uniforms and Clothing - Staff	use of goods and services
2211023	Supplies for Production	use of goods and services
2211100	Office and General Supplies and Services	use of goods and services
2211101	General Office Supplies (papers, pencils, forms, small office equipment etc)	use of goods and services
2211102	Supplies and Accessories for Computers and Printers	use of goods and services
2211103	Sanitary and Cleaning Materials, Supplies and Services	use of goods and services
2211200	Fuel Oil and Lubricants	use of goods and services
2211201	Refined Fuels and Lubricants for Transport	use of goods and services
2211300	Other Operating Expenses	use of goods and services

2211306	Membership Fees, Dues and Subscriptions to Professional and Trade Bodies	use of goods and services
2211308	Legal Dues/fees, Arbitration and Compensation Payments	use of goods and services
2211310	Contracted Professional Services	use of goods and services
2220100	Routine Maintenance - Vehicles and Other Transport Equipment	use of goods and services
2220101	Maintenance Expenses - Motor Vehicles	use of goods and services
2220200	Routine maintenance- Other Assets	use of goods and services
2220202	Maintenance of Office Furniture and Equipment	use of goods and services
2220205	Maintenance of Buildings and Stations -- Non-Residential	use of goods and services
2220210	Maintenance of Computers, Software, and Networks	use of goods and services
2420400	Other Creditors	
2420499	Other Creditors - Other (Budge	
2640100	Scholarships and other Educational Benefits	
2640101	Scholarships and other Educational Benefits - Secondary Education	
2640400	Other Current Transfers, Grants and Subsidies	
2640402	Donations	
2710101	Social security benefits	
6760103	Imprests and Cash advances	
3110200	Construction of Buildings	acquisition of Assets
3110202	Non-Residential Buildings (offices, schools, hospitals, etc..)	acquisition of Assets
3110300	Refurbishment of Buildings	acquisition of Assets
3110302	Refurbishment of Non-Residential Buildings	acquisition of Assets
3110400	Construction of Roads	acquisition of Assets
3110401	Major Roads	acquisition of Assets
3110402	Access Roads	acquisition of Assets
3110500	Construction and Civil Works	acquisition of Assets
3110502	Water Supplies and Sewerage	acquisition of Assets
3110504	Other Infrastructure and Civil Works	acquisition of Assets
3111000	Purchase of Office Furniture and General Equipment	acquisition of Assets
3111001	Purchase of Office Furniture and Fittings	acquisition of Assets
3111002	Purchase of Computers, Printers and other IT Equipment	acquisition of Assets
3111011	Purchase of Lighting Equipment	acquisition of Assets
3111100	Purchase of Specialized Plant, Equipment and Machinery	acquisition of Assets
3111111	Purchase of ICT Networking and Communication Equipment	acquisition of Assets
3111200	Rehabilitation and Renovation of Plant, Machinery and Equipment	acquisition of Assets
3111201	Overhaul of Plant, Machinery and Equipment	acquisition of Assets
3111500	Rehabilitation of Civil Works	acquisition of Assets
3111501	Bridges	acquisition of Assets
3111504	Other Infrastructure and Civil Works	acquisition of Assets

Required:

- What is the role of controller of budget in county government expenditure?
- What documents from the county government should the controller of budget have in order to execute his mandate?
- Prepare and close off the following ledgers:-
 - Personal ledgers for county government of Xyz.
 - General ledgers for county government of Xyz.

Suggested Solutions

a) The role of controller of budget in county government expenditure.

- i) To supervise implementation of county government budgets by approving withdrawals from County Revenue Fund.
- ii) To prepare, publish and publicize county statutory reports.
- iii) To conduct investigations based on their own initiative or on complaint made by interested stakeholder on county affairs.
- iv) To conduct alternative dispute resolution mechanisms to resolve dispute between counties.
- v) To recommend to County Assemblies how they can strengthen county budget implementation.

b) Documents from the county government the controller of budget must have.

- i) County Integrated Development Plan (CIDP).
- ii) Annual Development Plan (ADP).
- iii) County Fiscal Strategy Paper (CFSP).
- iv) County Budget and Review Outlook Paper (CBROP).
- v) Annual Cash Flow.
- vi) Procurement plans.
- vii) Debt Management Strategy Paper.
- viii) Quarterly Reports
- ix) Annual Financial Statements
- x) Work plans showing how the requested amount would be utilized in form of a vote book so that the Controller of budget is able to determine if the amount was budgeted for and the budget items are still unspent.
- xi) On request, Certified bank statements showing the current bank balance.
- xii) A refund statement of unspent money.

c)ii) Personal ledgers for county government of XYZ (Figures in Kshs.).

Cooperative Bank					
DATE	DETAILS	Kshs.	DATE	DETAILS	Kshs.
26-Jul-24	County Recurrent Ac	200,000,000			
30-Aug-24	County Recurrent Ac	200,000,000			
26-Sep-24	County Recurrent Ac	200,000,000	30-Sep-24	Compensation To Employees	600,000,000
		600,000,000			600,000,000

Accountants Institute					
9-Sep-24	County Recurrent Ac	22,400	30-Sep-24	Other Operating Expenses	22,400

Viewlive Limited					
31-Jul-24	County Development Ac	6,997,702	30-Sep-24	Construction Of Roads	6,997,702

Ali Mwinyipombe Wafula					
9-Jul-24	County Recurrent Ac	1,168,326	30-Sep-24	Foreign Travel And Subsistence Allowance	1,168,326

Anayejadili Advocates And Company					
2-Jul-24	County Recurrent Ac	16,168,966	30-Sep-24	Other Operating Expenses	16,168,966
Baya Mihunga					
16-Jul-24	County Recurrent Ac	104,000	30-Sep-24	Domestic Travel And Subsistence, And Other Transportation Costs	104,000
Bonoma Services Limited					
15-Sep-24	County Recurrent Ac	442,241			
15-Sep-24	County Recurrent Ac	393,103	30-Sep-24	Routine Maintenance- Other Assets	835,345
		835,345			835,345
Botom Up Printers					
18-Aug-24	County Recurrent Ac	754,828	30-Sep-24	Printing , Advertising And Information Supplies And Services	754,828
Botom Up Printers					
16-Sep-24	County Recurrent Ac	474,138	30-Sep-24	Training Expense (Including Capacity Building)	474,138
Brickmakers Enterprises Limited					
4-Sep-24	County Development Ac	2,123,853	30-Sep-24	Construction Of Buildings	2,123,853
Camape Enterprises Limited					
12-Jul-24	County Development Ac	6,070,506	30-Sep-24	Construction Of Roads	6,070,506
Cola Works And Services Limited					
19-Aug-24	County Development Ac	3,634,700	30-Sep-24	Construction Of Buildings	3,634,700
County Assembly Of Xyz Recurrent Account					
4-Sep-24	County Recurrent Ac	42,530,805	30-Sep-24	Transfer	42,530,805
Daziya Connections Limited					
23-Aug-24	County Recurrent Ac	1,801,724	30-Sep-24	Communication, Supplies And Services	1,801,724
Dlligent Bus Services					
17-Aug-24	County Recurrent Ac	1,725,862	30-Sep-24	Rentals Of Produced Assets	1,725,862
Eluva Engineering Centre					
21-Jul-24	County Development Ac	5,646,284	30-Sep-24	Construction Of Roads	5,646,284
Fowarders Nuti Limited					
19-Aug-24	County Development Ac	3,273,103	30-Sep-24	Purchase Of Office Furniture And General Equipment	3,273,103
Full Investments Limited					
4-Sep-24	County Development Ac	3,273,103	30-Sep-24	Purchase Of Office Furniture And General Equipment	1,362,103
General Bookshop Ltd					
20-Sep-24	County Recurrent Ac	654,310	30-Sep-24	Office And General Supplies And Services	654,310
Genzee Company Limited					
19-Aug-24	County Recurrent Ac	1,760,512	30-Sep-24	Other Operating Expenses	1,760,512

Grove Textiles					
15-Sep-24	County Recurrent Ac	294,828	30-Sep-24	Specialised Materials And Supplies	294,828
Jamkali Insurance Agency					
18-Aug-24	County Recurrent Ac	2,000,000	30-Sep-24	Insurance Costs	2,000,000
Jisaidie Retail Stores					
15-Sep-24	County Recurrent Ac	1,379,636	30-Sep-24	Office And General Supplies And Services	1,379,636
Jojoa Limited					
12-Jul-24	County Development Ac	6,027,661	30-Sep-24	Construction Of Roads	6,027,661
Juasolar Ltd					
4-Sep-24	County Development Ac	2,896,216	30-Sep-24	Purchase Of Office Furniture And General Equipment	2,896,216
Kenya Power And Lighting Company Limited					
8-Aug-24	County Recurrent Ac	9,697,411			
10-Aug-24	County Recurrent Ac	8,084,760	30-Sep-24	Utilities Supplies And Services	17,782,172
		17,782,172			17,782,172
Kishe Investments Limited					
16-Sep-24	County Development Ac	7,268,275	30-Sep-24	Refurbishment Of Buildings	7,268,275
Kiwamu Enterprises Limited					
12-Jul-24	County Development Ac	5,611,596	30-Sep-24	Construction Of Roads	5,611,596
Lad Fumugation Services					
20-Sep-24	County Recurrent Ac	1,572,414		Specialised Materials And Supplies	1,572,414
Lipcan Computers					
16-Sep-24	County Recurrent Ac	52,629	30-Sep-24	Office And General Supplies And Services	52,629
Madilida Construction Company					
18-Aug-24	County Development Ac	2,287,736	30-Sep-24	Construction Of Buildings	2,287,736
Mairo Health Centre					
24-Aug-24	County Recurrent Ac	1,192,038	30-Sep-24	Other Current Transfers, Grants And Subsidies	1,192,038
Maro Collections					
26-Sep-24	County Recurrent Ac	2,721,477	30-Sep-24	Routine Maintenance- Other Assets	2,721,477
Maro Limited					
4-Sep-24	County Development Ac	2,325,814	30-Sep-24	Construction And Civil Works	2,325,814
Marti Construction Company Limited					
16-Sep-24	County Development Ac	2,658,480	30-Sep-24	Construction Of Roads	2,658,480
Mbotu Bajo					
8-Jul-24	County Recurrent Ac	1,000,000	30-Sep-24	Foreign Travel And Subsistence Allowance	1,000,000
Mobility Food Masters					
15-Sep-24	County Recurrent Ac	343,966	30-Sep-24	Hospitality Supplies And Services	343,966
Moshila Clinic					

24-Aug-24	County Recurrent Ac	1,148,163	30-Sep-24	Other Current Transfers, Grants And Subsidies	1,148,163
Mossbridge Limited					
14-Aug-24	County Development Ac	8,073,308	30-Sep-24	Rehabilitation Of Civil Works	8,073,308
Ndigamwa Ngamu					
6-Aug-24	County Recurrent Ac	449,750	30-Sep-24	Training Expense (Including Capacity Building)	449,750
Nestling Petrol Station					
12-Aug-24	County Recurrent Ac	10,000,000			
23-Aug-24	County Recurrent Ac	8,549,266			
15-Sep-24	County Recurrent Ac	10,300,000	30-Sep-24	Fuel Oil And Lubricants	28,849,266
		28,849,266			28,849,266
Open Newspaper Ltd					
10-Jul-24	County Recurrent Ac	3,615,150	30-Sep-24	Printing , Advertising And Information Supplies And Services	3,615,150
Pauline Musuko Aliyebobea					
23-Sep-24	County Recurrent Ac	226,273	30-Sep-24	Compensation To Employees	226,273
Phexla Trading Limited					
31-Jul-24	County Development Ac	6,473,840	30-Sep-24	Construction Of Roads	6,473,840
Pooliners Enterprises Limited					
4-Sep-24	County Development Ac	1,407,052	30-Sep-24	Rehabilitation Of Civil Works	1,407,052
Rasita Supplies And Construction Limited					
27-Aug-24	County Development Ac	22,352,086			
27-Aug-24	County Development Ac	23,602,214			
27-Aug-24	County Development Ac	28,900,331	30-Sep-24	Construction And Civil Works	74,854,631
		74,854,631			74,854,631
Rocke Blast Ltd					
4-Sep-24	County Development Ac	3,048,078	30-Sep-24	Construction Of Buildings	3,048,078
Roma Textile Limited					
21-Sep-24	County Recurrent Ac	243,724	30-Sep-24	Hospitality Supplies And Services	243,724
Safarikom Agent					
10-Aug-24	County Recurrent Ac	490,733	30-Sep-24	Communication, Supplies And Services	490,733
Sewa Engineering Limited					
30-Sep-24	County Development Ac	6,878,038	30-Sep-24	Construction Of Roads	6,878,038
Shkera Heavy Vehicle Limited					
30-Aug-24	County Recurrent Ac	1,354,138			
30-Aug-24	County Recurrent Ac	1,486,897	30-Sep-24	Rentals Of Produced Assets	2,841,035
		2,841,035			2,841,035
Sikolia Mpenda Mapera					
18-Aug-24	County Recurrent Ac	37,700	30-Sep-24	Training Expense (Including Capacity Building)	37,700
Sleyking Construction Co. Ltd					
11-Aug-24	County Development Ac	444,190			
11-Aug-24	County Development Ac	368,425			
13-Aug-24	County Development Ac	279,580			
13-Aug-24	County Development Ac	282,291			

9-Aug-24	County Development Ac	654,306			
9-Aug-24	County Development Ac	231,265	30-Sep-24	Construction Of Buildings	2,260,057
		2,260,057			2,260,057

Sonsome Katunge

17-Jul-24	County Recurrent Ac	700,000	30-Sep-24	Domestic Travel And Subsistence, And Other Transportation Costs	700,000
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Sopisot(Ea) Limited

30-Sep-24	County Development Ac	572,120	30-Sep-24	Construction Of Roads	572,120
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Sracote General Supplies Limited

18-Aug-24	County Development Ac	1,612,069	30-Sep-24	Purchase Of Specialised Plant, Equipment And Machinery	1,612,069
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Stardo Enterprises Ltd

18-Aug-24	County Development Ac	1,881,379	30-Sep-24	Purchase Of Office Furniture And General Equipment	1,881,379
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Supa Agrovet

15-Sep-24	County Recurrent Ac	629,948			
15-Sep-24	County Recurrent Ac	412,759	30-Sep-24	Specialised Materials And Supplies	1,042,707
		1,042,707			1,042,707

Super Granite Enterprises Ltd

16-Sep-24	County Development Ac	9,601,714	30-Sep-24	Construction Of Roads	9,601,714
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Swizz Sewerage Solutions

3-Sep-24	County Development Ac	247,584,920	30-Sep-24	Construction And Civil Works	247,584,920
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Tamvi Auto Service

7-Aug-24	County Recurrent Ac	3,759,013	30-Sep-24	Other Creditors	3,759,013
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Top Care Investment Limited

20-Sep-24	County Development Ac	14,363,026	30-Sep-24	Overhaul Of Plant, Machinery And Equipment	14,363,026
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Triple T Insurance Co.Ltd

26-Jul-24	County Recurrent Ac	1,526,342	30-Sep-24	Insurance Costs	1,526,342
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Villebe Limited

31-Jul-24	County Development Ac	8,047,686	30-Sep-24	Construction Of Roads	8,047,686
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Wokosi And Services Limited

11-Aug-24	County Development Ac	3,014,733	30-Sep-24	Construction Of Buildings	3,014,733
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Xyz County Elimu Fund

10-Aug-24	County Development Ac	20,000,000	30-Sep-24	Scholarships And Other Educational Benefits	20,000,000
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Yota Kenya Limited

15-Sep-24	County Recurrent Ac	202,781	30-Sep-24	Routine Maintenance - Vehicles And Other Transport Equipment	202,781
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Youre Destiney Limited

10-Aug-24	County Recurrent Ac	2,245,690	30-Sep-24	Other Creditors	2,245,690
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Zotez Hotel International

16-Sep-24	County Recurrent Ac	3,168,665	30-Sep-24	Hospitality Supplies And Services	3,168,665
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c)ii) General ledgers for county government of Xyz.(Figures in Kshs.)

Compensation To Employees					
DATE	DETAILS	Kshs.	DATE	DETAILS	Kshs.
23-Sep-24	Pauline Musuko Aliyebobea	226,273			
30-Sep-24	Cooperative Bank	600,000,000	30-Sep-24	Income And Expenditure	600,226,273
		600,226,273			600,226,273
Utilities Supplies And Services					
8-Aug-24	Kenya Power And Lighting Company Limited	9,697,411			
10-Aug-24	Kenya Power And Lighting Company Limited	8,084,760	30-Sep-24	Income And Expenditure	17,782,172
		17,782,172			17,782,172
Communication, Supplies And Services					
10-Aug-24	Safarikom Agent	490,733			
23-Aug-24	Daziya Connections Limited	1,801,724	30-Sep-24	Income And Expenditure	2,292,457
		2,292,457			2,292,457
Domestic Travel And Subsistence, And Other Transportation Costs					
16-Jul-24	Baya Mihunga	104,000			
17-Jul-24	Sonsome Katunge	700,000	30-Sep-24	Income And Expenditure	804,000
		804,000			804,000
Foreign Travel And Subsistence Allowance					
9-Jul-24	Ali Mwinipombe Wafula	1,168,326			
8-Jul-24	Mbotu Bajo	1,000,000	30-Sep-24	Income And Expenditure	2,168,326
		2,168,326			2,168,326
Printing , Advertising And Information Supplies And Services					
18-Aug-24	Botom Up Printers	754,828			
10-Jul-24	Open Newspaper Ltd	3,615,150	30-Sep-24	Income And Expenditure	4,369,978
		4,369,978			4,369,978
Rentals Of Produced Assets					
17-Aug-24	Dlligent Bus Services	1,725,862			
30-Aug-24	Shkera Heavy Vehicle Limited	1,354,138			
30-Aug-24	Shkera Heavy Vehicle Limited	1,486,897	30-Sep-24	Income And Expenditure	4,566,897
		4,566,897			4,566,897
Training Expense (Including Capacity Building)					
16-Sep-24	Botom Up Printers	474,138			
18-Aug-24	Sikolia Mpenda Mapera	37,700			
6-Aug-24	Ndigamwa Ngamu	449,750	30-Sep-24	Income And Expenditure	961,588
		961,588			961,588
Hospitality Supplies And Services					
15-Sep-24	Mobility Food Masters	343,966			
16-Sep-24	Zotez Hotel International	3,168,665			
21-Sep-24	Roma Textile Limited	243,724	30-Sep-24	Income And Expenditure	3,756,355
		3,756,355			3,756,355
Insurance Costs					
26-Jul-24	Triple T Insurance Co.Ltd	1,526,342			
18-Aug-24	Jamkali Insurance Agency	2,000,000	30-Sep-24	Income And Expenditure	3,526,342
		3,526,342			3,526,342
Specialised Materials And Supplies					
20-Sep-24	Lad Fumugation Services	1,572,414			
15-Sep-24	Supa Agrovet	629,948			
15-Sep-24	Grove Textiles	294,828			
15-Sep-24	Supa Agrovet	412,759	30-Sep-24	Income And Expenditure	2,909,948

		2,909,948			2,909,948
Office And General Supplies And Services					
20-Sep-24	General Bookshop Ltd	654,310			
16-Sep-24	Lipcan Computers	52,629			
15-Sep-24	Jisaidie Retail Stores	1,379,636	30-Sep-24	Income And Expenditure	2,086,576
		2,086,576			2,086,576
Fuel Oil And Lubricants					
12-Aug-24	Nestling Petrol Station	10,000,000			
23-Aug-24	Nestling Petrol Station	8,549,266			
15-Sep-24	Nestling Petrol Station	10,300,000	30-Sep-24	Income And Expenditure	28,849,266
		28,849,266			28,849,266
Other Operating Expenses					
9-Sep-24	Accountants Institute	22,400			
2-Jul-24	Anayejadili Advocates And Company	16,168,966			
19-Aug-24	Genzee Company Limited	1,760,512	30-Sep-24	Income And Expenditure	17,951,878
		17,951,878			17,951,878
Routine Maintenance - Vehicles And Other Transport Equipment					
15-Sep-24	Yota Kenya Limited	202,781	30-Sep-24	Income And Expenditure	202,781
Routine Maintenance- Other Assets					
15-Sep-24	Bonoma Services Limited	442,241			
26-Sep-24	Maro Collections	2,721,477			
15-Sep-24	Bonoma Services Limited	393,103	30-Sep-24	Income And Expenditure	3,556,822
		3,556,822			3,556,822
Other Creditors					
7-Aug-24	Tamvi Auto Service	3,759,013			
10-Aug-24	Youre Destiney Limited	2,245,690	30-Sep-24	Income And Expenditure	6,004,703
		6,004,703			6,004,703
Scholarships And Other Educational Benefits					
10-Aug-24	Xyz County Elimu Fund	20,000,000	30-Sep-24	Income And Expenditure	20,000,000
Other Current Transfers, Grants And Subsidies					
24-Aug-24	Mairo Health Centre	1,192,038			
24-Aug-24	Moshila Clinic	1,148,163	30-Sep-24	Income And Expenditure	2,340,201
		2,340,201			2,340,201
Transfer					
4-Sep-24	Xyz Drugs Control Fund	42,530,805	30-Sep-24	Income And Expenditure	42,530,805
Construction Of Buildings					
11-Aug-24	Sleyking Construction Co. Ltd	444,190			
11-Aug-24	Sleyking Construction Co. Ltd	368,425			
11-Aug-24	Wokosi And Services Limited	3,014,733			
13-Aug-24	Sleyking Construction Co. Ltd	279,580			
13-Aug-24	Sleyking Construction Co. Ltd	282,291			
18-Aug-24	Madiilda Construction Company	2,287,736			
19-Aug-24	Cola Works And Services Limited	3,634,700			
9-Aug-24	Sleyking Construction Co. Ltd	654,306			
9-Aug-24	Sleyking Construction Co. Ltd	231,265			
4-Sep-24	Brickmakers Enterprises Limited	2,123,853			
4-Sep-24	Rocke Blast Ltd	3,048,078	30-Sep-24	Income And Expenditure	16,369,156
		16,369,156			16,369,156
Refurbishment Of Buildings					
16-Sep-24	Kishe Investments Limited	7,268,275	30-Sep-24	Income And Expenditure	7,268,275
Construction Of Roads					
31-Jul-24	Villebe Limited	8,047,686			
12-Jul-24	Camape Enterprises Limited	6,070,506			
12-Jul-24	Kiwamu Enterprises Limited	5,611,596			
12-Jul-24	Jojoa Limited	6,027,661			
21-Jul-24	Eluva Engineering Centre	5,646,284			

16-Sep-24	Super Granite Enterprises Ltd	9,601,714			
30-Sep-24	Sopisot(Ea) Limited	572,120			
31-Jul-24	Viewlive Limited	6,997,702			
31-Jul-24	Phexla Trading Limited	6,473,840			
16-Sep-24	Marti Construction Company Limited	2,658,480			
30-Sep-24	Sewa Engineering Limited	6,878,038	30-Sep-24	Income And Expenditure	64,585,626
		64,585,626			64,585,626
Construction And Civil Works					
3-Sep-24	Swizz Sewerage Solutions	247,584,920			
27-Aug-24	Rasita Supplies And Construction Limited	22,352,086			
27-Aug-24	Rasita Supplies And Construction Limited	23,602,214			
27-Aug-24	Rasita Supplies And Construction Limited	28,900,331			
4-Sep-24	Maro Limited	2,325,814	30-Sep-24	Income And Expenditure	2,325,814
		324,765,365			2,325,814
Purchase Of Office Furniture And General Equipment					
18-Aug-24	Stardo Enterprises Ltd	1,881,379			
4-Sep-24	Full Investments Limited	1,362,103			
19-Aug-24	Fowards Nuti Limited	3,273,103			
4-Sep-24	Juasolar Ltd	2,896,216	30-Sep-24	Income And Expenditure	9,412,801
		9,412,801			9,412,801
Purchase Of Specialised Plant, Equipment And Machinery					
18-Aug-24	Sracote General Supplies Limited	1,612,069	30-Sep-24	Income And Expenditure	1,612,069
Rehabilitation And Renovation Of Plant, Machinery And Equipment					
20-Sep-24	Top Care Investment Limited	14,363,026	30-Sep-24	Income And Expenditure	14,363,026
Construction And Civil Works					
3-Sep-24	Swizz Sewerage Solutions	247,584,920			
27-Aug-24	Rasita Supplies And Construction Limited	22,352,086			
27-Aug-24	Rasita Supplies And Construction Limited	23,602,214			
27-Aug-24	Rasita Supplies And Construction Limited	28,900,331	30-Sep-24	Income And Expenditure	322,439,551
		322,439,551			322,439,551
Rehabilitation Of Civil Works					
14-Aug-24	Mossbridge Limited	8,073,308			
4-Sep-24	Pooliners Enterprises Limited	1,407,052	30-Sep-24	Income And Expenditure	9,480,359
		9,480,359			9,480,359

CHAPTER THREE

COUNTY GOVERNMENT ASSETS AND LIABILITIES

County government accounting is no less different to the convectional accounting for commercial enterprises. The double entry rules and the equation; **Assets = Capital + liabilities** hold true for Government accounting. However capital in county government accounting would be replaced by the name accumulated fund and liabilities with pending bills.

A notable difference is while commercial enterprises use International Financial Reporting Standards, county Governments have adopted the International Public Sector Accounting Standards and precisely report on Cash basis method (2013-2024). By reporting on cash basis means that County government assets and liabilities on the face of financial statements would only be Financial Assets and Financial Liabilities. The finance bill 2024 proposed to amend the Public Finance Management Act to prescribe modalities for accrual method of accounting. It not clear whether County government would be implementing accruals accounting or the method would remain for county funds.

Note:

Kenya Public Accounts Standard Board had prescribed county government funds to report on accrual basis. This means county governments consolidated accounts exclude county funds.

Cash and bank balances management by counties

1. At no time should the County Revenue Fund be overdrawn. The County Treasury has to obtain written approval from the controller of budget to withdraw from this account. All county revenues including interests and redemption of investments/sale/conversion, unless exempted by a legislation, should be deposited into this account.

2. County government should operate an Emergency Fund to enable payments for urgent and unexpected circumstances that are not legislated so as to avoid vote book hurdles in case of natural calamities.
3. In order to promote resourceful use of the county assets, County government may adopt a centralized county financial management system.
4. An accounting officer for a county government/entity may authorize payment of cash advances to public officers employed in the entity to be used to enable those officers to make payments for the entity or in the course of their tasks. A public officer who has been given cash advance should account for the use of the advance within a practical time. A public officer has to return the balance of the cash advance together with signed supporting documents for the cash expended . If the public officer fails to account for the use of the advance, or fails to return it, the sum of the advance not accounted for or not returned becomes a money owing by the officer. The officer would pay the money with interest. The liability, including the interest on it, is recoverable from the officer by making a deduction from any remuneration or other amount that is payable to the officer.

Illustration 6

Suppose the County Government of Xyz as in the **illustration 5** above received Kshs.345,855,340, Kshs.500,000,000 and Kshs.500,000,000 from the national government on 1st July 2024, 7th August, 2024 and 10th September 2024 respectively. It also collected Kshs.325,000,935, Kshs.300,157,000 and 200,000,100 from its internal sources by 31st July,2024, 31st August,2024 and 30th September 2024 respectively, in the first quarter of the fiscal year 2024/2025.

The Controller of Budget endorsed the County Government of Xyz to withdraw Kshs.300,000,000, 280,000,000 and 320,000,000 on 3rd July, 10th august and 13th September respectively from the County Revenue Fund to the Executive Recurrent Account. On the same dates he authorized Kshs.250,000,000, Kshs.290,000,000 and Kshs.160,000,000 respectively from the County Revenue Fund to Executive Development Account.

The controller also approved the County Assembly of Xyz to draw Kshs.100,000,000, Kshs.60,000,000 and Kshs.90,000,000 on 10th July, 2024, 15th August, 2024 and 6th September, 2024 respectively from County Revenue Fund to County Assembly of Xyz recurrent account.

You also ascertain that the county had the following pending bills, imprests outstanding and staff advances.

Pending bills as at 30 September 2024

30-Sep-24 Abdano Construction Company Kshs.1,217,295 Construction of buildings
30-Sep-24 Siyaada Construction & Supply Kshs.1,316,000 Construction of buildings
30-Sep-24 Siyaada Construction & Supply Kshs.1,400,000 Construction of buildings
30-Sep-24 Tamvi Auto Service Kshs.10,327,909 Other pending payables

30-Sep-24 National Hospital Insurance Fund Kshs.6,000,000 staff payables
 30-Sep-24 Nestling Petrol Station Kshs.4,974,179 Refined Fuels and Lubricants for Transport
 30-Sep-24 Nestling Petrol Station Kshs.522,000 Refined Fuels and Lubricants for Transport
 30-Sep-24 Marti Construction Company Limited Kshs.8,124,170 Access Roads

Imprest outstanding as at 30 September,2024.

29-Jul-24 Joona Ngemanyo Waliaula Kshs.66,000
 19-Aug-24 Harimud Bua Dharimu Kshs.12,760
 14-Aug-24 Songod Ngukai Ngukazu Kshs.27,500
 16-Sep-24 Tiabiki Benson Lesho Kshs.29,580
 3-Sep-24 Daudi Shirad Kelishi Kshs.30,000
 31-Aug-24 Zuyad John Ndaba Kshs.30,000
 19-Sep-24 Lishike Daudi Shidra Kshs.30,000
 1-Sep-24 Sehusin Lalabda Medmoha Kshs.30,000

Outstanding Advances as at 30 September,2024.

30-Sep-24 Mulleren Jebet Sertoi Kshs.52,525
 30-Sep-24 Eliampus Yawa Lewa Kshs.52,525
 30-Sep-24 Babelynn Mukalu Lamuki Kshs.54,100
 30-Sep-24 Simon Geche Romba Kshs.54,800

Prepare:-

- i) The cashbooks for county government of Xyz.
- ii) Xyz county assembly Control account.

Suggested Solutions

i) County Government of Xyz.

County Government of Xyz - County Revenue Fund cashbook					
DATE	DETAILS	Kshs.	DATE	DETAILS	Kshs.
1-Jul-24	National Treasury	345,855,340	3-Jul-24	Xyz County Recurrent	300,000,000
31-Jul-24	Revenue Collection Account	325,000,935	3-Jul-24	Xyz County Development	250,000,000
7-Aug-24	National Treasury	500,000,000	10-Jul-24	Xyz County Assembly Recurrent	100,000,000
31-Aug-24	Revenue Collection Account	300,157,000	10-Aug-24	Xyz County Development	280,000,000
10-Sep-24	National Treasury	500,000,000	10-Aug-24	Xyz County Recurrent	290,000,000
30-Sep-24	Revenue Collection Account	200,000,100	15-Aug-24	Xyz County Assembly Recurrent	60,000,000
			13-Sep-24	Xyz County Development	160,000,000
			13-Sep-24	Xyz County Recurrent	320,000,000
			16-Sep-24	Xyz County Assembly Recurrent	90,000,000
			30-Sep-24	Balance C/D	321,013,375
		2,171,013,375			2,171,013,375
1-Oct-24	Balance B/D	321,013,375			

County Government of Xyz - County Recurrent Ac					
DATE	DETAILS	Kshs.	DATE	DETAILS	Kshs.
3-Jul-24	County Revenue Fund	300,000,000	2-Jul-24	Anayejadili Advocates And Company	16,168,966
10-Aug-24	County Revenue Fund	290,000,000	8-Jul-24	Mbotu Bajo	1,000,000
13-Sep-24	County Revenue Fund	320,000,000	9-Jul-24	Ali Mwinipombe Wafula	1,168,326
			10-Jul-24	Open Newspaper Ltd	3,615,150
			16-Jul-24	Baya Mihunga	104,000
			17-Jul-24	Sonsome Katunge	700,000
			26-Jul-24	Triple T Insurance Co.Ltd	1,526,342
			26-Jul-24	Cooperative Bank	200,000,000
			29-Jul-24	Joona Ngemanyo Waliaula	66,000
			6-Aug-24	Ndigamwa Ngamu	449,750
			7-Aug-24	Tamvi Auto Service	3,759,013
			8-Aug-24	Kenya Power And Lighting Company Limited	9,697,411
			10-Aug-24	Safarikom Agent	490,733
			10-Aug-24	Youre Destiney Limited	2,245,690
			10-Aug-24	Kenya Power And Lighting Company Limited	8,084,760
			10-Aug-24	Xyz County Elimu Fund	20,000,000
			12-Aug-24	Nestling Petrol Station	10,000,000
			14-Aug-24	Songod Ngukai Ngukazu	27,500
			17-Aug-24	Dlligent Bus Services	1,725,862
			18-Aug-24	Sikolia Mpenda Mapera	37,700
			18-Aug-24	Botom Up Printers	754,828
			18-Aug-24	Jamkali Insurance Agency	2,000,000
			19-Aug-24	Genzee Company Limited	1,760,512
			19-Aug-24	Harimud Bua Dharimu	12,760
			23-Aug-24	Daziya Connections Limited	1,801,724
			23-Aug-24	Nestling Petrol Station	8,549,266
			24-Aug-24	Moshila Clinic	1,148,163
			24-Aug-24	Mariro Health Centre	1,192,038
			30-Aug-24	Shkera Heavy Vehicle Limited	1,354,138
			30-Aug-24	Shkera Heavy Vehicle Limited	1,486,897
			30-Aug-24	Cooperative Bank	200,000,000
			31-Aug-24	Zuyad John Ndaba	30,000
			1-Sep-24	Sehusin Lalabda Medmoha	30,000
			3-Sep-24	Daudi Shirad Kelishi	30,000
			4-Sep-24	Xyz Drugs Control Fund	42,530,805
			9-Sep-24	Accountants Institute	22,400
			15-Sep-24	Yota Kenya Limited	202,781
			15-Sep-24	Grove Textiles	294,828
			15-Sep-24	Mobility Food Masters	343,966
			15-Sep-24	Bonoma Services Limited	393,103
			15-Sep-24	Supa Agrovet	412,759
			15-Sep-24	Bonoma Services Limited	442,241
			15-Sep-24	Supa Agrovet	629,948
			15-Sep-24	Jisaidie Retail Stores	1,379,636
			15-Sep-24	Nestling Petrol Station	10,300,000
			16-Sep-24	Tiabiki Benson Lesho	29,580
			16-Sep-24	Lipcan Computers	52,629
			16-Sep-24	Botom Up Printers	474,138
			16-Sep-24	Zotez Hotel International	3,168,665
			19-Sep-24	Lishike Daudi Shidra	30,000
			20-Sep-24	General Bookshop Ltd	654,310
			20-Sep-24	Lad Fumugation Services	1,572,414

			21-Sep-24	Roma Textile Limited	243,724
			23-Sep-24	Pauline Musuko Aliyebobea	226,273
			26-Sep-24	Cooperative Bank	200,000,000
			26-Sep-24	Maro Collections	2,721,477
			30-Sep-24	Mulleren Jebet Sertoi	52,525
			30-Sep-24	Eliampus Yawa Lewa	52,525
			30-Sep-24	Babelynn Mukalu Lamuki	54,100
			30-Sep-24	Simon Geche Romba	54,800
			30-Sep-24	Balance C/D	142,642,844
		910,000,000			910,000,000
1-Oct-24	Balance B/D	142,642,844			

County Government of Xyz - County Development Ac					
DATE	DETAILS	Kshs.	DATE	DETAILS	Kshs.
3-Jul-24	County Revenue Fund	250,000,000	12-Jul-24	Kiwamu Enterprises Limited	5,611,596
10-Aug-24	County Revenue Fund	280,000,000	12-Jul-24	Jojoa Limited	6,027,661
13-Sep-24	County Revenue Fund	160,000,000	12-Jul-24	Camape Enterprises Limited	6,070,506
			21-Jul-24	Eluva Engineering Centre	5,646,284
			31-Jul-24	Phexla Trading Limited	6,473,840
			31-Jul-24	Viewlive Limited	6,997,702
			31-Jul-24	Villebe Limited	8,047,686
			9-Aug-24	Sleyking Construction Co. Ltd	231,265
			9-Aug-24	Sleyking Construction Co. Ltd	654,306
			11-Aug-24	Sleyking Construction Co. Ltd	368,425
			11-Aug-24	Sleyking Construction Co. Ltd	444,190
			11-Aug-24	Wokosi And Services Limited	3,014,733
			13-Aug-24	Sleyking Construction Co. Ltd	279,580
			13-Aug-24	Sleyking Construction Co. Ltd	282,291
			14-Aug-24	Mossbridge Limited	8,073,308
			18-Aug-24	Sracote General Supplies Limited	1,612,069
			18-Aug-24	Stardo Enterprises Ltd	1,881,379
			18-Aug-24	Madilida Construction Company	2,287,736
			19-Aug-24	Fowarders Nuti Limited	3,273,103
			19-Aug-24	Cola Works And Services Limited	3,634,700
			27-Aug-24	Rasita Supplies And Construction Limited	22,352,086
			27-Aug-24	Rasita Supplies And Construction Limited	23,602,214
			27-Aug-24	Rasita Supplies And Construction Limited	28,900,331
			3-Sep-24	Swizz Sewerage Solutions	247,584,920
			4-Sep-24	Full Investments Limited	1,362,103
			4-Sep-24	Pooliners Enterprises Limited	1,407,052
			4-Sep-24	Brickmakers Enterprises Limited	2,123,853
			4-Sep-24	Maro Limited	2,325,814
			4-Sep-24	Juasolar Ltd	2,896,216
			4-Sep-24	Rocke Blast Ltd	3,048,078
			16-Sep-24	Marti Construction Company Limited	2,658,480
			16-Sep-24	Kishe Investments Limited	7,268,275
			16-Sep-24	Super Granite Enterprises Ltd	9,601,714
			20-Sep-24	Top Care Investment Limited	14,363,026
			30-Sep-24	Sopisot(Ea) Limited	572,120

			30-Sep-24	Sewa Engineering Limited	6,878,038
			30-Sep-24	Balance C/D	242,143,323
		690,000,000			690,000,000
1-Oct-24	Balance B/D	242,143,323			

ii) Xyz county assembly Control account.

Xyz county assembly recurrent Control A/C					
DATE	DETAILS	Kshs.	DATE	DETAILS	Kshs.
10-Jul-24	County Revenue Fund	100,000,000			
15-Aug-24	County Revenue Fund	60,000,000			
16-Sep-24	County Revenue Fund	90,000,000	30-Sep-24	Income And Expenditure	250,000,000
		<u>250,000,000</u>			<u>250,000,000</u>

County Government Investments

1. A county government/entity may invest by lending money
2. A county government/entity may undertake Joint infrastructure investments
3. **County Corporation** – A county Corporation can be Established or dissolved with the approval of the County Executive Committee, with recommendations of the County Treasury regarding the financial implications of establishing or dissolving the county corporation.
4. **County Government-Linked Corporations** - County government-linked corporation means a county corporation in which the county government is holding less than 50% of the share capital of the corporation.
5. **County Public Fund** - The County Executive Committee member for finance may create and wind up a county public fund with approval.
6. **Urban Areas and Cities** - Urban areas and cities as defined in the Urban Areas and Cities Act, 2011

County Government Fixed Assets

All procurement of goods and services and disposal of assets, required for the purposes of the county government or a county government entity are to be carried out in accordance with Article 227 of the Constitution and the Public Procurement and Disposal Act.

County officials should ensure they manage assets in such a way that the county government/entity achieves value for money in acquiring, using or disposing of those assets.

County government/entity should have adequate systems and processes in place to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is updated regularly to portray the present status of assets and should be available to any interested party for audit purposes

Assets should be disposed at the competitive prices and at the lowest possible cost and all proceeds deposited in a bank account of the County/entity.

Table 1: A Sample of a Fixed Asset Schedule

County Government of XYZ				
ASSET SCHEDULE FOR THE YEAR 2025				
Asset class	Historical Cost Balance B/D (Kshs) 2023/2024	Additions during the year (Kshs) 2024/2025	Disposals during the year (Kshs) 2024/2025	Historical Cost Balance C/D (Kshs) 2024/2025
Land	261,000,000			261,000,000
Buildings and structures	280,000,000	55,000,000		335,000,000
Transport equipment	19,600,000	21,500,000	900,000	40,200,000
Office equipment, furniture and fittings	174,000			174,000
ICT Equipment, Software and Other ICT Assets	214,382			214,382
Other Machinery and Equipment	170,287			170,287
Biological Assets	1,215,000,000			1,215,000,000
Development Costs		30,000,000		30,000,000
Strategic Stocks		105,000,000		105,000,000
Heritage and cultural assets	767,851,000			767,851,000
Intangible assets	97,865,400			97,865,400
Total	2,641,875,069	211,500,000	900,000	2,852,475,069

Table 2: A Sample of an Asset Register

County Government of Xyz

Asset Register as at 30th June, 2025

Land						
Acquisition/Disposal Date	Asset	Serial No.	Reg. No.	Acreage	Location	Cost
01/01/1963	Land 1		Lr1234	3,000	County East	210,000,000
01/01/1970	Land 2		Lr4321	900	County West	51,000,000
30/06/2025	Total					261,000,000

Buildings and Structures

Acquisition/Disposal Date	Asset	ID No.	Reg. No.	Acreage	Location	Cost
20/1/1965	County Hall		Lr1234		County East	90,000,000
15/1/2013	Ref Hospital		Lr4321		County West	12,000,000
6/6/2023	Power Plus Recreation centre		Lr1234		County East	101,000,000
12/3/2013	Fire Brigade		Lr1234		County East	77,000,000
1/7/2024	Balance B/D 2023/2024					280,000,000
Additions						
3/3/2025	Tibu Hospital		Lr1234		County East	55,000,000
30/06/2025	Total					335,000,000

Transport Equipment

Acquisition/Disposal Date	Asset	chassis No.	I.D. No.	Asset Brand	Location	Cost
04/06/2013	Toyota	678904	09871	Cruiser Hzj80r(4230cc)	County	3,000,000
04/06/2013	Toyota	906547	09872	Cruiser Hzj80r(4230cc)	County	3,000,000

12/07/2023	Suzuki	640567	09873	Kei (1298 Cc)	County	900,000
01/01/2024	Mitsubishi Fuso	336789	09874	Fm515 (6557 Cc)	County	7,000,000
05/05/2024	Mercedes	332267	09875	Benz 1113	County	5,700,000
Balance B/D 2023/2024						19,600,000
Additions						
08/08/2024	Mersey Ferguson	119845	09876	290 (82 Cc)	County	8,000,000
12/10/2024	Toyota Hilux	469032	09877	Lan15r (2986 Cc)	County	5,000,000
12/10/2024	Toyota Hilux	913378	09878	Lan15r(2986 Cc)	County	5,000,000
01/01/2025	Nissan Hard Body	749045	09879	J84(3200 Cc)	County	4,000,00
05/05/2025	Nissan X-Trail	443218	09880	(1998 Cc) 4wd	County	3,500,000
Sub-Total						41,100,000
Disposals						
05/05/2025	Suzuki	640567	09873	Kei (1298 Cc)	County	(900,000)
30/06/2025	Grand Total					40,200,000

Office Equipment, Furniture And Fittings

Acquisition/ Disposal Date	Asset	Serial No.	I.D. No.	Asset Brand	Location	Cost
13/04/2013	Executive Chair		EcX001	furnituremavel	County Hall	7,000
13/04/2013	Executive Chair		EcX002	furnituremavel	County Hall	7,000
13/04/2013	Executive Chair		EcX003	furnituremavel	County Hall	7,000
04/09/2020	Airconditioner	0675438	lcx001	LG	County Hall	51,000
04/09/2020	Air conditioner	0675439	lcx002	LG	County Hall	51,000
04/09/2020	Air conditioner	0675440	lcx003	LG	County Hall	51,000
30/06/2025	Total					174,000

ICT Equipment, Software And Other Ict Assets

Acquisition/ Disposal Date	Asset	Serial No.	I.D. No.	Asset Brand	Location	Cost
09/06/2020	Computer	0987603	Cx001	Dell	County Hall	70,000
23/09/2024	Laptop	03126789	Cxr001	Hp	Ref Hospital	64,191
03/04/2025	Laptop	03126777	Cxt001	Hp	Tibu Hospital	64,191
23/09/2024	Printer	9875032	Px001	Hp DeskJet	County Hall	16,000
30/06/2025	Total					214,382

Other Machinery And Equipment

Acquisition/ Disposal Date	Asset	Serial No.	I.D. No.	Asset Brand	Location	Cost
09/06/2020	Franking Machine	07085051c	Cxome001	Samsung	County Hall	58,076
03/04/2025	Fridge	A12725rc	Cxome002	Lg	Tibu Hospital	40,000
23/09/2024	Lawn Mower	Tx011249	Cxome003	Kawasaki Th 34d	Ref Hospital	25,800
04/09/2020	Microscope	Gc1600509065	Cxome004		Ref Hospital	46,411
30/06/2025	Total					170,287

Biological Assets

Acquisition/ Disposal Date	Asset	Serial No.	I.D. No.	Asset Brand	Location	Cost
04/03/2013	Trees		Cxe1-50000	Eucalyptus	County East	100,000,000
01/02/2007	Trees		Cxc1-77000	Cypress	County East	300,000,000
09/05/2010	Trees		Cxp1-99000	Pine	County East	600,000,000
01/05/2023	Cows		Cxon1-400	Friesian	County East	160,000,000
07/03/2024	Flowers		Cxf1-33000	Assorted	County East	55,000,000
30/06/2025	Total					1,215,000,000

Development Costs

Acquisition/	Asset	Serial	I.D. No.	Asset Brand	Location	Cost
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Disposal Date		No.				
	Additions					
17/04/2024	Pre-Feasibility, Feasibility And Appraisal Studies		Cxpf001	Sunflower hybrid development	County East	30,000,000
30/06/2025	Total					30,000,000

Strategic Stocks

Acquisition/ Disposal Date	Asset	Serial No.	I.D. No.	Asset Brand	Location	Cost
	Additions					
	Hybrid Maize Seeds		H3334	Hybrid 3334	County East	12,000,000
	Hybrid Chicks		Rhodes56	Rhodes brown 56	County East	88,000,000
	Semen for Insemination		Jersey777	Jersey Dairy 777	County East	5,000,000
30/06/2025	Total					105,000,000

Heritage And Cultural Assets

Acquisition/ Disposal Date	Asset	Serial No.	I.D. No.	Acreage	Location	Cost
01/01/1963	Sombe Cultural Centre		HCAX1	30	Sombe	53,000,000
01/01/1963	Fufwe Hills		HCAX2	4000	Fufwe	386,000,000
01/01/1963	Dem Gorge		HCAX3	14	Dem	97,864,000
01/01/1963	Labwe Escapment		HCAX4	1200	Labwe	230,987,000
30/06/2025	Total					767,851,000

Intangible Assets

Acquisition/ Disposal Date	Asset	Serial No.	I.D. No.	Asset Brand	Location	Cost
01/01/1963	Copyright		Cox01	Circumcision ceremony		97,865,400
01/01/2020	Kiinda Containers patent		Cox02	Cane made baskets		4,000,000,000
09/06/2022	License/royalty		Cox02	Ikolo Gold Mines		999,999,999
30/06/2025	Total					5,097,865,399

County Government Liabilities

Section142.(1) of the Public Finance Management Act stipulates that, the County Assembly may authorize short term borrowing by county government/entities for cash management purposes only. The borrowings should not exceed 5% of the most recent audited revenues of the county/entity. A county government/entity that has any such borrowing should ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

Section 140. (1), (2) and (5) of The Public Management Act specifies, a County Executive Committee member for finance may, on behalf of the county government, raise a loan (either within Kenya or outside Kenya) for that Government's purposes, only if the loan and the terms and conditions for the loan are set out in writing and County Treasury shall submit both quarterly and annual reports of all loans made to the county government to the County Assembly. The loan raised should be in harmony with:-

(a) Article 212 of the Constitution.

- (b) Sections 58 and 142 of The Public Management Act.
- (c) The fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper.
- (d) The debt management strategy of the county government over the medium term.

Section 144. (1-20) of The Public Management Act lays down the conditions a county government may issue securities, whether for money that it has borrowed or for any other purpose.

CHAPTER FOUR

FINANCIAL REPORTING BY COUNTY GOVERNMENT/ENTITIES

The Public Finance And Management Act (2012) requires county governments and their entities to follow stringent reporting timelines as shown in the table below. They are also required to make public their reports.

Table 3: Showing the reporting timeline, the report required and whom to submit the report to.									
KEY:									
NT - National Treasury				CA - County Assembly					
COB - Controller Of Budget				ECM-R - County Executive Committee Member-in-charge					
CRA - Commission On Revenue Allocation				CT- County Treasury					
ECM-F - Executive Committee Member-Finance									
Officer Responsible	Entity	Report Type		Due on or before	Report to be Submitted to:-				
Administrator of A County Public Fund	Public Fund	Quarterly Report	Financial	15th October,15th January, 15th April and 15tht July				CT	COB
Administrator of A County Public Fund	Public Fund	Annual Statements	Financial	30-Sep	OAG	ECM-R			
Accounting Officer	County Corporation	Quarterly Report	Financial	31st October,31st January, 30th April and 31st July					ECM-R
ECM-R	County Corporation	Quarterly Report	Financial	31st October,31st January, 30th April and 31st July					CT
Accounting Officer	County Corporation	Annual Statements	Financial	30-Sep	ECM-R				
ECM-R	County Corporation	Financial Statements		ECM-F					
Accounting Officer	County Government	Quarterly Report	Financial	31st October,31st January, 30th April and 31st July				NT, COB, CRA, CA.	
Receiver of Revenue	County Government	Waivers and Variations of Fees or Charges		31-Jul	CA				
Receiver of Revenue	County Government	Revenue Collected, Received and Recovered		30-Sep	CT	OAG	NT	COB	CRA

Accounting Officer	County Government Entities	Annual Financial Statements	30-Sep	CT	OAG	COB	CRA
County Treasury	County Government Entities	Consolidated Annual Financial Statements	31-Oct	OAG	NT	COB	CRA

Illustration 7:

Using the information in **illustration 1,5 and 6**;

- Prepare the trial balance for the county government of XYZ as at 30th September, 2024.
- Prepare the Income and Expenditure Statement for the county government of XYZ for the quarter ended 30th September, 2024.
- Prepare the Statement of Financial Position for county government of XYZ as at 30th September, 2024.
- Prepare the cash flow statement for county government of XYZ as at 30th September, 2024.

Suggested Solutions.

i) County government of XYZ, A Trial balance as at 30th September, 2024.

DETAILS	DR (Kshs.)	CR (Kshs.)
Equitable Share		1,345,855,340
County Own Generated Revenues		825,158,035
County Government of XYZ - County Revenue Fund Ac	321,013,375	
County Government of XYZ - County Recurrent Ac	142,642,844	
County Government of XYZ - County Development Ac	242,143,323	
Compensation to Employees	600,226,273	
Transfer to XYZ county assembly recurrent	250,000,000	
Transfer to Alcoholic Drinks Control Fund	42,530,805	
Scholarships and other Educational Benefits	20,000,000	
Other Current Transfers, Grants and Subsidies	2,340,201	
Utilities Supplies and Services	17,782,172	
Communication, Supplies and Services	2,292,457	
Domestic Travel and Subsistence, and Other Transportation Costs	804,000	
Foreign travel and Subsistence Allowance	2,168,326	
Printing , Advertising and Information Supplies and Services	4,369,978	
Rentals of Produced Assets	4,566,897	
Training Expense (including capacity building)	961,588	
Hospitality Supplies and Services	3,756,355	
Insurance Costs	3,526,342	
Specialised Materials and Supplies	2,909,948	
Office and General Supplies and Services	2,086,576	
Fuel Oil and Lubricants	28,849,266	
Other Operating Expenses	17,951,878	
Routine Maintenance - Vehicles and Other Transport Equipment	202,781	
Routine maintenance- Other Assets	3,556,822	
Other Creditors	6,004,703	

Construction of Buildings	16,369,156	
Refurbishment of Buildings	7,268,275	
Construction of Roads	64,585,626	
Construction and Civil Works	2,325,814	
Purchase of Office Furniture and General Equipment	9,412,801	
Purchase of Specialised Plant, Equipment and Machinery	1,612,069	
Rehabilitation and Renovation of Plant, Machinery and Equipment	14,363,026	
Construction and Civil Works	322,439,551	
Rehabilitation of Civil Works	9,480,359	
Imprests	255,840	
Staff Advances	213,950	
	2,171,013,375	2,171,013,375

ii) County government of Xyz, The statement of income & expenditure for the quarter ended 30 September, 2024.

COUNTY GOVERNMENT OF XYZ
THE STATEMENT OF INCOME AND EXPENDITURE FOR THE QUARTER ENDED
30TH SEPTEMBER, 2024

	Sep	Comparative
	2024	2023
	Kshs	Kshs
RECEIPTS		
Equitable Share (Exchequer releases)	1,345,855,340	0
County Own Generated Revenues	825,158,035	0
TOTAL RECEIPTS	2,171,013,375	0
PAYMENTS		
Compensation of Employees	600,226,273	0
Use of goods and services	95,785,384	0
Subsidies	20,000,000	0
Transfers to Other Government Entities	292,530,805	0
Other grants and transfers	2,340,201	0
Acquisition of Assets	447,856,677	0
Other Payments	6,004,703	0
TOTAL PAYMENTS	1,464,744,043	0

		0
SURPLUS/DEFICIT	706,269,332	0

iii)County government of Xyz, the statement of financial position as at 30 September, 2024.

COUNTY GOVERNMENT OF XYZ

THE STATEMENT OF FINANCIAL POSITION AS AT 30TH SEPTEMBER, 2024

	Sep 2024 Kshs	Comparative 2023 Kshs
FINANCIAL ASSETS		
Cash and Cash Equivalents		
Bank Balances	705,799,542	0
Cash Balances	0	0
Total Cash and cash equivalents	705,799,542	0
Accounts receivables	469,790	0
TOTAL FINANCIAL ASSETS	706,269,332	0
FINANCIAL LIABILITIES		
Accounts Payables	0	0
NET FINANCIAL ASSETS	706,269,332	0
REPRESENTED BY		
Fund balance b/fwd	0	0
Surplus/Deficit for the year	706,269,332	0
NET FINANCIAL POSITION	706,269,332	0

iv)County government of Xyz, cash flow position for the first quarter.

COUNTY GOVERNMENT OF XYZ

THE CASH FLOWS STATEMENTS AS AT 30TH SEPTEMBER, 2024

	Sep 2024 Kshs	Comparative 2023 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES		
Equitable Share (Exchequer releases)	1,345,855,340	0
County Own Generated Revenues	825,158,035	0
Payments for operating expenses		
Compensation of Employees	(600,226,273)	0
Use of goods and services	(95,785,384)	0
Subsidies	(20,000,000)	0
Transfers to Other Government Entities	(292,530,805)	0
Other grants and transfers	(2,340,201)	0
Other Payments	(6,004,703)	0
Adjusted for:		
Decrease/(increase) in Receivables	(469,790)	0
Increase/(Decrease) in Payables	0	0
Net cash flows from operating activities	1,153,656,219	0
CASHFLOW FROM INVESTING ACTIVITIES		
Proceeds from Sale of Assets	0	0
Acquisition of Assets	(447,856,677)	0
Net cash flows from investing activities	(447,856,677)	0

CASHFLOW FROM FINANCING ACTIVITIES

Proceeds from Domestic Borrowings	0	0
Proceeds from Foreign Borrowings	0	0
Repayment of principal on Domestic and Foreign borrowing	0	0
Net cash flow from financing activities	0	0
Net Increase In Cash and Cash Equivalent	705,799,542	0
Cash and cash equivalent at BEGINNING of the quarter	0	0
Cash and cash equivalent at END of the quarter	705,799,542	0

CHAPTER FIVE

NATIONAL GOVERNMENT REVENUE

National Government revenue can be described as the total proceeds measured in Kenya shillings brought in by the government's operations for a period of one fiscal year. This amount is gross receipts before subtracting any government expenditure. A fiscal year is a period of time commencing on first July of any given year and ending on 30th June of the succeeding calendar year. It is a period of twelve months. Government revenue can also be termed as receipts or income.

Sources of National Government Revenues

Sources of National Government revenue refers to different streams of revenue the government receives from its varied activities. The sources can be broadly classified as internal revenue sources and external revenue sources.

Internal Revenue Sources

These refer to all those receipts the government obtains from its activities within the Kenyan borders. They include: taxation, license fees, fines and penalties, income from property, sale of goods and services, dividends and profits, interest income and government internal borrowing.

Taxation

Taxes refer to obligatory receipts from individuals and corporations as stipulated by Kenyan laws. Taxation is the levying of the taxes in enforcement of the tax laws. The taxes are classified as direct taxes or indirect taxes. Taxes are the major source of government revenue.

Why do the government Levy taxes?

No one likes paying taxes, this is because, it is compulsory to pay taxes. The government has therefore to convince its people to willingly pay taxes. Some of the reasons put across as to why the government levies taxes to encourage willingness to pay taxes are:-

1. To facilitate maintenance of the government and government expenditure on public goods like street lighting and construction of roads.
2. To fuel growth and development of the economy through fiscal measures.
3. To provide Kenyans with indispensable goods and services freely or at subsidized prices for example vaccines, education, medical care, electricity and water.
4. To discourage vices and undesirable behaviours in the society for instance curbing smoking and containing drunkenness.
5. To reallocate income and wealth in the country.
6. To stabilize economy and cushion Kenyans from high cost of commodities by offering subsidies, loans and grants.
7. To protect domestic industries and businesses from stiff competition by their international counterparts.
8. To encourage order and organized growth of infrastructure developed by individuals and companies.
9. To provide employment and maintain a reasonable price level of commodities in the economy.
10. To encourage Kenyans to save and invest thus creating jobs for other Kenyans.

Principles (canons) of a good tax system.

As no one likes paying taxes, the tax system should be hassle free or have as little inconveniences as possible. It should be considered by the majority of Kenyans as being fair. Principles of taxation are thus those qualities a good tax system should portray. The canons were originally laid down by Adam Smith in his book, "The Wealth of Nations". The principles of taxation are.

1. **Equality.** The principle states that a person should be taxed according to his capability to pay taxes.
2. **Certainty.** The principle stipulates that the mode of payment and the amount to be paid in terms of taxes should be obvious to every tax payer and not arbitrary.

3. Convenience. The principle states, the manner and timing of tax payment should be fitting to the tax payer.

4. Economy/Efficiency. The principle requires that the expenditure on tax collection should be negligible to both the tax collector and tax payer.

5. Productivity. The principle specifies that a tax should be an incentive to generate income. A tax system must yield sufficient revenue to the government and at the same time, it should not harmfully affect individuals and companies ability to generate income.

6. Simplicity. The tax system should be straightforward and understandable to everyone so that the tax payer is able to calculate his obligation without difficulties.

7. Diversity. The tax system should be multiple and varied to ensure it is dynamic, that is, it should be able to generate government's income even when the economy is changing without having to change the tax system.

8. Elasticity. A superlative tax system should be flexible to cater for the requirements of a country.

9. Flexibility. Taxes should be levied in such a way that the tax rate can be adjusted in response to changing circumstances.

Direct Taxes

Direct taxes are levied on individuals and companies and cannot be shifted to another tax payer. In other words the **tax incidence** or the tax burden cannot be passed on to someone else. Examples of direct taxes are; individual income tax, corporate income tax, capital gains tax, estate tax and property taxes.

Income tax

Income tax is tax on income as per section 3(1) of the Income tax Act. The Act does not define what income is but from the provisions, income must fulfil the following criteria.

1. Income that is taxable **must be profit or gain from an undertaking**. It is not confined to mere receipt of money. It includes certain benefits in kind arising from employment.

2. Such a gain or profit must be capable of being translated to money or money's worth. In **Tennant Vs. Smith (1892)** a banking company assigned to its agent as a residence, a portion of the bank premises. The agent was required to reside in the building as a servant of the bank and for the purposes of performing his duty as an employee. It was held that the value of residence was not an emolument of office in respect of which the agent is chargeable with income tax. Lord Morris stated, "the appellant occupies the bank house as part of his duty and I do not see how the case can be

distinguished from that so aptly put by Lord Young as the master of a ship who incurred the cost of a house rent while a float. His cabin does not on that account become part residence”.

However, in **Securex Agencies Kenya Vs. Kenya Revenue Authority (2014)**, A director of the Securex Agencies Kenya lived in a building owned by the company. Kenya Revenue Authority raised a tax demand for Kshs.18,480,485 as income tax arrears under Pay As You Earn system. The argument was, whether a director was an employee of a company and the company housing was a benefit assessable to tax. It was ruled that the company housing was a benefit rightfully assessable under Pay As You Earn tax system.

2. Casual profits are not taxed and this includes windfall gains, donations and gifts of money. However, Section 3(2) gives the commissioner legislative power to deem something to be income which does not fall within any of the other sources.

3. Income must be distinguished from capital profits. In **Van Den Berg Vs. Clark (1935)**, two trading firms entered into an agreement. When World War I broke out, it became impossible to effect the agreement and the company made compensation to the British company. Was the amount received as a compensation revenue or capital? It was held that the sum was capital in nature and therefore not taxable as the basis of their agreement was to share revenue equally.

In **Vaccambrosa Company Ltd Vs. Farmer**, a rubber company had an estate of which in the year under review only a seventh produced rubber. The other six sevenths were being in the process of cultivation for production of rubber. Rubber matures in six years. The expenditure for the future cultivation was included in the financial statements in arriving at taxable profits. It was held that the future expenditure was capital in nature and the financial statements should be adjusted by removing it.

Points to note.

a) Capital expenditure is spent once, income expenditure recurs every year.

b) An item of receipt or expenditure may not recur but would constitute a revenue item if it is capable of recurring. In **Ruaraka Diversified Investments Ltd Vs. Kenya Revenue Authority (2021)**, Ruaraka diversified investments Ltd sold property to Garden City Ltd and Safaricom Plc where the Garden City Mall is situated. The company was of the view that, sale of land attracted capital gains tax and requested for a private ruling to be sure of its position.

However, Kenya Revenue Authority(KRA) held that the transaction was one in the ordinary course of business and the gains thereof were subject to corporation tax. The case was ruled in favour of KRA allowing them to collect Kshs.672 million in tax.

c) If a business moves from place to place, moving expenses would be deductible expenses in the conduct of that business.

d) Fixed assets refer to any payments for acquisition of fixed assets or a sum received on realization of such asset. They would be termed as capital expenditure and capital receipt respectively.

e) Where payments received or paid are made in the cause of carrying on business of selling fixed assets, that would constitute gain or loss of income.

Section 3(2) and 7(e) of the Income tax Act classifies income according to the source from which it is derived.

Specified sources of income

They include;

1. Rights granted to other persons for the use or occupation of immovable property.

2. Employment or services rendered and includes;

a) Employment (including former employment) of personal services for wages, salary, commissions or similar rewards (not under an independent contract of service), and a self- employed professional vocation.

b) Employment the gains or profits from which is wife's employment income, professional gains or profits from which is wife's professional income and wife's self-employment the gains or profits from which is wife's self-employment.

3. Agricultural, pastoral, horticultural, forestry or similar activities but not deemed to be employment or services rendered.

4. Surplus funds withdrawn or refunded to an employer in respect of registered pension or registered provident funds which are deemed to be the income of the employer

5. Income of a licensee from one license area or a contractor from one contract area.

6. Dividend and interests.

7 (a) A pension, charge or annuity:-

(b) Any withdrawal from, or payments out of, a registered pension fund, or a registered provident fund or a registered individual retirement fund

(c) Any withdrawals from registered home ownership savings plan.

8. Income accruing from a business carried out over the internet or an electronic network including through a digital marketplace

9. The net gain derived on the disposal of an interest in a person, if the interest derives twenty per cent or more of its value, directly or indirectly, from immovable property in Kenya

10. A natural resource income

11. The whole of gain which accrues to a company or an individual on or after 1st January, 2015 where property is sold, exchanged, conveyed or otherwise disposed of in any manner whatever (including by way of gift), whether or not for consideration of property situated in Kenya, whether or not the property was acquired before 1st January, 2015.

Implications of specified sources of income

With effect from 1st January, 1979, the income or loss from each source of income is separately determined. That is, any loss arising from one of the specified losses can only be set out from that specified source of income.

Any loss brought forward from 1978 and prior years of income can be off set against the total income from the specified sources. Such loss is referred to as the **deficit of total income**.

Illustration 8:

Mr. Wabobwa earned the following incomes from year 1978-1981.

YEAR	Year 1978	Year 1979	Year 1980	Year 1981
Income sources	Kshs.	Kshs.	Kshs.	Kshs.
Employment Income	6,000,000	6,000,000	6,000,000	6,000,000
Business Income	(4,000,000)	2,000,000	2,500,000	3,000,000
Farming Income	(5,000,000)	(2,500,000)	(1,000,000)	1,500,000

Required:

Compute the taxable income for each year to clearly illustrate the specified sources of income concept.

Suggested Solution.

Mr. Wabobwa				
Taxable Income Computation				
YEAR	Year 1978	Year 1979	Year 1980	Year 1981
Income Sources	Kshs.	Kshs.	Kshs.	Kshs.

Loss Brought Forward	-	(3,000,000)	(2,500,000)	(3,500,000)
Employment Income	6,000,000	6,000,000	6,000,000	6,000,000
Business Income	(4,000,000)	2,000,000	2,500,000	3,000,000
Farming Income	(5,000,000)	(2,500,000)	(1,000,000)	1,500,000
Taxable Income		5,000,000	8,500,000	9,000,000
Loss Carried Forward	(3,000,000)	(2,500,000)	(3,500,000)	(2,000,000)

Illustration 9:

Mr. Mwene earned the incomes listed below in the year 1978 and PAYE tax was deducted from his employment income.

YEAR	Year 1978
Income Sources	Kshs.
Employment Income	2,000,000
Business Income	2,600,000
Rental Income	1,200,000
Farming Income	(6,200,000)
Tax at Source	240,000

Required:

Compute his taxable income for the year and show implications of specified sources of income.

Suggested Solution

Mr. Mwene Taxable Income Computation

YEAR	Year 1978
Income Sources	Kshs.
Employment Income	2,000,000
Business Income	2,600,000
Rental Income	1,200,000
Farming Income	(6,200,000)
Loss Carried Forward	(400,000)
Tax on Loss	0
Less Tax At Source	(240,000)
Net Tax Refundable	(240,000)

Notes:

Kshs.240,000 would be refunded to Mr. Mwene by the government and losses amounting to Kshs.400,000 would be carried to year 1979 as a deficit of total income.

Illustration 10:

Suppose Mr. Mwene had the following incomes in 1979;

YEAR	Year 1979
Income Sources	Kshs.
Employment Income	3,000,000
Business Income	3,600,000
Rental Income	(2,400,000)
Professional Loss	(5,000,000)
Farming Income	6,100,000

Required:

Compute taxable income for year 1979, showing clearly the implications of the specified sources of income concept.

Suggested Solution:

Mr. Mwene
Taxable Income Computation

YEAR	Year 1979		
Income Sources	Kshs.	Loss C/F	Taxable Income
Loss Brought Forward	(400,000)		(400,000)
Employment Income	3,000,000		
Professional Loss	(5,000,000)	(2,000,000)	
Business Income	3,600,000		3,600,000
Rental Income	(2,400,000)	(2,400,000)	
Farming Income	6,100,000		6,100,000
		(4,400,000)	9,300,000

Notes:

1. Employment income and professional income belong to one specified source of income. Therefore, the professional loss of Kshs.5,000,000 has been set-off against employment income of Kshs. 3,000,000 and a loss of Kshs.2,000,000 carried forward to be off-set against future sources of that income. In **National Bank of Kenya Limited vs. Commissioner of Domestic Taxes (2021)**, the National Bank of Kenya sought to offset the corporate tax liability against tax credits arising from foreign taxes. The bank relied on section 47, Tax Procedures Act which deals with refund of overpaid taxes. Kenya Revenue Authority argued that corporate tax liability could not be off set against foreign taxes. In the **Commissioner of Domestic Taxes Vs. Sony Holdings Ltd (2020)**, Sony holdings a shopping mall in Nairobi applied for tax refund amounting to Kshs. 33,187,669 under Sec 47 of the Tax Procedures Act (TPA). The mall experienced losses in the years 2013 and 2014. The commissioner went on to audit the taxpayer per section 47(2) of the TPA to ascertain the claim's

validity. The commissioner issued an agency notice offsetting the refund against the tax liabilities of Sony Holdings' parent company Atlantic Group (K) Ltd amounting to Sh. 25,577,401.

2. Rental loss as per specified sources is also carried forward to be offset against future incomes of the same source.

3. The deficit of total income from 1978 of Kshs.400,000 has been off-set against total income for year 1979. The resultant taxable income is Kshs.9,300,000.

From the above illustrations, it is clear the commissioner of tax was unable to collect revenue in the year 1978 and had to refund tax at source already collected from tax payers. In view of the above, specified sources concept was introduced effective on 1st January, 1979 and you can clearly see the commissioner of tax could then collect taxes without having to refund them.

Unspecified source of income

Any income not falling within the scope of specified sources of income would be treated or referred to as unspecified source of income. These include;- alimony, receipts from Chama and donations.

Losses from these unspecified sources are rare. Losses in the case of unspecified sources would still be allowable against other incomes as was the situation before 1979. However, in case of capital transfers losses (before 2015, as it became specified source of income in 2015), such a loss must be carried forward to be set-off against future capital gains.

Institutions such as banks and insurance companies are exempted from imposing the specified sources concept for legislative reasons since they are institutions which must be seen in the eyes of the public to be financially sound and thereby maintain public trust.

Specified sources of income chargeable to tax

1. Sum received under insurance against loss of profit, damages or compensation for loss of profit. **In Commissioner of Domestic Taxes Vs. Sony Holdings Ltd (2020)**, Sony Holdings Ltd a property developer, owns the Westgate mall which was attacked by terrorists on 21 September 2013. The mall was out of business for some years following the incident and would later receive Kshs.4.4 Billion in compensation from their insurers Kenindia. Sony Holdings received Kshs.1.2 billion in loss of rent and Kshs.3.1 billion for the loss and damage to buildings. KRA immediately raised an assessment for Kshs.834 Million. The judgement was in favour of KRA as the compensation was for loss of profit, damages or compensation for loss of profit.

2. Sum recovered or released from previous years provisions and reserves.

3. On the cessation of a business, balancing charges which arise.

4. Where non-resident carries on a business with a related company under an agreement that produces less than the ordinary profits to the resident organization, the difference of normal profits will also be taxed.

5. Just and reasonable proportion of profit of a non-resident business of a ship owner, charter or air transport in the case of ships or air transport which fall at any port or airport within Kenya.
6. Just and reasonable proportion of the profits of a non-resident business of communication by radio or telephone carried on in Kenya.
7. The profits of a business of manufacturing, growing, mining, producing, or harvesting and selling of any product irrespective of where the sales contract is made.
8. Any payment made to a non-resident in form of professional fees, royalties, interests, rent, entertainment or sporting fees.
9. The whole of the gains of profit where a business is carried on partly in Kenya and partly outside Kenya.
10. A foreign exchange gain or loss realised on or after the 1st January, 1989 in business carried on in Kenya. It is referred to as a trading receipt(or profit) or trading loss(deductible expense).

Taxation of employed persons.

Employed persons pay a tax known as Pay As You Earn (PAYE). It is a form of withholding tax deducted from emoluments. Income is taxed at graduated scale rate shown below.

Year 2024 Individual Tax Rates including wife's employment, self employment and professional income.

Income bracket per annum	Income bracket per month	Rate in Kshs. for every Kshs. 20.	Rate in %age
First kshs.288,000	24,000	2	10
Next Kshs.100,000	8,333	5	25
Next Kshs.5,612,000	467,667	6	30
Next Kshs.3,600,000	300,000	6.5	32.5
Incomes above Kshs.9,600,000	800,000	7	35

Personal relief	28,800p.a.	2,400p.m.
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Individuals serving several employers qualify for personal relief from only one employer (i.e., the main employment).

Table 4: Showing graduated scale in taxing year 2024 Incomes

PAYE tax must be remitted by 9th day of the month following the month on which the deductions were made. Failure to remit the tax attracts penalties; 20% of unpaid tax and thereafter 2% per month of the outstanding amount plus penalty compounded on cumulative basis.

Monthly Tax to Be Deducted

To arrive at monthly tax to be deducted:-

- i. Charge tax on chargeable monthly pay using monthly tax tables like the one above.

ii. Deduct from tax payable the monthly personal reliefs.

Monthly Pay Slip

Every employer is required to provide each liable employee on payment of remuneration with a written statement showing:

- i. Monthly pay.
- ii. PAYE Tax deducted.

This formal notification is known as the “Monthly Pay Slip” and may be in any form convenient to the employer provided that the above information is given.

Tax Deduction Cards (P.9)

A P.9 Form must be prepared for every employee liable to tax. It provides for the recording of; gross pay, housing benefits, chargeable monthly income, monthly personal relief, and PAYE tax deducted each month throughout the calendar year and payments for past years on the reverse side.

Lump sum Payments (Gratuities, Bonuses, Etc.)

Every Employer has an obligation under section 37 of the Income Tax Act to recover appropriate tax from any lump sum amount before releasing the difference/balance to the employee.

Pensioners

Where an employee retires on pension from his employer and continues to reside in Kenya, he should be treated as leaving employment, and taxation of his pension is done under withholding tax regime.

Remittances of contribution under Cap 195 and Cap 196 of the Laws of Kenya

Where an employee retires on pension from his employer and continue to reside in Kenya, he should not be treated as leaving the employment. P.A.Y.E. should continue to be operated in the normal manner substituting “pension” for “pay” on the Tax Deduction Card.

Who is an employed person?

An employed person is a resident of Kenya who is paid for services rendered in Kenya or outside Kenya. An employed person is also a non-resident who offered services to a Kenyan employer or an organization having its permanent establishment in Kenya.

Taxation of an employed person if one earns employment income only.

Employment income is computable on accrual basis; that is, over the period it has been earned and became payable. The time the Income is received, is consequently irrelevant.

- Pay in lieu of notice (i.e. notice pay) is computable in the period directly after the date of termination of employment.
- Leave pay should be computed in year to which it relates.
- If termination of employment occurs in the course of the year, the portion of lump sum payment for that period is assessable in that particular year.
- The tax for each year should be calculated using annual rates of tax and then tax for all the years be added up to arrive at the total tax to be deducted from the lump sum payment. The lump sum payment relating to the year of income 2010 and prior years is computable in 2011 being the 5th year prior to the year of receipt (2016).

Compensation for Termination of Employment

Liability extends to any payment, whether voluntary or obligatory made to one to compensate them for the termination their contract of employment or services, whether the contract is formal or oral and whether or not there is a stipulation in the contract for such recompense. Determination and method of assessing compensation received on termination of contract is as follows:-

Methods of Spreading Compensation

- i. If the contract is for a specific term, the figure received as compensation on termination of contract would be deemed to have accrued evenly and would be assessed over the unexpired period.
- ii. If the contract is for an undetermined term and provides for terminal payment, the amount paid as compensation is to be spread forward and assessed at the rate equal to employee's remuneration received per annum from the contract immediately prior to termination.
- iii. If the contract is for unstipulated term and does not provide for recompense, amount received as compensation would be deemed to have accrued evenly over three years period immediately following termination of contract.

NOTES:

- The methods outlined above would apply to all employees including whole time service directors.
- If an Ex-gratia is paid it would be assessable in the year of receipt.
- The current rates of tax should be used until subsequent years rates are enacted.
- Personal Relief should never be granted in advance before commencement of any

year of income.

Employers are mandated to submit a list of names of all the employees who have received lump sum payments within a fortnight after making the payment indicating:-

- i. Names of employees and their PIN numbers.
- ii. Gross amount paid to each employee.
- iii. Nature of payment and the period to which it relates.
- iv. Amount of tax deducted and paid.
- v. Employee's last date of service.
- vi. Employee's gross earnings per annum and P.A.Y.E. deducted for the period to which the lump sum payment relates (subject to a limit of 5 years in the case of gratuity).
- vii. In respect of compensation for loss of office, Employer should state the employee's rate of earning per month/per annum for the period immediately prior to termination of employment.

N.B:

Other advances of cash, e.g. salary advances to an employee, will not be subject to deduction of tax when made. In the month when such advances are recovered, the tax deductions will be calculated on the full pay of the month before deduction of the amount to be recovered.

<u>Gains and profit from employment would include:</u>		
1. Wages, salary, leave pay, sick pay, payment in lieu of leave, fees, commission, bonus, gratuity, or subsistence, travelling, entertainment or other allowance received in respect of employment or services rendered.		
2.Provision of services such as telephone, water, electricity		
Prescribed rates year 2024	Annual Rate- Kshs.	Monthly Rate- Kshs.
Water- communal or borehole	6,000	500
Telephone (landline and mobile)	30% cost of bills	
Electricity	10,800	900
Electricity-from generator or communal	18,000	1,500
Electricity(Agricultural Employees)	18,000	1,500
Water(Agricultural Employees)	2,400	200
Furniture	1% cost to employer or the cost of hire if hired.	
Radio/electronic alarm system	8,400	700
3. Servants provided and paid by the employer for example cooks, gardeners and watchmen		
Prescribed rates year 2024	Annual Rate- Kshs.	Monthly Rate- Kshs.
Servants		

House servant/cook	27,000	2,250
Watchman-day	27,000	2,250
Watchman-night	27,000	2,250
Ayah/maid	27,000	2,250
Gardener	27,000	2,250
4. Motor cars provided for private use by the employer. The higher of the prescribed rate of benefit and such value as the Commissioner may from time to time determine.		
Year 2024 Fixed value of motor vehicle provided by employer		
Saloon Hatch Backs and Estates	Annual Rate Kshs.	Monthly Rate- Kshs.
up to 1200 cc	43,200	3,600
1201 – 1500 cc	50,400	4,200
1501 – 1750 cc	69,600	5,800
1751 – 2000 cc	86,400	7,200
2001 – 3000 cc	103,200	8,600
over 3000 cc	172,800	14,400
or 2% of the value of the vehicle whichever is higher		
Pick-ups, Panel Van Unconverted		
Up to 1750 cc.	43,200	3,600
Over 1750 cc.	50,400	4,200
Land Rovers/Cruisers	86,400	7,200
Note: Range Rovers and vehicles of similar nature are classified as saloons.		
Car Benefit		
If an employee is provided with a motor vehicle by employer, the benefit should be taken as the higher of:		
(a) Fixed monthly rate determined by the Commissioner as shown above and		
(b) The prescribed rate of benefits. In this case, the prescribed rate of benefit means:- The proportion of the initial capital cost of the vehicle for each month computed as below;		
Year 1996 1% of Initial cost p.m.		
Year 1997 1.5% of Initial cost p.m.		
Year 1998 to date 2% of Initial cost p.m.		
If a vehicle is hired or leased from third party, employees shall be deemed to have received a benefit in that year of income, equal to the cost of hiring or leasing.		
5. House provided by the employer to his employee for residential purposes.		
a) The housing benefit for a director and a whole time service director shall be the higher of 15% of total income (or employment income, in case of whole time service		

director), the fair market rental value and the actual rent paid by the employer.		
b) Agricultural Employee (Including a whole time service director) who is required by terms of employment to reside on a plantation or farm; - 10% of his gains or profits from employment minus any rent charged to the employee. This is subject to employer obtaining prior approval from Domestic Taxes Office. Agricultural employee shall not include a director other than a whole-time service director.		
c) Any other Employee: The taxable value shall be the higher of an amount equal to 15% of the gains or profits from employment, excluding the rent paid by the employer if paid under an agreement that is at arm's length with a third party. Provided that;-		
i. If employer pays rent under an agreement not made at arm's length with a third party, the value of quarters shall be; the fair market rental value of the premises in that year or rent paid by the employer; whichever is higher.		
ii. Where the premises are owned by employer; the fair market rental value of the premises in that year is to be taken.		
-- In calculating the housing benefits, the employer is required to subtract rental charges recovered from the employee or director. The amount remaining is the chargeable value to be included in the total taxable pay.		
-- If the premises are occupied for part of the year only, the value is 15% of employment income relative to the period of occupation less any rental charges paid by employee/director.		
-- Any employer who provides other than normal housing to an employee should consult his local Domestic Taxes office for advice regarding the value of such housing.		
6. Low interest rate- difference interest charged and 15 % for loan provided before 1998.		
7. Vacations exceeding seven days paid for a non-citizen employee.		
<u>Non-taxable gains and profits from employment</u>		
1.Reimbursements of any amount expended by him wholly and exclusively in the production of his income from the employment or services		
	Per Annum - Should Not Exceed Kshs.	Monthly - Should Not Exceed Kshs.
2. Meal benefit per employee (supplied by a registered tax payer)	48,000	4,000
3. Insurance Relief	60,000	5,000
4. Persons with disabilities	1,800,000	150,000
5.Owner occupied interest	300,000	25,000

6.Home ownership savings plan	48,000	4,000
9. Medical services or free medical insurance (For other director other than whole time service director).	1,000,000	
10. Registered defined benefit fund or defined contribution	240,000	20,000
11. National Social Security Fund (NSSF) + Pension scheme or Provident fund	240,000	20,000

3. A resident individual shall be entitled to insurance relief at the rate of 15% of premiums paid subject to Maximum relief amount of Kshs. 5,000 per month (or Kshs.60,000 per annum) if he proves that;

--- He has paid premium for an insurance made by him on his life, or the life of his wife or of his child and that the Insurance secures a capital sum, payable in Kenya and in the lawful currency of Kenya;

-- His employer paid premium for that insurance on the life and for the benefit of the employee which has been charged to tax on that employee;

-- both employee and employer have paid premiums for the insurance: Provided that;

--- No relief shall be granted in respect of part of premium for an insurance which secures a benefit which may be withdrawn at any time at the option of the insured.

-- Premiums paid for an education policy with a maturity period of at least 10 years shall qualify for relief.

-- Only premiums paid in respect of an insurance policy taken on or after 1st January, 2003 shall qualify for relief. Employees must avail to the employer a certificate from insurer showing particulars of the policy e.g. name of insured, type of policy, capital sum payable, maturity date, premiums payable and commencement date of the policy. Employers should review their pay-rolls towards the end of the year and make necessary adjustments to ensure that the correct relief had been granted. No relief is available in respect of insurance policy that elapsed in the course of the year.

i. Employer shall attach a copy of the certificate furnished by insurer, confirming premiums paid and that the policy was still in force to the employee's P9A, P9B, P9A (HOSP) Tax deduction Card for that year.

ii. For the purposes of insurance relief "child" include a step child and an adopted child who was under the age of eighteen years on the date the premium was paid

4. Persons with disabilities have been exempted from tax on their taxable income of up to Kshs. 1.8 million p.a (Kshs.150,000 p.m).The employee should provide a valid exemption certificate.

5. In ascertaining the total income of a person for a year of income interest paid on amount borrowed from specified financial institution shall be deductible. The amount must have been borrowed to finance either:-

i. The purchase of premises;

ii. Improvement of premises - which he occupies for residential purposes.

- The amount of interest allowable under the law must not exceed Kshs.300,000 per year (equivalent to Kshs.25,000 per month) with effect from 1st January, 2017.

- If any person occupies any premises for residential purposes for part of a year of income the allowable deduction shall be limited to the period of occupation.

- On the other hand no person may claim a deduction in respect of more than one residence.

Following amendment to Section 45 of the Income Tax Act through the 1999 Finance Act, a married woman can now file her own separate return of income and declare income from employment, professional or self-employment income.

- In view of this, she has the option to claim for deduction of interest paid provided that the property is registered in her name.

- Employer must obtain a signed declaration to the effect that she is the one claiming the deduction to avoid her husband making a similar claim.

- The first four financial institutions specified under the fourth schedule of the Income Tax Act include:-

i. A bank or a financial institution licensed under the Banking Act.

ii. An insurance company licensed under the Insurance Act.

iii. A building society registered under the Building Societies Act.

iv. The National Housing Corporation established under the Housing Act.

Employers will be required to ascertain and allow interest paid on money borrowed to finance owner occupied residential premises under the PAYE system subject to the following conditions:

--- The employer should allow actual interest paid by eligible employee on production of certificate from the lending institution confirming interest payable on the loan for that particular year. The amount of interest to be allowed as ascertained under this condition must not exceed Kshs. 25,000 per month. For the month of December, all the monthly interest allowed should be added together and only the difference between this amount and the annual allowable deduction of Kshs.300,000 should be allowed in the month of December.

-- If the employee redeems such loan in the course of the year and no interest is subsequently payable such allowable deduction shall cease immediately upon redemption of the loan.

-- The employee shall sign a declaration indemnifying employer against any false claim in this respect

-- Employers are expected to review their pay-rolls starting from the month of September and make necessary adjustment to ensure that by the end of year correct amount of interest has been allowed.

-- The employer shall attach to Form P9A Photostat copy of interest certificate and

statement of account from the specified lending institution.
<i>NOTE: Interest which has accrued but has not been paid does not rank as an allowable deduction for this purpose. Form P9A has been designed to accommodate the changes.</i>
<p>6. Additional, with effect from 1st January 2007 interest earned on deposits not exceeding Kshs.3 million which deposits are made in qualifying institutions would be exempt from tax provided that:-</p> <ul style="list-style-type: none"> -- Employer has evidence to confirm that the Home Ownership Savings Plan with which employee wants to save is registered by the Commissioner of Domestic Taxes. -- Employer will be the one to deduct and remit the amount to the Institution on behalf of the employee. -- Employers will attach to Form P9A (HOSP) a declaration duly signed by the eligible employee. The declaration so signed will serve as verification and confirmation by the employer that the employee does not directly or indirectly own interest in a permanent house.
7. Education fees of employee's dependents or relatives will not be taxed on the employees provided the same has been taxed on the employers
8. When an employer himself pays for or reimburses the cost of tickets for passages, including leave passages for his employee and family, the value of the passages is a non-taxable benefit of the employee if the employee is recruited outside Kenya and is in Kenya solely for the purpose of serving his employer and he is not a citizen. Where, however, such employee receives a cash sum either periodically or in one amount which he is free to save or spend as he chooses or for any other purposes and for the expenditure of which he does not have to account to the employer, the amount received is a taxable cash allowance.
9. Where an employer provides its employees (including directors) and their beneficiaries (spouse & up to 4 children whose age does not exceed 21 years) with free medical services or free medical insurance, the value of such medical service or insurance is not a taxable benefit on the employee. In the case of medical services provided to a director other than a whole time service director shall be the limit prescribed by the Cabinet Secretary from time to time. The current limit is Kshs.1,000,000 per year. The medical insurance must be provided by a provider who is approved by the Commissioner of Insurance.
<p>10. An employee's contribution to any registered defined benefit fund or defined contribution fund is an admissible deduction in arriving at the employee's chargeable pay for the month. The employee's deductible contribution is the lesser of:</p> <ul style="list-style-type: none"> a. 30% of pensionable pay. b. Employee's actual contribution. c. Ksh.20,000 per month
11. Contributions made to the National Social Security Fund (NSSF) qualify as a

deduction with effect from 1st January, 1997. Where an employee is a member of a pension scheme or provident fund and at the same time, the National Social Security Fund (NSSF) the maximum allowable contributions should not exceed Kshs.20,000 per month in aggregate.

12. Contributions paid by a non-taxable employer to unregistered pension scheme or excess contributions paid to a registered pension scheme, provident fund or individual retirement fund; shall be employment benefit chargeable to tax on the employee with effect from 1st July 2004.

13. Bonuses, overtime allowance and retirement benefits paid are tax exempt where they are paid to an employee whose salary before the bonus and overtime allowance does not exceed Kshs. 11,180 per month with effect from 1st July, 2016.

Illustration 11

Mr. Mzito has approached you as a tax expert to compute for him tax liability for the year of income 2024. He has provided you with the following information.

1. He is a regular part time lecturer with Upendo university that pays him a gross monthly salary of Ksh. 145,000.
2. He was employed by the County Government of Kuzaliwa on 1st January 2022 for fixed contract of 4 years which is renewable.
3. He is a director of Kilimo Ltd and his gross remuneration before other benefits is Kshs. 4,500,000 p.a.
4. Mr. Mzito informed you that the County government paid in full his utilities which include; water, electricity, night and day watchman, telephone and internet charges amounting to kshs. 700,000 per year and closed circuit television with an alarm system. The County also bought for him furniture amounting to Kshs. 600,000.
5. Kilimo Ltd provides him with a house servant and a gardener. In addition, the company has given him a land cruiser which cost 12,000,000 for his private use.
6. The county government of Kuzaliwa gave him a loan amounting to Kshs. 1,980,000, which is repayable within 18 months and attracts a simple interest of 2%. By December 2023 he had paid the principal amount of Kshs. 660,000.
7. As a member of the county executive, the County of Kuzaliwa pays him a monthly salary of Kshs. 450,000 before taxes and any other allowance.
8. The county of Kuzaliwa fuels his car to the tune of Kshs. 150,000 Per annum to enable him carry out county duties.
9. He pays insurance premiums amounting to Kshs 350,000 per month to cater for education and life policy of his three children, his wife and including himself. All his children are below 18 years.

10. He claimed Owner occupied interest from Kilimo Ltd. For loans taken to build his three houses. Though he build the houses, he transferred the third house to his wife including the loan obligation. His wife is the registered owner of the house and pays the loan on the house. All the three loans were taken from the Housing Finance Corporation. The loans are use under

- (a) House 1 - Kshs. 5,500,000
- (b) House 2 - Kshs. 2,500,000
- (c) House 3 - Kshs. 6,000,000

All the loans attract a simple interest of 10%.

11. Kilimo Ltd provides him with free medical cover amounting to Kshs. 3,000,000.

12. The County Government of Kuzaliwa deducts and contributes Kshs. 80,000 to County Government provident fund, Upendo University deducts and contributes Kshs. 14, 000 to Upendo university provident and pension fund. Kilimo Ltd Deducts and contributes 250,000 to Total Trust pension fund. All the provident and pension funds are duly registered.

13. On November 2024, Mr. Mzito was discontinued as a county executive member due to his frosty relationship with Members of County Assembly. He was paid a lump sum terminal benefits amounting to Kshs. 11,800,000.

Upon your inquiry, you also ascertain that his wife Rachael Mzito is employed by Top Care Ranch Ltd. She draws a salary of Kshs. 2,000,000 p.a. She is given 120 litres of milk and 40 kilos of meat to take home every month. A litre of milk cost Kshs. 100 and a kilo of meat is Kshs. 600.

Required:

- (a) Compute Total income Chargeable to tax for Mr. Mzito.
- (b) Tax payable thereon and the due dates.
- (c) Comment on the above computations.

Suggested Solutions

(a) <u>Mr. Mzito</u>			
TAXABLE INCOME FOR THE YEAR 2024			
DETAILS		Kshs.	Kshs.
Employment income - kilimo ltd		4,500,000	
Salary - Upendo university	145,000×12	1,740,000	
Salary - kuzaliwa county	45,000×11	4,950,000	
Terminal dues-kuzaliwa county	$\frac{11,800,000}{2}$	5,900,000	
Medical benefit		2,000,000	
Water benefit	$6,000 \times \frac{11}{12}$	5,500	
Electricity benefit	$10,800 \times \frac{11}{12}$	9,900	
Night and day watchman benefit	$27,000 \times 2 \times \frac{11}{12}$	49,500	
Telephone and internet charges benefit	$30\% \text{ of } 700,000 \times \frac{11}{12}$	210,000	
Closed circuit television with an alarm system benefit	$8,400 \times \frac{11}{12}$	7,700	
Furniture benefit	1% of 600,000×11	6,000	
House servant benefit		27,000	
Gardener benefit		27,000	
Land cruiser benefit	Wi	2,880,000	
Total gross income			22,372,600
Less Allowable deductions			
Insurance relief	Wii	52,500	
Owner occupied interest Relief	WIII	300,000	
Contributions to provident and pension fund	WIV	240,000	
			(592,500)
Total mr. Mzito's taxable income			21,780,100
Add wife's income			
Salary		2,000,000.00	
Milk benefit	=120×12×100	144,000.00	
Meat Benefit	=40×12×600	288,000.00	
Total gross income		2,432,000	
Less allowable gift		(48,000)	
Total mrs. Mzito's taxable income			2,384,000
Total Taxable income for Mr. Mzito			24,164,100

WI- Working 1

land cruiser benefit is the higher of :

- (a) Fixed annual rate 86,400
- (b) 2% of Initial cost p.m
- =2% of 12,000,000 ×12 2,880,000

WII- Working 2

the lower of:

- (a) Maximum relief p.a. 60,000
- (b) 15% of 350,000 52,500

WIII-Working 3

Owner occupied interest Relief
the lower of;

Statutory maximum	300,000
actual interest for one house	

(a) House 1 - Kshs. 5,500,000	550,000
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(b) House 2 - Kshs. 2,500,000	250,000
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WIV-Working 4

Contributions to provident and pension fund
is the lower of :

(a) statutory maximum	240,000
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(b) actual Payment	
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County Government of Kuzaliwa	80,000
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Upendo University	14,000
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Kilimo Ltd	250,000
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344,000

TAX PAYABLE COMPUTATION FOR THE YEAR 2024

DETAILS	Rate	Kshs.
Total Taxable income for Mr. Mzito		24,164,100
Taxed as follows:		
First kshs.	288,000 at Kshs. $\frac{2.00}{20}$	28,800
next kshs.	100,000 at Kshs. $\frac{5.00}{20}$	25,000
next kshs.	5,612,000 at Kshs. $\frac{6.00}{20}$	1,683,600
next kshs.	3,600,000 at Kshs. $\frac{6.50}{20}$	1,170,000
on the rest kshs	14,564,100 at Kshs. $\frac{7.00}{20}$	5,097,435
Gross tax payable	24,164,100	8,004,836
Less personal Relief		(28,800)
Tax Payable		7,976,035

(c) Comments on the above computations.

1. Mr. Mzito lost his job with the County government of Kuzaliwa after working for 3 years and he had one year in hand to finish the contract. Therefore the lump sum compensation he was paid was spread out for years 2024 and 2025
2. Utilities benefit paid to Mr. Mzito are as per the commissioner of tax prescribed rates prorated to the 11 months he was a county employee in 2024.
3. The low interest loan given to Mr. Mzito by the County of Kuzaliwa is ignored in tax computation as fringe benefit tax is taxed on the employer.
4. Fuel of Kshs.150,000 given to Mr. Mzito by the county of Kuzaliwa is ignored since it was wholly and exclusively used to enable him perform county functions.
5. Since Owner occupied interest relief is given on one house, it is assumed Mr. Mzito would disclose the house with the highest interest in his name so as to get the whole maximum relief of Kshs. 300,000 allowed.
6. Free medical cover to Mr Mzito is restricted to Kshs. 1,000,000. Therefore, the rest is taxed.
7. It is assumed the Income of the wife is considered to Mr. Mzito's. Notice that if the Income of Mrs. Mzito is considered to Mr. Mzito's, he can claim only one personal relief and can only claim one Owner occupied interest relief.

The income of a married woman under section 45 of the Income Tax

The income of a married woman living with her husband is considered to be the husband's. Her income is aggregated on the husband's income and the total income assessed on the husband.

A married woman is considered to be living with her husband unless they are separated under a court of competent jurisdiction or under a written agreement of separation.

Or, they are separated in such circumstances that the separation is likely to be permanent like the husband faces life imprisonment.

Or, the wife is a resident but the husband is a non-resident.

The income of a married woman is deemed to be the income of the husband. However, section 34(i) extracts the following parts of the wife's total income for separate taxation.

Tax upon that part of the total income which consists of **wife's employment income**, and **wife's professional income** and **wife's self employment income** other than income arising from fringe benefits shall be charged for a year of income at the wife's employment income rate, wife's professional income rate and wife's self-employment income rate, as the case may be, for that year of

income. Therefore for the case of Mr. Mzito in Question 1 above. The wife qualifies for separate assessment and if she opts to file her own returns, the scenario would be like this.

Mr. Mzito		
TAXABLE INCOME FOR THE YEAR 2024		
DETAILS		Kshs.
Employment Income - Kilimo Ltd		4,500,000
Salary - Upendo university	145,000×12	1,740,000
Salary - Kuzaliwa County	45,000×11	4,950,000
Terminal Dues-Kuzaliwa County	11,800,000/2	5,900,000
medical benefit		2,000,000
water benefit	11/12×6,000	5,500
electricity benefit	11/12×10,800	9,900
night and day watchman benefit	11/12×27,000×2	49,500
telephone and internet charges benefit	30% of 700,000×11/12	210,000
closed circuit television with an alarm system benefit	11/12×8,400	7,700
furniture benefit	1% of 600,000×11	66,000
house servant benefit		27,000
gardener benefit		27,000
land cruiser benefit	WI	2,880,000
Total Gross Income		22,372,600
Less Allowable deductions		
insurance relief	WII	(52,500)
Owner occupied interest Relief	WIII	(300,000)
Contributions to provident and pension fund	WIV	(240,000)
Total Mr. Mzito's Taxable Income		21,780,100

MR. MZITO		
TAX PAYABLE COMPUTATION FOR THE YEAR 2024		
DETAILS		
Total Taxable income for Mr. Mzito		21,780,100
Taxed as follows:		
First kshs.288,000	at Kshs. 2.00/20	28,800
next kshs.100,000	at Kshs. 5.00/20	25,000
Next kshs. 5,612,000	at Kshs. 6.00/20	1,683,600
next kshs.3,600,000	at Kshs. 6.50/20	1,170,000
on the rest kshs.12,180,100	at Kshs. 7.00/20	4,263,035

Gross tax payable	7,170,435
Less personal Relief	(28,800)
Tax Payable	7,141,635

Mrs. Mzito	
TAXABLE INCOME FOR THE YEAR 2024	
DETAILS	Kshs.
Salary	2,000,000
Milk benefit =120×12×100	144,000
meat Benefit =40×12×600	288,000
Total Gross Income	2,432,000
	-
less allowable gift	(48,000)
less Owner occupied interest Relief	(300,000)
Total Taxable income for Mr. Mzito	2,084,000

MRS. MZITO	
TAX PAYABLE COMPUTATION FOR THE YEAR 2024	
DETAILS	Kshs.
Total Taxable income for Mrs. Mzito	2,084,000

Taxed as follows:

First kshs.288,000	at Kshs. $\frac{2.00}{20}$	28,800
next kshs.100,000	at Kshs. $\frac{5.00}{20}$	25,000
on the rest kshs.1,696,000	at Kshs. $\frac{6.00}{20}$	508,800

Gross tax payable	562,600
Less personal Relief	(28,800)
Tax Payable	533,800

Tax charged on husband collected from the wife

Tax charged on the husband may be collected from the wife in the following circumstances.

- 1) If the husband is deceased and the wife is the executor of his estate.
- 2) If the husband and the wife are joint trustees.
- 3) The husband is incapacitated and the wife is the trustee or guardian.
- 4) That part of the husband's tax liability in relation to the income of the wife.

Point to stress on question one above.

1. Employment income is taxed on accrual basis. That is why even though Mr. Mzito was paid a lump sum terminal dues in 2024, part half of the lump sum would have been earned in 2025 therefore charged to tax in 2025.

2. The value of a benefit is usually the cost to the employer. However, certain benefits may not be a cost to the employer but would still be chargeable to tax, for instance an option to subscribe to shares at a favourable price. For a benefit to be brought to taxation it should be quantifiable in money terms. In **Weight vs. Salmon (1935)**, an employee of a certain company was given the privilege of obtaining and issuing shares at a value which was less than the prevailing market price. It was noted that although the employee did not sell any of the shares, there was no restriction for him to do so. The privilege represented money's worth to be computed as the difference between the par value and the market value of the shares.

A similar ruling was made in **Equity Bank vs. Kenya Revenue Authority (2021)**. Equity bank created an employee share ownership scheme in 2005 for reason of encouraging their employees to obtain shares in the company. Kenya Revenue Authority (KRA) demanded Pay As You Earn (PAYE) tax remittances. The bank appealed to the Tax appeals tribunal and lost the case. It further appealed to the High Court. The High Court upheld the tribunal's verdict allowing KRA to collect Sh. 234 Million. The presiding judge opined "I find and hold that the tribunal did not err in concluding that Equity, as an employer, should deduct and remit to the commissioner tax on staff benefits under Section 37 of the Income Tax Act. It, therefore, made the correct finding that Equity Bank is liable for PAYE on the Employee Share Ownership Plan benefit to its employees,"

Therefore, the milk and the meat given to Mrs. Mzito conferred a privilege to her that is quantifiable in money terms.

3. Gifts like milk and meat given to Mrs. Mzito are generally not treated as income in the hands of the recipient. However, this rule applies to personal gifts. Personal gifts are friendly gifts. Where a gift is received by virtue of employment or services rendered, it will be deemed to be a gift from employment and therefore taxable. These gifts include; tips to waiters, Christmas gifts to employees, tips to doctors, long service awards and farm produce to agricultural employees. In **Calvert Vs. Wainwright (1947)**, it was held that a taxi driver was assessable to tax in respect of tips he receives. Tips received by a man as a reward for services rendered including gifts made by people other than the employees are assessable to tax as part of employment income.

Personal gifts are given based on personal ground without regard to rendering a service and are therefore not assessable to tax. In **Weston Vs. Hearn (1943)**, an employee received a sum of money on completion of 25 years of service. It was held that the sum was not a personal gift rather it was an

emolument by way of bonus and since this employee had not left employment, the gift was from the employer and was therefore taxable.

The principle from the case law is that, for again to be assessable, the motive of payment must be to reward present and past services rendered. In **Ball Vs. Johnson**, a bank undertook a scheme of giving cash awards to its employees who passed the institute of banker's examination (IBE). It was held that the reason for payment was not for services rendered but the personal success of the employee in passing examination. The cash awards were not remuneration and therefore they were not taxable.

In yet another case **Hoch Trasser Vs. Mayer (1960)**, a company operated a housing scheme for married women and employees transferring from one city to another part of the country. Under the scheme, an employee would be compensated for any loss on sale of his house if it was a result of the employees transfer. Two employees entered into the agreement under this scheme and having sold their houses at a loss on transfer, received payment from the company. It was held that the payments were not profits accruing from employment or rendering employment services.

4. In computing taxable income and tax thereon of Mr. And Mrs. Mzito, I assumed they are Kenyan Residents. Section 2 of the Income tax Act states that the word residence when applied in relation to;-

(a) To an individual it means-

(i) That he has a permanent home in Kenya and was present in Kenya for any period in a particular year of income under consideration.

(ii) That he has no permanent home in Kenya but; was present in Kenya for a period(s) amounting in

- The aggregate to 183 days in that year thereof

- That he has no permanent home in Kenya but was present in Kenya in that year of income and in each of the 2 preceding years of income or period(s) averaging more than 122 days in each year of income.

(b) To a body of persons it means-

(i) That the body is a company incorporated under the laws of Kenya.

(ii) That the management and the control of the affairs of the body were exercised in Kenya in a particular year of income under consideration.

(iii) That the body has been declared by the Cabinet Secretary through a notice in the Kenya gazette to be a resident in Kenya for any year of income.

Notes

1. Residence is a matter of physical presence in Kenya for whatever period of time during the year of income.
2. Should an individual with a permanent home in Kenya set foot in Kenya in the year of income, he is deemed to be resident for the whole year and he need not necessarily visit his permanent home.
3. Residence is determined in relation to a year of income such that a person may be resident in one year and non-resident in another year. It implies that personal relief for example, would be granted to an individual resident for part only of the year according to the proportion of such a time he was resident in Kenya.
4. The term permanent home is not defined or has no technical meaning and therefore must be taken in its simple or ordinary sense.

Income from the use of property.

"Gains or profits" include royalty, rent, premium or similar consideration received for the use or occupation of property, dividends and interest. In **Kenya Revenue Authority Vs. Barclays Bank (2023)**, Barclays bank used credit and debit cards from credit card companies namely VISA, Master Card and American Express. KRA claimed withholding tax on the sums due to credit card companies and on management fees for Interbank charges. The claim was based on section 35 of the Income Tax Act that the payments to the card companies were royalty and those to the other banks (issuers) were for professional or management services. The bank contested the claim that the amounts in question were not royalties and professional or management services chargeable to withholding tax

The court of appeal argued that credit card facility by banks is subject to trademark licensing agreement and payments thereof are royalties. Other incomes from intangible properties or intellectual property rights are gains or profit from the use of property. For instance rights to post items on social media like facebook, tiktok, instagram, rights to eBooks and monetizing from the rights.

Taxation of Royalties

The Income Tax Act defines royalty as a payment made as a consideration for the use of or the right to use -

- (a) the copyright of a literary, artistic or scientific work; or
- (b) a cinematograph film, including film or tape for radio or television broadcasting; or
- (c) a patent, trade mark, design or model, plan, formula or process; or
- (d) any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific equipment or experience, and gains derived from the sale or exchange of any right or property giving rise to that royalty.

Non-Resident

- (a) The royalty income is taxable at a flat rate of 20% on gross proceeds.

- (b) This is withholding tax and final tax.
- (c) No expenses are allowable
- (d) An exception is royalty paid to any Special Economic Zone Enterprise, Developer or Operator which attracts 5% tax of the gross royalty payable.
- (e) Royalty deducted from a contractor in mining is 20%

Resident

(a) Expenses are allowable to arrive at taxable royalties. The expenses must wholly and exclusively be incurred in earning the royalties. In **Caillebotte Vs. Quinn (1975)**, Quinn was a sub-contract carpenter, working on sites within a 40-mile radius of his home. When working, Quinn could not go home for lunch and bought one at an average cost of 40 pence, compared with an estimated cost of 10 pence for a light lunch at home. Quinn attributed the additional cost to the need to eat a more substantial meal in order to maintain the energy expended in carrying out physical work and to keep warm during the winter. The General Commissioners allowed the additional cost as a deduction from Quinn's profits

The first 10 pence was for Quinn eating to live, and not because he was a carpenter. Therefore, it was disallowed as an expense. If there is no modality to apportion a cost to earning of an income and other use, the whole cost is disallowed. In Quinn's case, it was possible to apportion the cost into 'essential to life' and 'necessary for carpentry work'.

(b) Expenses incurred prior to the period of generating the product are not allowed e.g. expenses like research, testing and development.

(c) The royalty income is taxable at a flat rate of 5% on gross proceeds in case of individual residents and 20% for non-residents.

Digital service Income

Digital service income is receipts accruing from a business carried out over the internet or an electronic network including through a digital market place.

The return and payment of the tax due to the Commissioner of income is on or before the twentieth day of the month following the end of the month in which the digital service was offered.

Digital service Income is taxable at a flat rate of 1.5 % on gross proceeds.

Residential Rental Income Tax

Income Tax Act defines Rental income as payments received from a right granted to another person for use or occupation of immovable property which includes rent, premium or similar consideration received for the use or occupation of property.

A residential person is liable to rental income tax if he earns rental income between **Kshs. 288,000-Kshs.15,000,000** with effect from the **1st January 2016**. No expenses or capital deductions allowances are to be deducted while computing the tax.

The gross rental proceeds are taxed at **10%** for a tax period which is the Calendar year. Residential rental income tax is final tax on qualifying rental income. A person liable to residential rental income tax should keep records required for the purpose of determining residential rental tax payable.

The residential rental tax is payable to the Commissioner, **on or before the 20th day** of the month immediately following the month which the rent was received.

Residential rental Income tax includes the rental property owned by a partnership. Persons whose income is exempt from tax are also exempt from rental income tax. A person may opt not to be subjected to residential rental income tax and has to notify the commissioner of income tax at least three months before the end of the year of income.

Any person subject to residential rental income tax and during a year of income and the rental income exceeds ten million shillings or that person has reason to believe that the rental income is likely to exceed ten million shillings, the person shall inform the Commissioner of income tax of that fact before the end of that year of income.

Rent income tax under section 15(7)(b) of the income tax Act For Non-Resident Persons

1. No expenses are allowable in computing rental income.
2. The rent income is taxed at a flat rate of 30% on gross rent which is final tax.
3. Incomes that would be termed as rental income are; normal rent, premium (for extra services rendered e.g. closed circuit television, caretaker, parking lots and recreational facilities) and key money (goodwill).

For Resident Persons

1. Expenses incurred in the generating of rental income are allowable. Expenses incurred before the property is rented are not allowable.
2. Expenses relating to the whole year are apportioned if the property is rented for a period less than a year.
3. Only revenue expenses are allowed. Capital expenditure such as building additional garage, toilets or servants quarters are not allowable.
4. The capital expenses that would be allowable include:-
 - (a) Capital deductions for instance:-
 - Wear and Tear allowance
 - Investment Building Allowance
 - (b) Structural alterations in order to maintain the existing rent e.g.:-
 - Demolishing walls to create more space for a particular facility
 - Creating a fire outlet

5. Interest is allowable in full as an expense provided the premises have been rented for 12 months, if the house has been let for less than 12 months, the amount of interest to be allowed is prorated accordingly.

6. The general principle is that, expenses are allowable as a deduction against rental income before taxation if the expenses are wholly and exclusively incurred in the production of rental income, **Caillebotte Vs. Quinn (1975)**. They include but are not limited to:-

- a) Interest on overdrafts and interest on mortgages where the funds were raised to purchase the buildings.
- b) Diminution in value of implements, utensils or similar items if included in the rentals.
- c) Capital allowances e.g. wear and tear and investment allowance
- d) Legal costs and stamp duties on acquisition of leases which are under 99 years.
- e) Reasonable advertising costs or promotional costs.
- f) County water charges, rates, ground rent and any other fees.
- g) Repairs, renewals and replacements.
- h) The cost of rent collection, estate agent fees as well as legal costs in operation.
- i) The cost of valuation for insurance of the building and its contents as well as insurance premiums.
- j) Expenses incurred during normal/regular inspection by an agent.
- k) Wages to any staff looking after the premises or garden maintenance.
- l) Heating, lighting and telephone bills if included in the rentals.
- m) If the premise is let furnished, then the wear and tear allowances would be computed and allowed for replacement of furniture and fittings.

Notes

- 1. Structural extensions cannot be allowed as a deduction.
- 2. Where property such as holiday cottages that are let for short periods of time and remain unoccupied for most of the year, full year's expenses are allowable.
- 3. Expenses incurred by the owner of the premise or inspection of property are not allowable.
- 4. Expenses will not be apportioned where the premises are not occupied for the remaining of the year for as long as it is not more than 6 months.

Illustration 12.

In 2015 Mr. Mkubwa rented out his 8 houses in Kapa City at Kshs. 80,000 Per month for each unit. From First may 2015, key money from each house of Kshs. 150,000 was paid on signing a 5 year lease.

The following were expenses incurred.

1. Rates and ground rent - Kshs 100,000 p.a.
2. Plumbing services and repairs – Kshs. 60,000 paid in June.
3. Watchman services – Kshs. 48,000 p.a.
4. Extra toilets installed in July 2015 for Kshs. 120,000
5. Insurance premium paid on the properties was Kshs. 30,000 p.a.
6. Fees to estate agent for arranging the lease calculated as 5% of the gross income payable in October 2015.
7. Interest on mortgage was Kshs. 240,000 p.a.
8. Repairs and maintenance costs incurred in February 2015 was Kshs. 144,000.
9. Furniture worthy Kshs. 300,000 was provided on first July 2015.
10. The cost of rent collection was 5% of the gross rent for the year.
11. The cost of wiring toilets in July 2015 was Kshs. 60,000
12. Kshs. 20,000 was incurred in October on replacing 4 wooden doors with metallic ones.
13. Mr. Mkubwa earns a gross monthly salary of Kshs. 250,000 from Furaha Merchants Ltd.

Required:

- a) Compute Mr. Mkubwa's rental income chargeable to tax in the year 2015 and tax liability.
- b) suppose the expenses remained the same and the houses were occupied for the whole of 2016 since no tenant cancelled the lease, compute Mr. Mkubwa tax liability for 2016.

(a) Mr. Mkubwa's rental income chargeable to tax in the year 2015.

Mr. Mkubwa		
Rental Income For Year 2015		
Gross Rental Income		
Normal Rent	= $8 \times 8 \times 80,000$	5,120,000
Key Money	= $(150,000 \times \frac{8}{5}) \times \frac{8}{12}$	160,000
Gross Rental Income		5,280,000
less allowable deductions		
rates and ground rent	= $100,000 \times \frac{8}{12}$	(66,667)
plumbing and repair		(60,000)
watchman services	= $48,000 \times \frac{8}{12}$	(32,000)
Insurance premium	= $30,000 \times \frac{8}{12}$	(20,000)
fees to estate agent	= $5,280,000 \times 5\%$	(264,000)
fees on rent collection	= $5,120,000 \times 5\%$	(256,000)
door replacement		(20,000)
Rent Chargeable to tax		4,561,333

Mr. Mkubwa

Tax Liability Computation

Rent Chargeable To Tax

4,561,333

Taxed As:

The first Kshs.121,968 @10%

12,197

The Next Kshs.114,912 @ 15%

17,237

The Next Kshs.114,912 @ 20%

22,982

The Next Kshs.114,912 @ 25%

28,728

The Rest Kshs.4,094,629 @ 30%

1,228,389

Gross Tax Liability

1,309,533

Less Personal Relief

16,000

Net Tax Liability

1,293,333

a) Mr. Mkubwa's rental income chargeable to tax in the year 2016.

Mr. Mkubwa

Rental Income For Year 2015

Gross Rental Income

Normal Rent

=12×8×80,000

7,680,000

Key Money

=(150,000×8/5)

360,000

Gross Rental Income

8,040,000

b) Mr. Mkubwa tax liability for 2016

Residential tax income in 2016 is 10% of Kshs.8,040,000 =

Kshs.804,000

Dividends Income.

That profit of a company which it pays to shareholders in proportion to their shareholding in any particular year is known as dividend income.

A bonus on the other hand is part of the profits of the cooperative society which it pays to each member in proportion to their investment in any particular year.

Dividend is taxable on the recipient in the year it is paid and not necessarily the year it was declared.

Note

Where a dividend is distributed out of gains or profits on which no tax was paid, the company distributing the dividend shall be charged to tax in the year of income in which the dividends are

distributed at the resident corporate rate of tax on the gains or profits from which such dividends are distributed

Income deemed to be Dividend

1. In voluntary winding up of a company, the distribution of any profit whether earned before or during the year of winding up whether in cash or otherwise will be taxed as dividend income.
2. Issue of debentures or preferences shares for free or for less than 95% of the nominal value or redeemable value whichever is higher. Dividend in this case is taken to be the difference between the greater of nominal or redeemable value e.g.

Nominal value of a debenture is Kshs. 160

Redeemable value of the debenture is Kshs.140

Actual Amount of the debenture is Kshs. 130

Therefore, the dividend arising thereof is (Kshs. 160-130) =Kshs.30

3. Dividends will also include any distribution by the company during winding up except for reimbursement of the share capital.
4. Where the commissioner of income tax considers that a company does not distribute as much of its after tax income to shareholders, he may deem the company to have paid such dividend 12 months after its accounting period. In **Oceanfreight (E.A) Limited vs. Commissioner of Domestic Taxes (2023)**, the company failed to pay dividend and it was held the non-payment of dividend was a tax evasion scheme; therefore the company was deemed to have paid the dividend and should account for withholding taxes.

As a rule, the commissioner allows trading companies to retain 60% of their after tax profits. However, investment income of the company must be brought to tax.

Dividend that are exempt from taxation

1. Dividend arising from outside Kenya.
2. Dividend received by a resident company from another resident company on which it controls 12 ½% or more of the voting power or share capital.
3. Dividends that form part of the investment income of life insurance fund of an insurance company which is resident.
4. Issue of debentures for preference shares for no payment or part payment to a limited company or a body corporate.
5. Dividends received by specified financial institutions as business income but the expenses relevant to this income would not be allowable.

Classification of Dividends

With effect from 1-1-1992, dividends are classified as:-

1. Qualified dividend
2. Unqualified dividend

1. Qualified dividends

These are dividends that are subjected to withholding tax which is final tax. Qualified dividends are paid by;

- Private companies
- Public companies
- Dividends paid by a SACCO.

Resident Rates of Withholding tax

Up to 1991 – 15%
1992 – 1995 – 10%
1996 – 1997 – 7.5%
1998 – to date 5%

In the case of a non-resident, the tax rate is 10% which is final tax.

2. Non-qualified Dividend

These are dividends which are subject to further taxation and are paid by cooperative societies other than SACCOs. The gross dividend would be added to other incomes of a person to determine total income liable to tax in the year under consideration.

The withholding tax rate is 15%

Interest Income

Interest means amount paid for the use of money. For purposes of taxation, interest is defined as "interest" (other than interest charged on tax) means interest payable in any manner in respect of a loan, deposit, debt, claim or other right or obligation, and includes a premium or discount by way of interest and commitment or service fee paid in respect of any loan or credit or an Islamic finance return.

In **Kenya Revenue Authority Vs. Republic (Exparte Fintel Ltd) (2019)**, Fintel Ltd affianced China Jiangsu International Economic Technical Co-operation the construction of a rental building on April 21, 2009. Fintel would pay contractual fees to the Chinese company. The payment was not made in time and thus was accounted for as a liability in their financial statements. KRA made a claim of Kshs.4,787,257 as withholding tax on interest accrued. Fintel challenged the claim and the High Court disallowed KRA's claim. KRA appealed and it was held, withholding tax is payable on the interest on contractual fee for late payment of contractual fee. Interest income may arise in the following cases .

1. In addition to the normal interest, on deposit or loan, a bonus premium may be paid, this bonus or premium is taken to be interest income.

2. When a sum is advanced in consideration for a larger sum repayable at a later date, the excess is taken to be interest income.
3. When a finance company sets aside or allocates funds to a borrower, the funds are said to be committed therefore, a commitment fee is charged. This charge is taken as interest earned by the financial institution.
4. In the case of deposit receipt where there is no fixed period of deposit, interest is normally credited on withdrawal of such funds. The interest thereof would be brought to tax in the year of withdrawal.
5. Instead of being paid interest, it may be credited. This crediting of interest to the current account of a person is taken to a payment of interest.

Taxation of Interest Income

Interest is brought to taxation when;-

- a) It has been credited to ones account.
- b) It has matured.
- c) It has been paid out.

d) In case of residents tax rate on interest is:-

- i) Interest on housing bonds – 10% withholding tax up to interest income of Kshs.300,000 (excess interest is taxed further)
- ii) Interest on bear instruments with Central Bank of Kenya – 25% which is final tax.
- iii) Government bearer bonds with the National Treasury – 20%
- iv) Interest on financial institutions – 15%

e) In case of non-residents;

The rate of tax is 12 % on interest which is final tax.

It is 10% for petroleum companies.

Non-resident persons including a corporation not having a permanent establishment in Kenya are taxed at a rate of 15% on gross interest.

Interest income Exempt from tax

1. Interest on tax reserve certificates – tax reserve certificates are operated by the government through the National Treasury. They are sold to any tax payer and interest is paid for the period money is held by the treasury.

The benefit of tax reserve certificates is that no penalty can be levied by the income tax department for late payment of tax. It earns the tax payer tax free interest.

2. Interest on deposits up to Kshs. 48,000 to purchase a house but through a registered housing financial institution (Home ownership savings plan).

3. Interest from stocks issued by a county government in case of residents only.

4. Interest on the East African High Commission stock for non-residents.

5. Interest on government stock for non-residents.

6. Post office savings account interest.

7. Interest from Housing Development Bond operated by approved financial institutions for building societies e.g. Housing Finance and East Africa Building Society up to a maximum interest of Kshs. 300,000, to individuals only.

Qualifying Interest

This is interest received from financial institutions e.g.

- Banks
- Financial institutions licensed under the Banking Act
- Building society
- Building society licensed under the Building Societies Act.
- An exception of Housing Finance Bonds where the first Kshs. 300,000 is qualifying interest.
- Interest from the Central Bank of Kenya.

Non qualifying Interest

All interest accruing to persons other than individuals is not qualifying interest including interest in excess of Kshs. 300,000 in case of Housing Finance Bonds for Building Societies.

Such non-qualifying interest will be aggregated with other incomes for further taxation.

Any withholding tax paid would be off-set against the gross tax liability.

Income from pensions.

The first three hundred thousand shillings of the total pensions and retirement annuities received by a resident individual from a registered fund or the National Social Security Fund in a year of income shall be deemed to be income not charged to tax.

Pension and Provident Funds

These arise due to payments and contributions relating to retirement period. A retiree is given a lump sum payment upon retirement if he contributed to a provident fund. On other hand, he is given a steady payment till he passes on when he contributed to a pension fund

Benefits as a contribution

Contributions to a pension or provident fund can either be: a contributory scheme when both employer and employee contribute or non-contributory scheme where only the employee contributes. Below are the benefits of these arrangements.

- a) Employers contribution on behalf of the employees is not taxable on the employee as a gain or profit from employment.
- b) Employees contribution is a deductible allowance subject to the maximum of Kshs 240,000 per annum, provided the scheme is registered.

- c) The employer's contribution towards the scheme is allowable against the employee's taxable income.
- d) The allowable deduction in case of employees will be the lower of;
 - i) 30% of pensionable pay
 - ii) Actual contribution
 - iii) statutory maximum of Kshs. 240,000 p.a.

Self Contributory Schemes

To cater for people who are not members of a registered contributory scheme, individual retirement benefit schemes were introduced on 1st January, 1994. They are operated by insurance companies and banks only.

The contribution allowable against income for tax purposes would be the lower of;

- i) 20% of pensionable pay
- ii) Actual contribution
- iii) Statutory maximum of Kshs. 240,000 p.a.

Note

- a) Self-contributory funds should be established in Kenya under irrevocable trust.
- b) Withdrawal from the fund should not be made while one is still in employment.
- c) Payment is only payable in Kenyan shillings
- d) Contributions cannot be assigned.
- e) Payments should be approved by the commissioner from the scheme.

Retirement Benefits

These are split into two, that is;

- i) Lump sum payments
- ii) Periodic payments

Lump Sum Payments

The full lump sum payment would be exempt from taxation up to the maximum of Kshs. 600,000. This amount includes that from a registered fund and NSSF.

Periodic payments

Pension retirement annuities up to Kshs.300,000 are tax exempt if received by a resident individual from a registered pension fund or retirement annuities as well as NSSF.

The amount above Kshs 300,000 would be subjected to withholding tax which is final tax as per the table below.

However, for non-residents tax would be levied to the whole pension amount.

Pension bracket	%age tax	Tax on every Kshs. 20 in Kshs.
On the first Kshs. 400,000	10%	2
On the next Kshs. 400,000	15%	3
On the next Kshs. 400,000	20%	4
On the next Kshs. 400,000	25%	5
Every Kshs. above Shs. 1,600,000	30%	6

The table above is also applicable in taxing lump sum payments above kshs. 600,000 tax exempt lump sum payment.

Notes

- Pension and retirement annuities from unregistered fund or scheme received by a resident individual are not taxable if the contribution to that scheme was not allowed as a deduction in the first place.
- Pension received by a resident individual from a pension fund or scheme established outside Kenya would be deemed to have accrued in Kenya so long as it relates to employment or services rendered by an individual in Kenya.
- The income of registered pension and provident funds is tax exempt.
- If amounts are withdrawn from a pension fund or provident fund before the expiry of 15 years, the first 300,000 in case of periodic payment and 600,000 in case of lump sum payment is tax exempt. Any amount above this would be taxed as follows:-

Pension bracket	%age tax	Tax on every Kshs. 20 in Kshs.
On the first Shs.288,000	10%	2
On the next Shs.100,000 25%	25%	3
Every Kshs. above Shs. 388,000	30%	6

Business Income

Business includes any trade profession or vocation and every manufacture, adventure and concern in the nature of trade, but does not include employment. Thus business in the nature of trade usually involves buying and or selling of goods and services.

The process of selling goods and services of its own may not necessarily constitute a business e.g. sale of private goods at a profit or for non-profit making motive.

A profession is any activity superior to handicraft and will usually require years of study and a qualifying examination.

Vocations are the use of talent, inborn or acquired through practise.

An adventure should be a trading one in nature of trade for instance smuggling. In **Inland Revenue Vs. Al Capone (1931)**, One of the renowned crime architect, virtually controlled all the gambling, prostitution, liquor and extortion rackets in Chicago USA. Al Capone solely transacted in cash. Notwithstanding his public and extravagant lifestyle, Capone never filed a federal income tax return, claiming that he had no taxable income. On the fateful day June 5, 1931 Al-Capone was indicted on 22 counts of income tax evasion and sentenced to 11 years in prison.

Factors to Consider in determining business in nature of trade

1. Profit motive – this must be overriding and not merely incidental. In **Mann Vs Nash (1932)**. The Appellant, who did the business of availing automatic machines for public use, entered into activities of taking advantage of certain automatic machines which was illegal. The profits from the machines were to be divided between the Appellant and the tenant of the building. On an appeal in opposition to assessment by Income Tax made to include profits from the illegal use of the machines, the Special Commissioners held that the availing of the machines to the public formed part of the Appellant's ordinary business and therefore the profits were chargeable to Income Tax even though they were obtained by unlawful means. Also see **Inland Revenue Vs. Al Capone (1931)**.
2. Number of transactions – If transactions are of a series, it will normally indicate trade. However, it is possible to have a single isolated transaction constituting trade.
3. The method of financing – where the proceeds from sale are used to acquire more goods, it is an indication that there is a trade cycle (of buying and selling).
4. Method used to generate sales – businesses in the nature of trade will normally be organized in such a way as to promote sales and in a manner to suggest that a business is in existence.
5. The nature of assets acquired and the quantity involved.
6. The mode of acquiring an asset. If it is a gift or an inherited property which is being sold, then it will not constitute a gift. If goods are purchased for resale, then it would constitute trade.
7. Goods for private use when finally disposed off – will not – however, if bought before use, the sale may be regarded as trade.

Income computation for business income

1. This involves the computation or determination of income or losses for tax purposes. Income is taxable and a loss is carried forward to be offset against future incomes of a similar source.
2. The net profit or loss appearing in the financial statements is adjusted in order to comply with the statutory requirements or the provisions of the Income Tax Act.
3. Various incomes must be considered if they are taxable or not.

Business Income is either;

- a) Assessable to tax – that is, if included in the definition of income for tax purposes, or
- b) Not assessable to tax – that is, if it is excluded from the definition from the definition of income, or
- c) It is specifically exempt from taxation.

Adjusting business income as per financial statements.

- 1. Where taxable incomes have been excluded in the profit and loss account, add them back.
- 2. Deduct incomes which are exempt from taxation from the profit and loss account if included.
- 3. Make sure the expenditure in the profit and loss is allowable for tax purposes. **In Tile and Carpet Centre Vs Commissioner Domestic Taxes (2016)**, Tile and carpet centre deposited money with its advocates for buying land for its sister company Tile & Carpet Centre Development Ltd. The advocates later gave back the money. The commissioner of income tax disallowed interest on the money claimed as an expense and made an additional assessment.

The commissioner of income tax relied Section 16(1) (a) of Income Tax Act, which disallows expenditure not incurred **wholly and exclusively** for production of income. The company had borrowed to help its sister company to acquire land, so the loan was not available for generating income. The court established that the money deposited with the advocates was an overdraft taken by the company. The court ruled that, the Commissioner of Income Tax was empowered to disallow the interest expense.

However, in **Caillebotte Vs. Quinn (1975)**, the court was able to distinguish between a meal 'essential to life' and a meal 'necessary for carpentry work'. Therefore, the first 10 pence Mr. Quinn spend eating to live was disallowed for tax purposes, but the next 30 pence was an allowable deduction against business profits. The court ruled that where it is impracticable to separate costs between business and other causes, the whole cost should be disallowed.

- 4. Add back to the profit and loss account all non-allowable expenses deducted.
- 5. Deduct omitted tax allowable expenditure from the profit and loss account.

Expenses Specifically allowed by Income Tax Act

- 1. Bad debts written off and in practise, those debts are specifically provided for.
- 2. Capital allowances if they are applicable.
- 3. Legal expenses and stamp duties in connection with the acquisition of lease not exceeding 99 years.
- 4. Expenses incurred prior to commencement of the business where this would have been deductible if incurred after the date of commencement.
- 5. Prevention of soil erosion by farmer
- 6. Agricultural land development
- 7. Scientific research
- 8. Interest paid on borrowing made to generate investment income so long as it does not exceed the investment income itself.

Expenses Specifically not allowed by Income Tax Act

1. Capital expenditure, any loss or diminution or exhaustion of capital e.g. the accountant's depreciation, amortization, loss on disposal and impairment of assets.
2. Expenditure incurred by any person in the maintenance of oneself, one's family or personal and domestic purposes.
3. Expenditure or loss recoverable under insurance contract.
4. Income tax payable
5. Payment of pension or provident fund payments where such funds are not registered.
6. Premiums paid under annuity contract paid to insurance companies for purposes of receiving recurring annuities
7. Expenditure incurred in the production of some income by a non-resident
8. Hobby business not carried on view to making profit and where more than 25% of the cost of production relate to self consumption.
9. Any reserves or provisions.
10. Cost of hiring non-commercial vehicles.

Rates of tax for business income

1. Minimum tax is payable in instalments which are due on the 20th day of each period ending on the fourth, sixth, ninth and twelfth month of the year of income. **The rate is one per cent (1%) of the gross turnover.**

Minimum tax is payable by a person if;

- a) A person's income is not tax exempt
- b) person's income is not chargeable to employment income, residential rental income, turnover tax, the gains from property other than investment shares transferred by individuals and gains from extractive industries
- c) the instalment tax payable by that person is lower than the minimum tax.

Persons not required to pay minimum tax are:

- i) Engaged in business whose retail price is controlled by the Government
- ii) Engaged in insurance business
- iii) Engaged in manufacturing and that person's cumulative investment in the preceding four years from assent is at least ten billion shillings
- iv) Licensed under the Special Economic Zones Act, 2015
- v) Engaged in distribution business whose income is wholly based on a commission.

2. Instalment tax with effect from 1st January, 1990 is paid by every person chargeable to tax or any person who has paid provisional tax in any year of income. A tax payer is not required to pay instalment tax if:

- i) the minimum tax payable higher than the instalment tax

- ii) one believes that the whole of the tax payable by him will be recovered from employment emoluments.
- iii) the total tax payable for that year of income is an amount not exceeding Kshs. 40,000.

The amount of instalment tax payable by a person would be the lesser of:-

- i) the amount equal to the tax that would be payable by that person if his total income for the current year was an amount equal to his instalment income, or
- ii) the amount specified in the preceding year's assessment multiplied by 110%.

Other withholding taxes paid can be off-set from instalment tax payable. Instalment tax is payable on or before the twentieth day of the following months in the accounting period of the current year of income.

For persons with accounting periods commencing on or after	Fourth Month	Sixth Month	Ninth Month	Twelfth Month
1st January 1990			15%	
1st January 1991			30%	
1st January 1992			45%	
1st January 1993			60%	20%
1st January 1994		15%	60%	25%
1st January 1995		30%	45%	25%
1st January 1996	25%	25%	25%	25%

Where more than two-thirds of one's income is derived from agricultural, pastoral, horticultural or similar activities, instalment tax would be paid as follows.

For persons with accounting periods commencing on or after	Fourth Month	Sixth Month	Ninth Month	Twelfth Month
1st January 1990			15%	
1st January 1991			30%	
1st January 1992			45%	
1st January 1993			60%	20%
1st January 1994			75%	25%
1st January 1995			75%	25%

3. Advance tax is payable commencing on the 1st January, 1996 in respect of every commercial vehicle at the following rates.

Advance Tax On;	Rate
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Vans, Pick-Ups, Trucks, Prime Movers, Trailers and Lorries	Higher of Kshs.1500 per tonne load or Kshs.2,400
Tractors or Trailers Used For Agricultural Purposes	Nil
For Saloons, Station-Wagons, Mini-Buses, Buses and Coaches	Higher of Kshs. 60 per passenger capacity or Kshs. 2400

4. Presumptive tax.

This tax was introduced in 1st January, 2019 and is payable on single business permit renewals. It is charged at 15% of the value of single business permit. It is an advance tax paid by small businesses whose gross income is not expected to exceed Kshs.5,000,000. It is offset from turnover tax payable. The tax is not paid by; persons registered for VAT, having rental income, limited liability companies and management and professional services.

5. **Turnover Tax.** Persons whose income from business exceed Kshs. 1,000,000 and is not expected to exceed Kshs. 50,000,000(as per S.12(c)(1) of Income Tax Act) in a year of income to pay turnover tax. However, income tax rules on turnover tax places the threshold between income exceeding Kshs. 500,000 and not expecting to surpass Kshs. 5,000,000, S 3(1).

The tax and returns are paid and submitted on or before 20th day of the month following the end of the tax period, respectively. The rate is 1% of gross receipts.

6. After determining the adjusted income of a person, tax thereon is computed.

- i) A loss would be carried forward until profit is made to off-set it.
- ii) Separate sources of income computation must be considered. A source from one specified source can only be assessed against future sources from that source.
- iii) Income for sole proprietorships and partners would be taxed at the prescribed individual tax rates.
- iv) Profit and loss of companies, clubs, trusts, estate and cooperative societies would be subjected to the corporate tax rates depending on residency status.

Corporate Rate of Tax	%Age	Rate In Each Twenty Shillings
Resident Company		
Years 1974-1989	45	9
Year 1990	42.5	8.5
Year 1991	40	8
Year 1992	37.5	7.5
Year 1993-1997	35	7
Year 1998-1999	32.5	6.5
Year 2000-2019	30	6
Year 2020	25	5
Year 2021-2024	30	6
A resident company with an accounting period ending between 1st July, 1994 and the 30th June, 1995 the corporation rate of tax shall be raised by 2.5%		
Non-Resident Company		
Year 1974-1989	52.5	10.5
Year 1990	50	10
Year 1991	47.5	9.5
Year 1992	45	9
Year 1993-1997	42.5	8.5
Year 1998-1999	40	8
Year 2000-2024	37.5	7.5

A non-resident company with an accounting period ending between 1st July, 1994 and the 30th June, 1995 the corporation rate of tax shall be raised 2.5%

v) The export processing zone enterprises (EPZE) which does not engage in any commercial activities rates of tax would be:-

Year of Income	Rate of Tax
The first 10 years	Profit are tax exempt
From the 11 th – 20 th year	25%
21 st year onwards	30%

vi) Resident mining companies for specified minerals the rates would be:-

a) the first 4 years = 27 ½%

b) 5th year onwards = 30%

Taxation of a Partnership

Income of a partnership is assessed on the partners. Partners income is composed of;

1. Remuneration payable to one by the partnership
2. Interest on capital held less interest payable to the partnership
3. One's share of income calculated deducting the total of any remuneration and interest payable to any partner by the partnership and adding any interest on capital payable by any partner to the partnership.
4. Where a partnership makes a loss, one's taxable income shall be the excess of the amounts set-out in one's share if any.
5. Computation of the partnership income is the same as that of business income except:-
 - i) Salaries to partners are not allowable expense.
 - ii) Interest paid by partners is not deductible for tax purposes
 - iii) A partner's wife salary is not an allowable expense
 - iv) Drawings of commodities from business by a partner would be added back to the income at cost.

Determining if a business is a partnership

A partnership is a relationship that subsists two or more persons carrying on a business in common with a view to making a profit.

The basic criteria in establishing whether or not a partnership exists is;

- a) A business with two or more persons
- b) Their common goal is to make profit
- c) There exists a partnership deed or a written agreement.
- d) There is sharing of gross receipts or profits

Does Joint Ventures Constitute a partnership?

There are situations that would normally cause difficulties in proving the existence of a partnership. For instance whether joint transactions would form a partnership and if the parties concerned one is the owner and others are merely employees.

In John Gardener and Company Vs. CIR (Commissioner of Inland Revenue), one person arranged during a strike to buy coal from the second one. The coal was invoiced to the first person at cost. He sold the coal and the net receipts after the costs were shared with the second person.

The ruling was that whereas the coal had been formerly given in a simple transaction of purchase and sale between person one and two, they immediately become a subject of a transaction in which the parties were interested in. The first person sold coal not on his behalf but on behalf of both persons. The net proceeds so obtained were equally divisible between them. therefore, the relationship between the two was a partnership.

In another case, Dickenson Vs. Gross (1927), a farmer named Dickenson entered into a deal of partnership with three of his sons with the intention of reducing the income tax liability in respect of profits. The deed provided that two firms owned by Dickenson should be let to Dickenson and his sons at stated rentals. The accounts should be made up annually and the profit should be shared equally between the partners and the parties would have the right to endorse cheques on behalf of the family.

No rent was paid, no books of accounts were kept and no distribution of profits was made. The cheques were signed by Dickenson. And some receipts were paid directly to Dickenson's private bank account.

It was held that a partnership did not exist, and there was no partnership for purposes of income tax.

Rate of taxation for a partnership.

- 1) Where the rental property is owned by a partnership and rental income is not excluded from residential rental income tax, residential rental income tax shall be charged on gross rent at 10%.
- 2) If Income is not excluded from turnover tax, turnover tax shall be charged on gross sales at 1%.
- 3) Partnership Income after making the necessary adjustments is taxed on partners as individuals and any other tax paid, will be off-set against the computed tax on partnership share of income.

Trust Income

Where income is paid in the form 'free of tax' annuities, no deduction of tax is made. Where the trustee had paid some money to annuitant to cover tax on annuity, no tax is also charged on such moneys. In 'free of tax' annuity situation, the trustees are entitled to claim the tax paid on the annuity itself and that on moneys paid to the annuitant to cover the tax on annuity. The commissioner is also empowered under this section to authorize the deduction of tax at a rate lower than the corporate rate even to have no tax deducted.

Taxation of societies

A society is liable to tax when:

- a) It purchases or owns a farm distinct from owners on which the main produce is the product the society members produce.
- b) It purchases or owns property, buildings on which it receives rental income.

- c) It has dealings with non-members in form of sale of stores, hire of transport and marketing their products.
- d) It has dividend and investment income.
- e) It Has interest income.

Taxation of resident insurance companies.

The taxable 'life insurance business' of a resident insurance company, whether mutual or propriety is interest income from invested premiums less:-

- i) Relevant management expense
- ii) Relevant commission.
- iii) Interest paid by the company from its annuity fund or on return of premiums, other than interest on premiums paid under a registered annuity contract trust scheme or pension fund.

An interesting case on taxation of life insurance is that of **Kenindia Assurance Company Limited Vs. Commissioner Of Domestic Taxes.** Section 19(5) of the Income Tax Act CAP 470 stipulates that a resident life Insurance company is taxed on amounts transferred from the Life fund for the benefit of shareholders. Kenindia transferred Kshs. 25,000,000 for the benefit of shareholders which was taxed as expected. It further reassigned over Kshs.111 Million to a statutory reserve. The commissioner alleged that the amount transferred to statutory reserve was for the benefit of the shareholders and therefore taxable and he raised an assessment.

The insurer appealed to the High Court. The High Court upset the tax tribunal's decision by pointing out that the life fund is a mandatory requirement for insurance companies, like Kenindia Assurance Company Limited. This was necessary for them to carry on long term insurance business and is specifically provided for under section 45(1) of the Insurance Act to support their business and to protect policy holders. The Statutory Reserve and not the Life Fund and is therefore not chargeable to tax under the section 19(5) (b).

The taxable income from general insurance business is ascertained as follows:-

Income items

- i) Gross premiums received for general insurance policies less any refunds made and premiums paid on re-insurance relating to general business.
- ii) Commission and expense allowance and any other incomes received from re-insurers
- iii) Investment income as a result of investing in general life insurance

Allowable deductions

- i) Claims admitted, loss amount recovered under re-insurance.
- ii) Agency expenses incurred relating to the business
- iii) Other allowable expenses under the income tax act

iv) Amounts appropriated into the reserve for unexpected risk to increase that reserve if need be. Reduction in the reserve would result in taxable income.

Note: It is only insurance companies that are allowed allocation to such a reserve as an expense.

Taxation of non-resident Insurance companies

The gains or profit of a non-resident life insurance business;

- i) The proportion of the investment income earned from investing its life insurance fund.
- ii) The proportion of the life insurance premiums or the amount of its actual liability on life policies whose premiums are received in Kenya to the total amount for its life insurance business including for policies taken overseas but premiums received through Kenyan offices or any other proportion that the commissioner determines to be just and reasonable. Less agency expenses in Kenya at a reasonable proportion. Add interest paid from its annuity fund on the surrender of policies whose premium were received in Kenya other than interest that relates to premium paid under a registered annuity contract, registered trust scheme, registered pension scheme or registered fund.

Gains or profit for the general insurance business of a non-resident business insurance co is arrived at after adding;

- i) Proportionate premium received or receivable in Kenya in relation to total premiums received less premiums returned on claims net of refunds from re-insurance.
- ii) Commission and expenses allowance received or receivable from re-insurance, of risks accepted in Kenya and any other income other than investment income.
- iii) Investment income out of investing the relevant general insurance business fund referable to business done in Kenya. Less amount put in the relevant for the unexpired risks in relation to the risk on the business done in Kenya. Agency expenses paid. Reasonable proportion of head office expenses on service rendered to their branch or subsidiary in Kenya.

Taxation of clubs

Income is taken to be;

Gross receipts

Entrance fees

Subscriptions

Where $\frac{3}{4}$ or more of such income is from members, the body will not be carrying on a business and no part of such non-investment income would be taxed. Investment income such as dividends, interests, rents, capital gains are to be excluded from the $\frac{3}{4}$ test.

Taxation of trade associations

Associations refer to anybody of persons which is an association of persons separately engaged in any business with the main object of safeguarding or promoting the business interests of such persons. Its gross receipts from transactions with members(including entrance and annual

subscriptions and any other income e.g. sale of refreshments) would be deemed to be income for the year. Taxation is at the corporate rate of tax.

Taxation of amateur sports associations.

Income other than income from investment of an amateur sporting association is not taxable.

However, the association must;

- a) Its sole or main object should be to foster and encourage any outdoor sport.
- b) Its members should consist of only amateur or affiliated associations.
- c) Its memorandum of association or by-law have provisions defining an amateur or a professional and providing that no person continues to be a member of the association if such person becomes a professional.

Capital Allowances

Capital allowances are granted to reduce taxable income for the following reasons:-

1. Compensation for loss in value of an asset in use in the business or firm due to obsolescence or simply the wearing out of the asset because of repeated use.
2. As an incentive to encourage the development of industries in various areas such as manufacture, mining, shipping and tourism.
3. To encourage and attract foreign investors to invest in Kenya.
4. To encourage and promote export, by ensuring that exports are zero rated for tax.

Categories of Capital Allowance as per the second schedule of Income tax act.

- i) Buildings Investment Allowance
- ii) Machinery Investment Allowance
- iii) Motor vehicles and heavy earth moving equipment deduction.
- iv) Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines deduction.
- v) Furniture and fittings deduction.
- vi) Telecommunications equipment deduction.
- vii) Filming equipment by a local film producer deduction.
- viii) Machinery used to undertake operations under a prospecting right deduction.
- ix) Machinery used to undertake exploration operations deduction.
- x) Other machinery deduction.
- xi) Purchase or an acquisition of an indefeasible right to use fibre optic cable by a telecommunication operator deduction.
- xii) Farm works deductions

Qualifying cost for items of Capital expenditure

- 1) An item that was not purchased for instance a personal car, an inherited building or ceases permanently to be used without being sold, it shall be deemed to have been purchased or sold, and the cost or amount realized shall be deemed to be the market value.
- 2) Capital expenditure exceeding Kshs. 3,000,000 incurred on a purchase of non - commercial motor vehicle Would be restricted to three million shillings.
- 3) If a non-commercial motor vehicle is sold, the sale price would be restricted by the factor :-

$$\frac{\text{Sales proceeds}}{\text{cost of vehicle}} \times \text{Kshs.3,000,000.}$$

- 4) Land and its incidental costs of acquiring it should never be included in Capital expenditure incurred on the construction of a building.
- 5) Where a building is used partly for purposes other than a Hotel, Manufacture, a Hospital, Petroleum or gas storage facilities, Educational or Commercial purposes, the capital expenditure would be reduced proportionately to reflect the purposes to which the building is being used. However, where other use than the intended use is only less than 1% of the total cost of the whole building, the total expenditure incurred on the construction of the building shall be treated as used for the specified purposes.
- 6) An extension to the existing building by further construction would be treated as a separate building.
- 7) If a building is sold before the building used, the seller would not be given an investment allowance.
- 8) If one person purchases a constructed building the person would be deemed to have incurred capital expenditure on building which would be the lesser of:-
 - i) Actual construction costs.
 - ii) Amount paid to acquire the building.
- 9) If a constructed building is sold more than once before use, only the lesser of the actual construction costs and the last purchase price would be used to determine the qualifying cost of the building.
- 10) Where a constructed building is sold by a person carrying on a business of construction for sale, the qualifying capital expenditure would be the price paid on the sale.
9. Expenditure incurred on behalf of another person would not qualify for investment allowance, which rules out capital allowance on donations and gifts.

Investment allowance on machinery used for manufacture

Under schedule 2 of the Income Tax Act, Manufacture means the making, including packaging, of goods from raw or semi-finished goods, or the generation of electrical energy for supply to the national grid, or the transformation and distribution of electricity, but does not include design, storage, transport, administration or any other ancillary activity.

The Income Tax Act defines “machinery used for manufacture” as machinery used directly in the process of manufacture, and includes machinery used for the following ancillary purposes:-

- (i) Generation, transformation and distribution of electricity;
- (ii) Clean-up and disposal of effluents and other waste products;
- (iii) Reduction of environmental damage;
- (iv) Water supply or disposal;
- (v) Maintenance of the machinery; or

(vi) Scientific research and development.

Farm Works Allowance

Farm works deductions are granted in respect of capital expenditure on agricultural land. Farm works deductions are available to the owner or tenant of any agricultural land who incurs capital expenditure on the construction of the farm works for the proper operations of the farm activities.

The applicable rate is 100% of the qualifying cost for three years. Agricultural land means land occupied wholly or mainly for the purpose of trade in farming. Farm works means the construction on the farm for better operations on the farm e.g.

- farmhouse
- labour quarters/lines
- any other immovable building necessary for the proper operation of the farm; fences, dikes, drains, water, electricity networks and fish ponds.
- horse stable
- cow shed
- windbreaks
- roads to the farm
- stores
- irrigation network

In the case of a farmhouse, only $\frac{1}{3}$ % of the initial cost of the farmhouse qualifies for farm works deductions. Should the size of the farm house be out of proportion to the nature and extent of the farm activity, the commissioner of income can reduce the fraction of the initial cost which qualifies for farm work deductions. Only one farm house qualifies for farm work deductions. In cases of a company, there would be no farmhouse instead the house will be occupied by company employees or the manager, directors in which case, they would be referred to as labour quarters.

Notes

1. The cost of constructing a garden or another capital cost for prevention of soil erosion is expressly allowable capital expenditure.
2. A farmer taking over a farm will take the portion of farm works deductions not yet claimed from the date of purchase. Any apportionment of the unclaimed farm works deductions would be done on the basis of the period of ownership.
3. A farmer can claim other capital deductions apart from farm works wherever they are applicable.

Investment Allowance on Specified Buildings

Where a person incurs capital expenditure on the construction of a building specified in the second schedule of Income Tax Act and the building is used for business carried on by him or by the lease, a deduction known as **Investment Allowance** would be made in computing his gains from the business.

Notes

- (a) Where the use of a building is changed for instance from a hotel to a hospital, the deduction would be restricted to the residual value or unclaimed deductions from the building at the applicable rate, that is the rate for hotel would cease being used and the rate for a hospital would become effective.
- (b) For specified buildings like a hotel, educational or hospital building, the building would have to be licensed by the competent authority before capital deductions can be claimed.
- (c) Building used for manufacture includes any civil works or structures deemed to be part of a building where the structure or civil works relates or contributes to the use of the building
- (d) commercial building would be composed of:-
 - (i) An office, a shop, a showroom, a godown, a storehouse, or a warehouse used for storage of raw materials for manufacture of finished or semi-finished goods.
 - (ii) Civil works relating to water or electric power undertaking, excluding an undertaking not carried on by way of trade.
 - Civil works include;
 - (i) Roads and parking areas.
 - (ii) Railway lines and related structures.
 - (iii) Water, industrial effluent and sewerage works.
 - (iv) Communications and electrical posts and pylons and other electrical supply works.
 - (v) Security walls and fencing.

Qualifying Costs for specified buildings.

1. The cost of land does not qualify for any capital deductions. The cost of acquiring land will include costs like stamp duty, legal fees in relation to acquiring land.
2. Costs of items treated as machinery e.g. partitions, shelves and counters.
3. Costs of a retail shop, showroom, office and dwelling house forming part of the building are not considered as part of the industrial building except where the aggregate cost for such sections of the entire building is not more than 1% of the total capital expenditure of the building.
4. Extensions to specified building or additional buildings will be considered as separate specified building.
4. Where specified building is used for less than a year, the specified building allowance is proportionately reduced to reflect the period of use.
5. Where the specified building allowance is sold and it continues to be a specified building used by the purchaser or lessee, then the deduction will continue to be given to that purchaser as before such that the purchase price is not considered.
6. Where capital expenditure is incurred in the construction of a specified building then the specified building is sold before it is used, the purchaser is deemed to have incurred capital expenditure for the building equal to the lower of:-
 - a) Cost of construction
 - b) The purchase price.

7. Where the specified building is sold more than once before it is used, then the last purchase price and the cost of construction would be considered for Investment Building Deduction (IBD) computation, whichever is lower.

8. Where the cost of construction of the specified building is incurred by a person carrying on the trade of building and construction for sale, the qualifying IBD is equal to the sale price of that building.

9. Where the building is not used as a specified building for a period, a notional IBD is calculated for the purpose of determining the residue of expenditure brought forward.

Rates of Capital Allowances per class of Capital Expenditure

CAPITAL ALLOWANCES	Percentage deduction allowed on qualifying cost			
	Year 1	Year 2	Year 3	Year 4
1. Investment Allowance buildings				
(i) Hotel building	50%	25%	25%	
(ii) Building used for manufacture	50%	25%	25%	
(iii) Hospital buildings	50%	25%	25%	
(iv) Petroleum or gas storage facilities	50%	25%	25%	
(v) Educational buildings including student hostels	10% per year, in equal installments			
(vi) Commercial building	10% per year, in equal installments			
2. Investment Allowance building Machinery				
(i) Machinery used for manufacture	50%	25%	25%	
(ii) Hospital equipment	50%	25%	25%	
(iii) Ships or aircrafts	50%	25%	25%	
The investment deduction shall be one hundred per cent where:-				
(a) the cumulative investment value in the preceding three years outside Nairobi City County and Mombasa County is at least two billion shillings: Provided that where the cumulative value of investment for the preceding three years of income was two billion shillings on or before the 25th April, 2020, and the applicable rate of investment deduction was one hundred and fifty per cent, that rate shall continue to apply for the investment made on or before the 25th April, 2020;				
(b) the investment value outside Nairobi City County and Mombasa County in that year of income is at least two hundred and fifty million shillings; or				
(c) The person has incurred investment in a special economic zone.				
3. Motor vehicles and heavy earth moving equipment	25%	25%	25%	25%
4. Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	25%	25%	25%	25%
5. Furniture and fittings	10% per year, in equal installments			
6. Telecommunications equipment	10% per year, in equal installments			
7. Filming equipment by a local film producer licensed by the Cabinet Secretary responsible for filming	25%	25%	25%	25%
8. Machinery used to undertake operations under a prospecting right	50%	25%	25%	
9. Machinery used to undertake exploration operations	50%	25%	25%	
10. Other machinery	10% per year, in equal installments			
11. Purchase or an acquisition of an indefeasible right to use fibre optic cable by a telecommunication operator	10% per year, in equal installments			
12. Farm works	50%	25%	25%	

NOTE

If the assets of any class are sold for more than the written down value of that class and the business is ceasing, then the gain arising thereof is referred to a **balancing charge** which is taxable. For a going concern business, it is called a **trading receipt** which is taxable.

If sales proceed are less that written down values when the business is ceasing, the loss arising will be referred to as a **balancing deduction** and is a tax allowable expense. For a going concern business, it is called a **trading loss** which is tax allowable expense.

Illustration 13:

Mwanzo Ltd, a fast growing company in agribusiness sector that commenced business on 1st January 2024 has hired you to facilitate them to file tax returns for the year ending 31st December, 2024. They have given you a list of the following assets.

Assets bought on 1st January 2024:

Lorries	kshs 12,000,000
Tractors	kshs.35,000,000
2 Pick-ups	kshs. 6,000,000
1 saloon car	kshs. 5,000,000

During the year, the company purchased and sold the following.

1. Bought a Mercedes Benz by use of the director costing kshs. 8,000,000.
2. Miniature CCTV cameras and tracking gadgets were fixed on the companies Lorries as required by the insurance company, the cost amounted to kshs.1,900,000.
- 3.The company traded in the saloon car with a range rover paying an additional kshs. 2,000,000 for the range rover.
- 4.Equiment costing kshs.3,000,000 was bought.
- 5.Computers worthy kshs.6,000,000 were bought.
6. The building used to manufacture bottled juice from real fruits is valued at Kshs.12,000,000 as agreed with the Commissioner of Income tax.
7. The factory machinery cost kshs.9,000,000
8. Terracing, fencing and building gabions on the factories 3,000 acre land cost kshs. 8,000,000.
9. Farm animals on the farm are valued at kshs.700,000,000.
10. The adjusted profit before capital allowances for tax purposes is kshs. 50,023,921.

Required:

a) Given that the Commissioner of Income tax has decided to allow full capital allowance for any asset bought during the year without apportionment to reflect the period the asset has been in business, and does not allow capital allowances on assets disposed off during the year: compute capital allowances for Mwanzo ltd as at 31st December, the taxable profit and the tax liability.

Suggested Solution.

Mwanzo ltd Capital Allowances Computation

	Qualifying Cost	Year 2024	Year 2025	Year 2026
1. Investment Allowance buildings				
Factory	12,000,000	6,000,000	3,000,000	3,000,000

2. Investment Allowance building Machinery

Machinery used for manufacture	9,000,000	4,500,000	2,250,000	2,250,000
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3. Motor vehicles and heavy earth moving equipment

Lorries	12,000,000			
Tractors	35,000,000			
2 Pick-ups	6,000,000			
1 saloon car (cost restricted)	3,000,000			
Total as at 1st January 2024	56,000,000			
Add Additions				
Mercedes Benz(cost restricted)	3,000,000			
range rover(cost restricted)	3,000,000			
	62,000,000			
Less Disposals				
1 saloon car (cost restricted)	3,000,000			
Total	65,000,000	16,250,000	16,250,000	16,250,000

4. Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines

Miniature CCTV cameras and tracking gadgets	1,900,000			
computers	6,000,000			
Total	7,900,000	1,975,000	1,975,000	1,975,000

5. Furniture and fittings

Equipment	3,000,000	300,000	300,000	300,000
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6.Farm works

Terracing, fencing and building gabions	8,000,000	4,000,000	2,000,000	1,000,000
Total capital allowances year 2024		33,025,000		

Mwanzo Ltd**The Taxable Profit Computation**

	Kshs.
Adjusted Profit Before Capital Allowances	50,023,921
Less Capital Allowances	-33,025,000
Taxable Profit	16,998,921

Mwanzo Ltd**Tax Liability Computation**

	Kshs.
Taxable Profit	16,998,921
Tax on Taxable Profit @ 30%	5,099,676

Capital allowances rate has changed over time. Previously some rates were on reducing balance method and some were on straight line. But you can clearly see above that all rates are on straight line basis. What would a business do if it encountered the changing rates? Perhaps a case law would help us understand this. In **Commissioner of Domestic Taxes Vs. Sony Holdings Ltd**, Sony Holdings

Ltd had done the construction of Westgate mall in 2007. In 2016, it filed for an amended assessment for the year of income 2010 to 2015. This enabled it to allow Kshs.6.4 Billion Industrial Building allowance at 25% following an amendment in the law giving an effective date as 1st January, 2010. The commissioner rejected the claim which forced the investor to appeal the decision. The tax appeal tribunal ruled in support of Sony Holdings Ltd prompting the Commissioner to appeal the decision at the High Court.

Capital Gains Tax

The Income tax Act specifies, the whole of gain which accrues to a company or an individual on or after 1st January, 2015 on the transfer of property situated in Kenya, whether or not the property was acquired before 1st January, 2015.

The gain arises when:

- i) On the transfer of property, the amount by which the transfer value of the property exceeds the adjusted cost of the property.
- ii) The adjusted cost of the property exceeds the transfer value of the property, the amount of the excess is the loss realized by the person on the transfer of the property.

The rate of tax 5% which is final tax

Affordable Housing Levy (AHL)

Is a tax that is effective from 2024 after enactment of the Affordable Housing Act 2024. It is collected by KRA. The purpose of the tax is to fund low-cost houses, stabilize housing market rates and thus reduce overpricing. It a mandatory tax on both employees and employers.

Like PAYE, it is due on 9th of every month following the month of deduction.

Rates of AHL

1.5% of gross salary of employees

1.5% of gross incomes of unemployed persons

The employer contributes the same amount as the employees.

Indirect Taxes

Indirect taxes are taxes levied on consumption of goods and service rather than gains or profit or incomes. An indirect tax is collected by entities in the supply chain for instance, a manufacturer, distributors, stockists, wholesaler or a retailer and paid to the government. The ultimate tax is paid by the consumer. Examples of indirect taxes are: Value Added Tax (VAT), excise duty, customs duty, advance tax, entertainment tax, sales tax, fuel levy and stamp duty.

Value Added Tax (VAT)

VAT is an indirect tax charged on the supply of taxable goods and services made or provided in Kenya by a taxable person/agent in the course of furtherance of any business carried on by that person and on the importation of goods and services into Kenya. The tax is ultimately paid by Kenyan consumers. VAT replaced sales tax in 1990. Sales tax was paid only by manufacturers while VAT applies to all manufacturers, wholesalers, distributors, stockists and retailers dealing in designated goods and services. It represents value added at every stage of a business transaction; it is a tax levied on value addition to goods and services. It is collected and paid to Kenya Revenue Authority by registered persons.

Characteristics of VAT

VAT is a tax on the supply of goods and services which is eventually shouldered by the consumer. It is paid at each point of exchange of goods or services where value is added starting with primary production or importation to consumption.

It is charged on the difference between the sales price of goods or services(output) and the cost of purchases/production/inputs (input).

At each point of exchange when value increases, the tax is collected in form of higher prices.

The final consumer bears the whole tax in the same way as if it was sales tax charged at the retail level. In essence, the trader's role is of a tax collector as he does not pay any tax from his incomes.

VAT Vs. Sales Tax

VAT is a broad based tax with a wide coverage covering both goods and services, sales tax, mainly covered goods.

VAT is limited to value added on goods or services as such most unprocessed or raw agricultural products would be VAT exempt. Sales tax was imposed on all goods and services.

In sales tax, manufactures were required to pay total tax on their sales every month without claiming tax on their inputs. VAT allows registered persons to claim input tax such that the ultimate burden of VAT tax falls on the consumer.

VAT encourages export since some goods are zero rated, sales tax gave no incentive for exportation.

VAT has no cascading effect, sales tax has cascading effect.

VAT is based on selling price, sales tax is based on cost price.

VAT is easily separable from costs of goods and services. It is not easy to separate sales tax from costs.

VAT is a multi-stage tax system. Sales tax was a single stage collection system which tended to encourage tax evasion.

Rates of VAT Tax

The tax rate would depend on the nature of supplies made. That is:

Standard rated supplies at 16%

Special Rated supplies at 12%

Zero rated supplies at 0%

Exempt supplies

Difference between zero rated and exempt supplies

Zero rated supplies are taxable but at zero. Suppliers of zero rated goods must register for VAT. In such case, input tax is claimable.

On the other hand, exempt supplies are not taxable since they are outside the scope of VAT. Suppliers of such goods and services need not be registered. Input tax in relation to exempt supplies is not claimable.

Illustration 14.

Mr. Richard Ole Nkeri is a wholesaler in Mjini town. For the year ended 31st December 2023, he purchased goods worthy Kshs.10,600,000 from a manufacturer before VAT. He sold the same goods to Mr. Zephania Otieno a retailer at a profit margin of 20%. Mr Otieno incurred other expenses as follows:-

a)transportation Kshs.120,000

b)storage Kshs.180,000

Mr. Otieno sold his goods at a mark-up of 30%.

Required:

i) Taking the VAT rate to be 16%, compute VAT payable by both traders.

ii) Assuming that the above transaction took place in 1989, compute the sales tax payable.

Suggested Solutions.

i)

Mr. Richard Ole Nkeri

Year 2023 VAT Computation	Kshs.
Cost of Goods	10,600,000
Mark-up @ 25% (Margin 20%)	2,650,000
Sales price before VAT	13,250,000
VAT @ 16%	2,120,000
Sales price inclusive of VAT	15,370,000

VAT Payable by Mr. Richard Ole Nkeri = 2,120,000-1,696,000= Kshs.424,000

Mr. Zephania Otieno

Year 2023 VAT Computation	Kshs.
Cost of goods purchased	13,250,000
<u>add other costs</u>	
Transportation	120,000
Storage	180,000
Total Costs	13,550,000
Add Mark-up @ 30%	4,065,000
Sales price before VAT	17,615,000

VAT @ 16%	2,818,400
Sales price inclusive of VAT	20,433,400

VAT Payable by Mr. Zephania Otieno = 2,818,400-2,120,000= Kshs.698,400

ii)

Mr. Richard Ole Nkeri

Year 1989 Sales Tax Computation	Kshs.
Cost of Goods	10,600,000
Sales Tax @ 16%	1,696,000
Total Cost of goods	12,296,000
Profit @ 25% Mark-up	3,074,000
Sales Price	15,370,000

Mr. Zephania Otieno

Year 1989 Sales Tax Computation	Kshs.
Cost of goods purchased	12,296,000
add other costs	
Transportation	120,000
Storage	180,000
Total	12,596,000
Sales Tax @ 16%	2,015,360
Total Cost of goods	14,611,360
Profit @ 30% Mark-up	4,383,408
Sales price	18,994,768

Merits and Demerits of VAT

Merits

1. The pinch of the tax is not felt since in most cases the tax payers are unaware they are paying VAT inclusive prices.
2. It encourages exports since exports are zero rated or VAT on exports is refunded. In **Google Kenya Ltd vs. Commissioner of Domestic Taxes (2021)**, Google Kenya was offering marketing and support services to Google Ireland and held to the position that these were exported services thus they were Zero rated. Google Kenya additional argued that Kenyan customers contract directly with Google Ireland for the products. Google Kenya contented that the services are related to non-resident entities, and were exported according to VAT's zero rates. Kenya Revenue Authority on the other hand claimed that Research and Developments costs, Marketing and support services were consumed in Kenya because the audience for the advertisements were based in Kenya.

The Tax Tribunal ruled that the marketing support services that Google Kenya provided were consumed outside Kenya by the two related non-resident entities, hence constituting exported services which were zero-rated for VAT purposes. The Tribunal relied on the destination principle under the OECD guidelines which provides that the jurisdiction where a customer is located has the taxing rights over internationally traded services.

In yet another case on exported services, **Panalpina Airflo Limited Vs. Kenya Revenue Authority (2018)**, PanalPina a logistics company was contracted by its clients in the Netherlands for purposes of exporting flowers from Kenya. The company filed claims for Value Added Tax refunds for the months of December 2015 and January 2016 for the sum of Kshs.2,168,449 and Kshs.2,221,584. The ground of their claim was that they were exporters thus their supplies were zero rated. The Kenya Revenue Authority considered this company to be in logistics offering services within Kenya and thus they were not entitled to refunds.

Panalpina Airflo objected, but their objection was rejected. They appealed to the High Court. The High Court overturned the Tax Tribunal's decision citing the destination principle. The goods in question were destined for consumption far away from Kenya and therefore were exports. This decision was based on a similar prior case pitting Total Touch Cargo Holland.

A similar ruling was made in **Coca Cola Central East and West Africa vs. Kenya Revenue Authority (2020)**. The Coca Cola Company and Kenya Revenue Authority were enmeshed in an argument that almost lasted for a decade on VAT - exported services. Coca Cola Central East and West Africa Ltd. were offering marketing and promotional services to Coca Cola Export Company, a company based in the United States of America. Kenya Revenue Authority was of the view that the promotional activities attracted audience in Kenya, the same country where they were created and therefore, it was a service consumed in Kenya being taxable at a standard rate of 16%. Coca Cola Central East and West Africa was slapped with Kshs.516 Million tax. The company challenged the move arguing that their client was based in the USA and hence they were exporting a service which should be zero rated for VAT purposes. The Tax Appeals Tribunal (TAT) ruled in favour of Kenya Revenue Authority.

Coca Cola Central East and West Africa appealed the decision. The High Court, guided by destination principle under the OECD guidelines (which states the jurisdiction of consumption is based on the customers' location and the identity of the customer is determined by reference to business agreement for provision of those services) ruled the services were Zero rated. The location of the customer was in United States of America, and not in Kenya based on the agreement.

3. It is easy to separate VAT from other cost or product costs.
4. VAT generally has no cascading effects, does not compound tax liability(tax on tax)
5. It is broad based tax, since it covers a variety of goods and services.

6. It helps businesses to strive to make profits or be efficient, since VAT is charged whether one makes a profit or a loss.
7. Input tax is claimable immediately against output tax.

Demerits

1. It does not isolate the poor from the rich, such that the former should pay less VAT and the later more VAT.
2. It requires elaborate records and books to be maintained. This is expensive and uneconomical especially to small businesses.
3. A taxable person is required to account for or pay VAT even when his customers have yet to pay for goods or services rendered.
4. Not all businesses that handle similar goods or services charge VAT. This may create market imperfections.
5. Like any other indirect tax, it could lead to inflation.
6. The VAT system requires a lot of cooperation with KRA, which may not be easy.
7. The VAT system is complicated and would require an honest efficient government machinery to be able to audit or check implementation of the system. It is because of this reason that VAT is not ideal for developing countries.

When is VAT tax due and payable

1. Value Added tax chargeable on goods and services is payable when:

- (a) Goods or services are supplied to the customer;
- (b) An interim or final certificate is issued, by an architect, surveyor or any person acting as a consultant or in a supervisory capacity, in respect of the service.
- (c) An invoice is issued against supply of goods or services.
- (d) When payment is received for all or part of the goods or services, whichever is the earliest.

Value Added tax chargeable on goods and services as stated above is due when :

- (a) The chargeable service is received.
- (b) An invoice is received in respect of the service.
- (c) Payment is made for all or part of the service, whichever time shall be the earliest.

(2) For services made on a continuous basis, or by metered supplies, tax shall become chargeable with effect from the date of the first determination of the supply or the first meter reading following the introduction of the tax and subsequently tax shall become due and payable at the time of each determination or meter reading.

(3) A registered person may defer payment of tax due to a date not later than the **twentieth day** of the month succeeding that in which the tax became due: Where the **twentieth day** of the month falls on a public holiday, a Saturday or a Sunday, the return together with the payment of the tax due, should be submitted on the last working day prior to that public holiday, the Saturday or the Sunday.

(4) The Commissioner of Valued Added Tax may require that a registered person should pay tax at the time when he collects that tax from his customer as part of the price of a taxable supply.

(5) Any tax chargeable would also be due and payable when:

(a) For of assessable goods cleared for home use directly at the port of importation, or chargeable goods entered for removal to an inland station and there cleared for home use, at the time of customs clearance.

(b) For taxable goods removed to a licensed warehouse subsequent to importation, at the time of final clearance from the warehouse for home use.

(c) For taxable goods removed from an export processing zone at the time of removal for home use.

(6) In the event registered person who closes down his business has any chargeable goods upon which tax has not been paid, he would, forthwith pay the proper amount of tax due on those goods.

Illustration 15

ABC Ltd purchased materials worth Kshs.9,000,000 in year 2023. They incurred 30% additional costs of conversion. They also included a Mark-up of 20% on the product which they sold to XYZ Ltd.

Required:

a) Compute VAT payable by ABC Ltd (rate 16%)

b) Show how the above transactions would be reflected in ABC Ltd's Ledger.

a)

ABC Ltd

Year 2023 VAT Computation		Kshs.
Cost of Goods		9,000,000
Conversion Costs @ 30%		2,700,000
Total Cost of goods		11,700,000
Profit @ 20% Mark-up		2,925,000
Sales Price before VAT		14,625,000
VAT @ 16%		2,340,000
Sales Price Inclusive of VAT		16,965,000

b)

ABC Ltd					
VAT account					
Date	Detail	Amount	Date	Detail	Amount
	input	1,872,000		output	2,340,000
	VAT payable	468,000			
		2,340,000			2,340,000

ABC Ltd					
Conversion account					
Date	Detail	Amount	Date	Detail	Amount

	Bank	9,000,000			
	Bank	2,700,000		Total Cost of goods	11700000
		11,700,000			11,700,000

ABC Ltd					
Sales account					
Date	Detail	Amount	Date	Detail	Amount
				BANK	16,965,000
	Balance c/d	16,965,000			
		16,965,000			16,965,000

ABC Ltd					
Bank account					
Date	Detail	Amount	Date	Detail	Amount
	Sales	16,965,000		Purchases	9,000,000
				conversion	2,700,000
				Balance c/d	5,265,000
		16,965,000			16,965,000

ABC Ltd					
Purchases account					
Date	Detail	Amount	Date	Detail	Amount
	Bank	9,000,000		Cost of Sales	9,000,000
		9,000,000			9,000,000

What is a supply?

Value Added Act defines a supply to include:

- Sale or provision or delivery of assessable goods to another person.
- Sale or provision of assessable services to another person.
- Drawings by a registered person of assessable goods or services for his own use instead of selling them.
- Giving out gifts of any assessable goods or chargeable services.
- Hiring, leasing or any other transfers of assessable goods.
- Availing of chargeable services by a contractor to himself in constructing a building and related civil engineering works for his own use, sale or renting to other persons.
- Drawings by a registered person of chargeable goods or services for his own use inside of the business where if supplied by another registered person, the tax charged on such goods or services is excluded from the deduction of input tax.

(h) Any other disposal of taxable goods or provision of taxable services.

What is taxable value?

1. Taxable value is the value determined:-

(a) For a supply provided by a registered person to an independent person dealing at arm's length, the price for which the supply is provided.

(b) Where no such price can be determined, the price at which the supply would have been provided in the ordinary course of business by a registered person to an independent person dealing at arm's length and, in cases where no such price can be determined, the price would be decided by the Commissioner of Value Added Tax.

(c) For chargeable goods imported into Kenya, the sum of the following amounts:

(i) The value of such assessable goods determined for the purpose of customs duty, in harmony with the East African Community Customs Management Act, 2004, whether or not any duty of customs is to be paid on those goods.

(ii) The amount of the duty of customs, if any, paid on those goods;

(d) For a chargeable service imported into Kenya the price at which the supply is provided.

(2) In calculating the price of any taxable goods for the purposes of ascertaining the value of the supply, there would be included any sum charged in respect of;

(a) Any wrapper, package, box, bottle or other container in which the goods concerned are enclosed.

(b) Any other goods contained in or attached to such wrapper, package, box, bottle or other container.

(c) any liability that the purchaser has to pay to the vendor by reason of or in respect of the sale in addition to the amount charged as price (whether payable at the same time or some other time) including any excise duty chargeable under the Customs and Excise Act, where appropriate, and any amount charged for, or to make terms for, advertising, financing, warranty, commission, transportation, erection or any other matter: The regulations may make provisions for the deduction from the price of the whole or any portion of any such amount charged in respect of transportation, erection or returnable containers.

(3) In calculating the value of any services there would be included any accompanying costs incurred by the supplier of the services in the course of making his supply to his customer provided that, if the Commissioner of VAT is satisfied that the supplier has merely made a disbursement to a third party as an agent of his client, then such disbursement shall be excluded from the taxable value.

(4) In calculating the price of accommodation and restaurant services;

(a) Any charge made in respect of the Catering, Training and Tourism Development Levy imposed under the Hotels and Restaurants Act (Cap. 494).

(b) any service charge made in lieu of tips or gratuities, shall be excluded: The proceeds of the service charge in lieu of tips or gratuities should be distributed directly to the employees of the hotel or restaurant, in agreement with a written accord between the employer and employees, and the service charge shall not exceed **ten per cent** of the price of the service excluding, such service charge.

- (5) In calculating the value of betting and gaming services;
- (a) The amount staked by a person shall be deemed to be the consideration for the supply of a service.
 - (b) The taxable value of a supply for any tax period shall be the total amount staked less the amount of winnings (if any) during that tax period and the taxable value shall be deemed to be inclusive of tax.
- (6) The taxable value of mobile cellular phone services shall be the value of such services as determined for the purposes of excise duty under the Customs and Excise Act (Cap. 472).
- (7) The “amount staked” means any payment made in cash or in kind as consideration for participating in a game of chance and includes any payment for the purchase or use of instruments of gaming within the meaning of the Betting, Lotteries and Gaming Act (Cap. 131).
- (8) Financial charges incurred by a person who purchases taxable goods on hire purchase terms from a taxable person engaged in hire purchase business in accordance with the Hire Purchase Act (Cap. 507) shall be excluded from the taxable value.
- (9) Interest incurred for late payment of the price of a taxable supply of goods or services shall be excluded from taxable value.

What is input tax?

According to VAT Act, “input tax” means;

- (a) Tax paid on the supply to a registered person of any goods or services to be used by him for the purpose of his business; and
- (b) Tax paid by a registered person on the importation of goods or services to be used by him for the purposes of his business;

What is output tax?

“Output tax” means tax which is due on taxable supplies.

Credit for input tax against output tax

1. A registered person may deduct input tax from output tax as long as the deduction is not:-

- (a) More than twelve months after that input tax becomes due and payable or the tax is deducted.
- (b) More than twelve months after the issuance of a letter of undertaking or a clearance certificate for a motor vehicle or other asset purchased under a hire purchase or a lease financing agreement.

To deduct or withhold input tax, a registered person should be in possession of;

- (a) A tax invoice or a withholding tax certificate issued under the Value Added Tax (Tax Withholding) Regulations, 2004 (L.N. 53/2004);
- (b) A customs entry duly certified by the proper officer and a receipt for the payment of tax;
- (c) a customs receipt and a certificate signed by the Commissioner of Customs stating the amount of tax paid, in the case of goods purchased from a customs auction;

(d) An import declaration form duly certified by an authorized officer and proof of payment of the tax, in the case of imported taxable services.

2. Where a registered person purchases a motor vehicle or any other asset through a hire purchase or a lease financing agreement, such person shall, in addition to the documents required above, have a letter of undertaking from the institution that financed the motor vehicle or other asset, specifying that tax will be paid on resale of the asset in case it is repossessed or resold, or a clearance certificate certifying that all payments secured under the hire purchase or lease financing agreement have been made in full.

A registered person subtracts input tax in respect of business premises in which chargeable supplies are made; and subsequent upon such subtraction, the whole or any portion of such premises is: sold or disposed of; or transformed for use in making exempt supplies, before the end of five years from the date the erection of such premises was completed, such tax, or the fraction thereof relating to the erection of the sold, disposed of or converted premises, shall be refunded to the Commissioner within 30 days of such sale, disposal or conversion.

In case of premises being sold or disposed of, the input tax refundable by the registered person shall be output tax for the purposes of the Act. When refund is not made by a registered person within thirty days, interest equal to **2%** of the tax due would be payable for each month or part thereof during which the tax remains un-refunded.

However, the Commissioner is empowered to grant a decrease of interest in individual cases where he is content that such a reduction is justified, and shall make quarterly reports to the Cabinet Secretary of all remissions so approved: provided that where the amount of interest exceeds five hundred thousand shillings, a reduction shall be subject to the prior written sanction by the Cabinet Secretary.

In **David Mwangi Ndegwa vs. Kenya Revenue Authority (2018)**, Mr. Ndegwa bought land in Kiambu on which some commercial buildings stood. KRA charged him Kshs.11,200,008.00 VAT. He paid it on insistence by the seller hoping to get a refund. The charge was based on the fact that commercial premises were involved and whoever is letting or selling would not be exempted from VAT. The plaintiff cited paragraph 8 of the First Schedule of the VAT act (VAT exemption) it states “supply by way of sale, renting, leasing, hiring, letting of land or residential premises” to claim VAT erroneously imposed on him for purchasing land. A close scrutiny of this statement indicated that sale of land was exempted, sale of commercial properties was not exempted since it was only residential premises that were mentioned. The buyer through his lawyers argued that what they bought was land, where there was no indication that there was VAT on sale of land, again commercial premises are not defined by law, and only residential premises are defined. The meaning of Commercial premises can only be extrapolated. The courts acknowledged the ambiguity and ruled in favour of the taxpayer. In case of ambiguity in law, tax cases are ruled in favour of the tax payer, it was stated “It is trite law that, the

Government of Kenya, through the defendant, cannot levy taxes on the citizenry except as may be expressly provided by a statute.”

In case the amount of input tax that may be so deducted exceeds the amount of output tax due, the amount of the excess shall be carried forward to the next tax period: Provided that any such excess shall be paid to the registered person by the Commissioner where the Commissioner is satisfied that such excess arises from;

(a) Making zero-rated supplies; or

(b) Tax withheld by appointed tax withholding agents. Provided that the investments are used in making taxable supplies.

Where excess input tax is payable a registered person shall lodge a claim for the amount payable within twelve months from the date the tax became payable, or such longer period, not exceeding twenty-four months, as the Commissioner may allow.

In **Highlands Mineral Water Limited vs. Commissioner of Domestic Taxes (2021)**, The commissioner conducted a compliance check on the appellant and issued a letter dated 16th November 2017 indicating that VAT returns were filed late. The commissioner went on to reject Input tax claims for January 2014 to April 2017 on the basis that they were time-barred.

Section 17(2) of the VAT Act indicated that input tax was claimable within 6 months. The argument was how to understand the 6 months. The commissioner was emphatic that six months meant, from the date when the return is filed and the date payment is made. This view was endorsed by the tax tribunal.

Dissatisfied by the tax tribunal’s decision, the appellant proceeded to the High Court, arguing that denying them input claim would mean no purchases were made between January 2014 and April 2017.

The court consulted Section 17(1) and (2) of the VAT Act, which permitted the taxpayer to claim input tax at any time provided the claim falls within 6 months from the period in which the supply or importation occurred notwithstanding that the VAT return is filed late. In other words, the fact of late filing did not disqualify a taxpayer from claiming input VAT and this claim should to be allowed as long as the return is filed and claimed within six months from the date of supply or importation.

The court highlighted that input tax is an integral link of the VAT taxation system and it has a direct and immediate link with the output tax. Therefore, if a taxpayer is late in filing tax VAT returns, that does not deny the taxpayer the right to claim input tax. If a return is late, input tax is still deductible provided its falls within six months from that late date.

(3) The input tax which may be deducted by a registered person should be;

- (a) the whole tax, where all of his supplies are taxable; or
- (b) such part of that tax as may be shown by the registered person to the satisfaction of the Commissioner to be ascribed to assessable supplies where only a fraction of his supplies are chargeable; provided that the Commissioner may determine that all supplies shall be deductible where the tax attributable to exempt supplies would be less than such part of the whole tax as may be specified by the Commissioner.

(4) The registered person should secure a fair and reasonable attribution of input tax to taxable supplies and any determination of input tax and shall be notified in writing by the registered person to the Commissioner at the time the determination is made and shall be subject to revision and amendment by the Commissioner in cases where he deems it fit to do so.

(5) Any person who, being a person required to make an attribution;

(a) fails to do so; or

(b) having done so, fails to notify the Commissioner, shall be guilty of an offence.

(6) The Cabinet Secretary for Finance may, by order published in the Gazette, provide in relation to such supply and importation as the order may specify, that tax charged on them is to be excluded from the deduction of input tax under this section; and—

(a) any such provision may be determined by reference to the description of goods or services supplied or goods or services imported or to the person of whom they are supplied, the purposes for which they are supplied or imported, or any circumstances whatsoever;

(b) such an order may contain provision for consequential relief from output tax.

Input tax paid on ingredients and services used in the processing of locally refined taxable petroleum products may be deducted from the tax payable on those products.

For a registered person who acquires any goods exempt from tax the price paid for such goods shall be deemed to be inclusive of tax which may be deducted .

Section 11(6) empowers the minister to publish an order in the gazette providing that tax on certain categories of supplies be excluded from deduction of input tax.

Illustration 16

a)Mr. Mfanyabiashara delivered goods to the county government of CDF. The agreed payment was inclusive of VAT. He was surprised that the County instead of paying him the whole amount, deducted 6%. On asking why it did so he was given a certificate from Kenya Revenue Authority Certifying that he had Paid 6% of the 16% VAT. What is the name of the certificate from KRA? Why do you think KRA instructed Counties to withhold 6% of the VAT payable to its clients?

b)Nipe Pesa Merchants deals with a multiplicity of goods. In the month of July 2024 the following Transactions took place

July 1 Sold goods for cash Kshs.712,000

July 4 Purchased goods on credit from Nakopesha Manufacturers Ltd of Kshs. 800,000
 July 4 Incurred transport of Kshs. 18,000 to transport goods from Nakopesha Manufacturers Ltd to its stores.
 July 12 Purchased office equipment for use in the business on credit from Deal Poa Furnishers at Kshs. 190,000.
 July 15 Paid Highway Transporters Kshs. 49,000 to deliver goods to a client in Tanzania value Kshs.550,000, the client had paid in full including freight costs.
 July 16 Paid Nakopesha Manufacturers Ltd in full.
 July 18 Purchased goods worthy Kshs. 90,000 in cash.
 July 18 Returned faulty furniture valued at 18,000 to Deal Poa Furnishers.
 July 20 Sold goods totalling to Kshs. 210,000 to Internetwiz who paid promptly through internet banking.
 July 22 Granted Internetwiz Kshs. 3,000 allowance for some defective items.
 All goods and services are inclusive of VAT at 16%

Required:

Value Added Account for Nipe Pesa Merchants

Suggested Solutions

a)Withholding VAT certificate.

Reasons for withholding VAT.

For the purposes of making sure tax collection is easy and to ensure that some income will not escape taxation, the income tax act requires tax agents making certain payments to their clients to withhold 6% of the VAT. Then they are required:-

- To remit the 6% withheld VAT to the income tax department together with a return showing the amount deducted, the name of the person to whom such payment was made. The payment of tax deducted at source has been harmonized to the 20th day of the following month.
- The tax agent must furnish the client with a certificate of tax.
- The client should receive payment net of 6% VAT paid.
- The payee would be assessed VAT on the gross amount but credit would be granted for tax deducted at source.

b)

Nipe Pesa Merchants					
Value Added Account - July 2024					
Date	Details	Amount (Kshs)	Date	Details	Amount (Kshs)
4-Jul	Nakopesha Manufacturers Ltd	110,345	1-Jul	Cash Sales	98,207
5-Jul	Transport	2,483	15-Jul	Cash Sales	75,862
18-Jul	Cash Purchases	12,414	15-Jul	Highway Transporters	6,759

22-Jul	Internetwiz	414	20-Jul	Internetwiz	28,966
31-Jul	Balance C/d	84,138			
		209,793			209,793

Alternatively if one is using a spreadsheet, the VAT account would look like this.

Nipe Pesa Merchants

Value Added Account - July 2024

Date	Details	Dr(Kshs)	Cr(Kshs)	VAT Payable/ (Refundable)
1-Jul	Balance B/F			0
1-Jul	Cash Sales		98,207	98,207
4-Jul	Nakopesha Manufacturers Ltd	110,345		(12,138)
5-Jul	Transport	2,483		(14,621)
15-Jul	Cash Sales		75,862	61,241
15-Jul	Highway Transporters		6,759	68,000
18-Jul	Cash Purchases	12,414		55,586
20-Jul	Internetwiz		28,966	84,552
22-Jul	Internetwiz	414		84,138

Restriction on recovery of input tax

In some cases, a taxable person may be dealing in taxable and non-taxable/exempt supplies. VAT suffered on exempt supplies is not recoverable against output tax. However, where input tax on exempt supplies is always less than 5% of the total input tax, the commissioner would allow full recovery of input tax against output tax.

In order to decide the value of input tax to be claimable where both taxable and exempt supplies are dealt in, two methods listed below would be applied.

$$1. \text{Proportional method} = \frac{\text{Value of taxable Supplies including Zero Rated Supplies}}{\text{Total Supplies Including exempt Supplies}} \times \text{Total Input tax}$$

2. Allocation Method

- Deduct all the input tax attributable to taxable goods purchased and sold in the exempt state.
- Deduct input tax attributable to the remainder of taxable supplies using the proportional method.

VAT Registration

i) Compulsory Registration

A compulsory registration would apply to a person:-

- In the course of his business has manufactured and supplied or expects to manufacture and supply taxable goods or services. He is a designated person dealing in designated goods other than designated jewellery, pre-recorded music, timber, motor vehicle parts and accessories, domestic

electric or electronic appliances, the value of which is KShs. 5,000,000 or more in a period of twelve months.

b) Is a designated person who deals in designated jewels, pre-recorded music, timber, motor vehicle parts and accessories, domestic electric or electronic appliances.

c) Is a saw miller.

d) Notwithstanding the prescribed turnover above, provides accountancy services including auditing, book keeping or similar services or

e) Provides legal and arbitration services or

f) A person has sold 4 or more vehicles in any one year or

g) Provides clearing and forwarding services

Under paragraph of the 6th schedule to the VAT Act, where a group of companies is owned or is substantially controlled by another person, an application may be made to have the group registered as one person for VAT purposes.

Group Registration

Group registration may be possible or is granted at the discretion of the Commissioner of VAT if the following conditions are met.

i) For VAT purpose, the companies involved in group registration must each be eligible for VAT registration.

ii) The companies concerned must all agree to group registration.

iii) The applications for group registration would be made by the person who controls or owns substantial shares than all the others.

Implications of Group Registration

1. One certificate of registration would be issued in the group's name.

2. Any supplies between the group/intergroup would not attract VAT referred to as a no supplier.

3. All members of the group would be held jointly and severally liable when tax is due from the group.

Note: in the absence of group registration, any taxable transaction or supplies between the associated companies must be subjected to VAT.

Voluntary Registration

Voluntary registration on the other hand is permitted at the discretion of the commissioner of VAT.

Advantages of Voluntary Registration

1. The person enjoys soft loans from the government between the time of collection of the VAT tax and remitting it to the Kenya Revenue Authority.

2. The person can claim input tax

3. One can attract large number of customers who can claim the input tax charged to them using the tax invoice issued to them by a registered person.

Obligations of a registered person

1. To keep elaborate records as required by the law.

- 2.To submit monthly returns and pay tax due on time
- 3.To charge VAT on all taxable supplies
- 4.To display VAT registration certificate in a clearly visible place in his business.

Circumstances under which one can be de - registered for VAT

- a)When the taxable turnover falls below Kshs.5,000,000 in a period of 12 months and is not expected to rise beyond that value in the next 12 months period.
- b)If one stops dealing in taxable goods and services. A notice should be given to the commissioner of VAT within fourteen days.
- c)If the input tax becomes persistently greater than the output tax.

5.1.3.13 Invoices, Records and Returns

Whenever a registered person supplies taxable goods or services, he must furnish the purchaser with a tax invoice at the time of supply or within fourteen days of the completion of a supply.

1. Subject to paragraph 2, a registered person who makes a taxable supply shall, in respect of that supply, furnish the purchaser with a tax invoice.

(a) in the case of a supply on credit, at the time of the supply or within fourteen days of the completion.

(b) in the case of a cash sale, immediately upon payment for the supply. Subject to such conditions as

(i) where cash sales are made from retail premises, furnish the purchaser with a simplified tax invoice.

(ii) where cash sales to any one person in day do not exceed five hundred shillings, account for tax in such a manner as the Commissioner may authorize.

2. Where upon application by a registered person, the Commissioner is satisfied that owing to the nature of a business, it is impracticable for the registered person to issue a tax invoice the registered person may account for tax in such other manner as the Commissioner may authorize.

3. The amount of tax payable, shall be recoverable by the registered person from the purchaser in addition to the sales price.

4. No invoice showing an amount which purports to be tax would be issued on any supply which is not a supply of taxable goods or taxable services; or by a person who is not registered.

5. Any person who fails to comply with the provisions shall be liable to pay a default penalty of not less than Kshs.10,000 but not exceeding Kshs.200,000

Credit and Debit Note

When credit note is issued to a customer, both the supplier and the customer will have to adjust the original VAT charged. The adjustment to be made in this case by the supplier is to reduce the output tax while the customer would reduce the input tax.

The opposite treatment would be effected in the case a debit note is issued.

Claims for VAT refund

VAT is claimable under the following circumstances.

1. Claims under section.24 of the VAT act which includes:

a)claims for tax paid in error

b) Claims for goods manufactured or imported into Kenya and before being used in Kenya, are exported under the customs department control.

c) Claims under the interest of the public in opinion of the minister for finance.

2. When the input tax is greater than the output tax.

3. Claims under section 12. Of the VAT Act which include:

a) Claim on VAT paid on stocks of goods on which tax has already been paid on date of the coming register if the goods are used in making taxable supplies. Such claim must be made within 30 days.

b) Construction of buildings, civil works or purchased assets intended on making taxable supply before being registered.

4. Bad debts-claims for VAT on bad debts - (a claim for bad debts relief). For goods supplied on credit and not paid for within 3 years or where the purchaser/buyer is declared insolvent. The claim must be accompanied by:

a) Copies of relevant tax invoices

b) A declaration that the tax payer and the debtor are not related persons.

c) Documents to show the tax was paid to the tax department.

d) Evidence that reasonable steps had been taken to recover the debt.

e) A written confirmation by the liquidator of the amount of that debt in case of tax not falling within the 3 year rule.

Disposal of a Business as A going Concern

Where a person disposes off a registered business as a going concern to another person, then both purchaser and seller should give details to the commissioner of VAT regarding

i) The transaction

ii) The arrangement made by the two parties to pay outstanding tax.

iii) The description in quantities and values for Assets and stock on hand at the date of disposal.

iv) The arrangements made for transferring the responsibility to keep records as well as produce goods for that business for the period before such disposal.

How VAT affects finances

a) **Making credit sales** - The financing of VAT would be required on the part of the taxable person because VAT is payable to KRA when customers have not paid and this would occur where the credit period allowed is more than 1 month.

b) **Cash sales** – no financing would be required from taxable persons since customers pay cash. Secondly, the taxable person takes advantage of the period given to remit VAT to Kenya Revenue Authority. The taxable person uses the tax collected within the period to earn more money (soft loan interest paid).

c) **Credit purchases** – no financing is required especially if 1 month has elapsed. Secondly, the taxable person can claim input tax immediately even when he has not paid for the commodities hence the input tax.

d) **Cash purchases** – Financing would be required.

e) Financing of VAT in relation to purchase of capital Assets would be required since VAT on capital items is generally not refundable. The taxable person is therefore required to capitalize VAT along with the cost of such fixed assets and claim capital allowances in case of expenses supplied to a taxable person. If input tax is not refundable, the VAT charged on such services provided becomes part of the expense.

How to help tax payers to avoid problems on VAT inspections

1. They should maintain a visitors' book and request all official visitors to sign in with their full names and address stating time and date of the visit.
2. Request all such visitors to produce their identity cards from their respective offices before giving out any business information.
3. Write down their questions in case these questions get technical to be officially replied by an expert e.g. your accountant, auditor or VAT consultant.
4. Request for an official letter if visitors still insist on answers, which would be replied on your behalf by your accountant, auditor or VAT consultant.

Public Bodies, Privileged Persons and Institutions With Zero-Rated Status on Imports and Purchases

1. The President Goods for use by the President.
2. The Kenya Armed Forces. All goods, including materials, supplies, equipment, machinery and motor vehicles for the official use of the Kenya Armed Forces.
3. Commonwealth and other Governments. Goods consigned to officers or men on board a naval vessel belonging to another Commonwealth Government for their personal use or for consumption on board such a vessel. Goods for the use of any of the armed forces of any allied power.
4. Diplomatic Privileges. Goods for the official use of the United Nations or its specialized agencies or any Commonwealth high commission or of any foreign embassy, consulate or diplomatic mission.
5. Aid Agencies. Household and personal effects of any kind including one motor vehicle imported or purchased by entitled personnel or their dependants within ninety days of their first arrival in Kenya, or such longer period, not exceeding three hundred and sixty days from the date of arrival, as may be approved by the Treasury in specific cases, where the entitled personnel and their dependants have not been granted zero-rated status.
6. The East African Development Bank. Goods and equipment imported by the East African Development Bank for its official use.
7. The War Graves Commission Goods, including official vehicles but not including office supplies and equipment or the property of the Commission's staff, for the establishment and maintenance of war cemeteries by the Commonwealth War Graves Commission.
8. The British Council Goods for use by the British Council which are or will be a charge against the funds of the Council, not including goods for resale or for the personal use of the staff of the Council.
9. Charitable Institutions. Goods consigned to or purchased by the St. John Ambulance for use in

its activities and for first aid training. Goods consigned to or purchased by the Kenya Red Cross for free distribution in relief work, subject to such limitations and conditions as the Commissioner may impose; and equipment, motor vehicles and aircraft donated for alleviation of hardship or disaster, subject to such limitations and conditions as the Commissioner may impose, provided the Treasury has given its approval in writing where the tax exceeds Sh. 500,000. Articles or equipment not intended for resale and not including consumable stores or provisions, for use by the Missions to Seamen or other similar organizations approved for the purpose of this paragraph by the Cabinet Secretary, subject to such limitations and conditions as the Commissioner may impose. Foodstuffs, vehicles, equipment and other commodities imported or purchased for the National Freedom from Hunger Committee in Kenya exclusively for use in connection with the official activities of the National Freedom from Hunger Campaign of Kenya. Disabled, Blind and Physically Handicapped Persons Materials, articles and equipment, including motor vehicles, which are specially designed for sole use by disabled or physically

handicapped persons, or are intended for the educational, scientific or cultural advancement of the blind for the use of an organisation approved by the Government for the purpose of zero-rating.

10. The President's Award Scheme. Badges and record books for use exclusively in the President's Award Scheme.

11. The Desert Locust Control Organization and International Red Locust Control. Goods, including motor vehicles, scientific equipment, apparatus, chemicals, petroleum fuels and other materials imported or purchased by the Desert Locust Control organization for East Africa for its official use or for the personal use of such members of that Organization as may be declared to be entitled officers by the Ministry responsible for Foreign Affairs. One motor vehicle imported or purchased within three months of first arrival in Kenya by an entitled officer of the Desert Locust Control Organization for his personal use. Goods imported or purchased for the official use of the International Red Locust Control Organization for Central and Southern Africa.

12. The Navy, Army and Air Force Institute and the Armed Forces Canteen Organization. Goods for the Navy, Army and Air Force Institute and the Armed Forces Canteen Organization, subject to such limitations as the Commissioner may specify, provided that such goods are marked with the inscription "NAAFI" or "AFCO", as the case may be, or where it is unsuitable to mark the goods, the containers, bags or packets thereof shall be so marked.

13. The Wellcome Trust (1) All equipment and drugs imported or purchased by the Wellcome Trust, with the prior approval of the Ministry of Health, for use in connection with medical research. Motor vehicles imported or purchased by the Wellcome Trust, with the prior approval of the Ministry of Health and paid for by the Trust, for use by personnel of the science laboratories operated by the Trust.

14. The African Medical and Research Foundation. Bona fide gifts, or materials and equipment, consigned to or purchased by the African Medical and Research Foundation including: high frequency single side band radio transceivers, spares and accessories; antenna materials and fittings, radio alert alarm transmitter receivers and accessories; filming materials, strip slide projectors and surgical instruments; drugs; aircraft, aircraft equipment and spares, but not including (either as gifts or otherwise) motor vehicles: Provided that materials and equipment shall be for the sole use of the above Foundation or for loan to hospitals and clinics but not for the purpose of distribution to any person or institution by way of gift.

15. Museum Exhibits and Equipment. Museum and natural history exhibits and specimens and scientific equipment for public museums; and Chemicals, reagents, films, film strips and visual aids equipment, imported or purchased prior to clearance through customs by the National Museums.

16. Returning Kenya Government's Foreign Missions Personnel One personal motor vehicle (excluding buses and mini-buses of seating capacity of more than 13 passengers and a load carrying vehicle of a load carrying capacity exceeding two tonnes) imported by an officer or his spouse returning from a posting in Kenya's missions abroad

17. Safari Rally Drivers. One motor vehicle for each Safari Rally driver and spare parts

18. Kenya Police, National Security Intelligence Service, Administration Police, Kenya Wildlife Service and Kenya Prisons Equipment, machinery, uniforms, uniform materials and motor vehicles, including aircraft and vessels, imported or purchased for the official use of the Kenya Police, National Security Intelligence Service, Administration Police, Kenya Wildlife Service and Kenya Prisons, with the written approval of the Treasury.

19. Sports Goods and Equipment Goods imported or purchased by or on behalf of, or for donation to, the Ministry for the time being responsible for sports, with prior written approval of the Permanent Secretary to the Treasury given on the recommendation of the Permanent Secretary to the Ministry responsible for sports, for the sole use in the promotion of sports in Kenya.

20. Registered Manufacturers in Customs Bonded Factories .Taxable goods imported by registered manufacturers approved by the Treasury, which are used in, wrought into or attached to goods manufactured by them for sale in the course of manufacture in a customs bonded factory.

21. Aga Khan Development Network Materials and equipment, including motor vehicles imported pursuant to the accord of co-operation for development, between the Government and the Aga Khan Development Network, subject to the written authority of the Permanent Secretary to the Treasury.

22. Entrants in Motorcycle Rallies. One motorcycle specially designed for rallying for each entrant in a motorcycle rally and the spare parts.

23. Rural Electrification Authority. All goods, including materials, supplies, equipment and machinery procured or sourced by the Rural Electrification Authority for the implementation of the Rural Electrification Programme.

24. Kenya Military and Police Officers returning from United Nations peace-keeping missions outside Kenya.

Special Goods Subject To Zero-Rating

1. Aircraft Operations

2. Deceased Persons' Effects

3. Life Saving Apparatus

4. Passengers' Baggage and Personal Effects

6. Protective Apparel, Clothing Accessories and Equipment

7. Ships and other Vessels

8. Materials and Equipment for use in the Construction of Tourist Hotels Financed from External Sources

9. Rewards Earned by Kenyan Sportsmen
10. Containers
11. Equipment for Electric Power Generation
12. Chemically Defined Compounds used as Fertilisers
13. Urine Bags, Diapers for Adults and Hygienic Bags
14. Tea supplied to Tea Auction Centres
15. Specialized ship loading and unloading equipment
16. Plastic Sheeting for Agricultural, Horticultural or Floricultural use
17. Jet Fuel and Aviation Spirit
18. Electrical energy imported for distribution into the national grid
19. Electronic Tax Register

Customs and Excise Duty

Customs duty is a tax imposed on goods brought into Kenya.

Customs duty is calculated based on customs value of the item and in accordance with rates provided by East African Community Customs Management Act, VAT Act, Excise Act and any other levies imposed by government legislation. Customs assessment is based on the price actually paid or payable for imported goods. All goods are subject to customs duty except a concession on personal or household goods by passengers. Personal effects of passengers are exempt from customs duty. Kenyan passengers studying abroad and return to Kenya are allowed one motor vehicle duty free.

Customs duty is paid at the port of entry on taxable goods. It is paid at appointed banks or through mobile banking platform after generation of an electronic payment slip. The banks are located within the entry terminals.

Green channel is for passengers who have nothing to declare. Red channel is meant for passengers who have something to declare. Re-export certificate is issued to passengers on their departure if they intend to import high valued items.

An Authorized Economic Operator (AEO) is a party in international movement of goods in whatever function that has been approved by or on behalf of KRA customs as complying with World Customs Organization(WCO) or equivalent supply chain security standards. AEO's can be manufactures, importers, exporters, clearing agents, carriers/transporters, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses operators and distributors.

Preferential treatments are exclusive privileges that are accorded to a select few who meet a set of requirements like: self-assessment and audit based controls, expedited customs procedures, client relationship management and self-management.

Procedure of importation into Kenya.

1. Enlisting the services of a clearing agent.

2. Processing of import documentation electronically by the clearing agent.
3. Clearing the goods on behalf of importers by the clearing agent
4. Payment of import declaration fee(IDF) at 2% of the customs duty payable.
5. Customs duty is assessable based on the valued of goods and the duty rate applicable to those goods. The rates are available on KRA website.

Goods that may not attract duty

- (a) Mail bags and postal articles in the course of transmission by post may be unloaded and delivered to an officer of the Post Office without entry.
- (b) Goods which are the bona fide personal baggage of the passengers or members of the crew of an aircraft or vessel may, subject to the provisions of any regulations, be unloaded and delivered to those persons without entry.
- (c) The proper officer may permit the unloading and delivery to the owner of bullion, currency notes, coin or perishable goods without entry, subject to security being given by the owner to furnish the necessary entry within forty-eight hours of the time of delivery.

Single customs territory is a customs union achievable through the removal of trade restrictions including minimization of internal border controls, it is intended to reduce the cost of doing business

Excise duty is a tax imposed on goods and services manufactured in Kenya or imported into Kenya and specified in the first schedule of the Excise Duty Act(2015).

Qualified persons can register and apply for excise licence on KRA website.

Licensed manufacturers and suppliers of excisable commodities are required to submit excise returns online on KRA website by 20th day of the following month.

An excise stamp is a type of revenue stamp affixed to some excisable commodities to indicate excise duty has been paid by the producer. Goods excisable and stamp fees are readily available on KRA website. Soma label is a mobile support services that enables consumers to verify the genuineness of excise stamps affixed on commodities.

Stamp Duty

Stamp duty refers to a source of revenue to the government on requisition of certain documents to be stamped.

The main provisions of Stamp Duty Act (cap 480)

1. Every instrument which relates to property or any other thing to be done in Kenya by a non-resident is chargeable to stamp duty.
2. Every instrument must be duly stamped against the day payment is made or before the expiry of 30 days after it was first executed.
3. If any instrument which is liable to stamp duty is not duly stamped then the person responsible for stamping shall be guilty of an offense and liable to a fine.

4. The stamp must appear on the face of the instrument and this stamp must not be used for any other instrument.
5. If more than one instrument is written upon the same piece of material, then every instrument should be separately and distinctly stamped with duty.
6. All facts and circumstances affecting the liability of any instrument to stamp duty should be fully set out in the instrument.
7. If any instrument is not chargeable with any duty, it should be stamped with a particular stamp denoting that it is not chargeable with any duty. In this regard, first the opinion of the collector is needed to find out whether an instrument is not chargeable with any duty then it is stamped with particular stamp that it is not chargeable with any duty.
8. Conveyance or transfer duty is charged on every instrument or court order in respect of the transfer of any property as a result of a sale. Conveyance or transfer duty is attracted on the open market value of property transferred by any instrument which operates as a voluntary disposition instead of the consideration. Conveyance is attracted if;
 - a) a conveyance is an instrument transfer.
 - b) property is something capable of ownership by a person or persons
 - c) the idea of a bargain and sale with consideration in money or in stocks and shares.

Instruments chargeable to stamp duty

An instrument is a written document set for securing the payment of money, the performance of some obligation, transfer of property and mortgage of property and so on. The following are Instruments chargeable to stamp duty.

1. Agreements e.g. partnership deeds
2. Hire purchase agreements
3. Bill of exchange and promissory notes
4. Memorandum of Association, Articles of Association and Capital of Companies.
5. Contract note regarding the purchase or sale of securities.
6. Conveyance on sale or title deed.
7. Lease agreements and marketable securities
8. Mortgage arrangements
9. Insurance policies

Instruments exempted from stamp duty

1. Acknowledgement of debt
2. Adoption deed
3. Affidavit or statutory agreement
4. Bill of lading
5. Charter party
6. Instrument of divorce
7. Letter allotment of shares and valuation
8. Delivery order.
9. Transfer of land to charitable organizations as gifts.

10. Transfer of property between spouses

11. Transfer of family property to members on demise of a family member in whose name the property was registered

Hotel Accommodation Tax

Charged at full board 12.5% or 17.5% for bed and breakfast and hotel training levy of 2% based on hotel or club charges.

Entertainment Tax

Charged on admission excluding exhibition performance or amusement per admitted persons. Also includes admission to cinema house. The rate is 18% (cap 479)

Trade Licenses

Are fees charged by the government in accordance to trade licensing act on annual basis to grant the permit for conducting different types of trade activities.

Passenger Service Charge

Payable according to provisions of air passenger service Act (cap 475) at a rate of us \$20 or equivalent for an international journey and Kshs. 100 for an internal journey.

Motor Vehicle Taxes and Licensing

Charged against issue of road license and driving license. Also purchase tax on the second hand vehicle. The finance bill 2024 had proposed the introduction of motor vehicle tax, with a rate of 2.5% on the vehicles value. The tax would have been paid at the time one was seeking insurance cover.

Video Tax

Charged on all types of audio visuals at Kshs. 4 per hire. The hirer must pay annual license of Kshs. 2,000. (Cap 477)

Telecommunication Tax

A tax of 20% levied on charges for telephone services(Cap 473)

Fuel levy

These are a number of taxes imposed on fuel and they include; Excise Tax and Value Added Tax.

Rates of fuel levy

a) excise tax – between Kshs. 5-12 per litre.

- b)VAT – 16%
- c)Road maintenance levy – Kshs.18/litre
- d)Petroleum development levy –Kshs.0.40/litre
- e)Petroleum regulatory levy – Kshs.0.75/litre
- f)railway development levy – 1.5% of the custom value of fuel finance bill 2024 proposed to increase it to 2.5%.
- g)anti-adulteration levy – Kshs.18/litre
- h)Merchant shipping levy – 5% of the custom value of fuel.

A Grant or Donation/loans/securities/ Derivative transactions

The national government can raise funds within Kenya by receiving grants and donations, issuing loans and securities and Derivative transactions

Back – Duty And Improper Records

The obligation to declare all incomes for tax purposes rests with the tax payer whether or not he has been specifically told to so by the income tax department. In **Kenya Revenue Authority Vs. Pearl Industries Limited (2020)**, Pearl industries was subjected to an examination by Kenya Revenue Authority with a view of finding out the legitimacy of documents used to support input tax claim on a misgiving of VAT fraud. As a result the commissioner disallowed some of the input tax claimed by the company for lack of supporting documents and issued it with additional assessments. The company appealed to the tax appeals tribunal and won the case. The tribunal was of the opinion that the burden of proof lay with KRA to demonstrate that the invoices and documents provided were fabricated. KRA appealed the decision. The High Court overturned the tribunals ruling and made it clear that the burden of proof lied squarely on the tax payer.

Back duty therefore, refers to the collection of all kinds of tax in arrears by the tax department. The Income Tax Act requires every person assessable to tax, to notify ones tax liability to the commissioner of income tax **4 months** after the end of the year of income.

The return forms or materials would be sent to the tax payer by the income tax department records. The department is not obliged to issue necessary returns or materials(The tax payer can visit the KRA website and find what he needs, he can alternatively visit any KRA office for assistance).

Tax arrears normally arise under the following conditions;

- 1.Under-declaration of income – incomplete/incorrect returns.
- 2.Non-declaration of income.
3. Tax payer claims expenses for allowance and relief which he is not entitled to. An offense will have been committed by a tax payer under the above mentioned circumstances and his affairs would be dealt with as a back-duty case. Penalties may be charged including interest, especially where the

above circumstances are due to gross misconduct or wilful negligence on the part of the tax payer or his accountant and it could be a fraud case.

Sources of information resulting to back – duty will be from;

1. Tax payer himself - voluntary confession
2. Informancy – a business rival.
3. The public and social media
4. Income tax department. In **Kenya Revenue Authority Vs. Paleah Stores Ltd (2017)**, Paleah Stores Ltd based in Embu had been understating tax payable between the years 2008 and 2014. An investigation conducted through their bank statements established that they had been grossly underpaying their VAT and corporate Income tax. In addition, they had not maintained proper books of accounts to support their tax declarations.

Following an additional assessment by KRA, Paleah stores Ltd appealed at the Tax appeal tribunal. The Tribunal ruled in favour of KRA allowing it to collect Kshs.9.3 Billion as under-declared taxes, penalties and interest over the period.

5. Farming organization
6. Registrar general
7. Licensing department.

Determination Of Income Through Back duty Process

1. The tax payer can declare income acceptable to the department as supported by accounts and other relevant documents.
2. A capital statement may be prepared as sufficient estimate as growth in assets and therefore estimates income for such tax payer where they are no reliable records or accounts.

Capital statement consists of details of assets and liabilities as at a given date or period. This would show changes in the total worth of a tax payer between two or more periods. The statement will also consider capital losses, gains, living expenses, income tax paid any other details.

Where the capital statement covers more than one year, the resultant figure representing estimated income will be divided by the number of years involved giving rise to uniform figure as estimated income per year. Capital statement must appear reasonable to be acceptable by the tax department and must be prepared by a competent accountant.

Steps in preparing a capital statement.

1. Add all assets of the tax payer (tangible or intangible) for a given period and deduct all liabilities both personal and for the business used to finance the assets. The net result would be net assets for the period.

2. Calculate the growth or loss in net assets by taking the net assets of one period comparing with net assets of a previous period. The difference between the two gives rise to growth in net assets between the two periods under consideration.

3 Deduct any non-taxable income that was used to finance the above growth in the net assets e.g. legacies, inheritances, gifts not taxable and capital gains.

4. If looking for only the undeclared business profit, then deduct any non-business income from the growth in net assets. The net figure would represent net business income.

5. Add to the balance in 4. above living expenses e.g. electricity, water, income tax paid, interests on loans, premium on various insurance, rent and rates supported by bills or invoices. Add also personal expenses such as food, like medical expenses, house servant, holidays, amusements, private motor vehicle running and maintenance, harambee contribution, donations and stolen cash.

6. If capital assets were sold at a loss, add the loss and if sold at a gain, deduct the gain. Deduct any income declared income during the year so that the balance is referred to as undeclared income.

7. Other considerations;

a) The tax payers standards of living

b) Assets donated to other persons

c) Marital status/status in the society.

8. Further information that may be required in our estimations. The existence of other expense not deductible. Does the tax payer have other sources of income. Does he have a freehold land or lease it. does he use that land or not. Does he claim any capital allowances, if not why?

Illustration 17:

Mr. Jefunea Wanyonyi, a retail trader does not have accountancy knowledge, therefore he maintains sketchy information about his business. He gave you the following information.

1. His profit for the years ended 31st December 2019 to 2024 was as follows.

Year	Profit - Kshs.
2019	926,000
2020	787,000
2021	740,000
2022	1,214,000
2023	735,000
2024	740,000

2. The creditors, debtors, cash as at 31st December 2019 and 31st December 2024 were as follows.

	31-Dec-19	31-Dec-24
	Kshs.	Kshs.
Creditors	721,000	730,000
Debtors	234,000	481,000
Cash	836,000	1,834,000
Stock	432,000	563,000

3. Mr. Wanyonyi owed his brother Kshs.300,000 on 31st December 2018. He repaid the amount on 28th March, 2022. His brother, borrowed Kshs.150,000 from him on 1st April 2024.

4. He had the following Assets.

Year		Kshs.
2019	House	1,200,000
2024	Pick-Up	960,000
2024	25% Treasury Bond	900,000

5. In 2022, Kshs.70,000 was accidentally burnt in his house.

6. His living expenses are estimated as; 2019 Kshs.400,000, 2020 Kshs.440,000, 2021 Kshs.550,000, 2022 Kshs.600,000, 2023 Kshs.650,000 and 2024 Kshs.700,000.

7. He was given a legacy of Kshs.200,000 from his deceased uncle's estate in 2022.

Required:

a) A statement showing the growth of Mr. Jefunea Wanyonyi's capital between 2019 and 2024 for taxation purposes.

b) Comment on the treatment of increase in Mr. Jefunea Wanyonyi's capital on his tax liability.

Suggested Solutions

Mr. Jefunea Wanyonyi

Statement of growth in Capital from years 2019-2024

Assets/Liabilities	31-Dec-19 Kshs.	31-Dec-24 Kshs.
House	1,200,000	1,200,000
Pick-Up		960,000
25% Treasury Bond		900,000
Stock	432,000	563,000
Debtors	234,000	481,000
Other Debtors		150,000
Cash	836,000	1,834,000
Creditors	(721,000)	(730,000)
Other Creditors	(300,000)	
Net Assets	1,681,000	5,358,000

Mr. Jefunea Wanyonyi

Growth In Net Assets And Its Adjustments

Growth In Assets	31-Dec-24	5,358,000
	31-Dec-19	(1,681,000)
Income Growth		3,677,000
Add Back	Burnt Cash	70,000
Living Expenses	2019	400,000
Living Expenses	2020	440,000
Living Expenses	2021	550,000
Living Expenses	2022	600,000
Living Expenses	2023	650,000
Living Expenses	2024	700,000
Income Growth Before Expenses		7,087,000
Deduct	Legacies	(200,000)
	Capital Allowance On Pick-Up	(240,000)
Net Income Growth		6,647,000

Less Declared Profits	2019	(926,000)
Less Declared Profits	2020	(787,000)
Less Declared Profits	2021	(740,000)
Less Declared Profits	2022	(1,214,000)
Less Declared Profits	2023	(735,000)
Less Declared Profits	2024	(740,000)
Undeclared Profits		1,505,000

(b) Tax Treatment

1. Increase in capital is taken to represent estimated growth in the net assets over the period under consideration which is adjusted for allowable expenses and non-taxable incomes as well as non-allowable expenses. This growth in capital would be taken to have been accrued evenly over the years 2019-2024.

2. Any declared profit would be deducted against the growth in assets as adjusted above to arrive at undeclared profits. This would mean increased tax liability Mr. Jefunea Wanyonyi and accompanied penalties.

3. Other information in assessing the above tax liability would be;

a) Banks statement to differentiate between personal and business expenditure, allowable and disallowable expenses.

b) Details of debtors and creditors. This is to ensure that they are authentic, that the figures are correct and would include details regarding accruals and prepayments.

c) Movements in fixed assets whether there was capital gains or losses or such assets were given to other people.

d) Other sources of income apart from the income source under consideration for instance, does he own land and does farming or how does he use land?

e) Capital allowances. Does the tax payer claim capital allowances? If not, why? Are the assets he has like cars, lorries, computers for business or not?

f) If he took a bank draft, was it entirely for business or not?

g) If he has a house mortgage, was it for personal house or business premises and what is the interest charge per annum.

h) If he has treasury bill, how much interest does it attract, has he earned interest or has it matured.

i) Foreign exchange gain. Is it earned? Is it revenue in nature? Was it in relation to the business transactions or not.

j) Did the taxpayer receive legacy or inherited property which was then used to finance increase in net assets?

Tax Planning (Tax Avoidance)

Tax planning is the arrangement of affairs of a tax payer in such a way as to minimise tax liability at the lowest cost without contravening any terms, laws or regulations. It is the determination in advance of the tax effects of a proposed business action. Tax planning requires a good understanding of the tax legislation and some knowledge of case law in taxation.

Tax consultancy is therefore basically tax planning involving offering tax advice to clients in various situations. In the case of the tax department, they have to assume that through proper tax planning, the following are achieved.

- i) Tax payers comply fully with tax laws and regulations.
- ii) That revenue collection is maximised.

The decided cases are important in providing initial interpretation of the legislation and the judgement in a particular case, and will show the strengths and weaknesses of a particular line of action proposed.

Aims of tax planning

1. To comply with tax laws since non-compliance with the tax laws is costly due to penalties and interest charges.
2. To achieve the most advantages in financial position of one's business transactions which is to be measured by, or in terms of direct tax savings from the planning and by way of cash flows.
3. It also eases administration as in working out the arrangement requires accounting records to be kept and reports to be prepared.

Areas of tax planning

Tax planning should cover a wide variety of the business aspect e.g.

- i) Corporate tax planning - the focus would be on chargeable income, deductible expenses, capital allowances available, taxes and the treatment of tax losses, the dividend policies and transfer pricing.
- ii) Remuneration planning – staff costs are significant to operational costs, the employer needs to reward labour in the highest possible way but at the same time keeping in line with laid down tax regulations. He can consider;
 - a) Lump sum payments
 - b) Contribution on behalf of employee's retirement benefits
 - c) Other benefits
- iii) VAT planning – VAT legislation is complex and compliance may be difficult. Penalties resulting from non-compliance results into punitive penalties and tax losses may result by failure to plan taxable transactions.
- iv) Duty planning – it deals with import as well as excise duty e.g. amount on imports will have a significant effect on cost of goods finally exported and will also affect the competitiveness and profitability of the business.
- v) Excise duty added to cost on locally manufactured goods affect the prices finally. It eventually affects price and profit margins. Examples of decision areas involving excise duty tax planning are;
 - a) Whether to operate a sole proprietorship, a partnership or as a limited liability company.
 - b) Determining expenditure which is tax deductible or non-tax deductible.
 - c) Whether to lease an industrial building or construct.
 - d) Whether to invest in an office or rent one.

Form of business ownership

A corporate form of ownership enjoys legal personality and income is subjected to corporate income tax rate.

A sole proprietor or partnerships are not separate entities for purposes of taxation. In case of a company, reasonable salaries to directors, who also may happen to be the owners of the company, are tax deductible. For sole proprietorship and partnerships, no deduction is allowed for salaries or interest on capital. However, corporate profits are subject to double taxation:-

- i) Corporate profits are taxed
- ii) Dividend which constitute part of the profits that have been taxed, is taxed on the recipient.

Capital structure and taxation

Capital structure is the composition of the long term financing which is usually made up of ordinary share capital and reserves. But a company may also have long term capital in form of preference shares and debt.

Capital structure does explain the relationships between the various sources of finance. An optimal/ideal capital structure has to be maintained and any changes to it must affect amounts and not its proportions. An ideal capital structure is achieved where among other considerations, the cost of capital must be the lowest or the minimum.

Capital structure has a great impact on the cost of finance because some finances are cheaper to use than others. Taxation does discriminate between equity financing and debt financing. Debt financing is cheaper because interest payments on debt are tax allowable expense. Dividends paid to equity owners on the other hand, is not deductible from profit and loss for tax purposes.

Illustration 18:

Msungu and Masungu earned the following incomes in year 2023 and 2024 (in Kshs).

Year	Msungu	Masungu
2023	3,200,000	1,600,000
2024	3,200,000	4,800,000

Require:

Compute their tax liability. And comment on the implications of income fluctuations in case of Masungu.

Suggested solutions:

2023 Tax Computation		Msungu	Masungu
The 1st Kshs.288,000	@10%	28,800	28,800
The Next Kshs.288,000	@25%	28,800	28,800
The Rest Kshs.2,624,000 and Kshs.1,024,000 Respectively	@30%	656,000	256,000
Gross Tax Liability		713,600	313,600

2024 Tax Computation		Msungu	Masungu
The 1st Kshs.288,000	@10%	28,800	28,800
The Next Kshs.100,000	@25%	25,000	25,000
The Rest Kshs.2,812,000 and Kshs.4,212,000 Respectively	@30%	843,600	1,323,600
Gross Tax Liability		897,400	1,377,400

Fluctuations in annual income may lead to different tax burdens especially where the rates of tax are highly progressive and change each year. Income of Masungu is subject to higher marginal tax rate in 2024 due to fluctuating in his income. He pays more tax of Kshs. 80,000 compared with Msungu over the two years, yet their total income was the same.

Illustration 19:

Mr. Baraka has two employment offers in different engineering firms. The details are given as under:-

	Firm A	Firm B
Basic Pay Per Month	145,000	141,000
Benefits		
Housing At Market Rate per month	50,000	60,000
Car Benefit 1000cc	600, 000	600, 000

Pension scheme which is registered by the commissioner of income tax for both employers contributes 5% of the basic salary to the pension scheme.

Required:

What offer would you recommend to Mr. Baraka? Explain your reasons.

Mr. Baraka

Gross Pay Computation

	firm A	firm B
Basic Pay	1,740,000	1,692,000
House Allowance	600,000	720,000
Car Benefit	144,000	144,000
Less Contribution To Pension Scheme	(87,000)	(84,600)
Taxable Income	2,397,000	2,471,400

Tax Thereon

The 1st Kshs.288,000 @ 10%	28,800	28,800
The Next Kshs.100,000 @25%	25,000	25,000
The Rest Kshs.2,009,000 And Kshs.2083,400 Respectively @ 30%	602,700	625,020
Gross Tax Liability	656,500	678,820

Net Income before personal relief	1,740,500	1,792,580
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Baraka should take pay in firm B, it has higher net income.

Illustration 20:

Abc Ltd is to pay interest on debt capital at 15% where corporate tax rate is 30%

Required:

Compute the true or effective cost of debt.

Suggested solution

The effective cost of debt capital will be given as 15% less tax savings.

i.e. $15\% - (30\% \text{ of } 15\%)$
 $15\% - 4.5\% = 10.5\%$

Illustration 21:

The following details relate to two companies

Company	Abc Ltd	Xyz Ltd
No. Of Shares @ Kshs.1 Per Share	50,000	50,000
10% Preference Shares	125,000	
10% Debenture		125,000
Gross Income For Year 2024	250,000	250,000

Required:

- Earnings per ordinary shares for each company
- Show the effective cost of debt in case of company XYZ.
- Comment on the results above.

Suggested solution

- Earnings per ordinary shares for each company

Earnings Per Share Computation

Companies	ABC LTB	XYZ LTD
Gross Income	250,000	250,000
Less Interest On Debt	-	(12,500)
Profit Before Tax	250,000	237,500
Corporation Tax @30%	(75,000)	(71,250)
Income After Tax	175,000	166,250
Less Preference Dividend	(12,500)	-
Earnings Attributable To Shareholders	162,500	166,250

Number Of Shares	50,000	50,000
Earnings Per Share = Earnings Attributable To Shareholders ÷ Number Of Shares	Kshs.3.25 per share	Kshs.3.325 per share

- Show the effective cost of debt in case of company XYZ.

Companies	ABC LTB	XYZ LTD
The Effective Cost Of Debt = $10\% (1 - \text{Tax Rate})$	-	7%

- Comment on the results above.

From the above computations, the use of debt to finance a company has resulted into the earnings per share being higher and the cost of debt being cheaper compared with financing using preference shares.

Tax saving in the case of XYZ Ltd are equal to Kshs.75,000 - Kshs.71,250 = Kshs.3750

Double Taxation

The concept of double taxation is crucial in the overall economic policy of any country. It refers to the imposition of comparable taxes in two or more countries off the same income for the same year of income of a named tax payer.

Income tax is imposed in Kenya on any person whether resident or non-resident on the income accrued in or was derived in Kenya. Expatriates working in Kenya would be taxed in Kenya and also in their countries of origin. Where rates of tax are high, the double taxation can be a serious obstacle to growth in international trade.

Types of relief from double taxation

Double taxation arrangements may take the forms of:-

- 1.By-lateral agreements
- 2.Unilateral relief

1.Conventions or agreements

These are by-lateral agreements or relief from double taxation involving those countries affected. Such agreements would be geared towards minimising or eradicating the effects of double taxation. Each agreement would be peculiar to itself. However, most double taxation agreements are based on the organization for economic corporation and development recommended articles. A double taxation agreement would have articles addressing the following;

- i) The persons to which the conventions apply
- ii) Taxed covered
- iii) Definition of terms
- iv) Rules for determining tax residence
- v) Incomes affected by the agreement
- vi) If they would be tax on capital
- vii) Diplomatic and consular officials
- viii) Termination of those agreements

b)Unilateral relief

due to the difficulties involved in double taxation negotiations, it is possible for an individual country to remove the burden of double taxation by opting to give relief for foreign taxation on unilateral basis. That is, without regard to whether the other taxing countries extend relief to a taxed person or not.

Unilateral approach is usually a last resort where negotiations have proved difficult due to political and other reasons. It is also possible to have both arrangements in place to take care of different sources of income and persons. Most agreements usually give the country in which the income arises the prior right of levying the tax.

Double tax agreements are reached with the following in mind:-

- i) Attraction of foreign investors through tax incentives.
- ii) Encouragement of mobility of labour to attract expatriates
- iii) Tax incentives as a loss of revenue to the government
- iv) The level and areas of economic interactions between the states concerned.
- v) Political climate or relations
- vi) The overall cost and benefit principle

The authority to grant double taxation relief in Kenya

The income tax act sections 41-43 give authority to grant double taxation relief. S.41A authorises the cabinet secretary for finance to gazette from time to time countries that have entered for relief from double taxation with Kenya.

S.42(1) States, 'This section shall have effect where, under a special arrangement foreign tax payable in respect of income derived by a person resident in Kenya is to be allowed as a credit against tax chargeable in respect of that income'.

S. 42(4) States, 'A credit shall not exceed the lesser of the tax computed in accordance with subsection (3) or the foreign tax chargeable upon the income in respect of which the credit is to be allowed or upon each part of that income', e.g. if the foreign tax is equivalent to Kshs.160,000 and the tax chargeable in Kenya is Kshs.100,000, the amount of relief from the tax shall be limited to Kshs. 100,000.

S. 42(5) Relates to the treatment of foreign tax on dividends not specifically covered under special arrangements with another country. In such case, if a dividend is paid to such a company which controls 50% or more of the voting power of the company paying dividend, a credit shall be obtained in the same way as if a special arrangement existed.

S.43 Provides that any claims for tax allowance by way of credit should be made to the commissioner within 6 years from the end of the year in which such income was generated.

Illustration 22:

Chris Sande had an income of kshs.1,800,000 for the year of income 2023 and also received income from Zambia of kshs.900,000. The tax deducted in Zambia was kshs.310,000. Kenya has a double taxation relief treaty with Zambia.

Required;

- a) The double taxation relief in Kenya

b) The tax payable by Chris Sande

a) The Double Taxation Relief In Kenya

Chris Sande

Tax Liability on Kenyan Income Only

	Kshs.
Income	1,800,000
Tax Thereon;	
The 1st Kshs.288,000 @ 10%	28,800
The Next Kshs.100,000 @ 25%	25,000
The Rest Kshs.1,412,000 @ 30%	423,600
Gross Tax On Kenyan Income	477,400

Gross Tax on Kenyan And Zambian Income

Income In Kenya	1,800,000
Income In Zambia	900,000
Total	2,700,000
Tax Thereon;	
The 1st Kshs.288,000 @ 10%	28,800
The Next Kshs.100,000 @ 25%	25,000
The Rest Kshs.2,312,000 @ 30%	693,600
Gross Tax On Kenyan And Zambian Income	747,400

Kenyan Tax On Zambian Income

Gross Tax on Kenyan and Zambian Income	747,400
Gross Tax on Kenyan Income	(477,400)
Kenyan Tax on Zambian Income	270,000

Double Taxation Relief

The Lower of:

Kenyan Tax on Zambian Income	Kshs.270,000
Actual Tax Paid In Zambia	Kshs.310,000

b) The tax payable by Chris Sande

Chris Sande

TAX LIABILITY

	Kshs.
Actual Tax In Kenya	477,400
Actual Tax In Zambia	310,000
Total Tax	787,400
Double Tax Relief	(270,000)
Tax Liability For Mr. Sande Before Personal Relief	517,400

Most Favoured Nation Status

A trade agreement legislation can be based on the most favoured nation status principle. This is a non-discriminative principal which is extended to all trade firms such that any reciprocal tariff

deductions are negotiated. Member countries who are signatories to that favoured nation status benefit from the negotiations in order to boost international trade.

Disadvantages

1. The tariff negotiations may be based on certain commodities only.
2. The benefit may accrue to non-member countries as well, thus diluting the real purpose of such agreements.

Off-shore taxation (tax havens)

This refers to the principal of harmonising tax regulations and other loss such as banking loss, company loss, trust loan with a view to attract investors. The measures that are put in place must be tax effective as compared to those established in other countries. Some of the benefits are;

- i) Capital allowances
- ii) Corporation tax-lower than average for other countries
- iii) Bank interest- make it tax free
- iv) Dividend paid –make it tax free
- v) No capital gains tax

The countries that would utilize this principle of tax haven are those countries with resource requirement e.g. Bahamas, Panama, Seychelles, Gibraltar, Netherlands and British virgin lands.

Transfer Pricing

Transfer pricing for goods and services is important in international taxation. It will be subject to specific laws. Transfer pricing is widely in use by multi-nationals International Trade Data System (ITDS) which are involved in international trade in several countries. Laws guiding multinational corporations ensure that transfer pricing is not abused because several nations have tax interests in their operations.

In **Unilever Kenya Ltd vs. Kenya Revenue Authority (2003)**, Unilever Kenya sold goods to Unilever Uganda. Kenya Revenue Authority held that the transaction was not at arm's length. These goods had been marked up by only 5% between the two companies leading to loss to the Kenyan Company.

KRA invoked Section 18 (3) of the Income Tax Act, Chapter 470 of the Laws of Kenya (the Act) which requires transactions to be at arm's length. A prolonged court battle issued. It was held that due to the absence of Kenyan transfer pricing legislation, Unilever Kenya could not be faulted for using its own recognized transfer pricing principles. This ruling fashioned the transfer pricing rules 2006 which were enacted months later.

Returns of income

Before a tax payer pays tax, he must complete a return of income which contains details of income, related expenditure and computation of tax payable duly examined by an accountant or a tax consultant. However with the introduction of turnover tax and residential income tax, filling returns has been simplified. Where a consultant is involved, the following should be submitted with a return.

1. A copy of accounts signed by the tax payer and his consultant.
2. A certificate signed by the consultant specifying the nature of books of accounts examined, the extent of his examination and whether or not such accounts reflect all transactions of the business and whether they present a true and fair view of the gains or profit from the business reported on.
3. In the case of a company or a partnership, all payments, benefits in kind made to directors or partners should be shown.
4. Persons in receipt of employment income only are required to file their return online.
5. Persons having no income in any particular year are required to file a nil return.

Types of returns

1. PAYE returns for salaries, emoluments, and pensions from employment.
2. Return of resident company dividends.
3. Return of interest paid by banks and financial institutions
4. Returns of commission fees and royalties
5. Return of rent or occupiers return of rent
6. Return of ledgers and intimates
7. Return of income received on account of other persons
8. Return of dividend paid by building societies
9. Instalment returns
10. Self assessment returns
11. Compensating tax returns

In Depth Examination

1. It involves a thorough investigation and scrutiny of tax payer's return and affairs.
2. The income tax department would request for all accounting records such as ledgers, cashbooks, purchases and sales journals, bank statements, banking slips and the payroll.
3. The income tax department may decide to
 - a) Communicate with third parties
 - b) To visit tax payers premises
 - c) To interview the tax payer or his agents.

If any undeclared incomes are indentified, then an additional assessment would be issued accompanied with penalties from the income tax department.

Where a person has filed a return of income, the commissioner of tax may:

- a) Accept the return and deem tax assessed as correct and no further notification is required.

- b) If the commissioner has a reasonable cause to believe that the return is not true and correct, he may determine to the best of his judgement the amount of income of that person and assess such a person accordingly.
- c) Institute an in-depth examination.

In **Digital Box Ltd vs. Kenya Revenue Authority (2022)**, Digital box limited filed income tax and VAT returns which the Kenya Revenue Authority considered unsatisfactory. The Kenya Revenue Authority raised an additional assessment of Kshs.700 Million. The company objected to the commissioner who turned down the objection. Therefore, the company appealed to the Tax tribunal. KRA demonstrated how they estimated the undeclared tax using the company's bank statements and thus reliably quashing the taxpayers self-assessment based on allegedly fraudulent records.

External Revenue Sources

This are revenue the national government raises outside Kenya, they include;

Grants and Donations

Donors can give grants or donations to the national government or a national government entity as long as they are approved by the Cabinet Secretary for finance. The receiver of a grant or donation from a development partner would record the amount or value of the grant or donation in the recipient's books of accounts. He can also allow the giver to audit how the donation/grant was used.

Loans

The Cabinet Secretary for Finance may, on behalf of the national government, raise a loan (national government entities need approval from the Cabinet Secretary for Finance). The terms and conditions for the loan should be in writing and be in agreement with: the most recent Budget Policy Statement and the prevailing debt management strategy paper. Other considerations in raising loans are;

- i) Minimise risk associated with leverage by choosing loans with the lowest financing needs and payment obligations in the market.
- ii) Ensuring that the overall level of public debt is sustainable.
- iii) Staying within the borrowing limits and thresholds set by parliament.
- iv) Borrowing money only for the budget as approved by Parliament and the allocations for loans approved by Parliament.
- v) Guarantee of debt should be done as per the Intergovernmental Budget and Economic Council criteria as approved by Parliament.

Issue of National Government Securities

The Cabinet Secretary for Finance is empowered to issue national government securities on behalf of the national government for money borrowed by the national government. Securities issued shall be within the borrowing limits set out by the National Assembly. National government securities may be issued in one or more series and in accordance with prescribed regulations. Every national government security issued would be given the name of the Republic of Kenya. Other than the Cabinet Secretary, the following are allowed to issue securities.

- (i) A delegate appointed by the Cabinet Secretary for finance.
- (ii) An appointed borrowing agent.

Derivative transactions

Section 56. (1) of the Public Finance and Management Act states; 'the national government may enter into derivative transactions, either directly or indirectly through an intermediary, but only within the framework and limits of the Budget Policy Statement and in a manner prescribed by regulations.'

The Cabinet Secretary for Finance therefore, on behalf of the national government, in exceptional circumstances may enter into a derivative transaction if it appears to be in the public interest to do so and the transaction does not result in commitment that are beyond what is contained in the Budget Policy Statement.

The Cabinet Secretary may enter into a derivative transaction on such terms and conditions, within the scope prescribed by the regulations approved by the National Assembly. Derivative transactions entered into should be published and publicised.

ASSESSMENTS

An assessment is a tax computation on incomes declared and can be raised by either the tax payer oneself or by the income tax department.

Types of assessments include; Instalment assessments, Self-assessments, Additional assessments, Amended assessments and Estimated assessments.

1. Instalment Assessments

This is an assessment based on estimate income for the year under consideration for the purpose of ascertaining instalment tax payable in the course of the year in four equal instalments except for agricultural tax payers.

2. Self-Assessment

This is an assessment by a tax payer of his taxable income and tax thereon bases on end year results. The due date for payment of the tax is by the end of the fourth month after year end. The return is required by the end of the sixth month after the year end.

3. Estimated Assessment

It is an assessment issued by the income tax department when a tax payer has failed to submit a self-assessment return or when the commissioner of income tax does not agree with any returns furnished by the tax payer. The estimated assessment would contain income estimated using the commissioners best judgement. The due date for payment of tax is by end of fourth month after the year end.

4. Amended Assessment

This is not a new assessment as such rather it is an assessment used to correct an error on a previous assessment and will normally be necessary after an objection or an appeal has been made by the tax payer.

5. Additional Assessment

This is granted by the income tax department where they notice additional income not declared or the tax payer was under-assessed. It would normally follow an in-depth examination into the tax payer's affairs or when the tax department receives information from another source or where the tax payer claims expenses, reliefs which he is not entitled to. In case of fraud or wilful or gross negligence on part of the tax payer, penalties would be charged up to 200% on taxable income.

6. Assessment Under Certain Circumstances - section 35 of income tax act

This assessment is raised by the income tax department to charge tax arising on shortfall distribution of dividends.

7. Reverse Charge

It is also known as back-duty. It is an assessment to charge tax on years one has not declared income.

8. Assessments Under Section 37.

Refer to assessment of salaries, emoluments, benefits etc.

OBJECTIONS

If a tax payer is dissatisfied with an assessment raised by the income tax department, he has a right to lodge an objection.

An objection would be valid or proper if;

- a) It is made in writing.
- b) It states clearly the grounds for objection.
- c) It is made within a statutory period – 60 days from date of service of the assessor.
- d) All relevant documents have been submitted.

Date of service

Where a notice assessment or other documents are served through the post, service is deemed in absence of proof to the contrary to have been effected;

- a) Where it sent to any address in Kenya, 10 days after the date of post.
- b) Where it is sent to any address outside Kenya, at the time at which the notice could be delivered in the ordinary course of the post.

LATE OBJECTIONS

Is an objection not made within the statutory period of 60 days from the date of service of assessment. A late objection would have to be made within 30 days from date of notice.

The commissioner of income tax can accept late objections on the following grounds.

- a) The tax payer was sick
- b) The tax payer was outside Kenya.
- c) Any other reasonable grounds.

If the commissioner is satisfied on the grounds given, he would accept the late objection. Where the commissioner is not satisfied with an objection;

- a) He would insist on full payment of the tax which is not in dispute.
- b) He would reject the objection and advise the tax payer to appeal.

On receipt of a notice of objection, the commissioner has the following options;

- a) Amend the assessment in the light of the objection (full agreement)
- b) Amend the assessment to the best of his knowledge (partial agreement)
- c) Refuse to amend the assessment instead confirm the assessment he made (total refusal)

Documents to be sent to the tax payer based on the options available to the commissioner.

- a) In case of a full agreement - agreed amended assessment
- b) In case of a partial agreement – a non-agreed but amended assessment.
- c) In case of a total refusal to amend the assessment, the commissioner would send – a letter of refusal or confirming notice.

Where a tax payer is dissatisfied with the decision of the commission, the tax payer can appeal.

APPEAL BODIES

1. Local committee

It is an appeal body apart from the tax department. The cabinet secretary for finance by notice in the Kenya gazette appoints local committee for any given area in Kenya.

The duties of a local committee are to hear and determine appeals by the tax payers on matters of tax disputes. Only tax payers can appeal to local committees.

A local committee is made up of a chairman and not more than 8 other members. And a quorum for the meeting of the local committee would be the chairman and other two members. The members would be from across section of the Kenyan society.

Procedure for Appeal

Where the commissioner has responded to an objection to an assessment by the tax payer by issuing a confirming notice or a non-agreed amended assessment, the tax payer has a right to appeal to the local tribunal. Therefore appeal documents would need to be filed with both the clerk of the tribunal and the commissioner.

Commissioner of income tax

- a) The tax payer is required to notify the commissioner of his intention to appeal within 30 days from the date of service or non-agreed amended assessment or the confirming notice.
- b) Copies of memorandum of appeal and statement of facts.

c) Notice of the intention to appeal.

Clerk of the local tribunal

The appeal to the local committee, the documents submitted are;

- a) Memorandum of appeal which states the ground of the appeal.
- b) Statement of facts which gives the sequence of events on the assessments, objection and response by the commissioner and the subsequent appeal.
- c) A letter of intention to appeal to the local committee must be copied to the local committee.
- d) Copy of the commissioner decision against which the appeal is being made (non-agreed, amended or refusal).

LATE APPEAL

Where a tax payer is prevented from lodging an appeal in time by absence in Kenya, sickness or any other reasonable grounds, the tax payer can apply to the committee for extension of time within which to lodge an appeal.

APPEALS TO THE COURTS OF LAW

If a tax payer or the commissioner disputes the decision of the local committee, the affected party can appeal to the High Court and then the Court of Appeal. The appeal to courts must only be on matters of:

- a) Law
- b) A mix of law and fact

FINALITY OF AN ASSESSMENT

An assessment could be taken to be final and conclusive if;

- a) No notice of objection has been lodged.
- b) An agreed amended assessment has been issued.
- c) A non-agreed amended assessment has been issued or confirming notice has been issued and no appeal entered into against it.
- d) An appeal has been finally settled or determined.

Refund of overpaid tax section 105

Where the commissioner is satisfied that any particular tax payable has been overpaid in respect of a year of income, then the overpayment would be refunded to the tax payer together with interest due on it.

Refunds claimed may be set-off against future tax liability.

Tax recovery methods

1. Recovery through an agent – a notice would be issued to a third party holding monies of a defaulting tax payer within 12 months of issue of penalty notice requiring such a party to pay the amounts to the commissioner instead of the tax payer. A receipt would be issued to serve as an aquinto for the amount of debt.

2. Where such an agent fails to pay the amount, the action would be taken against the agent as if he were the defaulting tax payer e.g. employer.
3. Recovery by court action. The commissioner can sue for unpaid tax and also costs for the court action. Where judgement is given and a tax payer still fails to pay, then the commissioner may apply to court authorising the sale of the defaulter's goods or property.
4. Recovery by distraint – the defaulting tax payer may be issued with a warrant by the commissioner, demanding payment of tax and penalties within 10 days failure of which his goods would be sold on a public action by a licensed broker. The money so realised would be used to pay the tax, costs of the distraint and the balance if any given to the tax payer.
5. Recovery of tax from leavers. Section 98 provides for enforcing collection of tax from a person intending to leave or who has left Kenya permanently without having paid tax.
 - a) If the person has not been assessed, he should be assessed, s.75
 - b) Issue a notice under S.98 requiring such a person to make payment in full or requiring security to the satisfaction of the commissioner.

If the tax payer does not comply with the commissioner's directive, the commissioner has a right to approach a magistrate for a warrant of arrest and apprehend the tax payer. The warrant of arrest would be executed by an officer of the courts and not a member of the tax department.

Appointment and duties of an agent.

An agent appointed by the commissioner in writing is required to pay stated amounts of tax to the tax department from any monies coming into his hands during the 12 months following ones appointment. An agent who is unable to comply with the notice must inform the commissioner giving full reasons for not being able to comply. The commissioner can within 30days after giving that agent a notice in writing, require him to submit a return of all of the principal funds in his possession. If the agent does not pay, then he is considered as personally liable for tax due and payable.

Deceased Persons S.97

The executors, the manager of deceased person would have to account for the deceased tax.

Collection of tax from a guarantor.

S.100 considers collection of tax from a guarantor and specifically provided that where security for payment of tax has been given in form of a guarantee, then the person owing the tax has not paid, the commissioner may by notice in writing require such a guarantor to pay the tax within 90 days.

CHAPTER SIX

NATIONAL GOVERNMENT EXPENDITURE

Like county governments, expenditure by the national government starts with the preparation of the annual budget. A budget is a statement which consists of revenue and expenditure estimates of the government for one fiscal year. Where the government expenditure exceeds expected revenue we get a deficit budget, and a surplus budget is where revenue exceeds expenditure. A balanced budget is where expected revenue is equal to expected expenditure.

Government budget can be classified into revenue and capital budgets. A revenue budget relates to normal income and expenditure items or expenditure to maintain the government. The capital budget is about governmental projects that have positive and enduring impact on Kenyans.

The principles of national government expenditure

i) **Cost-cutting measures.** The Public Finance and Management Act mentions wasteful expenditure. It is emphatic that wasteful usage of public funds should be steered clear of. The National Government may waste its finances by undertaking projects that the public does not require which eventually lie idle. Delaying implementation of projects which become expensive to fund, disorderly acquisition of assets and not maintaining an assets register, misuse of imprests and cash advances or other ways of wasting public resources. Additionally unnecessary foreign trips and allowances waste public funds. Economy and frugality should be exercised while spending public monies.

ii) **Authorization.** One of the main objective of the Public Finance and Management Act is that public officers who are given responsibility for managing government finances are accountable to the public for the management of those funds through Parliament and County Assemblies. Therefore, no public resources should be spent without sanction and the monies should only be used for the purpose for which they were approved.

iii) **Benefit.** The Public Finance and Management Act puts emphasis on the medium term expenditure that a minimum of thirty percent of the national and county governments' budget should be allocated to the development expenditure. While the government needs money to fund its expanding state functions like defence, justice, administration and meeting its political needs like giving subsidies; it has to ensure its expenditure has an advantage to Kenyans. Therefore the Act specifies that at least 30% of the budget should benefit the common Kenyan.

iv) **Balanced Budget.** Section 15(2) (c-f) of Public Finance and Management Act breathes prudence on the government budgeting process. While it does not purposely say the government should have a balanced budget, the principles of the provisions are for a balance budget. For instance:-

a) If over the medium term, the national government's borrowings are used only for the purposes of financing development expenditure and not for recurrent expenditure, it only means a loan should

acquire an asset. If we have a loan and an asset the equation is balanced. The government should glean enough revenue from its activities to fund its day to day activities.

b) If public debt and obligations are maintained at a sustainable level as approved by Parliament for the national government and the county assembly for county government, the government would pay off the debt as soon as possible and revert to a balanced budget.

c) If fiscal risks is managed prudently, the government would avoid deficit budgeting. It would meet its current expenditure needs out of its current revenue collection.

d) If a reasonable degree of predictability with respect to the level of tax rates and tax bases are maintained, taking into account any tax reforms that may be made in the future, the government would collect enough revenue due to acceptance of the system by Kenyans as it is fulfilling the canon of taxation of certainty. Unpredictable tax rates and bases encourage tax evasion, civil strife, picketing, black markets and sabotaging the government through introduction of illegal money like Bangla Pesa so that ultimately, the government cannot meet its taxation goals and raise the planned revenue.

The National Government Budgeting Process

By **30th August** in each year, the Cabinet Secretary for Finance would issue to all national government entities a circular setting out guidelines on the budget process they should follow. The Cabinet Secretary for Finance has to prescribe procedures specifying how, when and where members of the public would participate in the budget process. The Cabinet Secretary for Finance has to notify the members of the Intergovernmental Budget and Economic Council on the commencement of the budget process.

By the **30th September**, the National Treasury should have prepared and submitted to Cabinet for approval a Budget Review and Outlook Paper.

By the **15th February**, the National Treasury should have submitted the Budget Policy Statement to Parliament. The Cabinet Secretary for Finance should have submitted to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability and potential liability occasioned by loans and guarantees and its strategy for dealing with those liabilities.

By **30th April**, the Cabinet Secretary for Finance should have submitted to the National Assembly; (a) the budget estimates apart from those for Parliament and the Judiciary ;(b) documents supporting the submitted estimates; and (c) any other Bills required to put into operation the national government budget.

By **30th April**, the accounting officer for the Parliamentary Services Commission should have submitted to the National Assembly the budget estimates for Parliament, including proposed appropriations; and should send a copy of the same to the National Treasury.

By **30th April**, the Chief Registrar of the Judiciary should have submitted to the National Assembly the budget estimates for the Judiciary, including proposed appropriations and a copy of the same to the National Treasury.

Accounting officers for the Parliamentary Service Commission and the Chief Registrar of the Judiciary should; ensure that members of the public are given an opportunity to participate in the preparation process and may make and publish rules to be complied with by those who may wish to participate in the process.

By **15th May**, the Cabinet Secretary for Finance would have submitted to the National Assembly any comments of the National Treasury on the budgets proposed by the Parliamentary Service Commission and the Chief Registrar for the Judiciary. And as soon as it is practicable, publish the three budget estimates.

When the National Assembly approves the budgets, the Cabinet Secretary for Finance should prepare and submit an Appropriation Bill based on approved estimates to the National Assembly.

The National Assembly would consider the budget estimates of the national government, Parliament and the Judiciary with a view to approving them, with or without amendments.

By **30th June** the Appropriation Bill and any other relevant Bills required to execute the budget should have been approved by the parliament.

By **21st July** (Within **21 days**) after the National Assembly has approved the budget estimates, the National Treasury should consolidate, publish and publicise the budget estimates.

National Assembly may authorise withdrawals before the Appropriation Act is assented to, but the budget has been approved in accordance with Article 222 of the Constitution, and such authority would be communicated to the Cabinet Secretary responsible for finance by the Speaker of the National Assembly within seven days of that authority being granted by the National Assembly.

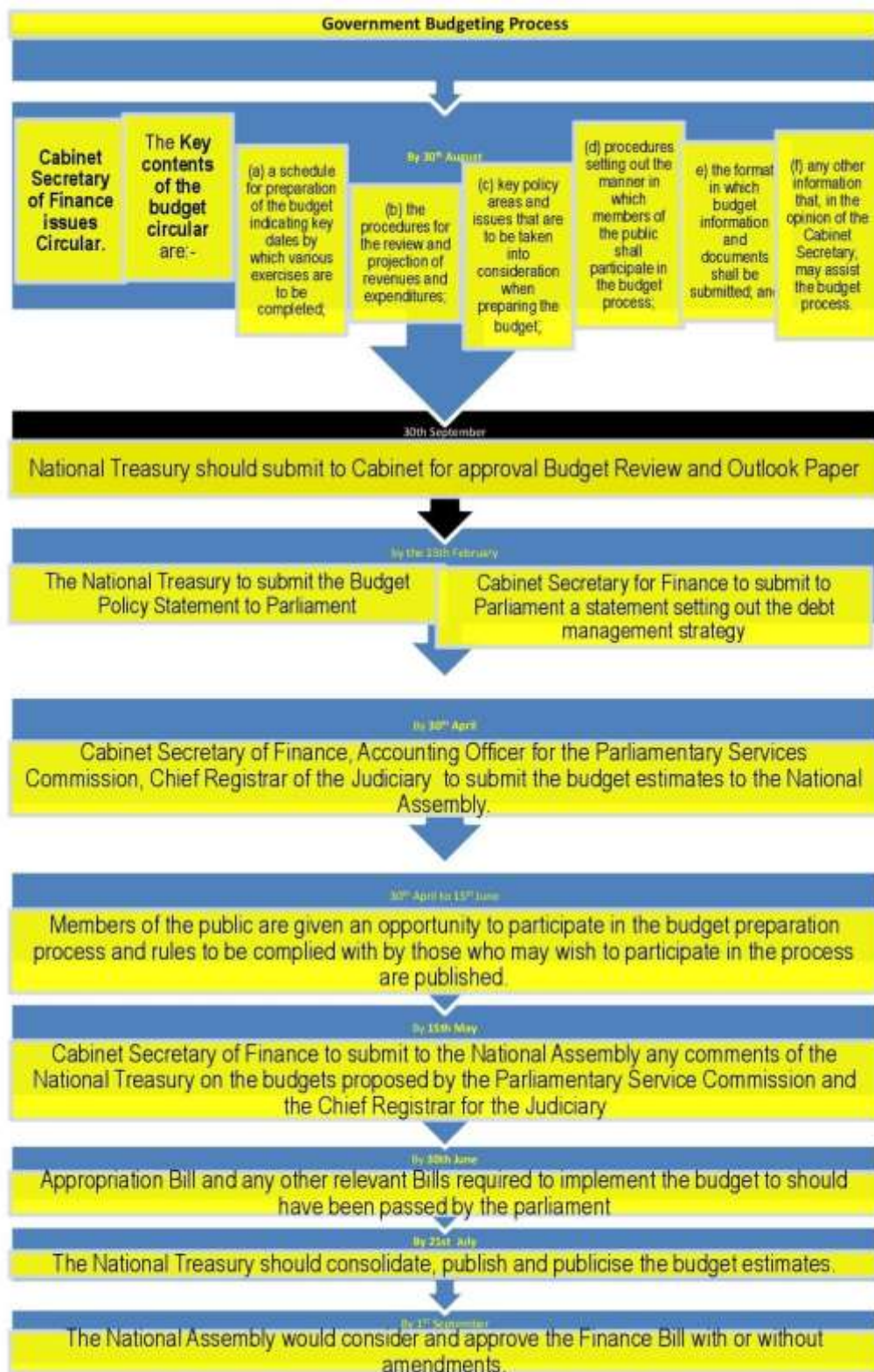


Illustration 23:

The Ministry of People's Power had the following vote book at 1st April 2024, about 90 days before the end of the fiscal year. The ministry estimates for each month from April to June, the electricity bill would be Kshs.29,000,000. The vote book balance for utilities which is used to pay electricity is only Kshs.1,995,142. The cabinet secretary for the ministry of people's power is of the view that a supplementary budget should be prepared to pay electricity bill for the remaining month. As the permanent secretary for the ministry of people's power, advice the cabinet secretary given that the vote book is as shown below.

MINISTRY OF PEOPLE'S POWER VOTEBOOK

VOTE	VOTE HEAD	APPROVED BUDGET FY 2023/2024	Commitments	payments	commitments plus payments	Balance
2200000	Use of Goods and Services total	2,251,140,003	288,945,995	722,364,988	1,011,310,983	1,239,829,019
2210100	Utilities Supplies and Services	103,513,325	29,005,195	72,512,988	101,518,183	1,995,142
2210200	Communication, Supplies and Services	46,278,905	2,959,664	7,399,161	10,358,826	35,920,079
2210300	Domestic Travel and Subsistence, and Other Transportation Costs	268,209,201	23,951,159	59,877,896	83,829,055	184,380,146
2210400	Foreign travel and Subsistence Allowance	218,456,196	8,303,814	20,759,535	29,063,349	189,392,847
2210500	Printing , Advertising and Information Supplies and Services	162,899,490	34,769,506	86,923,766	121,693,273	41,206,217
2210600	Rentals of Produced Assets	95,210,546	23,810,645	59,526,613	83,337,259	11,873,287
2210700	Training Expense (including capacity building)	192,990,823	1,735,052	4,337,630	6,072,682	186,918,141
2210800	Hospitality Supplies and Services	336,019,460	86,402,212	216,005,530	302,407,742	33,611,719
2210900	Insurance Costs	76,645,110	1,631,215	4,078,038	5,709,254	70,935,856
2211000	Specialised Materials and Supplies	160,473,033	7,056,787	17,641,967	24,698,754	135,774,279
2211200	Fuel Oil and Lubricants	110,211,509	11,099,790	27,749,476	38,849,266	71,362,243
2211300	Other Operating Expenses	190,954,801	47,865,987	119,664,967	167,530,953	23,423,847
2211100	Office and General Supplies and Services	91,317,466	7,802,198	19,505,494	27,307,692	64,009,775
2220100	Routine Maintenance - Vehicles and Other Transport Equipment	54,099,864	57,938	144,844	202,781	53,897,082
2220200	Routine maintenance- Other Assets	143,860,274	2,494,833	6,237,082	8,731,915	135,128,359

Suggested solution:

Section 43. (1) and (2) of the Public Finance Management Act directs that 'an accounting officer may reallocate funds from the authorised use between programs, or between Sub-Votes, in the budget for a financial year if they are unlikely to be utilised and the National Treasury has approved such request provided the sum allocated does not exceed 10% of the total expenditure approved for that program' but may not reallocate funds where-

- (a) The funds are appropriated for transfer to another government entity or person;
- (b) The funds are appropriated for capital expenditure except to defray other capital expenditure;
- (c) The reallocation of funds is from wages to non-wages expenditure; or
- (d) The transfer of funds may result in contravention of fiscal responsibility principles.

In the ministry of people's power, the vote for Routine maintenance - other Assets is unlikely to be used. This is because barely 3 months are remaining in the financial year and only a paltry Kshs.8,731,915 had been committed plus paid out of the budgeted figure of Kshs. 143,860,274. The accounting officer can re-allocate Kshs.87,000,000 from this Vote to utilities which would be used to pay electricity.

Illustration 24:

Suppose the Development vote book for the ministry of people's power was as shown below and additional funds of about Kshs.600,000,000 are needed to complete major roads, should a re-allocation be made from compensation to employees vote to major roads?

MINISTRY OF PEOPLE'S POWER VOTEBOOK

VOTE	VOTE HEAD	APPROVED BUDGET 2024/2025	FY	Commitments	payments	commitments plus payments	Balance
	Compensation to Employees total	3,511,069,394		705,999,914	1,764,999,784	2,470,999,698	1,040,069,697
2110100	Basic Salaries - Permanent Employees	2,733,654,116		556,577,966	1,391,444,916	1,948,022,883	785,631,234
2110200	Basic Wages - Temporary Employees	39,316,103		8,479,315	21,198,289	29,677,604	9,638,499
2110300	Personal Allowance Paid as Part of Salary	556,273,993		115,677,826	289,194,565	404,872,391	151,401,602
2120100	Employer Contributions to Compulsory National Social Security Schemes	181,825,182		25,264,806	63,162,014	88,426,820	93,398,362
	Development Expenditure total	4,403,942,888		1,747,596,384	2,446,634,938	4,194,231,321	209,711,566
3110100	Purchase of Buildings	9,206,574		3,653,402	5,114,763	8,768,166	438,408
3110200	Construction of Buildings	409,788,404		162,614,446	227,660,224	390,274,670	19,513,734
3110300	Refurbishment of Buildings	196,324,882		77,906,699	109,069,379	186,976,078	9,348,804
3110400	Construction of Roads	263,811,302		104,687,025	146,561,834	251,248,859	12,562,443
3110500	Construction and Civil Works	2,140,913,689		849,568,924	1,189,396,494	2,038,965,418	101,948,271
3110600	Overhaul and Refurbishment of Construction and Civil Works	35,000,000		13,888,889	19,444,444	33,333,333	1,666,667
3110700	Purchase of Vehicles and Other Transport Equipment	268,000,000		106,349,206	148,888,889	255,238,095	12,761,905
3110800	Overhaul of Vehicles and Other Transport Equipment			-	-	-	0
3110900	Purchase of Household Furniture and Institutional Equipment	1,550,000		615,079	861,111	1,476,190	73,810
3111000	Purchase of Office Furniture	139,407,900		55,320,595	77,448,833	132,769,429	6,638,471

	and General Equipment					
3111100	Purchase of Specialised Plant, Equipment and Machinery	133,426,738	52,947,118	74,125,966	127,073,084	6,353,654
3111200	Rehabilitation and Renovation of Plant, Machinery and Equipment	136,372,081	54,115,905	75,762,267	129,878,172	6,493,909
3111300	Purchase of Certified Seeds, Breeding Stock and Live Animals	45,400,000	18,015,873	25,222,222	43,238,095	2,161,905
3111400	Research, Feasibility Studies, Project Preparation and Design, Project Supervision	399,308,507	158,455,757	221,838,059	380,293,816	19,014,691
3111500	Rehabilitation of Civil Works	225,432,811	89,457,465	125,240,451	214,697,915	10,734,896

Suggested solution

No re-allocation should be made from compensation of employees to pay non-employee emoluments expenditure. Since in the vote book above, the ministry of people's power **has** exhausted its options for reallocation, it should carry out a supplementary budget. Under section 44 (1-3) of the Public Finance Management Act, the national government shall submit to Parliament for approval, a supplementary budget in support of money spent under Article 223 of the Constitution. After Parliament has approved spending, an Appropriation Bill shall be introduced for the appropriation of the money spent. The supplementary budget shall include a statement showing how the additional expenditure relates to the fiscal responsibility principles and financial objectives.

Illustration 25:

Suppose the ministry of people's power had appropriated Kshs.218,000,000 for foreign travel then an outbreak of an infectious airborne disease curtailed all foreign travel. Would they keep the money safe in the bank till the situation eases out?

Suggested solution:

Section 45. (1) of the Public Finance Management Act is categorical that: An appropriation that has not been spent at the end of the financial year for which it was appropriated shall lapse immediately at the end of that financial year. A national government entity holding appropriated money that was withdrawn from the National Exchequer Account but has not been spent it shall repay the unspent money into the National Exchequer Account and shall prepare and submit a statement of the same to the Controller of Budget.

Illustration 26:

World Bank has expressed its interest to build a world class Cancer Centre in Western Kenya. The government has consented to the expression and has signed an agreement with World Bank which stipulates that World Bank will fund 95% of the project and the government of Kenya will fund 5% of the project. The Cabinet Secretary for health is of the opinion the project should commence immediately as suitable land has been indentified and cleared for the project. Advise the Cabinet Secretary for health accordingly.

Suggested solution:

The project cannot be inaugurated. This is because it was not included in the National government's budget. The Cabinet Secretary should ensure a budget is prepared for it and it is included in the National Government's budget or seek other approvals. The Public Finance Management Act directs, "If a project that is being financed by a grant or donation requires national government funding, the project may only be started when: the required funding has been appropriated or is authorised by other legislation or the Cabinet Secretary for Finance has given a written authorisation for the project to start."

Accounting for National Government expenditure

Expenditure accounting for national government is similar to expenditure accounting for County governments. This is because the two levels of governments use the same chart of accounts. The Public Finance and Management Act section 12 (e) directs that the National Treasury would design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting as contemplated by Article 226 of the Constitution. However, the only difference is, the national government has more vote heads than you would find at a county government for instance expenditure on defense.

The journal entries to pass in respect of national government expenditure are:

1. When goods or services are procured

Debit The relevant expenditure classification ac/General Ledgers/Vote head

Credit Personal ledgers

(Being commitment of services provided or goods delivered)

2. When payment is made

Debit Personal Ledgers

Credit Bank account

(Being payment made to trading partners)

3. When payment is made on cash basis

Debit The relevant expenditure classification ac/General Ledgers/Vote head

Credit Bank/Cash

(Being payment for services or purchase of goods)

4. When financial reports are drafted

Debit Income and Expenditure ac

Credit The expenditure classification ac/General Ledgers/Vote head

(Being closure of the relevant expenditure classification ac/General Ledgers/Vote head and amount transferred to Income and Expenditure Account)

Illustration 27:

The ministry of people's Force spend as listed below for the financial year 2024/25.

DATE	DETAILS	VOTE	AMOUNT-KSHS.
4-Sep-24	Shodo Diisa Nalesu	2210801	974,700
4-Sep-24	Tuka Ngezemu Nosdan	2210809	12,000
4-Sep-24	Tuka Ngezemu Nosdan	2210809	1,500,000
4-Sep-24	Shodo Diisa Nalesu	2210809	88,000
4-Sep-24	Shodo Diisa Nalesu	2210809	1,000,000
4-Sep-24	Shodo Diisa Nalesu	2210809	1,000,000
5-Sep-24	Shodo Diisa Nalesu	2210802	969,000
16-Sep-24	Shodo Diisa Nalesu	2210302	1,806,000
16-Sep-24	Tuka Ngezemu Nosdan	2210303	612,000
16-Sep-24	Matifa Mehamo	2210303	66,000
16-Sep-24	Matifa Mehamo	2210303	67,115
16-Sep-24	Tuka Ngezemu Nosdan	2210304	900,000
16-Sep-24	Ckylu Tech Solutions	2210502	1,508,470
16-Sep-24	Charmar Traders	2210502	1,386,142
16-Sep-24	Kaereny Construction Limited	2210801	1,302,855
16-Sep-24	Top Care Hotel Services	2210802	1,532,698
16-Sep-24	Ganhag Company Limited	2210802	1,012,588
16-Sep-24	Shodo Diisa Nalesu	2210802	1,500,000
16-Sep-24	Shaha Diba	6760103	642,259
17-Sep-24	Tuka Ngezemu Nosdan	2210302	700,000
19-Sep-24	Top Care Hotel Services	2210801	1,540,872
19-Sep-24	Top Care Hotel Services	2210801	1,833,169
19-Sep-24	Top Care Hotel Services	2210802	1,168,921
19-Sep-24	Kaereny Construction Limited	2210802	1,718,428
24-Sep-24	Ckylu Tech Solutions	2210502	1,420,991
24-Sep-24	Ckylu Tech Solutions	2210502	1,351,293
24-Sep-24	Charmar Traders	2210502	1,277,802
26-Sep-24	Shodo Diisa Nalesu	2210303	1,806,000
26-Sep-24	Tuka Ngezemu Nosdan	2210801	1,580,000
26-Sep-24	Shodo Diisa Nalesu	2210809	1,580,900
27-Sep-24	Shodo Diisa Nalesu	2210302	106,000
27-Sep-24	Shodo Diisa Nalesu	2210302	400,001
27-Sep-24	Shodo Diisa Nalesu	2210303	700,000
27-Sep-24	Shodo Diisa Nalesu	2210304	599,999
27-Sep-24	Ng'emara And Company Advocates	2211308	1,655,086
27-Sep-24	Shaha Diba	6760103	930,425
30-Sep-24	Shaha Diba	2210402	1,000,000
30-Sep-24	Shaha Diba	2210404	168,326
30-Sep-24	National Social Security Fund	2710101	84,956,000
1-Oct-24	Matifa Mehamo	2210302	70,460
1-Oct-24	Matifa Mehamo	2210303	62,600
2-Oct-24	Kenya Commercial Bank	2110117	20,000,000
2-Oct-24	Keneroro Albert	2210801	699,890
2-Oct-24	Yeyeyo Advocates Llp	2211308	14,372,414
2-Oct-24	Yeyeyo Advocates Llp	2211308	13,474,138
2-Oct-24	Lula And Fila Advocates	2211308	16,168,966
2-Oct-24	Lula And Fila Advocates	2211308	16,124,052
3-Oct-24	Yeyeyo Advocates Llp	2211308	12,575,862
3-Oct-24	Lula And Fila Advocates	2211308	16,034,224
4-Oct-24	Ckylu Tech Solutions	2210502	165,284
4-Oct-24	Ckylu Tech Solutions	2210502	853,448
4-Oct-24	Ckylu Tech Solutions	2210502	284,483
4-Oct-24	Tuka Ngezemu Nosdan	2210802	1,520,600
7-Oct-24	Ganhag Company Limited	2210801	1,451,867
7-Oct-24	Ganhag Company Limited	2210801	1,799,391
7-Oct-24	Kaereny Construction Limited	2210801	1,880,355

7-Oct-24	Yeyeyo Advocates Llp	2211308	5,030,345
7-Oct-24	Lula And Fila Advocates	2211308	10,835,003
7-Oct-24	Kenya Commercial Bank	2420303	60,000,000
7-Oct-24	David Keepo	6760103	98,800
9-Oct-24	Rogwa Kamore Dennis	2420499	1,495,700
9-Oct-24	Halima Saadia Abass	2420499	1,500,700
11-Oct-24	Matifa Mehamo	2210302	54,090
11-Oct-24	Matifa Mehamo	2210302	55,360
11-Oct-24	Wogusu Luba	2210303	66,000
11-Oct-24	Nahad Investmentltd	2210502	2,694,828
11-Oct-24	Top Care Hotel Services	2210801	1,489,703
11-Oct-24	Kaereny Construction Limited	2210801	1,720,097
11-Oct-24	Shodo Diisa Naitesu	2210802	1,496,950
11-Oct-24	Tuka Ngezemu Nosdan	2420499	1,560,000
14-Oct-24	Tuka Ngezemu Nosdan	2420499	1,448,000
16-Oct-24	Kenya Commercial Bank	2110117	16,364
16-Oct-24	Shodo Diisa Naitesu	2210802	1,550,000
16-Oct-24	Shaha Diba	6760103	97,800
16-Oct-24	Tuka Ngezemu Nosdan	6760103	29,355
18-Oct-24	Shodo Diisa Naitesu	2210802	831,600
22-Oct-24	Tuka Ngezemu Nosdan	2210303	1,663,500
28-Oct-24	Linerbrick Enterprises Limited	2211101	42,672
28-Oct-24	Linerbrick Enterprises Limited	3111002	845,388
29-Oct-24	Linerbrick Enterprises Limited	2211101	30,345
29-Oct-24	Linerbrick Enterprises Limited	3111001	1,204,310
29-Oct-24	Linerbrick Enterprises Limited	3111002	170,690
29-Oct-24	Linerbrick Enterprises Limited	3111009	145,086
30-Oct-24	Vijana Ministry	6530101	665,459,407
31-Oct-24	Kenya Commercial Bank	2110117	15,000,000
31-Oct-24	Kenya Commercial Bank	2110117	15,000,000
31-Oct-24	Tuka Ngezemu Nosdan	2210303	52,650
31-Oct-24	Yammar Hilabadil Mrubak	2210711	248,675
31-Oct-24	Shodo Diisa Naitesu	2210809	831,600
31-Oct-24	Starpedo Ltd	2211101	31,293
31-Oct-24	Kaacho And Company Advocates	2211308	1,796,552
31-Oct-24	Starpedo Ltd	3111001	713,103
31-Oct-24	Starpedo Ltd	3111009	302,405
31-Oct-24	Cadefa Investments	3111401	3,323,621
31-Oct-24	Cadefa Investments	3111401	2,919,397
31-Oct-24	Steadhamp Investment Limited	3111401	1,754,547
31-Oct-24	Lingster Facilities Management Limited	3111401	2,245,690
31-Oct-24	Steadhamp Investment Limited	3111403	1,796,552
31-Oct-24	Mdixa Supplies Ltd	3111403	2,370,690
31-Oct-24	Nafuu Mariam	6760103	196,800
31-Oct-24	Bumba Retoina Rillog	6760103	22,200
1-Nov-24	Jiha Nyimwi Nabwaki	2210801	73,500
1-Nov-24	Joseph Kipoo	6760103	98,800
4-Nov-24	Symashi Travel Agents	2210301	323,000
4-Nov-24	Symashi Travel Agents	2210301	2,100,000
4-Nov-24	Symashi Travel Agents	2210401	2,900,000
4-Nov-24	Nahad Investmentltd	3111401	3,593,103
4-Nov-24	Nahad Investmentltd	3111401	2,694,828
18-Nov-24	Shaha Diba	6760103	110,800
2-Dec-24	Matifa Mehamo	2210301	53,319
2-Dec-24	Matifa Mehamo	2210303	54,200
2-Dec-24	Matifa Mehamo	2210303	61,650
2-Dec-24	Matifa Mehamo	2210303	55,050
10-Dec-24	Nemamane General Limited	2210502	2,112,880

10-Dec-24	Kartfra Ltd	2210504	3,615,150
10-Dec-24	Kaereny Construction Limited	2210504	2,811,270
10-Dec-24	Top Care Hotel Services	2210802	3,931,051
11-Dec-24	Top Care Hotel Services	2210502	3,213,210
11-Dec-24	Nafuu Mariam	6760101	500,000
13-Dec-24	Shodo Diisa Nalesu	2210303	286,400
17-Dec-24	Wogusu Luba	2210302	350,000
17-Dec-24	Wogusu Luba	2210302	324,000
17-Dec-24	Tuka Ngezemu Nosdan	2210801	1,210,000
17-Dec-24	Mudida Christine	2210802	1,599,600
17-Dec-24	Tuka Ngezemu Nosdan	2210802	350,000
17-Dec-24	Tuka Ngezemu Nosdan	2210802	120,000
17-Dec-24	Tuka Ngezemu Nosdan	2420499	1,663,500
18-Dec-24	Kenya Commercial Bank	2110117	25,000,000
18-Dec-24	Kenya Commercial Bank	2110117	4,000,000
18-Dec-24	Symashi Travel Agents	2210301	477,500
18-Dec-24	Shodo Diisa Nalesu	2210303	1,000,400
18-Dec-24	Risid Rumba Hadmome	2210711	37,700
18-Dec-24	Matifa Mehamo	2210801	1,023,400
18-Dec-24	Shodo Diisa Nalesu	2210801	1,595,700
18-Dec-24	Starpedo Ltd	2211101	1,154,621
18-Dec-24	Starpedo Ltd	2211101	1,613,017
18-Dec-24	Sinie Construction Ltd	2420499	2,590,522
18-Dec-24	Kartfra Ltd	2420499	1,848,427
18-Dec-24	Viewroov Limited	2420499	4,496,875
18-Dec-24	Ganhag Company Limited	2420499	1,318,009
18-Dec-24	Ganhag Company Limited	2420499	1,801,724
18-Dec-24	Sinie Construction Ltd	2420501	893,652
18-Dec-24	Ratesco Ultimate Supplies	3111111	1,612,069
19-Dec-24	Matifa Mehamo	2210301	55,100
19-Dec-24	Matifa Mehamo	2210301	67,500
19-Dec-24	Tuka Ngezemu Nosdan	2210809	831,600
19-Dec-24	Matifa Mehamo	2210809	831,600
19-Dec-24	Shodo Diisa Nalesu	2210809	793,800
19-Dec-24	Groveto Holdings Ltd	2420499	1,840,129
23-Dec-24	Kenya Commercial Bank	2110117	210,803
23-Dec-24	Nestgolg Trading Co.	2211201	8,549,266
23-Dec-24	Starpedo Ltd	2610101	16,968,344
30-Dec-24	Tuka Ngezemu Nosdan	2210801	1,380,000
30-Dec-24	Shodo Diisa Nalesu	2210801	1,420,700
30-Dec-24	Kartfra Ltd	2420499	1,738,986
30-Dec-24	Kartfra Ltd	2420499	1,041,231
30-Dec-24	Ganhag Company Limited	2420499	1,783,271
31-Dec-24	Tuka Ngezemu Nosdan	2210801	1,502,600
31-Dec-24	Shodo Diisa Nalesu	2210801	1,550,000
2-Jan-25	Rookben General Supplies	2210502	946,759
3-Jan-25	Shodo Diisa Nalesu	2210801	1,391,000
14-Jan-25	Kenya Power And Lighting Company Limited	2210101	14,593,893
14-Jan-25	Kenya Power And Lighting Company Limited	2210101	9,697,411
14-Jan-25	Shodo Diisa Nalesu	2210302	1,650,000
14-Jan-25	Tuka Ngezemu Nosdan	2210801	1,420,700
15-Jan-25	Shodo Diisa Nalesu	2210301	72,000
15-Jan-25	Tuka Ngezemu Nosdan	2210302	988,500
15-Jan-25	Rookben General Supplies	2210502	957,853
17-Jan-25	Shodo Diisa Nalesu	2210802	793,800
20-Jan-25	David Keepo	6760103	30,000
22-Jan-25	Kenya Commercial Bank	2110117	107,174
22-Jan-25	Kenya Commercial Bank	2110117	294,019

23-Jan-25	Brokelad Enterprise Limited	2210710	431,915
23-Jan-25	Shodo Diisa Nalesu	2210801	1,391,000
5-Feb-25	Shodo Diisa Nalesu	2210801	1,309,000
5-Feb-25	Tuka Ngezemu Nosdan	2210802	1,667,800
6-Feb-25	Tuka Ngezemu Nosdan	2210801	1,370,400
6-Feb-25	Tuka Ngezemu Nosdan	2210802	1,129,600
6-Feb-25	Shodo Diisa Nalesu	2210802	1,199,000
6-Feb-25	Heimgra Company Limited	2420499	779,063
7-Feb-25	Ratesco Ultimate Supplies	2420499	1,148,000
7-Feb-25	Visionflo Investments Ltd	2420499	356,152
10-Feb-25	Kenya Commercial Bank	2120103	25,000,000
10-Feb-25	Ndetori Agencies Limited	2210201	490,733
10-Feb-25	Symashi Travel Agents	2210301	660,000
10-Feb-25	Dentori Agencies Limited	2211016	881,897
10-Feb-25	Ngangamkawu And Sons Limited	2420499	977,352
10-Feb-25	Macape Enterprises Limited	2420499	936,178
10-Feb-25	Maxrejo Holdings Limited	2420499	358,233
10-Feb-25	Portsea Operations	2420499	926,065
10-Feb-25	Nisuba Investments Ltd	2420499	340,585
10-Feb-25	Coosta Plc	2420499	1,651,035
10-Feb-25	Coosta Plc	2420499	1,827,440
10-Feb-25	Ratesco Ultimate Supplies	2420499	1,128,207
10-Feb-25	Ratesco Ultimate Supplies	2420499	980,793
10-Feb-25	Wellco Merchants	2420499	311,133
10-Feb-25	Grovetop Holdings Ltd	2420499	1,707,418
12-Feb-25	Symashi Travel Agents	2210301	372,100
12-Feb-25	Symashi Travel Agents	2210301	1,656,000
12-Feb-25	Symashi Travel Agents	2210401	984,000
12-Feb-25	Symashi Travel Agents	2210401	1,962,000
12-Feb-25	Nafuu Mariam	2210801	499,814
12-Feb-25	Shodo Diisa Nalesu	2210801	1,988,300
12-Feb-25	Nestgolg Trading Co.	2211201	10,000,000
13-Feb-25	Woodbridge Ltd	2420499	1,532,160
13-Feb-25	Migande Charles	6760103	1,631,600
13-Feb-25	David Dadao	6760103	1,046,600
14-Feb-25	Kenya Commercial Bank	2110315	192,000
14-Feb-25	Matifa Mehamo	2210301	67,400
14-Feb-25	Matifa Mehamo	2210301	78,300
14-Feb-25	Matifa Mehamo	2210303	87,600
14-Feb-25	Top Care Hotel Services	2420499	1,383,724
14-Feb-25	Top Care Hotel Services	2420499	1,678,871
14-Feb-25	Visionflo Investments Ltd	2420499	1,908,517
14-Feb-25	Kartfra Ltd	2420499	1,403,699
14-Feb-25	Kartfra Ltd	2420499	1,677,618
14-Feb-25	Kartfra Ltd	2420499	1,703,661
14-Feb-25	Kartfra Ltd	2420499	1,863,089
14-Feb-25	Mhana Lufwosi	6760103	847,800
14-Feb-25	Martin Mkuba	6760103	847,800
14-Feb-25	David Dadao	6760103	847,800
14-Feb-25	Grace Neema	6760103	762,300
17-Feb-25	Symashi Travel Agents	2210401	4,749,000
17-Feb-25	Visionflo Investments Ltd	2420499	242,545
17-Feb-25	Kartfra Ltd	2420499	1,669,176
17-Feb-25	Ganhag Company Limited	2420499	1,805,377
17-Feb-25	Shaha Diba	6760103	1,905,300
17-Feb-25	Migande Charles	6760103	1,141,800
17-Feb-25	Ndzilla Mwene	6760103	1,500,000
17-Feb-25	Nilaji Kebeku	6760103	1,500,000

18-Feb-25	Marosa Comm Ltd	2211101	78,530
18-Feb-25	Sinie Construction Ltd	2420499	1,101,349
18-Feb-25	Servsuperlimited	2420499	2,640,102
18-Feb-25	Sinie Construction Ltd	2420499	2,034,767
20-Feb-25	Shodo Diisa Nalesu	2210801	100,000
20-Feb-25	Muna Risikili	6760101	50,000
25-Feb-25	Matifa Mehamo	2210301	24,000
25-Feb-25	Matifa Mehamo	2210301	44,500
25-Feb-25	Matifa Mehamo	2210302	39,000
25-Feb-25	Matifa Mehamo	2210303	42,400
25-Feb-25	Ganhag Company Limited	2210502	3,468,906
25-Feb-25	Kartfra Ltd	2210801	3,055,499
25-Feb-25	Kaereny Construction Limited	2210801	4,526,665
25-Feb-25	Nisuba Investments Ltd	2210802	2,489,666
25-Feb-25	Manemane General Limited	2210802	2,602,832
26-Feb-25	Shaha Diba	2210302	1,620,000
26-Feb-25	Shodo Diisa Nalesu	2210801	1,246,700
27-Feb-25	Wabi Tech Ltd	2420499	6,928,916
3-Mar-25	Portsea Operations	2420499	600,084
4-Mar-25	Wote General Suppliers	2420499	1,917,853
4-Mar-25	Tegia Enterprises	2420499	3,555,000
4-Mar-25	Ratesco Ultimate Supplies	2420499	567,838
4-Mar-25	Roymic Investments	3110504	910,345
6-Mar-25	Zam Engineering And Construction Limited	2420499	871,072
6-Mar-25	Wote General Suppliers	2420499	1,271,591
6-Mar-25	Sinie Construction Ltd	2420499	1,168,919
20-Mar-25	Kenya Commercial Bank	2110315	252,000
20-Mar-25	Kenya Commercial Bank	2110315	450,800
20-Mar-25	Kenya Commercial Bank	2110315	483,000
20-Mar-25	Kenya Commercial Bank	2110315	705,600
20-Mar-25	Kenya Commercial Bank	2110315	756,000
20-Mar-25	Kenya Commercial Bank	2110315	764,400
20-Mar-25	Kenya Commercial Bank	2110315	793,800
20-Mar-25	Kenya Commercial Bank	2110315	793,800
20-Mar-25	Cordrip Enterprises Limited	2210502	1,965,517
20-Mar-25	Lusiki Mboko	2210801	711,900
20-Mar-25	Shaha Diba	2210802	831,600
20-Mar-25	Ladiba Wanyonyi	2210802	260,400
20-Mar-25	Naisunyai Contractors Limited	3111001	160,727
20-Mar-25	Naisunyai Contractors Limited	3111002	124,667
20-Mar-25	Naisunyai Contractors Limited	3111002	668,158
20-Mar-25	Naisunyai Contractors Limited	3111009	380,003
20-Mar-25	Wafula Mfvesi	6760103	1,920,000
20-Mar-25	Agutu Holder	6760103	1,078,000
23-Mar-25	Tuka Ngezemu Nosdan	2210301	61,650
23-Mar-25	Tuka Ngezemu Nosdan	2210303	87,250
23-Mar-25	Institute Of Accountant	2211306	22,200
23-Mar-25	Institute Of Accountant	2211306	126,400
23-Mar-25	Innovators Massive.	2420499	1,955,690
23-Mar-25	Jampre Enterprise Ltd	3110504	9,969,431
23-Mar-25	Naisunyai Contractors Limited	3111002	663,362
23-Mar-25	Naisunyai Contractors Limited	3111009	999,466
23-Mar-25	Guba Kiboko	6760103	50,000
25-Mar-25	Konsharly Investment Limited	2210502	2,635,794
25-Mar-25	Nisuba Investments Ltd	2420499	1,839,749
31-Mar-25	Small And Medium Enterprizes	2520101	90,000,000
9-Apr-25	Institute Of Accountant	2211306	22,400
14-Apr-25	Matifa Mehamo	2210303	57,000

15-Apr-25	Kenya Commercial Bank	2120103	25,000,000
15-Apr-25	Tuka Ngezemu Nosdan	2210302	1,921,500
15-Apr-25	Shodo Diisa Naitesu	2210302	1,804,500
15-Apr-25	Shodo Diisa Naitesu	2210302	1,901,500
15-Apr-25	Top Care Hotel Services	2210502	2,864,325
15-Apr-25	Gomasa Ltd	2210502	486,049
15-Apr-25	Gomasa Ltd	2210502	1,965,517
15-Apr-25	Reflex Trading	2210502	1,936,035
15-Apr-25	Kartfra Ltd	2210502	2,726,739
15-Apr-25	Ganhag Company Limited	2210502	3,139,497
15-Apr-25	Nemamane General Limited	2210502	2,879,932
15-Apr-25	Meznicho Enterprise	2210502	3,643,503
15-Apr-25	Teobo General Supplies Ltd	2210502	2,589,152
15-Apr-25	Zotez Logistics Limited	2210502	3,001,911
15-Apr-25	Zotez Logistics Limited	2210502	3,191,202
15-Apr-25	Top Care Hotel Services	2210504	1,965,517
15-Apr-25	Top Care Hotel Services	2210504	1,535,611
15-Apr-25	Nisuba Investments Ltd	2210504	3,358,755
15-Apr-25	Kartfra Ltd	2210504	3,216,380
15-Apr-25	Kaereny Construction Limited	2210504	3,979,951
15-Apr-25	Nafuu Mariam	2210801	190,000
15-Apr-25	Nafuu Mariam	2210801	120,000
15-Apr-25	Nafuu Mariam	2210801	126,134
15-Apr-25	Genxifle Caterings	2210802	2,942,332
15-Apr-25	Ganhag Company Limited	2210802	3,394,999
15-Apr-25	Reflex Trading	2211006	1,926,207
15-Apr-25	Serode Investments	2211006	972,931
15-Apr-25	Serode Investments	2211006	972,931
15-Apr-25	Grovetop Holdings Ltd	2211103	1,379,636
15-Apr-25	Nestgolg Trading Co.	2211201	10,300,000
16-Apr-25	Symashi Travel Agents	2210301	5,846,000
16-Apr-25	Rookben General Supplies	2210502	2,354,272
16-Apr-25	Chopung Investments Ltd	2211102	8,470,986
17-Apr-25	Ratesco Ultimate Supplies	2210202	1,867,241
20-Apr-25	Rookben General Supplies	2210502	3,311,769
20-Apr-25	Grovetop Holdings Ltd	2211004	1,553,496
20-Apr-25	Brokelad Enterprise Limited	2211004	1,553,496
20-Apr-25	Brokelad Enterprise Limited	2211004	1,572,414
22-Apr-25	Kenya Commercial Bank	2110403	96,105
22-Apr-25	Sinie Construction Ltd	2420499	1,045,602
22-Apr-25	Fiqtaw Mohamed Salim And Company Limited	2420499	1,015,364
24-Apr-25	Woodbridge Ltd	2420499	583,002
24-Apr-25	Woodbridge Ltd	2420499	294,828
4-May-25	Lemart Agencies Limited	3111002	142,500
8-May-25	Matifa Mehamo	2210303	45,020
8-May-25	Matifa Mehamo	2210303	64,100
12-May-25	Lacadia Limited	2610101	7,763,793
12-May-25	Tuiki Flour Mills Limited	2610101	6,750,000
12-May-25	Mbamosa Pulses Supplies Limited	2610101	34,040,000
12-May-25	Makenphar Limited	2610101	2,633,806
12-May-25	Nipwaoil Products Ltd	2610101	21,209,254
19-May-25	Kenya Commercial Bank	2110117	12,185,230
19-May-25	Nestgolg Trading Co.	2211201	10,000,000
20-May-25	Kenya Commercial Bank	2110315	411,600
20-May-25	Kenya Commercial Bank	2110403	2,000,000
20-May-25	Symashi Travel Agents	2210301	4,642,500
20-May-25	Symashi Travel Agents	2210401	160,100
20-May-25	Nisuba Investments Ltd	2210604	1,474,138

20-May-25	Grovetop Holdings Ltd	2211101	1,179,310
20-May-25	Pissaro Trading Limited	2211101	1,639,595
20-May-25	Grovetop Holdings Ltd	2211102	687,931
20-May-25	Grovetop Holdings Ltd	2211102	2,948,276
20-May-25	Youth Hustle	2420499	884,483
20-May-25	Smartgenz Enterprises Limited	2420499	3,490,307
20-May-25	Bumba Retoina Rillog	6760103	1,000,000
21-May-25	Zibu Afrigue	2420499	1,031,897
27-May-25	Kenya Commercial Bank	2110315	793,800
27-May-25	Kenya Commercial Bank	2110315	756,000
27-May-25	Kenya Commercial Bank	2110315	793,800
30-Jun-25	Kenya Commercial Bank	2410201	4,725,000

Your ascertain that the ministry is using the following chart of accounts.

VOTE	VOTE HEAD	
2100000	Compensation to Employees	
2210100	Utilities Supplies and Services	use of goods and services
2210200	Communication, Supplies and Services	use of goods and services
2210300	Domestic Travel and Subsistence, and Other Transportation Costs	use of goods and services
2210400	Foreign travel and Subsistence Allowance	use of goods and services
2210500	Printing , Advertising and Information Supplies and Services	use of goods and services
2210600	Rentals of Produced Assets	use of goods and services
2210700	Training Expense (including capacity building)	use of goods and services
2210800	Hospitality Supplies and Services	use of goods and services
2210900	Insurance Costs	use of goods and services
2211000	Specialised Materials and Supplies	use of goods and services
2211200	Fuel Oil and Lubricants	use of goods and services
2211300	Other Operating Expenses	use of goods and services
2420300	Repayment of principal on Domestic and Foreign borrowing	
2420400	Other Payments	
2420500	Interest payments	
2410200	Finance Costs	
2520100	Subsidies	
2610100	Grants and Other Transfers to Other Govt. Units	
2710100	Social Security Benefits	
3110500	Construction and Civil Works	Acquisition of Assets
3111000	Purchase of Office Furniture and General Equipment	Acquisition of Assets
3111100	Purchase of Specialised Plant, Equipment and Machinery	Acquisition of Assets
3111400	Research, Feasibility Studies, Project Preparation and Design, Project Supervision	Acquisition of Assets
6530000	Transfer to other ministries	
6760000	Imprests and cash advances	

Required:-

Prepare the General Ledgers and close them off to show what happens and the end of the year.

Suggested solution

The General Ledgers

Ministry of People's Force

General Ledgers

2100000 Compensation To Employees					
Date	Details	Amount- Kshs.	Date	Details	Amount- Kshs.
2-Oct-24	Kenya Commercial Bank	20,000,000			
16-Oct-24	Kenya Commercial Bank	16,364			
31-Oct-24	Kenya Commercial Bank	15,000,000			
31-Oct-24	Kenya Commercial Bank	15,000,000			
18-Dec-24	Kenya Commercial Bank	25,000,000			
18-Dec-24	Kenya Commercial Bank	4,000,000			
23-Dec-24	Kenya Commercial Bank	210,803			
22-Jan-25	Kenya Commercial Bank	107,174			
22-Jan-25	Kenya Commercial Bank	294,019			
19-May-25	Kenya Commercial Bank	12,185,230			
14-Feb-25	Kenya Commercial Bank	192,000			
20-Mar-25	Kenya Commercial Bank	252,000			
20-Mar-25	Kenya Commercial Bank	450,800			
20-Mar-25	Kenya Commercial Bank	483,000			
20-Mar-25	Kenya Commercial Bank	705,600			
20-Mar-25	Kenya Commercial Bank	756,000			
20-Mar-25	Kenya Commercial Bank	764,400			
20-Mar-25	Kenya Commercial Bank	793,800			
20-Mar-25	Kenya Commercial Bank	793,800			
20-May-25	Kenya Commercial Bank	411,600			
27-May-25	Kenya Commercial Bank	793,800			
27-May-25	Kenya Commercial Bank	756,000			
27-May-25	Kenya Commercial Bank	793,800			
22-Apr-25	Kenya Commercial Bank	96,105			
20-May-25	Kenya Commercial Bank	2,000,000			
10-Feb-25	Kenya Commercial Bank	25,000,000			
15-Apr-25	Kenya Commercial Bank	25,000,000	30-Jun-25	Income & Expenditure	151,856,295
		151,856,295			151,856,295

2210100 Utilities Supplies And Services					
Date	Details	Amount-	Date	Details	Amount-

		Kshs.			Kshs.
14-Jan-25	Kenya Power And Lighting Company Limited	14,593,893			
14-Jan-25	Kenya Power And Lighting Company Limited	9,697,411	30-Jun-25	Income & Expenditure	24,291,304
		24,291,304			24,291,304

2210200 Communication, Supplies And Services					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
10-Feb-25	Ndetori Agencies Limited	490,733			
17-Apr-25	Ratesco Ultimate Supplies	1,867,241	30-Jun-25	Income & Expenditure	2,357,974
		2,357,974			2,357,974

2210300 Domestic Travel And Subsistence, And Other Transportation Costs					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
23-Mar-25	Tuka Ngezemu Nosdan	61,650			
19-Dec-24	Matifa Mehamo	55,100			
2-Dec-24	Matifa Mehamo	53,319			
19-Dec-24	Matifa Mehamo	67,500			
25-Feb-25	Matifa Mehamo	24,000			
25-Feb-25	Matifa Mehamo	44,500			
14-Feb-25	Matifa Mehamo	67,400			
14-Feb-25	Matifa Mehamo	78,300			
4-Nov-24	Symashi Travel Agents	323,000			
4-Nov-24	Symashi Travel Agents	2,100,000			
18-Dec-24	Symashi Travel Agents	477,500			
12-Feb-25	Symashi Travel Agents	372,100			
10-Feb-25	Symashi Travel Agents	660,000			
12-Feb-25	Symashi Travel Agents	1,656,000			
16-Apr-25	Symashi Travel Agents	5,846,000			
20-May-25	Symashi Travel Agents	4,642,500			
15-Jan-25	Shodo Diisa Nalesu	72,000			
17-Dec-24	Wogusu Luba	350,000			
17-Dec-24	Wogusu Luba	324,000			
26-Feb-25	Shaha Diba	1,620,000			
17-Sep-24	Tuka Ngezemu Nosdan	700,000			
15-Jan-25	Tuka Ngezemu Nosdan	988,500			
15-Apr-25	Tuka Ngezemu Nosdan	1,921,500			
11-Oct-24	Matifa Mehamo	54,090			
11-Oct-24	Matifa Mehamo	55,360			
1-Oct-24	Matifa Mehamo	70,460			
25-Feb-25	Matifa Mehamo	39,000			
16-Sep-24	Shodo Diisa Nalesu	1,806,000			

27-Sep-24	Shodo Diisa Nalesu	106,000			
27-Sep-24	Shodo Diisa Nalesu	400,001			
14-Jan-25	Shodo Diisa Nalesu	1,650,000			
15-Apr-25	Shodo Diisa Nalesu	1,804,500			
15-Apr-25	Shodo Diisa Nalesu	1,901,500			
11-Oct-24	Wogusu Luba	66,000			
16-Sep-24	Tuka Ngezemu Nosdan	612,000			
31-Oct-24	Tuka Ngezemu Nosdan	52,650			
22-Oct-24	Tuka Ngezemu Nosdan	1,663,500			
23-Mar-25	Tuka Ngezemu Nosdan	87,250			
16-Sep-24	Matifa Mehama	66,000			
16-Sep-24	Matifa Mehama	67,115			
1-Oct-24	Matifa Mehama	62,600			
2-Dec-24	Matifa Mehama	54,200			
2-Dec-24	Matifa Mehama	61,650			
2-Dec-24	Matifa Mehama	55,050			
25-Feb-25	Matifa Mehama	42,400			
14-Feb-25	Matifa Mehama	87,600			
14-Apr-25	Matifa Mehama	57,000			
8-May-25	Matifa Mehama	45,020			
8-May-25	Matifa Mehama	64,100			
27-Sep-24	Shodo Diisa Nalesu	700,000			
26-Sep-24	Shodo Diisa Nalesu	1,806,000			
18-Dec-24	Shodo Diisa Nalesu	1,000,400			
13-Dec-24	Shodo Diisa Nalesu	286,400			
16-Sep-24	Tuka Ngezemu Nosdan	900,000			
27-Sep-24	Shodo Diisa Nalesu	599,999	30-Jun-25	Income & Expenditure	38,828,714
		38,828,714			38,828,714

2210400 Foreign Travel And Subsistence Allowance

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
4-Nov-24	Symashi Travel Agents	2,900,000			
12-Feb-25	Symashi Travel Agents	984,000			
12-Feb-25	Symashi Travel Agents	1,962,000			
17-Feb-25	Symashi Travel Agents	4,749,000			
20-May-25	Symashi Travel Agents	160,100			
30-Sep-24	Shaha Diba	1,000,000			
30-Sep-24	Shaha Diba	168,326	30-Jun-25	Income & Expenditure	11,923,426
		11,923,426			11,923,426

2210500 Printing , Advertising And Information Supplies And Services

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
11-Dec-24	Top Care Hotel Services	3,213,210			
15-Apr-25	Top Care Hotel Services	2,864,325			

15-Apr-25	Gomasa Ltd	486,049			
15-Apr-25	Gomasa Ltd	1,965,517			
15-Apr-25	Reflex Trading	1,936,035			
2-Jan-25	Rookben General Supplies	946,759			
15-Jan-25	Rookben General Supplies	957,853			
16-Apr-25	Rookben General Supplies	2,354,272			
20-Apr-25	Rookben General Supplies	3,311,769			
15-Apr-25	Kartfra Ltd	2,726,739			
25-Feb-25	Ganhag Company Limited	3,468,906			
15-Apr-25	Ganhag Company Limited	3,139,497			
11-Oct-24	Nahad InvestmentLtd	2,694,828			
16-Sep-24	Ckylu Tech Solutions	1,508,470			
24-Sep-24	Ckylu Tech Solutions	1,420,991			
24-Sep-24	Ckylu Tech Solutions	1,351,293			
4-Oct-24	Ckylu Tech Solutions	165,284			
4-Oct-24	Ckylu Tech Solutions	853,448			
4-Oct-24	Ckylu Tech Solutions	284,483			
10-Dec-24	Nemamane General Limited	2,112,880			
15-Apr-25	Nemamane General Limited	2,879,932			
24-Sep-24	Charmar Traders	1,277,802			
16-Sep-24	Charmar Traders	1,386,142			
15-Apr-25	Meznicho Enterprise	3,643,503			
15-Apr-25	Teobo General Supplies Ltd	2,589,152			
20-Mar-25	Cordrip Enterprises Limited	1,965,517			
25-Mar-25	Konsharly Investment Limited	2,635,794			
15-Apr-25	Zotez Logistics Limited	3,001,911			
15-Apr-25	Zotez Logistics Limited	3,191,202			
15-Apr-25	Top Care Hotel Services	1,965,517			
15-Apr-25	Top Care Hotel Services	1,535,611			
15-Apr-25	Nisuba Investments Ltd	3,358,755			
10-Dec-24	Kartfra Ltd	3,615,150			
15-Apr-25	Kartfra Ltd	3,216,380			
10-Dec-24	Kaereny Construction Limited	2,811,270			
15-Apr-25	Kaereny Construction Limited	3,979,951	30-Jun-25	Income & Expenditure	80,816,197
		80,816,197			80,816,197

2210600 Rentals Of Produced Assets

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
20-May-25	Nisuba Investments Ltd	1,474,138	30-Jun-25	Income & Expenditure	1,474,138
		1,474,138			1,474,138

2210700 Training Expense (Including Capacity Building)

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
23-Jan-25	Brokelad Enterprise Limited	431,915			

18-Dec-24	Risid Rumba Hadmome	37,700			
31-Oct-24	Yammar Hilabadil Mrubak	248,675	30-Jun-25	Income & Expenditure	718,290
		718,290			718,290

2210800 Hospitality Supplies And Services					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
23-Jan-25	Shodo Diisa Nalesu	1,391,000			
2-Oct-24	Keneroro Albert	699,890			
12-Feb-25	Nafuu Mariam	499,814			
15-Apr-25	Nafuu Mariam	190,000			
15-Apr-25	Nafuu Mariam	120,000			
15-Apr-25	Nafuu Mariam	126,134			
19-Sep-24	Top Care Hotel Services	1,540,872			
19-Sep-24	Top Care Hotel Services	1,833,169			
11-Oct-24	Top Care Hotel Services	1,489,703			
26-Sep-24	Tuka Ngezemu Nosdan	1,580,000			
17-Dec-24	Tuka Ngezemu Nosdan	1,210,000			
31-Dec-24	Tuka Ngezemu Nosdan	1,502,600			
30-Dec-24	Tuka Ngezemu Nosdan	1,380,000			
14-Jan-25	Tuka Ngezemu Nosdan	1,420,700			
6-Feb-25	Tuka Ngezemu Nosdan	1,370,400			
18-Dec-24	Matifa Mehamo	1,023,400			
25-Feb-25	Kartfra Ltd	3,055,499			
20-Mar-25	Lusiki Mboko	711,900			
7-Oct-24	Ganhag Company Limited	1,451,867			
7-Oct-24	Ganhag Company Limited	1,799,391			
1-Nov-24	Jiha Nyimwi Nabwaki	73,500			
16-Sep-24	Kaereny Construction Limited	1,302,855			
11-Oct-24	Kaereny Construction Limited	1,720,097			
7-Oct-24	Kaereny Construction Limited	1,880,355			
25-Feb-25	Kaereny Construction Limited	4,526,665			
4-Sep-24	Shodo Diisa Nalesu	974,700			
18-Dec-24	Shodo Diisa Nalesu	1,595,700			
31-Dec-24	Shodo Diisa Nalesu	1,550,000			
30-Dec-24	Shodo Diisa Nalesu	1,420,700			
3-Jan-25	Shodo Diisa Nalesu	1,391,000			
20-Feb-25	Shodo Diisa Nalesu	100,000			
5-Feb-25	Shodo Diisa Nalesu	1,309,000			
12-Feb-25	Shodo Diisa Nalesu	1,988,300			
26-Feb-25	Shodo Diisa Nalesu	1,246,700			
20-Mar-25	Shaha Diba	831,600			
16-Sep-24	Top Care Hotel Services	1,532,698			
19-Sep-24	Top Care Hotel Services	1,168,921			
10-Dec-24	Top Care Hotel Services	3,931,051			

25-Feb-25	Nisuba Investments Ltd	2,489,666			
20-Mar-25	Ladiba Wanyonyi	260,400			
17-Dec-24	Mudida Christine	1,599,600			
4-Oct-24	Tuka Ngezemu Nosdan	1,520,600			
17-Dec-24	Tuka Ngezemu Nosdan	350,000			
17-Dec-24	Tuka Ngezemu Nosdan	120,000			
6-Feb-25	Tuka Ngezemu Nosdan	1,129,600			
5-Feb-25	Tuka Ngezemu Nosdan	1,667,800			
15-Apr-25	Genxifle Caterings	2,942,332			
16-Sep-24	Ganhag Company Limited	1,012,588			
15-Apr-25	Ganhag Company Limited	3,394,999			
19-Sep-24	Kaereny Construction Limited	1,718,428			
25-Feb-25	Manemane General Limited	2,602,832			
5-Sep-24	Shodo Diisa Nalesu	969,000			
16-Sep-24	Shodo Diisa Nalesu	1,500,000			
18-Oct-24	Shodo Diisa Nalesu	831,600			
16-Oct-24	Shodo Diisa Nalesu	1,550,000			
11-Oct-24	Shodo Diisa Nalesu	1,496,950			
17-Jan-25	Shodo Diisa Nalesu	793,800			
6-Feb-25	Shodo Diisa Nalesu	1,199,000			
4-Sep-24	Tuka Ngezemu Nosdan	12,000			
4-Sep-24	Tuka Ngezemu Nosdan	1,500,000			
19-Dec-24	Tuka Ngezemu Nosdan	831,600			
19-Dec-24	Matifa Mehama	831,600			
4-Sep-24	Shodo Diisa Nalesu	88,000			
26-Sep-24	Shodo Diisa Nalesu	1,580,900			
4-Sep-24	Shodo Diisa Nalesu	1,000,000			
4-Sep-24	Shodo Diisa Nalesu	1,000,000			
31-Oct-24	Shodo Diisa Nalesu	831,600			
19-Dec-24	Shodo Diisa Nalesu	793,800	30-Jun-25	Income & Expenditure	90,558,876
		90,558,876			90,558,876

2210900 Insurance Costs

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
20-Apr-25	Grovotop Holdings Ltd	1,553,496			
20-Apr-25	Brokelad Enterprise Limited	1,553,496			
20-Apr-25	Brokelad Enterprise Limited	1,572,414			
15-Apr-25	Reflex Trading	1,926,207			
15-Apr-25	Serode Investments	972,931			
15-Apr-25	Serode Investments	972,931			
10-Feb-25	Dentori Agencies Limited	881,897	30-Jun-25	Income & Expenditure	9,433,371
		9,433,371			9,433,371

2211000 Specialised Materials And Supplies

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
18-Feb-25	Marosa Comm Ltd	78,530			
29-Oct-24	Linerbrick Enterprises Limited	30,345			
28-Oct-24	Linerbrick Enterprises Limited	42,672			
31-Oct-24	Starpedo Ltd	31,293			
18-Dec-24	Starpedo Ltd	1,154,621			
18-Dec-24	Starpedo Ltd	1,613,017			
20-May-25	Grovetop Holdings Ltd	1,179,310			
20-May-25	Pissaro Trading Limited	1,639,595			
20-May-25	Grovetop Holdings Ltd	687,931			
20-May-25	Grovetop Holdings Ltd	2,948,276			
16-Apr-25	Chopung Investments Ltd	8,470,986			
15-Apr-25	Grovetop Holdings Ltd	1,379,636	30-Jun-25	Income & Expenditure	19,256,213
		19,256,213			19,256,213

2211200 Fuel Oil And Lubricants

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
23-Dec-24	Nestgolg Trading Co.	8,549,266			
12-Feb-25	Nestgolg Trading Co.	10,000,000			
15-Apr-25	Nestgolg Trading Co.	10,300,000			
19-May-25	Nestgolg Trading Co.	10,000,000	30-Jun-25	Income & Expenditure	38,849,266
		38,849,266			38,849,266

2211300 Other Operating Expenses

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
23-Mar-25	Institute Of Accountant	22,200			
23-Mar-25	Institute Of Accountant	126,400			
9-Apr-25	Institute Of Accountant	22,400			
27-Sep-24	Ng'emara And Company Advocates	1,655,086			
7-Oct-24	Yeyeyo Advocates Llp	5,030,345			
2-Oct-24	Yeyeyo Advocates Llp	14,372,414			
2-Oct-24	Yeyeyo Advocates Llp	13,474,138			
3-Oct-24	Yeyeyo Advocates Llp	12,575,862			
7-Oct-24	Lula And Fila Advocates	10,835,003			
2-Oct-24	Lula And Fila Advocates	16,168,966			
2-Oct-24	Lula And Fila Advocates	16,124,052			
3-Oct-24	Lula And Fila Advocates	16,034,224			
31-Oct-24	Kaacho And Company Advocates	1,796,552	30-Jun-25	Income & Expenditure	108,237,641
		108,237,641			108,237,641

2410200 Finance Costs

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
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30-Jun-25	Kenya Commercial Bank	4,725,000	30-Jun-25	Income & Expenditure	4,725,000
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2420300 Repayment Of Principal On Domestic And Foreign Borrowing

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
7-Oct-24	Kenya Commercial Bank	60,000,000	30-Jun-25	Income & Expenditure	60,000,000

2420400 Other Creditors

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
18-Feb-25	Sinie Construction Ltd	1,101,349			
22-Apr-25	Sinie Construction Ltd	1,045,602			
6-Feb-25	Heimga Company Limited	779,063			
6-Mar-25	Zam Engineering And Construction Limited	871,072			
10-Feb-25	Ngangamkawu And Sons Limited	977,352			
10-Feb-25	Macape Enterprises Limited	936,178			
10-Feb-25	Maxrejo Holdings Limited	358,233			
10-Feb-25	Portsea Operations	926,065			
3-Mar-25	Portsea Operations	600,084			
18-Feb-25	Servsuperlimited	2,640,102			
22-Apr-25	Fiqtaw Mohamed Salim And Company Limited	1,015,364			
6-Mar-25	Wote General Suppliers	1,271,591			
4-Mar-25	Wote General Suppliers	1,917,853			
4-Mar-25	Tegia Enterprises	3,555,000			
14-Feb-25	Top Care Hotel Services	1,383,724			
14-Feb-25	Top Care Hotel Services	1,678,871			
10-Feb-25	Nisuba Investments Ltd	340,585			
25-Mar-25	Nisuba Investments Ltd	1,839,749			
27-Feb-25	Wabi Tech Ltd	6,928,916			
13-Feb-25	Woodbridge Ltd	1,532,160			
24-Apr-25	Woodbridge Ltd	583,002			
24-Apr-25	Woodbridge Ltd	294,828			
21-May-25	Zibu Afrigue	1,031,897			
23-Mar-25	Invovators Massive.	1,955,690			
10-Feb-25	Coosta Plc	1,651,035			
10-Feb-25	Coosta Plc	1,827,440			
10-Feb-25	Ratesco Ultimate Supplies	1,128,207			
7-Feb-25	Ratesco Ultimate Supplies	1,148,000			
10-Feb-25	Ratesco Ultimate Supplies	980,793			
4-Mar-25	Ratesco Ultimate Supplies	567,838			
10-Feb-25	Wellco Merchants	311,133			
11-Oct-24	Tuka Ngezemu Nosdan	1,560,000			
14-Oct-24	Tuka Ngezemu Nosdan	1,448,000			

17-Dec-24	Tuka Ngezemu Nosdan	1,663,500			
20-May-25	Youth Hustle	884,483			
18-Feb-25	Sinie Construction Ltd	2,034,767			
18-Dec-24	Sinie Construction Ltd	2,590,522			
6-Mar-25	Sinie Construction Ltd	1,168,919			
19-Dec-24	Grovetop Holdings Ltd	1,840,129			
10-Feb-25	Grovetop Holdings Ltd	1,707,418			
17-Feb-25	Visionflo Investments Ltd	242,545			
7-Feb-25	Visionflo Investments Ltd	356,152			
14-Feb-25	Visionflo Investments Ltd	1,908,517			
30-Dec-24	Kartfra Ltd	1,738,986			
18-Dec-24	Kartfra Ltd	1,848,427			
30-Dec-24	Kartfra Ltd	1,041,231			
14-Feb-25	Kartfra Ltd	1,403,699			
17-Feb-25	Kartfra Ltd	1,669,176			
14-Feb-25	Kartfra Ltd	1,677,618			
14-Feb-25	Kartfra Ltd	1,703,661			
14-Feb-25	Kartfra Ltd	1,863,089			
18-Dec-24	Viewroov Limited	4,496,875			
9-Oct-24	Rogwa Kamore Dennis	1,495,700			
18-Dec-24	Ganhag Company Limited	1,318,009			
18-Dec-24	Ganhag Company Limited	1,801,724			
30-Dec-24	Ganhag Company Limited	1,783,271			
17-Feb-25	Ganhag Company Limited	1,805,377			
9-Oct-24	Halima Saadia Abass	1,500,700			
20-May-25	Smartgenz Enterprises Limited	3,490,307	30-Jun-25	Income & Expenditure	91,221,576
		91,221,576			91,221,576

2420500 Interest Payments

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
18-Dec-24	Sinie Construction Ltd	893,652	30-Jun-25	Income & Expenditure	893,652

2520100 Subsidies

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
31-Mar-25	Small And Medium Enterprizes	90,000,000	30-Jun-25	Income & Expenditure	90,000,000

2710100 Social Security Benefits

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
30-Sep-24	National Social Security Fund	84,956,000	30-Jun-25	Income & Expenditure	84,956,000

2610100 Grants And Other Transfers To Other Govt. Units					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
12-May-25	Lacadia Limited	7,763,793			
23-Dec-24	Starpedo Ltd	16,968,344			
12-May-25	Tuiki Flour Mills Limited	6,750,000			
12-May-25	Mbamosa Pulses Supplies Limited	34,040,000			
12-May-25	Makenphar Limited	2,633,806			
12-May-25	Nipwaoil Products Ltd	21,209,254	30-Jun-25	Income & Expenditure	89,365,198
		89,365,198			89,365,198

3110500 Construction And Civil Works					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
4-Mar-25	Roymic Investments	910,345			
23-Mar-25	Jampre Enterprise Ltd	9,969,431	30-Jun-25	Income & Expenditure	10,879,775
		10,879,775			10,879,775

3111000 Purchase Of Office Furniture And General Equipment					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
29-Oct-24	Linerbrick Enterprises Limited	1,204,310			
31-Oct-24	Starpedo Ltd	713,103			
20-Mar-25	Naisunyai Contractors Limited	160,727			
29-Oct-24	Linerbrick Enterprises Limited	170,690			
28-Oct-24	Linerbrick Enterprises Limited	845,388			
4-May-25	Lemart Agencies Limited	142,500			
23-Mar-25	Naisunyai Contractors Limited	663,362			
20-Mar-25	Naisunyai Contractors Limited	124,667			
20-Mar-25	Naisunyai Contractors Limited	668,158			
29-Oct-24	Linerbrick Enterprises Limited	145,086			
31-Oct-24	Starpedo Ltd	302,405			
20-Mar-25	Naisunyai Contractors Limited	380,003			
23-Mar-25	Naisunyai Contractors Limited	999,466	30-Jun-25	Income & Expenditure	6,519,865
		6,519,865			6,519,865

3111100 Purchase Of Specialised Plant, Equipment And Machinery					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
18-Dec-24	Ratesco Ultimate Supplies	1,612,069	30-Jun-25	Income & Expenditure	1,612,069

3111400 Research, Feasibility Studies, Project Preparation And Design, Project Supervision					
Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
31-Oct-24	Cadefa Investments	3,323,621			
31-Oct-24	Cadefa Investments	2,919,397			

31-Oct-24	Steadhamp Investment Limited	1,754,547			
4-Nov-24	Nahad Investmentltd	3,593,103			
4-Nov-24	Nahad Investmentltd	2,694,828			
31-Oct-24	Lingster Facilities Management Limited	2,245,690			
31-Oct-24	Steadhamp Investment Limited	1,796,552			
31-Oct-24	Mdixa Supplies Ltd	2,370,690	30-Jun-25	Income & Expenditure	20,698,427
		20,698,427			20,698,427

6530000 Transfer To Other Ministries

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
30-Oct-24	Vijana Ministry	665,459,407	30-Jun-25	Income & Expenditure	665,459,407

6760000 Imprests And Cash Advances

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
11-Dec-24	Nafuu Mariam	500,000			
20-Feb-25	Muna Risikili	50,000			
16-Sep-24	Shaha Diba	642,259			
18-Nov-24	Shaha Diba	110,800			
17-Feb-25	Shaha Diba	1,905,300			
16-Oct-24	Shaha Diba	97,800			
27-Sep-24	Shaha Diba	930,425			
20-Mar-25	Wafula Mfwesi	1,920,000			
23-Mar-25	Guba Kiboko	50,000			
31-Oct-24	Nafuu Mariam	196,800			
14-Feb-25	Mhana Lufwosi	847,800			
20-Mar-25	Agutu Holder	1,078,000			
17-Feb-25	Migande Charles	1,141,800			
13-Feb-25	Migande Charles	1,631,600			
17-Feb-25	Ndzilla Mwene	1,500,000			
14-Feb-25	Martin Mkuba	847,800			
16-Oct-24	Tuka Ngezemu Nosdan	29,355			
7-Oct-24	David Keepo	98,800			
20-Jan-25	David Keepo	30,000			
14-Feb-25	David Dadao	847,800			
13-Feb-25	David Dadao	1,046,600			
17-Feb-25	Nilaji Kebeku	1,500,000			
1-Nov-24	Joseph Kipoo	98,800			
31-Oct-24	Bumba Retoina Rillog	22,200			
20-May-25	Bumba Retoina Rillog	1,000,000			
14-Feb-25	Grace Neema	762,300	30-Jun-25	Balance C/d	18,886,239
		18,886,239			18,886,239

CHAPTER SEVEN

NATIONAL GOVERNMENT ASSETS AND LIABILITIES

Cash and Bank Management

The National Treasury maintains a consolidated bank account with the Central Bank. The account is known as the National Exchequer. All money received and raised on behalf of the National Government are banked in this account. All public expenditure are paid out of this account. Regulations do not allow the account to be over-withdrawn. All withdrawals from this account must be sanctioned by the Controller of Budget in writing. The equitable share to counties is sent by the National Treasury from the National Exchequer.

The National Treasury maintains an Equalization Fund. Funds in this account do not lapse at the end of the year, that is, they are not returned back to National Exchequer account where they were withdrawn. The Equalization Fund account is never to be over-drawn, and like the exchequer account, written authority from the controller of budget is needed to withdraw from this account.

A contingency fund is maintained to meet unforeseen events. Cabinet Secretary for finance needs parliament approval to withdraw from this account or seeks authority after withdrawing (if seeking parliament authority is impracticable) as soon as the parliament is in session.

The cabinet secretary for finance may open any other funds in accordance with legislation put in place by the parliament.

The National Treasury authorises opening and closing of all bank accounts for the national government entities. Accounting officers in charge of government entities bank accounts are not authorized to over-draw them beyond the limit set by the National Treasury.

For bank and cash management, all government entities are required to submit a cash flow statement to the National Treasury with a copy to the Controller of Budget. This would serve as a basis for withdrawing money for their use from the exchequer account. At the end of the financial year, all monies drawn from the exchequer by government entities and still lays un-utilised shall lapse and has to be banked in the exchequer account and a statement of refund sent to the Controller of Budget.

Cash advances/imprests may be made to a public officer who requires the money wholly and exclusively to perform a government job. The officer is required to account for the money within a reasonable time.

Illustration 28:

Use the information of the Ministry of People's Force in **illustration 27** to prepare the ministry's Cash Book given the following additional information:

1. The ministry made five exchequer withdrawals of Kshs.248,426,476.00 each on 30th August 2024, 5th September 2024, 10th December 2025, 9th February 2025 and 15th May 2025 which were duly approved by the Controller of Budget.
 2. The ministry raised a loan of Kshs.210,000,000 from Kenya Commercial Bank on 3rd January 2025, after the grace period of one month the ministry paid the principal for four months and the interest on the loan at 9% on straight line basis.
 3. On July 1st 2024, the other government agencies that were unable to use funds disbursed to them by the ministry in the year 2023/2024 returned them to the ministry totalling kshs.200,000,000.
 4. Foreign partners gave the ministry conditional grants on 25th October, 2024 totalling to Kshs.90,000,000
 5. The ministry disposed vehicles on 28th February, 2025, initially bought to construct a state of art hospital that was completed during the year. The proceeds from the vehicles was kshs.18,963,500.
 6. A County government that was unable to use conditional grants from the ministry returned them on 15th July, 2024 totalling kshs.67,000,000
 7. A level 5 hospital returned a grant of Kshs.9,000,000 on 10th July, 2024.
 8. The fuel levy revenue banked into the ministry's bank account on 1st January,2025, by Kenya roads board was kshs.45,000,000.
 9. The ministry was able to collect its own revenue totalling to Kshs.51,800,295, banked evenly on 30th September,2024, 15th October, 2024, 20th December, 2024, 25th March, 2025 and 20th May,2025. The ministry is authorised by legislation to use this revenue directly without banking it into the National Exchequer account.
 10. All payments and receipts were made through one Central Bank Account held by the Ministry and the bank account had no opening balance.
- a) The Ministry's Cashbook.

Ministry of People's Force							
Central Bank of Kenya Account no....							
Date	Details	Chq. No.	Amount-Kshs	Date	Details	Chq. No.	Amount-Kshs
1-Jul-24	Ministry Of Ujenzi		200,000,000	4-Sep-24	Shodo Diisa Naitesu		974,700
10-Jul-24	Uguza Hospital		9,000,000	4-Sep-24	Tuka Ngezemu Nosdan		12,000
15-Jul-24	County Government Of Wasafi		67,000,000	4-Sep-24	Tuka Ngezemu Nosdan		1,500,000
30-Aug-24	Exchequer		248,426,476	4-Sep-24	Shodo Diisa Naitesu		88,000

5-Sep-24	Exchequer		248,426,476	4-Sep-24	Shodo Diisa Nalesu		1,000,000
30-Sep-24	Appropriation In Aid		10360059	4-Sep-24	Shodo Diisa Nalesu		1,000,000
15-Oct-24	Appropriation In Aid		10360059	5-Sep-24	Shodo Diisa Nalesu		969,000
25-Oct-24	Danish Government		90,000,000	16-Sep-24	Shodo Diisa Nalesu		1,806,000
20-Dec-24	Appropriation In Aid		10360059		Tuka Ngezemu		612,000
1-Jan-25	Kenya Roads Board		45,000,000	16-Sep-24	Nosdan		
3-Jan-25	Kenya Commercial Bank		210,000,000	16-Sep-24	Matifa Mehamo		66,000
9-Feb-25	Exchequer		248,426,476		Matifa Mehamo		67,115
28-Feb-25	Motor Vehicles		18,963,500	16-Sep-24	Tuka Ngezemu		900,000
25-Mar-25	Appropriation In Aid		10360059	16-Sep-24	Nosdan		
15-May-25	Exchequer		248,426,476	16-Sep-24	Ckylu Tech Solutions		1,508,470
20-May-25	Appropriation In Aid		10360059	16-Sep-24	Charmar Traders		1,386,142
10-Dec-25	Exchequer		248,426,476	16-Sep-24	Kaereny Construction Limited		1,302,855
				16-Sep-24	Top Care Hotel Services		1,532,698
				16-Sep-24	Ganhag Company Limited		1,012,588
				16-Sep-24	Shodo Diisa Nalesu		1,500,000
				16-Sep-24	Shaha Diba		642,259
				17-Sep-24	Tuka Ngezemu		700,000
					Nosdan		
				19-Sep-24	Top Care Hotel Services		1,540,872
				19-Sep-24	Top Care Hotel Services		1,833,169
				19-Sep-24	Top Care Hotel Services		1,168,921
				19-Sep-24	Kaereny Construction Limited		1,718,428
				24-Sep-24	Ckylu Tech Solutions		1,420,991
				24-Sep-24	Ckylu Tech Solutions		1,351,293
				24-Sep-24	Charmar Traders		1,277,802
				26-Sep-24	Shodo Diisa Nalesu		1,806,000
					Tuka Ngezemu		1,580,000
				26-Sep-24	Nosdan		
				26-Sep-24	Shodo Diisa Nalesu		1,580,900
				27-Sep-24	Shodo Diisa Nalesu		106,000
				27-Sep-24	Shodo Diisa Nalesu		400,001
				27-Sep-24	Shodo Diisa Nalesu		700,000
				27-Sep-24	Shodo Diisa Nalesu		599,999
				27-Sep-24	Ng'emara And Company Advocates		1,655,086
				27-Sep-24	Shaha Diba		930,425
				30-Sep-24	Shaha Diba		1,000,000
				30-Sep-24	Shaha Diba		168,326
				30-Sep-24	National Social Security Fund		84,956,000
				1-Oct-24	Matifa Mehamo		70,460
				1-Oct-24	Matifa Mehamo		62,600
				2-Oct-24	Kenya Commercial Bank		20,000,000
				2-Oct-24	Keneroro Albert		699,890
				2-Oct-24	Yeyeyo Advocates Llp		14,372,414
				2-Oct-24	Yeyeyo Advocates Llp		13,474,138
				2-Oct-24	Lula And Fila Advocates		16,168,966
				2-Oct-24	Lula And Fila Advocates		16,124,052
				3-Oct-24	Yeyeyo Advocates Llp		12,575,862
				3-Oct-24	Lula And Fila Advocates		16,034,224

				4-Oct-24	Ckylu Tech Solutions		165,284
				4-Oct-24	Ckylu Tech Solutions		853,448
				4-Oct-24	Ckylu Tech Solutions		284,483
				4-Oct-24	Tuka Ngezemu Nosdan		1,520,600
				7-Oct-24	Ganhag Company Limited		1,451,867
				7-Oct-24	Ganhag Company Limited		1,799,391
				7-Oct-24	Kaereny Construction Limited		1,880,355
				7-Oct-24	Yeyeyo Advocates Llp		5,030,345
				7-Oct-24	Lula And Fila Advocates		10,835,003
				7-Oct-24	Kenya Commercial Bank		60,000,000
				7-Oct-24	David Keepo		98,800
				9-Oct-24	Rogwa Kamore Dennis		1,495,700
				9-Oct-24	Halima Saadia Abass		1,500,700
				11-Oct-24	Matifa Mehamo		54,090
				11-Oct-24	Matifa Mehamo		55,360
				11-Oct-24	Wogusu Luba		66,000
				11-Oct-24	Nahad Investmentltd		2,694,828
				11-Oct-24	Top Care Hotel Services		1,489,703
				11-Oct-24	Kaereny Construction Limited		1,720,097
				11-Oct-24	Shodo Diisa Naitesu		1,496,950
				11-Oct-24	Tuka Ngezemu Nosdan		1,560,000
				14-Oct-24	Tuka Ngezemu Nosdan		1,448,000
				16-Oct-24	Kenya Commercial Bank		16,364
				16-Oct-24	Shodo Diisa Naitesu		1,550,000
				16-Oct-24	Shaha Diba		97,800
				16-Oct-24	Tuka Ngezemu Nosdan		29,355
				18-Oct-24	Shodo Diisa Naitesu		831,600
				22-Oct-24	Tuka Ngezemu Nosdan		1,663,500
				28-Oct-24	Linerbrick Enterprises Limited		42,672
				28-Oct-24	Linerbrick Enterprises Limited		845,388
				29-Oct-24	Linerbrick Enterprises Limited		30,345
				29-Oct-24	Linerbrick Enterprises Limited		1,204,310
				29-Oct-24	Linerbrick Enterprises Limited		170,690
				29-Oct-24	Linerbrick Enterprises Limited		145,086
				30-Oct-24	Vijana Ministry		665,459,407
				31-Oct-24	Kenya Commercial Bank		15,000,000
				31-Oct-24	Kenya Commercial Bank		15,000,000
				31-Oct-24	Tuka Ngezemu Nosdan		52,650
				31-Oct-24	Yammar Hilabadil Mrubak		248,675

				31-Oct-24	Shodo Diisa Nalesu	831,600
				31-Oct-24	Starpedo Ltd	31,293
					Kaacho And Company	1,796,552
				31-Oct-24	Advocates	
				31-Oct-24	Starpedo Ltd	713,103
				31-Oct-24	Starpedo Ltd	302,405
				31-Oct-24	Cadefa Investments	3,323,621
				31-Oct-24	Cadefa Investments	2,919,397
					Steadhamp	1,754,547
				31-Oct-24	Investment Limited	
					Lingster Facilities	2,245,690
				31-Oct-24	Management Limited	
					Steadhamp	1,796,552
				31-Oct-24	Investment Limited	
				31-Oct-24	Mdixa Supplies Ltd	2,370,690
				31-Oct-24	Nafuu Mariam	196,800
				31-Oct-24	Bumba Retoina Rillog	22,200
				1-Nov-24	Jiha Nyimwi Nabwaki	73,500
				1-Nov-24	Joseph Kipoo	98,800
					Symashi Travel	323,000
				4-Nov-24	Agents	
					Symashi Travel	2,100,000
				4-Nov-24	Agents	
					Symashi Travel	2,900,000
				4-Nov-24	Agents	
				4-Nov-24	Nahad Investmentltd	3,593,103
				4-Nov-24	Nahad Investmentltd	2,694,828
				18-Nov-24	Shaha Diba	110,800
				2-Dec-24	Matifa Mehamo	53,319
				2-Dec-24	Matifa Mehamo	54,200
				2-Dec-24	Matifa Mehamo	61,650
				2-Dec-24	Matifa Mehamo	55,050
					Nemamane General	2,112,880
				10-Dec-24	Limited	
				10-Dec-24	Kartfra Ltd	3,615,150
					Kaereny Construction	2,811,270
				10-Dec-24	Limited	
					Top Care Hotel	3,931,051
				10-Dec-24	Services	
					Top Care Hotel	3,213,210
				11-Dec-24	Services	
				11-Dec-24	Nafuu Mariam	500,000
				13-Dec-24	Shodo Diisa Nalesu	286,400
				17-Dec-24	Wogusu Luba	350,000
				17-Dec-24	Wogusu Luba	324,000
					Tuka Ngezemu	1,210,000
				17-Dec-24	Nosdan	
				17-Dec-24	Mudida Christine	1,599,600
					Tuka Ngezemu	350,000
				17-Dec-24	Nosdan	
					Tuka Ngezemu	120,000
				17-Dec-24	Nosdan	
					Tuka Ngezemu	1,663,500
				17-Dec-24	Nosdan	
					Kenya Commercial	25,000,000
				18-Dec-24	Bank	
					Kenya Commercial	4,000,000
				18-Dec-24	Bank	
					Symashi Travel	477,500
				18-Dec-24	Agents	
				18-Dec-24	Shodo Diisa Nalesu	1,000,400
					Risid Rumba	37,700
				18-Dec-24	Hadmome	

				18-Dec-24	Matifa Mehamo		1,023,400
				18-Dec-24	Shodo Diisa Nalesu		1,595,700
				18-Dec-24	Starpedo Ltd		1,154,621
				18-Dec-24	Starpedo Ltd		1,613,017
				18-Dec-24	Sinie Construction Ltd		2,590,522
				18-Dec-24	Kartfra Ltd		1,848,427
				18-Dec-24	Viewroov Limited		4,496,875
				18-Dec-24	Ganhag Company Limited		1,318,009
				18-Dec-24	Ganhag Company Limited		1,801,724
				18-Dec-24	Sinie Construction Ltd		893,652
				18-Dec-24	Ratesco Ultimate Supplies		1,612,069
				19-Dec-24	Matifa Mehamo		55,100
				19-Dec-24	Matifa Mehamo		67,500
				19-Dec-24	Tuka Ngezemu Nosdan		831,600
				19-Dec-24	Matifa Mehamo		831,600
				19-Dec-24	Shodo Diisa Nalesu		793,800
				19-Dec-24	Grovetop Holdings Ltd		1,840,129
				23-Dec-24	Kenya Commercial Bank		210,803
				23-Dec-24	Nestgolg Trading Co.		8,549,266
				23-Dec-24	Starpedo Ltd		16,968,344
				30-Dec-24	Tuka Ngezemu Nosdan		1,380,000
				30-Dec-24	Shodo Diisa Nalesu		1,420,700
				30-Dec-24	Kartfra Ltd		1,738,986
				30-Dec-24	Kartfra Ltd		1,041,231
				30-Dec-24	Ganhag Company Limited		1,783,271
				31-Dec-24	Tuka Ngezemu Nosdan		1,502,600
				31-Dec-24	Shodo Diisa Nalesu		1,550,000
				2-Jan-25	Rookben General Supplies		946,759
				3-Jan-25	Shodo Diisa Nalesu		1,391,000
				14-Jan-25	Kenya Power And Lighting Company Limited		14,593,893
				14-Jan-25	Kenya Power And Lighting Company Limited		9,697,411
				14-Jan-25	Shodo Diisa Nalesu		1,650,000
				14-Jan-25	Tuka Ngezemu Nosdan		1,420,700
				15-Jan-25	Shodo Diisa Nalesu		72,000
				15-Jan-25	Tuka Ngezemu Nosdan		988,500
				15-Jan-25	Rookben General Supplies		957,853
				17-Jan-25	Shodo Diisa Nalesu		793,800
				20-Jan-25	David Keepo		30,000
				22-Jan-25	Kenya Commercial Bank		107,174
				22-Jan-25	Kenya Commercial Bank		294,019
				23-Jan-25	Brokelad Enterprise Limited		431,915
				23-Jan-25	Shodo Diisa Nalesu		1,391,000
				5-Feb-25	Shodo Diisa Nalesu		1,309,000
				5-Feb-25	Tuka Ngezemu		1,667,800

					Nosdan		
				6-Feb-25	Tuka Ngezemu Nosdan		1,370,400
				6-Feb-25	Tuka Ngezemu Nosdan		1,129,600
				6-Feb-25	Shodo Diisa Nalesu		1,199,000
				6-Feb-25	Heimga Company Limited		779,063
				7-Feb-25	Ratesco Ultimate Supplies		1,148,000
				7-Feb-25	Visionflo Investments Ltd		356,152
				10-Feb-25	Kenya Commercial Bank		25,000,000
				10-Feb-25	Ndetori Agencies Limited		490,733
				10-Feb-25	Symashi Travel Agents		660,000
				10-Feb-25	Dentori Agencies Limited		881,897
				10-Feb-25	Ngangamkawu And Sons Limited		977,352
				10-Feb-25	Macape Enterprises Limited		936,178
				10-Feb-25	Maxrejo Holdings Limited		358,233
				10-Feb-25	Portsea Operations		926,065
				10-Feb-25	Nisuba Investments Ltd		340,585
				10-Feb-25	Coosta Plc		1,651,035
				10-Feb-25	Coosta Plc		1,827,440
				10-Feb-25	Ratesco Ultimate Supplies		1,128,207
				10-Feb-25	Ratesco Ultimate Supplies		980,793
				10-Feb-25	Wellco Merchants		311,133
				10-Feb-25	Grovetop Holdings Ltd		1,707,418
				12-Feb-25	Symashi Travel Agents		372,100
				12-Feb-25	Symashi Travel Agents		1,656,000
				12-Feb-25	Symashi Travel Agents		984,000
				12-Feb-25	Symashi Travel Agents		1,962,000
				12-Feb-25	Nafuu Mariam		499,814
				12-Feb-25	Shodo Diisa Nalesu		1,988,300
				12-Feb-25	Nestgol Trading Co.		10,000,000
				13-Feb-25	Woodbridge Ltd		1,532,160
				13-Feb-25	Migande Charles		1,631,600
				13-Feb-25	David Dadao		1,046,600
				14-Feb-25	Kenya Commercial Bank		192,000
				14-Feb-25	Matifa Mehamo		67,400
				14-Feb-25	Matifa Mehamo		78,300
				14-Feb-25	Matifa Mehamo		87,600
				14-Feb-25	Top Care Hotel Services		1,383,724
				14-Feb-25	Top Care Hotel Services		1,678,871
				14-Feb-25	Visionflo Investments Ltd		1,908,517
				14-Feb-25	Kartfra Ltd		1,403,699

				14-Feb-25	Kartfra Ltd		1,677,618
				14-Feb-25	Kartfra Ltd		1,703,661
				14-Feb-25	Kartfra Ltd		1,863,089
				14-Feb-25	Mhana Lufwosi		847,800
				14-Feb-25	Martin Mkuba		847,800
				14-Feb-25	David Dadao		847,800
				14-Feb-25	Grace Neema		762,300
				17-Feb-25	Symashi Travel Agents		4,749,000
				17-Feb-25	Visionflo Investments Ltd		242,545
				17-Feb-25	Kartfra Ltd		1,669,176
				17-Feb-25	Ganhag Company Limited		1,805,377
				17-Feb-25	Shaha Diba		1,905,300
				17-Feb-25	Migande Charles		1,141,800
				17-Feb-25	Ndzilla Mwene		1,500,000
				17-Feb-25	Nilaji Kebeku		1,500,000
				18-Feb-25	Marosa Comm Ltd		78,530
				18-Feb-25	Sinie Construction Ltd		1,101,349
				18-Feb-25	Servsuperlimited		2,640,102
				18-Feb-25	Sinie Construction Ltd		2,034,767
				20-Feb-25	Shodo Diisa Nalesu		100,000
				20-Feb-25	Muna Risikili		50,000
				25-Feb-25	Matifa Mehamo		24,000
				25-Feb-25	Matifa Mehamo		44,500
				25-Feb-25	Matifa Mehamo		39,000
				25-Feb-25	Matifa Mehamo		42,400
				25-Feb-25	Ganhag Company Limited		3,468,906
				25-Feb-25	Kartfra Ltd		3,055,499
				25-Feb-25	Kaereny Construction Limited		4,526,665
				25-Feb-25	Nisuba Investments Ltd		2,489,666
				25-Feb-25	Manemane General Limited		2,602,832
				26-Feb-25	Shaha Diba		1,620,000
				26-Feb-25	Shodo Diisa Nalesu		1,246,700
				27-Feb-25	Wabi Tech Ltd		6,928,916
				3-Mar-25	Portsea Operations		600,084
				4-Mar-25	Wote General Suppliers		1,917,853
				4-Mar-25	Tegia Enterprises		3,555,000
				4-Mar-25	Ratesco Ultimate Supplies		567,838
				4-Mar-25	Roymic Investments		910,345
				6-Mar-25	Zam Engineering And Construction Limited		871,072
				6-Mar-25	Wote General Suppliers		1,271,591
				6-Mar-25	Sinie Construction Ltd		1,168,919
				20-Mar-25	Kenya Commercial Bank		252,000
				20-Mar-25	Kenya Commercial Bank		450,800
				20-Mar-25	Kenya Commercial Bank		483,000
				20-Mar-25	Kenya Commercial Bank		705,600
				20-Mar-25	Kenya Commercial Bank		756,000
				20-Mar-25	Kenya Commercial Bank		764,400

					Bank		
				20-Mar-25	Kenya Commercial Bank		793,800
				20-Mar-25	Kenya Commercial Bank		793,800
				20-Mar-25	Cordrip Enterprises Limited		1,965,517
				20-Mar-25	Lusiki Mboko		711,900
				20-Mar-25	Shaha Diba		831,600
				20-Mar-25	Ladiba Wanyonyi		260,400
				20-Mar-25	Naisunyai Contractors Limited		160,727
				20-Mar-25	Naisunyai Contractors Limited		124,667
				20-Mar-25	Naisunyai Contractors Limited		668,158
				20-Mar-25	Naisunyai Contractors Limited		380,003
				20-Mar-25	Wafula Mfwesi		1,920,000
				20-Mar-25	Agutu Holder		1,078,000
				23-Mar-25	Tuka Ngezemu Nosdan		61,650
				23-Mar-25	Tuka Ngezemu Nosdan		87,250
				23-Mar-25	Institute Of Accountant		22,200
				23-Mar-25	Institute Of Accountant		126,400
				23-Mar-25	Innovators Massive.		1,955,690
				23-Mar-25	Jampre Enterprise Ltd		9,969,431
				23-Mar-25	Naisunyai Contractors Limited		663,362
				23-Mar-25	Naisunyai Contractors Limited		999,466
				23-Mar-25	Guba Kiboko		50,000
				25-Mar-25	Konsharly Investment Limited		2,635,794
				25-Mar-25	Nisuba Investments Ltd		1,839,749
				31-Mar-25	Small And Medium Enterprizes		90,000,000
				9-Apr-25	Institute Of Accountant		22,400
				14-Apr-25	Matifa Mehamo		57,000
				15-Apr-25	Kenya Commercial Bank		25,000,000
				15-Apr-25	Tuka Ngezemu Nosdan		1,921,500
				15-Apr-25	Shodo Diisa Nalesu		1,804,500
				15-Apr-25	Shodo Diisa Nalesu		1,901,500
				15-Apr-25	Top Care Hotel Services		2,864,325
				15-Apr-25	Gomasa Ltd		486,049
				15-Apr-25	Gomasa Ltd		1,965,517
				15-Apr-25	Reflex Trading		1,936,035
				15-Apr-25	Kartfra Ltd		2,726,739
				15-Apr-25	Ganhag Company Limited		3,139,497
				15-Apr-25	Nemamane General Limited		2,879,932
				15-Apr-25	Meznicho Enterprise		3,643,503
				15-Apr-25	Teobo General Supplies Ltd		2,589,152

				15-Apr-25	Zotez Logistics Limited		3,001,911
				15-Apr-25	Zotez Logistics Limited		3,191,202
				15-Apr-25	Top Care Hotel Services		1,965,517
				15-Apr-25	Top Care Hotel Services		1,535,611
				15-Apr-25	Nisuba Investments Ltd		3,358,755
				15-Apr-25	Kartfra Ltd		3,216,380
				15-Apr-25	Kaereny Construction Limited		3,979,951
				15-Apr-25	Nafuu Mariam		190,000
				15-Apr-25	Nafuu Mariam		120,000
				15-Apr-25	Nafuu Mariam		126,134
				15-Apr-25	Genxifle Caterings		2,942,332
				15-Apr-25	Ganhag Company Limited		3,394,999
				15-Apr-25	Reflex Trading		1,926,207
				15-Apr-25	Serode Investments		972,931
				15-Apr-25	Serode Investments		972,931
				15-Apr-25	Grovetop Holdings Ltd		1,379,636
				15-Apr-25	Nestgol Trading Co.		10,300,000
				16-Apr-25	Symashi Travel Agents		5,846,000
				16-Apr-25	Rookben General Supplies		2,354,272
				16-Apr-25	Chopung Investments Ltd		8,470,986
				17-Apr-25	Ratesco Ultimate Supplies		1,867,241
				20-Apr-25	Rookben General Supplies		3,311,769
				20-Apr-25	Grovetop Holdings Ltd		1,553,496
				20-Apr-25	Brokelad Enterprise Limited		1,553,496
				20-Apr-25	Brokelad Enterprise Limited		1,572,414
				22-Apr-25	Kenya Commercial Bank		96,105
				22-Apr-25	Sinie Construction Ltd		1,045,602
				22-Apr-25	Fiqtaw Mohamed Salim And Company Limited		1,015,364
				24-Apr-25	Woodbridge Ltd		583,002
				24-Apr-25	Woodbridge Ltd		294,828
				4-May-25	Lemart Agencies Limited		142,500
				8-May-25	Matifa Mehamo		45,020
				8-May-25	Matifa Mehamo		64,100
				12-May-25	Lacadia Limited		7,763,793
				12-May-25	Tuiki Flour Mills Limited		6,750,000
				12-May-25	Mbamosa Pulses Supplies Limited		34,040,000
				12-May-25	Makenphar Limited		2,633,806
				12-May-25	Nipwaoil Products Ltd		21,209,254
				19-May-25	Kenya Commercial Bank		12,185,230
				19-May-25	Nestgol Trading Co.		10,000,000
				20-May-25	Kenya Commercial Bank		411,600
				20-May-25	Kenya Commercial Bank		2,000,000

				20-May-25	Symashi Travel Agents		4,642,500
				20-May-25	Symashi Travel Agents		160,100
				20-May-25	Nisuba Investments Ltd		1,474,138
				20-May-25	Grovetop Holdings Ltd		1,179,310
				20-May-25	Pissaro Trading Limited		1,639,595
				20-May-25	Grovetop Holdings Ltd		687,931
				20-May-25	Grovetop Holdings Ltd		2,948,276
				20-May-25	Youth Hustle		884,483
				20-May-25	Smartgenz Enterprises Limited		3,490,307
				20-May-25	Bumba Retoina Rillog		1,000,000
				21-May-25	Zibu Afrigue		1,031,897
				27-May-25	Kenya Commercial Bank		793,800
				27-May-25	Kenya Commercial Bank		756,000
				27-May-25	Kenya Commercial Bank		793,800
				30-Jun-25	Kenya Commercial Bank		4,725,000
				30-Jun-25	Balance C/D		210,077,265
							1,933,896,175
1-Jul-25	Balance C/D						1,933,896,175

Imprests/Cash Advances Management

Payment of imprests to public officers to facilitate them to carry out government duties is allowed by legislation. The public officer to whom cash imprest is given should account for the cash advance within a practicable time. The officer is required to return the balance if any with documents supporting the amounts the officer spent. The Public Finance Management Act states that while surrendering the imprest, the documents used to apply for or authorize the imprest should be submitted when a refund of the remaining money and document backing up the expenditure are surrendered. Failure to account for the money makes the officer to be owing to the National Government. The balance due attracts interest. The debt, as well as the interest on it, is recoverable by the National government entity by withholding the officer's salary or other emoluments payable to the officer.

Investment (securities) Management

The National Treasury is empowered to invest any money kept in a bank account of the national government. The interest received from the investments and money received from the redemption/maturity/sale/conversion of the investments would be deposited in National Exchequer Account. The costs, charges and expenses in relation with negotiating, placing, managing, servicing, or converting any investment made would be paid from the Consolidated Fund. However, if regulations exempt an investment, its interest and proceeds of disposing off the investment from being banked in the Consolidated Fund, then the law would have to be abided with.

Loan Investment Management

The national government is allowed to lend money in agreement with regulations and prevailing legislation. The Cabinet Secretary for finance has to ensure that collateral given in respect of a loan is in the name of the national government. Where the Cabinet Secretary guarantees a loan of a county government or any other borrower on behalf of the national government, that loan has to be approved by Parliament. Loans are only guaranteed by Cabinet Secretary for finance if: the loan is for a capital project, the borrower is able to repay the loan, and paying any interest or other amount payable in respect of it, a private borrower should have ample collateral for the loan, the financial position of the borrower over a period of three years should be expected to be satisfactory, the terms of the guarantee fulfils the fiscal responsibility principles and as well as the guarantee do not exceed the limit set by a legislation - the draft guarantee document should be approved by both the Senate and the National Assembly.

Investments (state corporations and government-linked companies) Management

A state corporation is a company where the government has more than 50% shareholding while government-linked corporation is a corporation in which the national government or national government entity is a shareholder with less than 50% of the share capital of the corporation. A state corporation may be established or dissolved only with the prior approval of the Cabinet, which approval may be given only after taking into account any recommendations made by the National Treasury regarding the financial implications of establishing or dissolving the corporation.

The national government or national government entity would only invest in a state corporation or a government-linked company with approval of the Cabinet, given after considering any recommendations of the National Treasury regarding the financial implications of the investment.

The relevant Cabinet Secretary responsible for issues relating to a state corporation is responsible for the corporation, to monitor its performance.

Fixed Assets Management

A national government entity should not loan or reassign assets to any person or organization or permit any person or organization to use assets for purposes other than carrying out the functions of the entity, except in harmony with available legislation enacted pursuant to Article 227 of the Constitution.

It is the duty of the accounting officer of a national government entity to manage the entity's fixed assets in a way which ensures that the national government entity derives value for money in acquiring, using and disposing off the assets.

The accounting officer for a national government entity is allowed to dispose off assets in accordance with existing legislation and pursuant to Article 227 of the Constitution; the proceeds from sale of asset should be deposited into a bank account of the entity.

Loans and other Liabilities Management

The national government like county governments can raise loans internally or outside Kenya. The cabinet secretary for finance is empowered to use experts in raising loans on behalf of the government. Therefore, the cabinet secretary can hire advisers, agents and underwriters for the purpose of raising loans and issuing, managing or redeeming national government securities. Expenses as a result of this undertaking are charged to the Consolidated Fund or any other public fund created by the national government or its entities for that purpose.

The national government is not accountable to make a payment towards payment of any debt or liability of a national government entity, unless the national government has guaranteed the loan or liability.

In managing loans, there is established the Public Debt Management Office at the National Treasury. The roles of the Public Debt Management Office as highlighted in the Public Finance Management Act are:

- (a) To carry out the government's debt management policy by minimising leverage risk in the long term.
- (b) To maintain a dependable debt data base of all loans taken by the national government, county governments and their entities including other loans guaranteed by the national government.
- (c) To prepare and update the annual medium-term debt management strategy including debt sustainability analysis.
- (d) To prepare and implement the national government borrowing plan including servicing of outstanding debts.
- (e) To act as the principal in the issuance of Government debt securities on behalf of the National Treasury;
- (f) To monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;
- (g) To process the issuance of loan guarantees including assessment and management of risks in national government guarantees.
- (h) To transact in derivative financial instruments in accordance with best international practices benchmarked to the debt management offices of other governments that are internationally respected for their practices.

CHAPTER EIGHT

FINANCIAL REPORTING BY NATIONAL GOVERNMENT/ENTITIES

The table below shows timelines in financial reporting by National Government and its entities.

Table 5: Showing the reporting timeline, the report required and whom to submit the report to.

Key			NT- National Treasury						
OAG - Auditor-General			CS-R – Cabinet Secretary-In-Charge						
COB - Controller of Budget			CS-F – Cabinet Secretary for Finance						
NA - National Assembly			CRA - Commission on Revenue Allocation						
Officer Responsible	Entity	Report Type	Due On Or Before Every Year	Report To Be Submitted To:-					
National Treasury	National Government	Consolidated Annual Financial Statements	31 st October	OAG	COB	CRA			
Accounting Officers	National Government Entities	Annual Financial Statements	30 th June						
Accounting Officers	National Government Entities	Annual Financial Statements	30 th September	NT	OAG	COB	CRA		
Receiver of Revenue	National Government	Revenue Received	30 th June						
Receiver of Revenue	National Government	Revenue Received	30 th September	NT	OAG	COB	CRA		
Receiver of Revenue	National Government	Waivers and Variations	30 th September	OAG					
Accounting Officer	National Government Entities	Quarterly Financial Reports	15 th October, 15 th January, 15 th April and 15 th July.					NT	CS-R
CS-R	National Government Entities	Quarterly Financial Reports		COB	CS-F				
National Treasury	National Government	Consolidated Quarterly Financial Reports	15 th November, 15 th February, 15 th May And 15 August		NA	OAG	COB	CRA	
Accounting Officer	State Corporation	Annual Financial Statements		CS-R					
CS-R	State Corporation	Annual Financial Statements		CS-F					
CS-R	State Corporation	Status Of Investments	31 st October	NA	OAG	COB	CRA	CS-F	
Administrator	Public Fund	Annual Financial Statements	30 th September	OAG	CS-F				

Administrator	Public Fund	Quarterly Financial Reports						
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The National Treasury is required to prepare for the national government clear and comprehensible consolidated annual financial statements at the end of each financial year out of financial statements prepared by all national government entities, in accordance with formats prescribed by the Accounting Standards Board.

According to section 80(2) of the Public Finance Management Act, the National Treasury should include the following in the merged financial statements:

- (a) A declaration of all monies paid into and out of the National Exchequer Account
- (b) An outline of the appropriation accounts, the statements prepared by accounting officers and the statements prepared by receivers of revenue.
- (c) A statement of payments made out of the National Exchequer Account that were authorised by legislation other than an Appropriation Act.
- (d) A declaration of the total amount of debt of national government that is outstanding at the end of the financial year.
- (e) A statement of any waivers under Article 210 of the Constitution.
- (f) Such other statements as the National Assembly may require.

By **31st October**, the National Treasury should submit the consolidated financial statements to the Auditor-General and a copy to the Controller of Budget and the Commission on Revenue Allocation; and publish and publicise the statements.

The accounting officers are required to prepare financial statements of their entities at **30th June**. They have to include the following information in their statements.

- (a) Appropriation accounts; to show the services for which the appropriated money was spent, the actual amount spent on each service, the status of each vote compared with the appropriation for the vote, a statement explaining any variations between the actual expenditure and the sums voted and any other information specified by the National Treasury.
- (b) A declaration of the entity's debt which is outstanding at the end of the financial year.
- (c) A declaration of the entity's debt guaranteed by the national government as at the end of the financial year.
- (d) A statement of the entity's assets and liabilities as at the end of the financial year in respect of the Recurrent Vote, Development Vote and funds and deposits.
- (e) A statement of the accounting policies adopted in preparation of the financial statement;
- (f) A statement of the national government entity's performance against predetermined objectives.

By **30th September**, the accounting officer should submit the entity's annual financial statements to the Auditor-General and a copy of the statement to the Controller of Budget, the National Treasury and the Commission on Revenue Allocation; and publish and publicise the financial statements.

At **30th June**, a receiver of revenue for the national government would prepare an account of the revenue received and collected by the receiver during that financial year. The account should include.

- (a) A statement of receipts and disbursements in such form as the National Treasury may direct.
- (b) A statement of arrears of revenue.

By **30th September**, the receiver of revenue for the national government should submit the accounts to the Auditor-General and a copy to the National Treasury, Controller of Budget and the Commission on Revenue Allocation; and publish and publicise the financial statements.

By **30th September**, a receiver of revenue for the national government shall submit to the Auditor-General a report with respect to all waivers and variations of taxes, fees or charges granted by the receiver or collector during that year. In the report the receiver should include: - the full name of each person who benefited from the waiver or variation; the amount of tax, fee or charge affected by the waiver or variation; the year to which the waiver or variation relates; the reasons for waiver or variation; and the law relied on to give the waiver.

An accounting officer for a national government entity is required to prepare quarterly reports every financial year for the entity. The quarterly reports should contain; financial and non-financial information of entity's performance.

By **15th October, 15th January, 15th April and 15th July** the accounting officer of national government entities should submit the quarterly reports to the Cabinet Secretary-in-charge of the entity and the National Treasury.

The Cabinet Secretary responsible for an entity should forward a copy of the report to the Cabinet Secretary for Finance and Controller of Budget.

By **15th November, 15th February, 15th May and 15th August**, the National Treasury should Consolidate the quarterly reports and submit them to the National Assembly with copies of the reports to the Controller of Budget, Auditor-General and the Commission on Revenue Allocation; and publish and publicise the reports.

A state corporation accounting officer should submit quarterly reports to the Cabinet Secretary-in-charge for the corporations who upon approving them, would forward a copy to the Cabinet Secretary for finance.

The Cabinet Secretary responsible for matters relating to public investments should prepare and submit to the National Assembly, by **31st October** of each financial year, a consolidated report summarising the extent of national government involvement or investment in, or funding of, all state corporations and government-linked corporations for that financial year; and send copies to Cabinet Secretary for finance, the Controller of Budget, the Commission on Revenue Allocation and the Auditor General. The report has to include:

- (a) The date of incorporation and objects of the corporation;

- (b) The amount of national government shareholding, directly or indirectly, in the state corporation;
- (c) Any changes in the shareholding of the state corporation during the financial year;
- (d) The amount of any funding in the form of grants or subsidies provided by the national government to the state corporation or government-linked state corporations, excluding profit-making state corporation, during the financial year;
- (e) The amount of any loans made by the national government to the state corporation, and the amount of any guarantees issued by the national government in respect of the state corporation, during the financial year;
- (f) The cumulative amount of un-discharged loans and guarantees in respect of the state corporation;
- (g) The amount of the profit or loss of the state corporation for the financial year;
- (h) The amount of any revenue received by the national government from the state corporation during the financial year, including dividends, interest and proceeds from any divestiture of assets of the state corporation;
- (i) The amount of payments made, or losses incurred, by the national government to meet contingent liabilities as a result of loans or guarantees during the financial year, including payments made in respect of guarantees, loan write-offs or waiver of interest on loans; and
- (j) An assessment of the financial and related non-financial performance of the state corporation for the financial year.

Once every three years, the Cabinet Secretary responsible for matters relating to public investments shall prepare a report on the assessment of the national government's continued involvement or investment in, or funding of, the state corporation or government linked corporation.

An administrator of a national public fund established by the Constitution or an Act of Parliament should prepare annual financial statements for the fund for each financial year in a form set by the Accounting Standards Board. In preparing a financial statement for a national public fund, the administrator should ensure that the report has information on the financial and non-financial performance of the national public fund.

By **30th September** of each financial year, the administrator of a national public fund would submit the annual financial statements prepared to the Auditor-General and a copy of the report to the Cabinet Secretary responsible for the fund.

The administrator of a national public fund established by the Constitution or an Act of Parliament would prepare quarterly financial statements for the national public fund as required by the Accounting Standards Board formats.

Illustration 29

Using the details of the Ministry of People's Force as per illustration 27 and 28 and given the ministry's Budget for year 2024/2025 and the balance brought down of fixed assets for year 2023/2024 as shown below, prepare financial statements as requires by the Public Finance Management Act. Give other requirements other than the financial reports you have prepared that should be included in the financial report of a government entity.

Ministry of People's Force
Approved Budget for 2024/2025

Receipt/Expense Item	Budget 2024/2025 Kshs
RECEIPTS	
Exchequer releases	1,242,132,380
Transfers from National Government Entities	200,000,000
Proceeds from Foreign Grants / Development Partners	90,000,000
Proceeds from Domestic Borrowings	210,000,000
Proceeds from Foreign Borrowings	0
Proceeds from Sale of Assets	22,000,000
Conditional Allocations to County Governments	67,000,000
Conditional Allocation to Level 5 Hospitals	9,000,000
Fuel Levy allocation	45,000,000
Appropriation in aid	59,000,000
TOTAL	1,944,132,380
PAYMENTS	
Compensation of Employees	151,856,295
Use of goods and services	427,000,400
Interest payments	900,000
Subsidies	90,000,000
Transfers to Other Government Entities	89,365,198
Other grants and transfers	665,459,407
Social Security Benefits	84,956,000
Acquisition of Assets	40,000,000
Finance Costs	4,725,000
Repayment of principal on Domestic and Foreign borrowing	60,000,000
Other Payments	105,200,500
TOTAL	1,719,462,800

Ministry of People's Force

Fixed Asset Schedule Summary

Asset class	Historical Cost Balance B/D (Kshs) 2023/2024
Land	1,751,463,793
Buildings and structures	10,936,250,152
Transport equipment	678,286,170
Office equipment, furniture and fittings	487,089,082
ICT Equipment, Software and Other ICT Assets	118,827,000
Other Machinery and Equipment	1,607,739,334
Biological Assets	37,761,550
Development Costs	324,744,568
Strategic Stocks	70,433,752
Heritage and cultural assets	1,009,811,885
Intangible assets	5,344,000
Total	17,027,751,285

Suggested Solution

Ministry of People's Force

Income and Expenditure Account for the year ended 30th June, 2025.

RECEIPTS	Kshs.
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Exchequer releases	1,242,132,380
Transfers from National Government Entities	200,000,000
Proceeds from Foreign Grants / Development Partners	90,000,000
Proceeds from Domestic Borrowings	210,000,000
Proceeds from Foreign Borrowings	0
Proceeds from Sale of Assets	18,963,500
Conditional Allocations to County Governments	67,000,000
Conditional Allocation to Level 5 Hospitals	9,000,000
Fuel Levy allocation	45,000,000
Appropriation in aid	51,800,295

TOTAL RECEIPTS	1,933,896,175
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PAYMENTS

Compensation of Employees	151,856,295
Use of goods and services	426,745,410
Interest payments	893,652
Subsidies	90,000,000
Transfers to Other Government Entities	89,365,198
Other grants and transfers	665,459,407
Social Security Benefits	84,956,000
Acquisition of Assets	39,710,136
Finance Costs	4,725,000
Repayment of principal on Domestic and Foreign borrowing	60,000,000
Other Payments	91,221,576

TOTAL PAYMENTS	1,704,932,674
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SURPLUS/(DEFICIT)	228,963,501
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Ministry of People's Force
Statement of Financial Position as at 30th June, 2025.

FINANCIAL ASSETS	Kshs.
Cash and Cash Equivalents	
Bank Balances	210,077,265
Cash Balances	0
Total Cash and cash equivalents	210,077,265

Accounts receivables – Outstanding Imprests 18,886,239

TOTAL FINANCIAL ASSETS 228,963,504

FINANCIAL LIABILITIES

Accounts Payables – Deposits and retentions 0

NET FINANCIAL ASSETS 228,963,504

REPRESENTED BY:

Fund balance B/fwd 0

Surplus/Deficit for the year 228,963,501

NET FINANCIAL POSITION 228,963,501

Ministry of People's Force
Cash Flow Statement as at 30th June, 2025.

CASH FLOW FROM OPERATING ACTIVITIES	Kshs.
Receipts from operating income	
Exchequer releases	1,242,132,380
Transfers from National Government Entities	200,000,000
Proceeds from Foreign Grants / Development Partners	90,000,000
Conditional Allocations to County Governments	67,000,000
Conditional Allocation to Level 5 Hospitals	9,000,000
Fuel Levy allocation	45,000,000
Appropriation in aid	51,800,295
Payments for operating expenses	
Compensation of Employees	(151,856,295)
Use of goods and services	(426,745,410)
Subsidies	(90,000,000)
Transfers to Other Government Entities	(89,365,198)
Other grants and transfers	(665,459,407)
Social Security Benefits	(84,956,000)
Other Payments	(91,221,576)
Adjusted for:	
Increase Accounts Receivable	(18,886,239)
Net cash flows from operating activities	86,442,550
CASHFLOW FROM INVESTING ACTIVITIES	
Proceeds from Sale of Assets	18,963,500
Acquisition of Assets	(39,710,136)
Net cash flows from investing activities	(20,746,636)

CASHFLOW FROM FINANCING ACTIVITIES

Proceeds from Domestic Borrowings	210,000,000
Proceeds from Foreign Borrowings	0
Repayment of principal on Domestic and Foreign borrowing	(60,000,000)
Finance Costs, including Loan Interest	(4,725,000)
Interest payments	(893,652)
Net cash flow from financing activities	144,381,348
Net Increase In Cash and Cash Equivalent	210,077,265
Cash and cash equivalent at Beginning of the year	0
Cash and cash equivalent at End of the year	210,077,265

Ministry of People's Force**Appropriation Account for the year ended 30th June, 2025.**

Receipt/Expense Item	Budget 2024/2025 Kshs	Actual expenditure 2024/2025 Kshs	Budget utilization difference Kshs	Budget utilization % age
RECEIPTS				
Exchequer releases	1,242,132,380	1,242,132,380	0	100
Transfers from National Government Entities	200,000,000	200,000,000	0	100
Proceeds from Foreign Grants / Development Partners	90,000,000	90,000,000	0	100
Proceeds from Domestic Borrowings	210,000,000	210,000,000	0	100
Proceeds from Foreign Borrowings	0	0	0	0
Proceeds from Sale of Assets	22,000,000	18,963,500	3,036,500	86
Conditional Allocations to County Governments	67,000,000	67,000,000	0	100
Conditional Allocation to Level 5 Hospitals	9,000,000	9,000,000	0	100
Fuel Levy allocation	45,000,000	45,000,000	0	100
Appropriation in aid	59,000,000	51,800,295	7,199,705	88
TOTAL	1,944,132,380	1,933,896,175	10,236,205	99
PAYMENTS				
Compensation of Employees	151,856,295	151,856,295	0	100
Use of goods and services	427,000,400	426,745,410	254,990	100
Interest payments	900,000	893,652	6,348	99
Subsidies	90,000,000	90,000,000	0	100
Transfers to Other Government Entities	89,365,198	89,365,198	0	100
Other grants and transfers	665,459,407	665,459,407	0	100
Social Security Benefits	84,956,000	84,956,000	0	100
Acquisition of Assets	40,000,000	39,710,136	289,864	99
Finance Costs	4,725,000	4,725,000	0	100
Repayment of principal on Domestic and Foreign borrowing	60,000,000	60,000,000	0	100
Other Payments	105,200,500	91,221,576	13,978,924	87
TOTAL	1,719,462,800	1,704,932,674	14,530,126	99

Ministry of People's Force				
Fixed Asset Schedule as at 30th June, 2025.				
Asset class	Historical Cost Balance B/D (Kshs) 2023/2024	Additions during the year (Kshs) 2024/2025	Disposals during the year (Kshs) 2024/2025	Historical Cost Balance C/D (Kshs) 2024/2025
Land	1,751,463,793			1,751,463,793
Buildings and structures	10,936,250,152	10,879,775		10,936,250,152
Transport equipment	678,286,170		18,963,500	659,322,670
Office equipment, furniture and fittings	487,089,082	6,519,865		487,089,082
ICT Equipment, Software and Other ICT Assets	118,827,000			118,827,000
Other Machinery and Equipment	1,607,739,334	1,612,069		1,607,739,334
Biological Assets	37,761,550			37,761,550
Development Costs	324,744,568	20,698,427		324,744,568
Strategic Stocks	70,433,752			70,433,752
Heritage and cultural assets	1,009,811,885			1,009,811,885
Intangible assets	5,344,000			5,344,000
	17,027,751,285	39,710,136	18,963,500	17,008,787,785

Other requirements other than the financial reports prepared above.

1. The income and expenditure report, the statement of financial position and the cash flow statements would have a comparative column for the previous year's statements. Each line item of the three reports (except totals and subtractions) must be explained in the notes to the accounts.
2. The national government entities would have to prepare the recurrent, development and combined statement of appropriation account.
3. The reports must include non-financial reports.
4. The Financial statements must include a declaration of the entity's debt which is outstanding at the end of the financial year and a declaration of the entity's debt guaranteed by the national government as at the end of the financial year.
5. A statement of the entity's assets and liabilities as at the end of the financial year in respect of the Recurrent Vote, Development Vote and funds and deposits must be part of the report.
6. A statement of the accounting policies adopted in preparation of the financial statement must be stated.
7. A statement of the Ministry of People's Force's performance against predetermined objectives should be included.
8. Any other items that may be specified by the National Assembly, National Treasury and the Public Accountants Board.

CHAPTER NINE

THE IMPACT OF FISCAL POLICIES ON KENYANS

Lord Keynes defines a fiscal policy as a policy that uses public finance as a balancing factor in the development of the economy. It is a combination of deliberate changes in expenditure programs, revenue and tax programmes and debt management policy.

In Kenya, Kenyans desire a government that uses the fiscal policy to achieve the following objectives.

1. Achieving the best possible price level and a reduction of inflation to a single unit digit.
2. Having an optimal employment level.
3. Achieving a desirable income distribution.
4. Attaining of a most advantageous level of consumption.

The approaches to achieve the above fiscal policy objectives would include;

1. Curbing wasteful usage of public funds.
2. Use of funds should not only be authorized but should be beneficial to the society.
3. Government should not overspend and run into debt.
4. Maintaining high interest rate.
5. Harmonising relative prices of commodities.
6. Maintaining a stable money value.
7. Helping the society to be wealthy.
8. Making available low cost consumer credit.
9. Helping consumers and firms to have stable attitudes and expectations.
10. Educate the public about money illusion.
11. Distribute more income to the poor.
12. Influence population growth and composition.
13. Public participation

In accounting, the equation; **Assets + Expenditure = Accumulated Fund + Revenue** holds true. Therefore it true according to Keynesian theory the economy would be in equilibrium if expenditure is equal to revenue. If expenditure is more than revenue, part of the accumulated fund would be consumed. To balance the equation, it means assets would reduce in value. This actually means when a government is spending more than it earns, its infrastructure and the welfare of its citizens would diminish. The converse is true. When the revenue is more than expenditure, the accumulated fund would increase. To balance off the equation, assets must increase. These means the government's infrastructure and the welfare of its people would be at its optimal level.

Curbing wasteful usage of public funds

Both levels of the government in Kenya are known to be extravagant. For instance if there is a change in the executive leader at both levels of the government, their offices would be overhauled at an exorbitant cost a kin to building a new office. Mere transfer of an executive member or a cabinet

secretary would see an office getting new furniture altogether and new vehicles are bought without proper disposal of the previous assets.

It is a challenge that would remain with Kenyans for a long time. The origin of this expensive and improvident spending roots back to chiefdoms and monarchies. At least chiefs, kings and queens considered their subjects as slaves and the subjects had to do everything for them. We were colonised by a Monarchy and British administrators were powerful chiefs that needed total obedience and service from Kenyans. While the Britons re-invented themselves quickly and relegated their monarchy to only a celebrated one, Kenyans got stuck deep into chiefdom.

For that reason, persons elected or appointed to higher offices in both levels of the government think they have been given authority to spend profligately and to be served by poor Kenyans. Even though the Kenyan Constitution 2010 places heavy responsibility on accounting officers to come up with strategies of reducing wasteful expenditure, this is largely ignored.

The Kenyan Constitution 2010 is a good document but just as Jesus said you cannot put new wine into old wineskins, majority of government officials do not have the mentality to spend sparingly. They are of the view government property is free and if one has an opportunity, one should 'lawfully' glean as much government resource as one can for one's own benefit.

The result of spending lavishly thus puts a lot of pressure on revenue officers at county level and Kenya Revenue authority at national level to increase charges and taxation respectively. Taxation thus ceases to be a government tool for altering the economy to a desirable level but a survival tool for the government. If the government is only surviving, what impact does it have on Kenyans?

The disposable income of Kenyans would reduce. Reduction of income means the poor would only spend on foodstuffs. To make both ends meet, they would seek unprocessed foods or buy directly from farmers. This would result in the government losing chunks of indirect taxes as crude products are not taxable (do not attract indirect taxes). The freely spending poor persons would sell their assets to remain at the previous level of spending thus plunging into more poverty.

The government would automatically reduce funding education and health services so that senior public servants can still enjoy trappings of power. The already poor Kenyans would grow even poorer while trying to fund the educational and health needs of their dependants.

The rich would cut spending on non-beneficial endeavours. They would invest in buildings and claim capital allowances such that they do not pay taxes for some years. While the rich would thrive, the poor would be getting worse and worse. And as the English proverb says, 'a hungry man is an angry man', Kenyan society would have bitter and angry people just moving through the motions of life. That is a dangerous society, it only needs a trigger and there would be widespread unrest in Kenya.

Use of funds should not only be authorized but should be beneficial to the society.

While public servants can exploit weaknesses in law and have funds authorised for use, are they beneficial? For instance, poor human resource placement in the governments results into few people who are doing the real job and the rest are idle. Worse still, is when an insecure boss can work with ones tribesmen only. These results into some employees being overworked and thus they have to claim overtime. The idle ones would of course be disgruntled and to keep them checked, the boss would from time to time approve overtimes they never worked for. Though such expenditure is authorised and even budgeted for, is it beneficial?

There is also an instance where government officers just decide they have never been to such and such a country. Then, they would approve some expenditure to go to that country! In addition, procurement laws can be circumnavigated to pay suppliers who never delivered the goods or services. Or the goods and services could be priced highly than necessary. Cash advances or imprests could be spent on personal issues then the approvers in collusion with the imprest holders would approve phoney expenditure documents.

Though expenditures named above would be duly approved and would meet the requirements of the prevailing legislations, they would not be beneficial. For this reason, a government level that has wasted money this way may lack funds to pay genuine trading partners. These business people may have taken loans to meet the government's capacity to supply goods or services. Paying them late means they could be driven out of business, they would pay their workers late, and the workers would grow poor due to intermittent pay.

What public officers do not know is that their poor petite decisions cumulate to destroy the welfare of a common Kenyan. Other than delaying payment to suppliers for spending on non-beneficial items, both levels of government would have lots of pending bills. Pending Bills puts pressure on revenue collection organs of both government levels to overtax the already poor Kenyan. As with wasteful expenditure, spending on non-beneficial items makes taxation to cease being a government tool to alter the economy to a desirable level. Taxation's main goal becomes; to raise revenue and not, for instance, to distribute incomes.

The Public Finance Management Act recognises the expanding functions of the state such as defence, justice and administration. Therefore it requires only 30% of the total budget to be spent for the benefit of all Kenyans. Other than spending on defence, justice and administration, the government plays key role in welfare issues for example social security and redistribution of incomes. The government would also spend on education, health, water, technological change, establishing public enterprises, running state farming enterprises, subsidizing consumer goods & services and servicing debt/loans repayment. But if both levels of the government spend only 30% to increase incomes of Kenyans, provide public goods like roads, decongesting urban centres, they would not only improve the welfare of Kenyans but the government revenue would soar. Tax evasion and tax resistance occurs when the general public feels the government is not spending tax collected astutely.

Government should not overspent and run into debt

Most Kenyans believe the government has limitless resources that it can spend without the resources diminishing. I grew up in an environment where anybody who wanted you to spend something sparingly, would caution you that the item was not for Gok. Like a mother would shout, “Stop wasting that sugar, that is not for Gok”. Gok is an acronym for the government of Kenya. Thus everyone supposed government property could be spent extravagantly as it was inexhaustible.

However, in the event custodians of government resources spend them inefficiently, the government would run into debts. Scarcity of resources would necessitate government officials to spend prudently. In the equation, **Assets + Expenditure = Accumulated Fund + Revenue**, when the government spends uncontrollably, the expenditure would be more than revenue. The accumulated fund would be used up and to balance the equation, assets have to deteriorate or lose value. To prevent the accumulated fund from being used up, a government would borrow. The borrowing is to maintain the assets or make them grow. However, if the expenditure is so huge, it would also consume the accumulated fund and the borrowings leading to deterioration of assets. Where borrowings are used only to maintain or grow the governments asset our new equation would be: - **Assets + Expenditure = Accumulated Fund + Debt + Revenue**.

The Public Finance Management Act envisioning the above scenario encourages county governments and national governments to only borrow to finance development projects. Thus both levels of governments may borrow to speed up economic development and not for consumption. Though the Public Finance Management Act allows county government to make short-term borrowings to solve their cash flow problems, it would be better if they managed not to borrow at all. The national government may borrow to finance its balance of payments deficit arising from need to import vital products as well as consumer needs.

Debt is so tricky that it brings a lot of uncertainty in the economy if the government is unable to service the interest and pay the principal loan. That is why King Solomon said, ‘a borrower is a slave to the lender.’ Government debt is expensive as compared with commercial enterprises. This is because interest on debt for commercial enterprises is tax allowable expense, making optimum borrowing cheaper. But interest on debt in case of the government is not taxed. Debt to the government is thus expensive and care should be taken when a government borrows. The resources of a government are not limitless. In a debt situation, the government may be tempted to raise taxes, but this destroys the principle of a good tax system; certainty and ability to pay. Consequently, there may be increase in civil disobedience, tax evasion and picketing.

Maintaining high interest rate

The government should leave the interest rates to be determined by forces of demand and supply. Such interest is high. High interest rates encourages saving, lending and investing. If the return on money is high, people would lend to others and they would also save. Investing borrowed funds would create employment.

King Solomon said a fool and his money are soon parted. The government should encourage people to save and not spend all the money they earn as soon as they get it. King Solomon also advised that we should learn from the ant that works hard saving for winter period. Though the government may like people to spend so that it gets revenue through indirect taxes, but if it never encouraged savings, it would have to spend more to cater for its old and sick population. The Kenyan government encourages people to save by allowing deductions to pension or provident schemes against ones earnings before taxation.

Harmonising relative prices of commodities.

The government should harmonise the price of relative commodities. There is no justifiable reason why different brands of any product should have a wide range of prices. While rational persons would go for cheaper products in the market, proud boastful persons would go for the most expensive products even if they cannot afford them. Harmonising prices of products that can substitute each other would remove castes in the society and the poor would not grow poorer trying to prove to everybody they are rich. Having a population that is predominantly poor would drain the government's resources.

It is common to see a bridge or fly-over guard rails hacked away. This is because they are sawn by the poor and sold as scrap metal. Poor people are angry and bitter, they would vandalize infrastructure built by the government. They would break and steal from people trying to invest and run businesses. Thus they would kill businesses and employment opportunities.

The government should consequently prevent them from growing poor by harmonising product prices so that they do not spend through the nose trying to be seen. King Solomon said, one person tries to look rich yet he is poor. The other looks poor, yet he is rich. While the rich strives to look ordinary, the poor is trying to look rich. Good fiscal policies would make the poor be proud of who they are other than being ashamed, it would also encourage them to work hard to be rich.

Maintaining a stable money value.

Everyone even those who know nothing about financial management would prefer to be given Kshs.100 now than next year. This is because Kshs.100 now would buy more commodities than it would buy next year. It is therefore not wise to hoard money and stash it under a pillow for year. Since the value of money depreciates rapidly, more and more Kenyans prefer spending the available cash than saving. This is not a good trend. For most people, their net worth grows through saving.

In his book, 'the richest man in Babylon,' George Clason advises one should save at least 10% of one's earnings. The government can encourage saving by maintaining a stable money value. It can do this by avoiding debt and having a balanced balance of payments.

Helping the society to be wealthy.

Wealthy people are generally healthy, thus Kenyans health facilities would not be strained. Wealthy people also tend not save after a certain limit. They became good spenders and the government can take advantage of this and glean indirect taxes from their spending habits.

Taxes like Residential Rent Income Tax encourage Kenyans to be to be wealthy. Look at illustration 12. Suppose Mr. Mkubwa had no other incomes other than rent in 2015, his tax liability would be Kshs.1, 293,533 from gross rental income of Kshs.5,280,000 after allowable deductions. Introduction of Residential Rent Income Tax would see him paying only Kshs.528,000 in taxes (10% of 5,280,000). Meaning he would have Kshs.765,533 more to spend from the tax saved.

If Mr. Mkubwa had other incomes before introduction of residential rental income tax, his tax liability from rental income would even be more. He would be taxed using the highest bracket in the graduated scale used by Kenya Revenue Authority to tax individuals. But with the introduction of Residential Rental income tax, even if he had other incomes, the tax payable in respect of rental income would remain Kshs.528,000. He could invest the taxes saved and grow wealthy.

Another way the government helps the society to grow wealthy is by subsidizing indispensable products so that they remain affordable to common Kenyans. These include essential drugs, education and fertilizer. Kenyans could take advantage of these subsidies and invest the saved amount they would otherwise spent if the product's price was left to be determined by forces of supply and demand.

A wealthy society is left to spend on luxury commodities and parties. The government can therefore achieve its revenue targets by indirectly taxing the wealthy spenders.

Making available low cost consumer credit.

Direct taxes receive a lot of resistance and tax evasion as no one likes paying them. On the other hand, indirect taxes are accepted by majority as many Kenyans do not know they are paying them. And even so one makes a choice paying them by purchasing goods and services.

Most Kenyans would purchase more goods and services if they had a lot of disposable money and they were accessible to low cost credit. The government gives low cost credit by giving ample time for Kenyans to pay their taxes. For instance, income tax is not payable immediately the year ends on 31st December, but one has to pay by 30th April after they year end. Kenyans can invest the tax due during this period and earn some interest on it. Likewise, input tax is due on 20th day after the month of collection. Kenyan can use the tax due in this period to earn some interest. That is low cost credit.

Perhaps the greatest incentive that increases the Kenyans disposable income is capital allowance. The Kenya Revenue Authority allows one to reduce ones tax payable by giving one tax allowances on specified buildings, motor vehicles, machinery and farm works. One who invests in manufacturing, due to this capital allowances, may not pay tax for some years. This means one has more disposable income to spend. The government can still make ample revenue by taxing expenditure.

Helping consumers and firms to have stable attitudes and expectations.

In 1970's and 1980's the national government's budget determined if one could grow rich or poor. Somehow shrewd business people must have had insider information from the treasury. They perfectly bought in large quantities goods that they knew prices would hike after the budget is read. Before the budget was read the commodities would disappear from the shelves. After the budget had been read and the prices of the commodities had been appraised upwards, the goods left warehouses and flooded the market. Businesses made a killing by having supernormal profits created by the man made scarcity. Those who hoarded the commodities, would quickly transition from a small retailer to a large wholesaler. The honest businessmen stagnated or just grew to a large retailer.

Prices were stable throughout the year and for some products, prices never change for almost five years. There was certainty in the market and consumers had stable attitudes. Brand loyalty was the in thing, it was difficult for a new product to gain the market share as prices of relative commodities were in the same range.

Then when multiparty entered Kenya in 1997, the government left prices of most commodities to be determined by forces of demand and supply. Almost all product prices shot. This was never accompanied by rise in the incomes of majority of Kenyans. Their attitude started fluctuating, brand royalty waned and people sought for cheapest products. Firms facing unpredictable expectations, started packaging their products into smallest packs possible like 200ml and 50grams. Before that the smallest product in the market save for coca cola in the beverage section was a half a litre. For the measured ones, it was a half a kilogram. Firms, to meet the unexpected anticipation of consumers, packed in smaller quantities so that at least their clients could buy something. The bread industry, to maintain the stable attitude of consumers downsized the bread to 400grams from 500grams but maintained the size of the bread.

Most Kenyans were crying foul. Unfortunately, every government from 1997 to date struggled to survive ruling. The political class have always been wrangling. The power struggles have seen resources being diverted to surviving tactics than creating employment and increasing the incomes of Kenyans to be at par with the ever increasing price of commodities. An enabling climate to favour business growth has thus been destroyed. No one nowadays looks at the government budget/expenditure as a tool to alter the economy, speculate on it and get rich like in the 70's and 80's. People see the budget as framed to benefit politicians than Kenyans.

The government has to contain its appetite for spending lavishly without the interests of Kenyans at heart. Kenyans have condoned corruption and even accepted it as a way of life as there is little they can do when all its leadership is deep in the vice. In ancient times, God told the Israelites not to muzzle an ox while it threshes wheat. This means that since we have entrusted Kenya's resources to our leaders, they are like oxen threshing wheat. Everyone would be okay if they made away with only 10% or less of what they control. Unfortunately our leaders run away with more than 80% of our resources and some even 100%. It is common for counties to build fictitious roads to murrum standard. When auditors query that somewhere in October when they are conducting their annual audit, it is easy to convince them the April-June heavy rains washed away the murrum. That is making

away with 100% of the resources which results into firms having uncertain expectations and consumers having unstable attitudes.

An honest firm working for a county government is not sure if it would be paid in time or paid at all. This has a repercussion of sending the firm out of business, making its employees lose jobs. If the firm survives, it may incur hefty losses for instance if it took a loan to have the capacity to supply to a county and it would delay paying its workers. The firm has uncertain expectation. Its employees have unstable attitudes. Suppose we added very many firms in Kenya going through the same, we would be left to agree, every level of government has to be careful how it spends. Believe it or not wasteful expenditure affects the lives of Kenyans.

One person who encouraged stable expectation in firms and good attitude on his citizens was Joseph. He did not just impose tax on Egyptians, the Egyptians had no land, they had sold it to buy food. He returned the land to them freely. This ensured stability as they had no one to scare or leave them perturbed of how they would pay rent. Additionally, Joseph gave them seeds. He told them, to plant and tender for the crops at their own cost and give 20% of the harvest to Pharaoh. The Egyptians willingly paid the taxes as the government had not just imposed the tax, it helped them to earn their revenue and establishing a stable environment for them to do.

Kenyans would also pay taxes willingly if the government actually subsidized agricultural inputs and ensured the agricultural market thrived. Business would like a stable environment where political bickering is minimised and picketing is reduced as the government would have interests of Kenyans at heart, always anticipating them and meeting them before they ask. Unfortunately, Kenyan governments have all decided in the past to pursue selfish interests of politicians and are only reluctantly responsive after protests that have claimed substantial number of lives; but are quick to revert to status quo after things have calmed down.

Educate the public about money illusion.

Every year, the government announces having increased the minimum wage for low income employees. Most workers clap and many can be heard saying that once the new salary hits their account, they would celebrate the increment. They would do so by having parties each month, or eating meat daily, marrying another wife or keeping a concubine and virtually anything else that makes them spend liberally.

What the larger population does not know is that the salary increment was not at par with price increment of commodities. Though their salaries increased, their purchasing power remained the same or was eroded. The salary increment gives them the money illusion that they have more purchasing power that they end up spending to their poverty. King Solomon said that if ones activity is just to eat and sleep, he would soon be wearing rags. He also said one should not spend all his money on wine and women.

Aptly a Swahili proverb says, 'maskini akipata matako hulia mbwata!' this is loosely translated that when the poor gets money, he would show off to anyone that he has money. That is why, even some

have come up with the saying, 'fake it till you make it!' the poor and the middle class are good spenders. Unless the government educates them about money illusion and there is no such a thing like faking till you make it, they may end up being so poor. Someone who earns a living should not grow poor, just like all salaried employees are compelled to contribute to pension or provident funds for their retirement, anyone who earns a living should be taught to save at least 10% of one's incomes for a rainy day.

It is the government that has the machinery to do so and in fact it is the government that would bear the burden of taking care of the elderly, the sick and convicted criminals. But if the government has wealthy and self employed old people, its burden is lessened, in fact it still derives its income from the old folks and has less to spend on petty criminals who steal just for food.

Distribute more income to the poor.

The poor are good spenders. If both levels of Kenyan government can plan well, they would be supported in terms of income by the poor and the middle class. Someone once posted a clip of a toddler from a war torn country - Syria. The kid was hungry and was given sizeable bread by a sympathizer who was distributing food to refugees. The kid had a mouthful bite then extended the bread so that the journalist who was photographing it could also have a bite. It made the journalist cry.

After a few years someone pinned alongside this famished and thin toddler, a photo of a rich plump kid munching pizza in a car. Apparently the car was not moving due to a traffic jam. Then a homeless kid approached the car and pleaded with the rich kid to give him a piece of the food. The rich kid spat into the face of the poor kid and hoisted the car mirrors to close the windows completely. You will agree that the poor kid was humane and the rich kid inhuman.

Most people have held the view that the poor is generous while the rich are mean. They even argue the poor can be seen sharing a cigarette, while the rich can share nothing. Is it true? It is not true. But what is true is the poor and middle class are careless spenders while the rich are cautious spenders. Just like Jesus said whoever has, more shall be given unto him, the rich find themselves in favourable situations that benefit them when they spend while the poor and middle class loose when they spend.

King Solomon saw this when he said, the rich has so much that he stays awake all night worrying, but the sleep of a laborious worker is sweet. The poor and the middle class take one day at a time. That is why they would spend as if there is no tomorrow. The rich on other hand thinks years ahead or for generations. Salary is the most taxed income. A rich man would invest in residential rent income. While a salary of Kshs.10,000,000 would be taxed up to 32.5%, a residential income of Kshs.10,000,000 would only attract a tax of 10%.

While the poor and middle class sleeps with no care in the world knowing they would receive their salary the next month without fail, the rich plan to invest in manufacturing so that he benefits from investment allowance and ends up not paying tax for some years. While the middle class and the poor spend on consumption, the rich invests. Thus the poor and middle class have nice night's sleep while the rich is thinking of his next move.

Since the government would not be benefiting from the rich man's expenditure in terms of taxing him, it has to redistribute income such that the poor and the middle class have much disposable income. Other than getting direct taxes from the middle class and the poor, the government would benefit from indirect taxes as they are not cautious spenders and they spend more on consumption than investing. One way the Kenyan Government has tried to redistribute incomes is by introduction of turnover tax and residential income tax. These taxes ensure that the rich cannot stay for several years without paying tax since they are claiming capital allowances. The tax is on gross receipts.

Influence population growth and composition

The population of Kenya is rapidly growing and is composed more of the younger generation. The younger generation should be productive but due to limited employment opportunities they are idle. The younger generation is also the greatest consumer. While parents would struggle to provide for their children's basic needs (food, shelter and clothing), the government would shoulder the heaviest burden to ensure essential drugs and vaccines are freely available in hospitals. The government would also spend a substantial amount of its resources to subsidize education.

It is because of the younger generation's travelling to and from school that the government subsidises fuel costs to make public transport affordable. It is because of the younger generation lacking jobs that the government spends a substantial amount of money taking care of juvenile delinquent kids, inmates and drug abusers.

If the government influenced population growth so that parents can only have kids they are able to care for comfortably, all mature people would be having jobs and all kids would be cared for fully by parents without having to strain the government. It would be better to have fewer kids in Kenya, more productive population and more older people. The productive age would be working and giving the government taxes, the elderly would be munching away their pension and children would be receiving maximum care.

If the government was concerned about influencing its population structure, it would have a real-time database in its system showing various age brackets. It would also show the qualification of each Kenyan, those that are employed and those that are not. It would even come up with a policy that no Kenyan has to apply for a job in Kenya, the employers just visit this central database and communicate to their choices perhaps using a system like FIFO, meaning, the older gets employed first. The government can then pay stipend to those unable to get employment completely or absorb them in contractual projects now and then.

If the government came with a policy such as, it would educate freely the first two kids of any Kenyan up to university level, and give them priority in job placements, the population growth might drop. Any

parent having more than two kids has to take care of the extra kids himself in terms of education, health and securing a job or creating a business for them.

Influencing population structure would set lots of government recurrent expenditure free and thus it would invest on infrastructure. We would not have a situation where some schools are called voting poll stations and others group of schools. The education facilities would be standard and to the highest level possible.

Rein in the double taxation(by counties and national government).

Though Kenyan government has unified business permit to just one document, there is a lot of double taxation due to lack of synchronization between national and county governments. For instance, most counties impose Matatu Levy on passenger service vehicles. The criteria they use to charge for the levy is not different to that used in charging advance motor vehicle tax. Why multiple taxes on the same thing? Most counties charge sand, gravel, ballast or anything the lorries are carrying levy, which is not different from advance motor vehicle tax.

Businesses pay for licenses, but they have to pay for offloading goods at their premises, some pay just for a name affixed on their premises which counties contend its advertising. And having a business permit does not give one peace of mind. Since the permit is given on varying criteria like floor space, number of customers and location of business, it is common for a businessman to be re-assessed again and penalised for none of his mistakes.

Agriculture was devolved, but it is ordinary for counties and national government to issue livestock licenses concurrently. Betting, alcohol and drugs control were devolved; as much as the county government is cashing on entertainment, the national government is doing the same. Who should tax tourism? Both national and county government are charging hotel levy from hotels.

The Affordable Housing Levy is a double tax at the national level. The same gross income subjected to Pay As Your Earn, Turnover tax and Residential Rental Income tax is subjected to housing levy.

Double taxes like the above would create inflation. Inflation in the short run discourages investments, which may curtail growth of the taxed businesses and by extension, the growth of government revenue. Double taxation goes against the principle of productivity. The government should balance between its quest to earn enough income and encourage business growth. We learn from Joseph. Joseph did not just tax Egyptians from a vacuum, he gave them land freely (the land had been sold to obtain food) and he gave them seeds freely. They had all incentive to produce and give Pharaoh his 20%.

National government and County government should know they are not the only ones taxing Kenyans. There exists a lot of black tax since the government systems are overwhelmed to execute the

protective role. The police have no capacity to protect all Kenyans on real-time basis, therefore Kenyans are forced to pay black tax to goons for protection. With the rate of unemployment soaring, relatives of the few employed think they are under obligation to be taken care of by their earning relatives. The ordinary working Kenyan is so overwhelmed since everyone wants a piece of his small pie – it is a disincentive to work hard.

Public participation

Public participation was anchored into the constitution to ensure the government delivers what Kenyans want. This is because, what a leader thinks citizen want may not be what they want. To illustrate, when most of Kibera residents were allocated housing units in a newly built high-rise flats in the quest to kill slums, most encountered problems they had never faced before. They faced the reality of buying water and paying for electricity. They rented the houses and returned living in slums. In slums, they did not pay for water, they leaked a water pipe and drew free water. In slums they don't pay for electricity, they illegally tap the power lines for electricity. Making them live in a high-rise house was just increasing their expenditure without increasing their income.

The Affordable Housing Levy faced opposition from the majority of Kenyans. But the government bullied its way to have it implemented. The greatest argument for it was that it would create jobs. There is no doubt Kenyans want jobs, what about the houses themselves? Are they what Kenyans wanted? This is something time would tell. But with the advent of counties, the government should be encouraging Kenyans to shun rural urban migration and do their developments at county level. This would ease housing pressure in Nairobi and decongest most urban areas in the country. The root cause of housing problem should be tackled.

Housing is also a complicated issue. It is not as easy as one cap fits all. While the government is planning to reside people in flats, some are thinking living in secluded places, having houses with compounds and fences. And if the Kibera incident is anything to go by, most would find living in shanties cheaper than owning a house that is increasing their expenditure when their income is stagnant. The houses build by the government may end up being owned by quite a different group of persons than the one the government was targeting.

Another tax that was to be imposed on Kenyans was the motor vehicle tax. It was to be payable to the Commissioner on each motor vehicle at the time of the issuance of an insurance cover. One was to pay at least Kshs.5,000 with the upper limit pegged at Kshs.100,000. The Commissioner was to be given powers to prescribe guidelines in determining the valuation of a motor vehicle for purpose of the tax. The Public Finance Management Act section 15 (2) (f) stipulates, 'the National Treasury shall enforce the following fiscal responsibility principles,... a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.'

Going by the above excerpt from the Public Finance Management Act, the base of motor vehicle tax was so fickle! It would be understandable if the government was trying to decongest roads. But it is known the government was trying to increase its revenue. I say the base was so unpredictable as car owners would withdraw cars from roads. It also goes against the principle of taxation of simplicity. Valuation of motor vehicle would have been complicated since a motor vehicle's value starts declining once it leaves the factory. And given that the income tax department provides capital allowances on motor vehicles for four years, does it mean the tax was only meant to be charged for four years? Or as the commissioner keeps revaluing the motor vehicle from time to time (most probably at higher values to tap maximum tax) would it mean capital allowances would also be adjusted to reflect the new valuations? If the commissioner valued the car higher for the tax purposes than the value he agreed for capital allowances, would he agree the owner to claim capital allowances on the higher price?

The tax was ill informed since it is not wise to tax a shifting base, or as such, a depreciating asset. It is also self defeating as it was to be a direct tax and minds would work out a way to avoid it. It was not a tax a government could reliably budget its revenue with, unless its major goal was to decongest Kenya's roads. But again, it is because the government ignored public participation.

With increasing unemployment among the youth, motor cycles have given them a sense of belonging as they can ferry people and goods and at least live from hand to mouth. Some people have even sold land to acquire motor cycles. And given that motorcycles are also a major cause of road accidents; the government would have enabled motor cycle owners to replace the un-roadworthy ones by removing all duties on their importation. The finance bill 2024 proposed 10% excise duty on imported motorcycles and a miscellaneous income of 3% of the customs value of the motorcycles. Public participation would have informed the government if Kenyans needed the locally assembled motorcycles or they needed the imported ones. Making imported motor cycles expensive by taxing them was not wise.

The Senate has complained for some time as to why most counties are getting qualified opinions on their financial reports. Under Section 94. (1) Of the Public Finance and Management Act, the following are factors that indicate violation of good public finance management practices by a public entity.

- (i) When it fails to meet its financial obligations when they fall due.
- (ii) When it defaults on financial obligations for financial reasons.
- (iii) When it has an operating deficit in excess of a percentage of revenue in the most recent financial year for which financial information is available as prescribed in regulations
- (iv) When it is more than 60 days late in submitting its annual financial statements to relevant statutory bodies.
- (v) When the Controller of Budget has raised material issues in the public entity's quarterly reports.
- (vi) When the Auditor-General has withheld an opinion or issued a disclaimer due to inadequacies in the financial statements.

When a government entity fails or delays making any payments when they are due, one cannot rule out the fact the entity has been spending its funds on unbeneficial Endeavour's. The Auditor General

has often raised a red flag on missing money, missing goods and outright scandals in public entities. It all boils down to ignoring public participation. Counties have to come up with integrated development plans, annually they have to develop a plan that would implement integrated plans called annual plans; they further have to come up with an action plans annually called the budget. Yet if one goes through these documents, there is no connection. Projects implemented by counties cannot be traced to annual plans or integrated plans. This points to ignoring the public input in their plans. The public entities may be implementing their own projects and not those in plans as agreed with the public. Therefore, with time, they meet a financial catastrophe and the indicators listed in Section 94. (1) Of the Public Finance and Management Act starts manifesting.

Many renowned accountants and even the Institute of Accountants in Kenya have clamoured for the government to adopt accrual method of accounting. It was a win after the government adopted IPAS and the cash basis of accounting. However, with the cash basis of accounting, proper disclosure on pending bills, current assets (other than financial ones) and fixed assets is discarded. I have highlighted in this book that public officers are inclined to do the wrong things as long as they are not breaking any law and as long as the masses are silent. Just visit any county and many national government offices and you will see the assets are not numbered. Assets have not been given a unique serial numbers. Though counties may name the number of some roads on paper, on the ground the roads are not numbered. If the assets are not numbered, do these public entities have an asset register? They do not have an asset register or one that is up to date since cash basis of accounting may not require auditors to audit the assets. The only assets appearing on the face of financial statements are financial assets, and no auditor would waste time auditing other fixed assets which are not part of the statement of financial position.

That is why when both levels of government reshuffle its cabinet secretaries/executive members and permanent secretaries/chief officers, new assets are bought for the new occupant of the office. Whether the old assets are carted to private offices or taken to someone's private home, it is not clear, but what is clear is they are never disposed of properly. They just disappear in a thin air. One reason for this is because they lack unique numbers to identify them.

The finance bill 2024 had proposed the Public Finance and Management Act to be amended for the government to adopt accruals method of accounting and specifying the transition period. This would have seen items that appear off the statement of financial position like debtors, pending bills and fixed assets start being part of financial statement. It would have increased accountability as any accounting officer would be handing known debtors, creditors and fixed assets to incoming accounting officers. Transactions in public entities would have been streamlined. We would no longer have secret pending bills, which one comes across them only when they are being paid and often they are fictitious. The history of pending bills would be in place and one could trace the audit trail from the start to the end. Fixed asset would be safeguarded as any misplaced asset would be identified by the public to belong to public entities.

CHAPTER TEN

CPA INTERMEDIATE LEVEL, CIFA INTERMEDIATE LEVEL, PUBLIC FINANCE AND TAXATION SUGESTED SOLUTIONS.

Students are expected to obtain question papers from KASNEB since I have to rights to reproduce them here.

CPA INTERMEDIATE LEVEL, CIFA INTERMEDIATE LEVEL, PUBLIC FINANCE AND TAXATION: Tuesday: 20 August 2024.

1. (a) (i) Consolidated Fund Services – refers to services that are paid for directly from the consolidated Fund rather than through parliaments' voted provisions. The services include; judges salaries and expenses of returning offices at election.

1. (a) (ii) Division of Revenue Bill – it is a bill that distributes the revenue raised by the national government among the national and county governments. It ensures that revenue is shared equitably, it provides additional resources for county government, and it determines each other allocations from the governments share. It is introduced in the parliament at least two months before the end of the financial year.

1. (b) FIVE purposes for which the national government should borrow money according to the Provisions of Section 192 of the Public Financial Management Regulations 2015.

- Purpose of financing development expenditure
- Paying off maturing debts
- To stabilize the economy
- To meet budgetary needs
- To manage the economy and development needs of the country by removing balance of payments deficit.

1. (c) Functions of PSASB.

- To set generally accepted accounting and financial standards
- To prescribe the minimum standards of maintenance of proper books of account for all levels of Government
- To prescribe internal audit procedures which comply with the Public Finance Management Act 2012
- To prescribe formats for financial statements and reporting by all state organs and public entities
- To publish and publicize the accounting and financial standards and any directives and guidelines prescribed by the Board
- To prescribe the effective dates of implementation of these standards, Gazette the dates for application of the standards and guidelines in consultation with the finance Cabinet Secretary
- To perform any other functions related to advancing financial and accounting systems management and reporting in the public sector

1. (d) Methods that an accounting officer of a procuring entity may use to dispose assets

- Public Tender** – interested parties submit sealed bids for the assets.
- Public Auction** – is a live bidding where the highest bidder acquires the asset.
- Transfer to another public entity** – assets are taken to another government department.
- Scrapping** – unusable assets are dismantled or recycled.
- Donation** – assets are given to charitable organizations or eligible entities
- Leasing** – assets are rented for a specified period.

2. (a) Criteria that should be taken into account in determining the equitable shares as provided under Article 203 of the Constitution

- National interest** – interests of Kenya should be considered.
- County needs** – development and other needs of the county are to be taken care off.
- Economic disparities** – economic inequality between and within counties is considered
- Affirmative action** – disadvantages areas and groups must be considered.

- County capacity** – fiscal capacity and efficiency of county governments are considered.
- Public debt** – public debt and other national obligations are considered.
- **National government needs** – needs of the national government are considered.
- Emergency response** – the flexibility of counties to emergencies and temporary needs is considered.

2. (b) PPP investment models

- Build-Operate-Transfer** – the government transfers construction and operations of a project to private firms for a set period of time. The project is then returned to the government.
- Build-Own-Operate** - the government transfers construction and operations of a project to private firms.
- Design-Build** – the government contracts private firms to design and construct a project for a fee. The government retains ownership of the project and can operate the project itself or hire other persons to do it.
- Buy-Build-Operate** – the government sells a completed project to a private firm who invests in expanding or renovating it.
- Build-Lease-Transfer**
- Design-Build-Operate-Transfer**
- Lease-Develop-Operate**
- Maintain-Transfer**

2.(c) Suntec Traders

2.(c) (i) Output tax = **Shs. 816,000**

2.(c) (i) (ii) Deductible input tax = **Shs. 547,226**

2.(c) (iii) VAT payable = **Shs. 268,774**

Workings

Suntec Traders

Date	Details	Dr. InPut VAT	Cr. OutPut VAT	Payable/(Refundable)
4-May	Purchases of goods (local	640,000		640,000
8-May	Return outwards		19,200	620,800
10-May	Legal fees	8,640		629,440
12-May	Imports Cost, Insurance and Freight (CIF)	49,655		679,095
16-May	Sales (local)		816,000	(136,905)
18-May	Export sales		0	(136,905)
20-May	Exempt sales			(136,905)
24-May	Printing and stationery	3,840		(133,065)
28-May	Electricity	7,440		(125,625)
20-May	bankrupt debtor	16,800		(108,825)
31-May	Restricted by shs.	(159,949)		(268,774)
		566,426	835,200	
	less returns	(19,200)	(19,200)	
		547,226	816,000	

Total supplies

Sales (local)	5,916,000
Export sales	600,000
Exempt sales	1,840,000
	<u>8,356,000</u>

Taxable supplies

Sales (local)	5,916,000
Export sales	600,000
	<u>6,516,000</u>

Restriction of Input tax = Taxable Supplies ÷ Total supplies × Input tax

= 6,516,000 ÷ 8,356,000 × 726,375

566,426

Restriction factor (726,375 – 566,426) = (159,949)

3.(a) FIVE items that should be specified in writing to a taxpayer, when the commissioner has made a default assessment.

- The amount assessed as tax or amount of deficit or excess input tax carried forward.
- The amount assessed as late submission of the tax, deficit or excess input tax assessed.
- The amount of any late payment interest payable in respect of tax assessed.
- The reporting period to which the assessment relates.
- The due date for payment of tax, penalty and interest being a date that is not less than 30 days from the date of service of notice .
- The manner of objecting to the assessment

3. (b) (i)

Talisa Abara

Taxable income for the year ended 31 December 2023.

	Shs.	Shs.(PAYE)
Basic salary (shs.300,000×12)	3,600,000	600,000
Visit local tourist sites.(shs.200,000×30%)	60,000	
Share purchase benefit (shs.35-shs.30)×15,000	75,000	
Furniture benefit (shs.400,000×1%)×12	48,000	
House servant (Prescribed rates)	27,000	
Motor vehicle benefit	720,000	
Salary increment	120,000	
Insurance benefit	240,000	
House Benefit	<u>1,440,000</u>	
Gross Employment Income	6,330,000	
Less contribution to pension scheme(shs.3,600,000×7.5%)	<u>(240,000)</u>	
Taxable Employment Income	6,090,000	
Gross rental income from commercial property	1,200,000	
Dividend from Samco Cooperative Society	89,474	
Consultancy fee for training	<u>134,118</u>	
Total taxable income	<u>7,513,591</u>	

Notes:

- Double taxation has been ignored.
- For tax purposes, Talisa Abara is a resident and qualifies have full personal relief.
- Dividend from Bright Insurance Ltd shares is qualifying dividend and withholding tax is final tax.
- The cost of the meals was Sh.15, 000 per month is not taxable as it is dependent on the nature of work.
- Dividend from Samco Cooperative Society (net) is not qualifying dividend, therefore the gross dividend is subject to further taxation.

- Insurance cover amounting to Sh.240, 000 during the year is a taxable benefit as she and her dependants would benefit when the policy matures in addition to other benefits pegged to the policy.
- The Sh.180,000 medical bill reimbursed by the employer is not a taxable benefit as the company has a policy that covers all senior managers and it provides for a maximum reimbursement of Sh.1,000,000 in a year. Group insurance where none of the insured and their dependants would not benefit in monetary terms are not taxable benefit.
- Interest income from Union Bank Ltd. (net) shs.255,000 is qualifying Interest therefore withholding tax is final tax

Workings

W1-house Benefit

The higher of ;

Monthly rental charged and;	1,440,000
15% of total pay (shs.4,890,000)	733,500

W2-Share purchase benefit

Market price	525,000
Purchase price	450,000
Benefit	<u>75,000</u>

W3- Contributions to pension scheme

Is the lesser of;

30% of pensionable pay = (3,600,000×30%)	1,080,000
Employee's actual contribution =(3,600,000×15%)	270,000
Ksh.20,000 per month =(20,000×12)	240,000

3.(b) (ii)

Talisa Abara

tax payable

Taxable income	<u>Shs.</u>
	<u>7,513,591</u>

Taxed As:

On first shs. 288,000 @ 10%	28,800
On the next shs. 100,000 @ 25%	25,000
On the next shs. 5,612,000 @ 30%	1,683,600
On the rest Shs.1,513,591 @32.5%	<u>491,917</u>
Gross tax liability	2,229,317

less

PAYE	(600,000)
withholding tax from Samco Cooperative Society Dividend	(4,474)
withholding tax from Consultancy fee for training	(20,118)
Personal relief	<u>(28,800)</u>
Tax Payable	<u><u>1,575,926</u></u>

4. (a)(i) Duty drawback – is refund of customs duties, taxes and fees paid on imported items that are matched with exported or destroyed items.

4. (a)(ii) Sufferance wharf – is a licensed private wharf where goods can be stored temporarily without paying customs duties. It is any place other than the approved ones where the commissioner of tax allows any goods to be loaded or unloaded.

4. (a)(iii) Import declaration fee – an importer or a clearing agent has to make a customs declaration and upon filling a prescribed form he pays charge known as import declaration fee.

4. (b) (i)

Wakah and Barakah

Adjusted taxable profit for the year ended 31 December 2023

	Shs.	Shs.
Net loss for the year as reported		(2,750,000)
<u>Add omitted taxable incomes and non-allowable expenses</u>		
Purchase of computers	216,000	
Purchase of furniture	260,000	
Designing and partitioning a new office block	341,000	
Legal fees on defense against alleged breach of trade contract	180,000	
Legal fee on tax appeals	64,800	
Land conveyance fees	72,400	
Stamp duty	36,600	
Negotiating a business loan	25,400	
Signing a 100 year lease agreement	128,400	
Purchase of partners private vehicle	137,400	
Impairment of patent rights	120,000	
Provision for general bad debts	208,000	
Drawings of goods by partners	314,000	
Computer software and programs	1,200,000	
interest on partners' capital	120,000	
Welfare expenses	1,035,000	
Overstated cost of sales(W3)	771,897	
Total non-allowable items		5,230,897
Adjusted profit		2,480,897
<u>less Omitted allowable expenses and non-taxable incomes</u>		
General bad debts recovery	75,000	
Anticipated foreign exchange gain	180,000	
Capital gain on sale of land	352,000	
Insurance recovery on stolen vehicle	320,000	
Release of liability	122,000	
Investment allowances(W4)	414,100	
Total allowable items		(1,463,100)
Adjusted taxable profit		1,017,797

Notes:

-Foreign Exchange gain is taxed only when it is receivable.

-Capital gains are subject to capitals gain tax which is final tax

-Interest from Ulinzi Sacco Ltd. is not qualifying interest, thus subject to further taxation

-It is assumed the welfare expenses were spent by partners on their own interests thus they are not allowable expenses.

4. (b) (ii)

Wakah and Barakah			
Allocation of profit to the partners.			
Partners	Wakah	Barakah	Total
Profit sharing Ratio	0.6	0.4	1
currency	Shs.	Shs.	Shs.
Interest on partners' capital	75,000	45,000	120,000
Share of Profit	561,123	336,674	897,797
Taxable partnership Income	636,123	381,674	1,017,797

Workings

W1 - Computation of opening inventory

Sales	5,780,000
sales without VAT	4,982,759
Opening Inventory 10% of sales without VAT	498,276

W2 - Computation of Cost of sales

opening inventory + 10%	548,103	W1 + 10%
add Purchases	3,706,000	given
Good available for sale	4,254,103	
less Closing inventory +10%	(1,320,000)	as given +10%
cost of sales	2,934,103	

W3 - Overstated cost of sales computation

Purchases as charged in P&L	3,706,000	
less cost of sales that should have been charged	2,934,103	W2
Overstated cost of sales	771,897	

W4 - investment allowances

Purchase of computers	216,000	@25%	54,000
Purchase of furniture	260,000	@10%	26,000
Designing and partitioning a new office block	341,000	@10%	34,100
Computer software and programs	1,200,000	@25%	300,000
Total			414,100

5.(a) Cases against indirect taxes

- They do not isolate the poor from the rich, such that the former should pay less taxes and the later more taxes.
- They require elaborate records and books to be maintained. This is expensive and uneconomical especially to small businesses.
- A taxable person is required to account for or pay VAT even when his customers have yet to pay for goods or services rendered.
- Not all businesses that handle similar goods or services charge VAT. This may create market imperfections.
- They it could lead to inflation.
- The VAT system requires a lot of cooperation with KRA, which may not be easy.

-The VAT system is complicated and would require a honest efficient government machinery to be able to audit or check implementation of the system.

5. (b) measures of curbing tax evasion

-Application of cutting edge technology to facilitate return filing and cargo scanners and trackers.

-Lowering the tax rates – higher tax rates encourage tax evasion.

-Simplifying the tax system – a simplified tax system enhances tax compliance but a tax system with many exemptions, deductions and other complications may encourage tax evasion from the confused tax payers.

-Curbing corruption – high rate of corruption encourages tax payers to take risk of evading taxes, reducing corruption boosts confidence of taxpayers thus compliance with the tax system.

-Give incentives to produce more to all tax payers. Capital allowances in Kenya are currently benefiting the wealthy tax payers only. This is because of the introduction of turnover tax and Residential rent incomes tax on gross proceeds thus any of their investment in capital assets is ignored. When they see their rich counterpart benefiting from capital deduction, they will evade taxes. Tax incentives should be equitable.

5.(c)

Smartboots Manufacturing Ltd.

Investment allowances for the years ended 31 December 2022 and 31 December 2023.

	Sh.	Rate (%)	2022 in shs.	2023 in shs.
<u>Building used for manufacture/Hospital buildings</u>				
Factory building	14,640,000	@50/25	7,320,000	3,660,000
Processing machinery	4,712,000	@50/25	2,356,000	1,178,000
staff clinic	2,080,000	@50/25		1,040,000
<u>Motor vehicles and heavy earth moving equipment</u>				
Delivery vans (two)	4,160,000	@25	1,040,000	1,040,000
Disposal - 1 Deliver Van	(2,080,000)			(520,000)
Lorry	2,948,000	@25	737,000	737,000
Saloon car (ksh 3400000 value restricted to 3000000)	3,000,000	@25		750,000
<u>Computer software, calculators, copiers and duplicating machines</u>				
Computers	384,000	@25	96,000	96,000
Scanners	112,000	@25		28,000
<u>Other machinery</u>				
Conveyor belts	1,240,000	@10	310,000	310,000
Heating plant	1,400,000	@10	350,000	350,000
Generator	400,000	@10	100,000	100,000
Boilers	768,000	@10		192,000
Wheelbarrows	180,000	@10		45,000
Packaging machine	1,200,000	@10		300,000
<u>Commercial building</u>				
Staff canteen	2,440,000	@10	610,000	610,000
Sewerage system	1,280,000	@10	320,000	320,000
Sports pavilion	1,800,000	@10	450,000	450,000
Godown	2,600,000	@10	650,000	650,000
borehole	800,000	@10		200,000
A perimeter wall	1,200,000	@10		300,000
<u>Furniture and fittings</u>				
Furniture	224,000	@10		56,000

Total Investment allowance

14,339,000	11,892,000
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Notes:

-Loose tools are consumables just like inventory; therefore they do not qualify for investment allowance.

-It is assumed the whole Investment Allowance is provided in the year the Asset was first put to use disregarding the period the asset was useful in the year and no investment allowance is provided for an asset that was disposed off during the year.

This is because one cannon of a good tax system is simplicity.

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1. (a)(i) “External sources” and “domestic sources” of public debt

- External sources of public debt is money borrowed outside Kenyan borders and is paid in the currency it was borrowed in. source of such debt include; commercial banks, international financial institutions, foreign governments, bilateral borrowings, multilateral borrowings, loans from Asian development bank and loans from the world bank.

-Domestic sources of public debt are where the government borrows within its own country. It raises internal debt by issuing loans (treasury bills and bonds) in the capital market. The main sources of this debt are individuals, banks, non-banking institutions and central bank.

1. (a)(ii) Objectives of public debt management office.

- To carry out the government’s debt management policy by minimising leverage risk in the long term.
- To maintain a dependable debt data base of all loans taken by the national government, county governments and their entities including other loans guaranteed by the national government.
- To prepare and update the annual medium-term debt management strategy including debt sustainability analysis.
- To prepare and implement the national government borrowing plan including servicing of outstanding debts.
- To act as the principal in the issuance of Government debt securities on behalf of the National Treasury;
- To monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;
- To process the issuance of loan guarantees including assessment and management of risks in national government guarantees.
- To transact in derivative financial instruments in accordance with best international practices benchmarked to the debt management offices of other governments that are internationally respected for their practices.

1. (b) Documents that are prepared in the process of county government budget preparation and their timelines as envisaged by the provisions of Public Financial Management Act

- County Budget Circular - On or before 30th August of every year
- County Annual Development Plans - On 1st September of every year
- County Budget and Review Outlook Paper (CBROP) - On 30th September every year
- County Fiscal Strategy paper - By 28th February
- Debt Management Strategy Paper - By 28th February
- Budget estimates - on 30th April
- County cash flow projections - On 15th June

1. (c) Criteria used by the tender evaluation committee to conduct a preliminary evaluation of the tenders Pursuant to Section 80 of the PPAD Act.

Preliminary evaluation.

- Format – Tender application should be in the format required by the tender floaters.
- Signature – Tender application should be signed.
- Number of copies – Tender has to have the required number of copies.
- Tender security- The tender security should be provided
- Validity – Tender and supporting documents like clearance certificates should be valid
- Samples - Samples should be given if the tender required so.

1. (d) ROLES of the council of governors in county financial management

- Consultation among county governments

- Sharing information on the performance of counties to promote best practices and initiate necessary preventive and corrective action.
- Considering matters of common interest among counties
- Resolving disputes between counties within the intergovernmental relations act framework.
- Facilitating capacity building for governors
- Receiving reports and monitoring the implementation of inter-county agreements on inter-county projects.
- Considering matters referred to the council by interested stakeholders.
- Considering reports from other intergovernmental forums on matters affecting national and county interests or performance by counties.

2. (a) “Special purpose vehicle” as used under the Public Private Partnerships Act.

-is a company created by a consortium to implement a PPP project. It is used in capital-intensive projects; infrastructure, to manage risk and easily secure funding.

2. (b) How the National Assembly budget committee contributes to the scrutiny and oversight of public finance management.

- By reviewing budget Estimates to ensure they are in line with budget policy
- By making recommendations and reviews on the national budgets hence ensuring they comply with financial management laws.
- By examining bills related to the national budget to ensure consistency.
- By evaluating fiscal policies, economic and budgetary policies, it ensures sound financial stewardship
- by considering reports from controller of budget on implementation of the budget and auditor general’s reports on expenditure and revenue, the offer oversight role leading to prudent financial management in public sector.

2.(c)

Kenley Ltd.

Value added tax (VAT) payable or refundable for the month of September 2023.

Date	Details	INPUT tax Shs.	OUTPUT tax Shs.	(payable) or refundable	Value+VAT Shs.	
	Sales at standard rate		855,172	(855,172)	6,199,997	
	Exports to Egypt		0	(855,172)	800,000	zero rated
	Purchases at standard rate	662,069		(193,103)	4,800,000	
	Purchase of oil and fuel for delivery van	49,724		(143,379)	360,500	
	Repairs of office furniture			(143,379)	64,000	Exempt
	Audit fees	22,069		(121,310)	160,000	
	Purchase of stationery	9,379		(111,931)	68,000	
	Electricity bills	7,779		(104,151)	56,400	
	Legal fees	6,703		(97,448)	48,600	
	Purchases from traders not registered for VAT			(97,448)	580,000	Exempt
	Zero rated sales		0	(97,448)	400,000	zero rated
	customer declared bankrupt	38,400		(59,048)	278,400	
	sales returns-credit note	8,000		(51,048)	58,000	
	purchases returns-debt notes		80,000	(131,048)	580,000	
	foreign supplier	79,448		(51,600)	576,000	
Total taxes		883,572	935,172	(51,600)		

VAT payable =
Shs.51,600.

3. (a) Applicable rate and the due date for the affordable housing levy(AHL).

AHL is a tax that is effective from 2024 after enactment of the affordable housing act 2024. It is collected by KRA. The purpose of the tax is to fund low-cost houses, stabilize housing market rates and thus reduce overpricing. It is a mandatory tax on both employees and employers. It is due on 9th of every month following the month of deduction.

Rates of AHL

1.5% of gross salary of employees

1.5% of gross incomes of unemployed persons

The employer contributes the same amount as the employees.

3. (b) How individuals could engage in tax avoidance.

-Loan payments – interest on loans is a tax allowable expense. Funding business through loans would reduce the taxable income as one would deduct interest on loan before taxation.

-Tax deductions – tax laws allow one to make deductions on one's income before taxation. The deduction includes: Meal benefit, Insurance Relief, Owner occupied interest, Home ownership savings plan, Medical services or free medical insurance, Registered defined benefit fund or defined contribution, National Social Security Fund (NSSF) + Pension scheme or Provident fund. Therefore, persons saving for retirement and building own houses are avoiding taxes.

-Tax credits – input tax and business losses are allowable against VAT payable and future profits respectively thus enabling one to avoid taxes. One would invest heavily in capital assets or manufacturing to avoid taxes.

-Exemptions- privileged persons like embassy employees; army and Persons with disabilities are exempted from some taxes. If a person works hard to join an embassy he is avoiding taxes.

3.(c)(i)

John Musyoka

Safari Real Estate Ltd

Taxable income that of his wife Janet Musyoka for the year ended 31 December

	Shs.	PAYE - Shs.
Basic salary(400,000×12)	4,800,000	1,440,000
Annual bonus	120,000	
Motor vehicle benefit (W1)	768,000	
Mortgage payment Benefit	820,000	
Subscription to Jenga Golf club	66,000	
Employment income	6,574,000	
add Withholding tax benefit(shs.80,000×5%)	4,000	
Total taxable Income	6,578,000	

Janet Musyoka

Bright Farmers Co-operative Society

basic salary	1,920,000
House benefit (W2)	192,000
Employment income	2,112,000
add Farming income	270,000
Total taxable Income	2,382,000

Notes:

-Mortgage interest of shs.180,000 is not allowed as a deduction on Mr. Musyoka's pay as it was settled by the employer.

-Dividend from Safari Real Estate Ltd of shs. 80,000 is qualifying dividend hence withholding tax is final tax but since it was paid by the company on behalf of Mr. Musyoka, it is a benefit taxable on him.

- It is assumed the Salary given is net of Contribution to a registered pension scheme shs. 180,000 and Subscription to Jenga Golf club shs. 66,000. Since subscriptions to Jenga Golf club is not an allowable deduction, it has been added back to Mr. Musyoka's pay.

-Farm produce of Ksh.24,000 to Mrs. Musyoka by the employer is not taxable as it is far below the amount of free benefits in kinds not taxable shs. 48,000.

-Interest income to Mrs. Musyoka from Central Bank 10 year infrastructure development bond Sh.120,000 and Interest from Wemah Development Bank Ltd. Sh.85,000 (net) are qualifying interest, withholding tax is final tax.

Workings

W1 - motor vehicle benefit

The higher of ;

2600cc Ratings	103,200
2% of Initial Cost shs.3,200,000×12	768,000

W2 - house benefit

The higher of

cost to employer	0
15% of total pay	288,000
less 5% of basic pay contribution	96,000
	<u>192,000</u>

W3 - Total farming income

Gross farming income	240,000
Family consumption	<u>30,000</u>
Total farming income	<u>270,000</u>

3. (c)(ii) Tax payable (if any) on income computed in (c) (i) above.

John musyoka

Tax payable on income computed in 3.(c) (i) above

Total taxable income	<u>6,578,000</u>
Taxed as;	
The 1st shs. 288,000 @10%	28,800
The next shs. 100,000 @25%	25,000
The rest shs.6,190,000 @30%	<u>1,857,000</u>
Gross tax liability	1,910,800
Less paye deducted	(1,440,000)
Less personal relief	<u>(28,800)</u>
Net tax payable by mr. Musyoka	<u>442,000</u>

Janet musyoka

Tax payable on income computed in 3.(c) (i) above

Total taxable income	<u>2,382,000</u>
The 1st shs. 288,000 @10%	28,800
The next shs. 100,000 @25%	25,000
The rest shs.1,994,000 @30%	<u>598,200</u>
Less personal relief	<u>(28,800)</u>

Tax payable by mrs. Musyoka

623,200

4. (a) “Credit method” as used in double taxation agreement.

-It is a method adopted for eliminating double taxation. In this method Kenya Revenue Authority retains the right to tax all total income of the tax payer but the tax already deducted is allowed as a deduction on the total tax of the tax payer.

4. (b) How operations of bonded warehouses contribute to trade facilitation and international commerce in your country.

Bonded warehouses or customs warehouse facilitate trade and international commerce as follows;

- Secure storage – serves as safe place to store imported goods and services
- Saves money – business can delay paying for import duties and taxes until goods leave warehouse helping to save money and manage their cash flows.
- Improves customer service – allow order of goods in advance before being demanded so they can be dispatched when needed.
- Streamlines logistics and operations thus reducing the costs associated with importation leading to efficient inventory management.
- Quality assurance. Businesses can inspect the quality of their goods before they are shipped.
- Business connections. Bonded warehouses can assist businesses to connect with reliable logistic suppliers.

4.(c)(i)

Lamek Ltd

A statement of adjusted taxable profit or loss for the year ended 31 December 2023

	Shs.	Shs.
Net profit as reported		2,870,200
<u>Add omitted taxable incomes and non-allowable expenses</u>		
Overstated purchases	476,667	
New furniture	400,000	
Carriage cost for furniture	20,000	
Conveyance fees - Company land	40,000	
Defending the company against tax evasion case	68,000	
Negotiation of goodwill	40,000	
Renewal of 100-year lease agreement	36,000	
Loan negotiation fees	74,000	
Negotiating employee salaries with Union	100,000	
General allowance on bad debts	38,400	
Office partitions	60,000	
Purchase of photocopier	180,000	
Purchase of computers	350,000	
Construction of sewerage plant	680,000	
Purchased goodwill	90,000	
Purchase of plastic tank	60,000	
Software expenses for office computers	190,000	
Total non-allowable items		<u>2,903,067</u>
Adjusted profit		5,773,267
<u>less Omitted allowable expenses and non-taxable incomes</u>		
Profit on sale of motor vehicle	260,000	
Investment allowances	302,000	
Total allowable items		<u>(562,000)</u>
Adjusted taxable profit		<u>5,211,267</u>

Workings

W1 – Overstated Purchases

Purchases + carriage	2,880,000
less carriage cost for furniture	(20,000)
Purchases	2,860,000
Purchases at $100 \div 120 \times 2,860,000$	(2,383,333)
overstatement	476,667

W2 - Investment Allowance

New furniture	400,000	@10%	40,000
carriage cost for furniture	20,000	@10%	2,000
Office partitions	60,000	@10%	6,000
Purchase of photocopier	180,000	@25%	45,000
Purchase of computers	350,000	@25%	87,500
Construction of sewerage plant	680,000	@10%	68,000
Purchase of plastic tank	60,000	@10%	6,000
software expenses for office computers	190,000	@25%	47,500
Total			302,000

4.(c)(ii)

Corporation tax payable or refundable, assuming total installment tax paid was Sh.2,084,920.

	shs
Adjusted taxable profit or loss	5,211,267
Corporate tax at 30% thereon	1,563,380
Installment tax paid	2,084,920
less Computed actual tax	(1,563,380)
Tax refundable	521,540

5. (a) Criticisms associated with the imposition of miscellaneous fees and levies in developing countries

- Miscellaneous fees and levies are prone to frequent changes. Frequent changes to tax law make the tax system unpredictable. This leads to distortions that increase cost and tax administration.
- Miscellaneous fees and levies impose financial burdens on individuals, businesses and consumers reducing disposable income stifling economic growth.
- Miscellaneous fees and levies encourage high tax evasion and avoidance leading to revenue losses for the government.
- Miscellaneous fees and levies complicate the tax system making compliance with the tax law costly and time consuming to tax payers especially small business and individuals with limited resources.

5.(b) Benefits of appointing a tax representative to a taxpayer.

- Handles tax issues with the tax collectors on behalf of the tax payer
- Receive any mail or communication from Kenya Revenue Authority for the period one is authorized representative thus freeing the tax payer to carry on business and does not have to deal with technical tax issues
- He negotiates tax debt with the Kenya revenue particularly waiver of interests and penalties thus aiding the tax payer to navigate this tricky situation.
- Responds to notices and assessment from tax collector on behalf of the tax payer.

5.(c)

Fantah Manufacturing Company Ltd.**Investment allowances for the years ended 31 December 2022 and 31 December 2023 Computation**

	shs.	Rate	Year 2022 shs.	Year 2023 shs.
<u>Building used for manufacture</u>				
Factory building	44,000,000	@50/25%	22,000,000	11,000,000
<u>Machinery used for manufacture</u>				
Processing machinery	2,400,000	@50/25%	1,200,000	600,000
<u>Motor vehicles and heavy earth moving equipment</u>				
Delivery vans	12,000,000	@25%	3,000,000	3,000,000
3 lorries (4 tonnes)	9,600,000	@25%	2,400,000	2,400,000
Trucks and trailers	4,800,000	@25%		1,200,000
2-saloon cars (each Sh.3,600,000)restricted to shs. 3,000,000	6,000,000	@25%		1,500,000
<u>Computer software, calculators, copiers and duplicating machines</u>				
Photocopier	280,000	@25%	70,000	70,000
Computers	1,800,000	@25%	450,000	450,000
Computers-Disposal	(240,000)	@25%		(60,000)
Data handling machine	360,000	@25%		90,000
<u>Commercial building</u>				
Office building	8,000,000	@10%	800,000	800,000
Borehole	2,400,000	@10%	240,000	240,000
<u>Furniture and fittings</u>				
File cabinet	100,000	@10%	10,000	10,000
Office furniture	480,000	@10%	48,000	48,000
Electric ceiling fans	230,000	@10%	23,000	23,000
Electric ceiling fans-Disposal	(80,000)	@10%		(8,000)
Water tanks	720,000	@10%	72,000	72,000
<u>Telecommunication equipment</u>				
LCD television	120,000	@10%	12,000	12,000
Telecommunication equipment	640,000	@10%	64,000	64,000
<u>Other machinery</u>				
Water pump	360,000	@10%	36,000	36,000
Workshop machinery	2,100,000	@10%	210,000	210,000
<u>Asset that do not attract any investment allowances</u>				
Land	12,500,000	0	0	0
Patents	400,000	0	0	0
Total investment allowance			30,635,000	21,757,000

1. (a) Roles of the Cabinet Secretary of the National Treasury and Planning in relation to public debt management.

- Ensuring the terms and conditions for the loans raised are in writing and are in agreement with: the most recent Budget Policy Statement and the prevailing debt management strategy paper.
- To minimize risks associated with leverage by choosing loans with the lowest financing needs and payment obligations in the market.
- To ensure that the overall level of public debt is sustainable.
- To ensure that borrowing is within the limits and thresholds set by parliament.
- To ensure that borrowed money is only for the budget as approved by Parliament and the allocations for loans approved by Parliament.
- To ensure guarantee of debt is done as per the Intergovernmental Budget and Economic Council criteria as approved by Parliament

1. (b) Contents of a circular for setting guidelines to be followed by all government entities to manage the national budget process

- A schedule for preparation of the budget indicating key dates by which various exercises are to be completed
- The procedures for the review and projection of revenues and expenditures
- Key policy areas and issues that are to be taken into consideration when preparing the budget
- Procedures setting out the manner in which members of the public shall participate in the budget process
- The format in which budget information and documents shall be submitted
- Any other information that, in the opinion of the Cabinet Secretary, may assist the budget process.

1. (c) Contents of information included in the financial statements in respect to contingencies fund

- The date and amount of each payment made from that Contingencies Fund
- The person to whom the payment was made
- The purpose for which the payment was made
- If the person to whom the payment was made has spent the money for that purpose, a statement to that effect
- If the person to whom the payment was made has not yet spent the money for that purpose, a statement specifying the reasons for not having done so
- A statement indicating how the payment conforms to “an urgent and unforeseen need for expenditure had arisen for which there was no specific legislative authority to spend”.

1. (d) Roles of internal audit as an oversight function in public finance management

- To review the governance mechanisms of the entity and mechanisms for transparency and accountability with regard to the finances and assets of the entity
- To conduct risk-based, value-for-money and systems audits aimed at strengthening internal control mechanisms that could have an impact on achievement of the strategic objectives of the entity
- To verify the existence of assets administered by the entity and ensuring that there are proper safeguards for their protection
- To provide assurance that appropriate institutional policies and procedures and good business practices are followed by the entity
- To evaluate the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations.

1. (e) Considerations that guide the recommendations by Committee of National Assembly on revenue matters included in the finance bill for approval.

- Ensure that the total amount of revenue raised is consistent with the approved fiscal framework and the Division of Revenue Act
- Take into account the principles of equity, certainty and ease of collection
- Consider the impact of the proposed changes on the composition of the tax revenue with reference to the direct and indirect taxes
- Consider domestic, regional and international tax Trends
- Consider the impact on development, investment, employment and economic growth
- Take into account the recommendations of the Cabinet Secretary as provided under Article 114 of the Constitution;
- Take into account the taxation and other tariff agreements and obligations that Kenya has ratified, including taxation and tariff agreements under the East African Community Treaty

2.(a) Responsibilities of an accounting officer of a procuring entity.

- To ensure compliance with public procurement and asset disposal Act, the procurement and asset disposal regulations and relevant guidelines.
- To prepare annual procurement plans in harmony with the approved budget.
- To establish committees such as tender committee, procurement committee and procurement unit.
- To approve purchase requisition, technical specifications, tender documents and advertisement.
- To award contracts professionally after considering tender evaluation reports.
- To sign contract agreements and issue a certificate of final acceptance.
- To keep procurement records and manage them properly.
- To certify availability of funds before embarking on a public procurement procedure.

2. (b) Benefits derived by the government by establishing Public Private Partnerships (PPPs) arrangements.

- It allows the government to access private sector funds that it would not have been able to.
- It provides the government with expertise that it may be devoid of leading to high standard infrastructure.
- It reduces Government spending by funding projects and their operations.
- It eliminates risk as the firm that is best suited to manage risk is given the project bringing down the risk of project abandonment.
- Since the government is not spending much on the project, it can re-direct its funds to key areas.
- Management of the infrastructure is held at high standard as the private sector would manage it for some years before handing it over to the government.
- The create job and business opportunities to the community around the project.

2. (c)(i)

Cheptoo and Associates

Value added tax (VAT) account for the month of October 2023

Date	Details	Dr. Input VAT	Cr. Output VAT	VAT Refundable/ (Payable)	Workings	
		Shs.	Shs.	Shs.	Vatable value	Value + VAT
2-Oct	Betterlife Ltd.		134,400	(134,400)	840,000	
4-Oct	Rwandacell		147,200	(281,600)	920,000	
10-Oct	Whitestar Ltd.		48,000	(329,600)		348,000
15-Oct	Zedcom Ltd.		83,200	(412,800)		603,200
17-Oct	Whitestar Ltd		67,200	(480,000)		487,200
18-Oct	Stima Ltd		384,000	(864,000)	2,400,000	
19-Oct	Glory Ministries		115,200	(979,200)	720,000	
21-Oct	Whitestar Ltd	18,880		(960,320)		136,880
22-Oct	Speed Netcom S.A,		0	(960,320)	640,000	
24-Oct	Walkah Ltd.		32,000	(992,320)		232,000
26-Oct	Compassionate Children Home		19,200	(1,011,520)		139,200
31-Oct	Electricity	3,520		(1,008,000)		25,520
	Rent for the					
31-Oct	office	17,600		(990,400)		127,600
31-Oct	Stationery	3,680		(986,720)		26,680

	Computer		
31-Oct	repairs	4,160	(982,560)
31-Oct	Telephone bills	2,720	(979,840)

	30,160
	19,720
×16%	×16/116

VAT payable = shs. 979,840

Note: I have used the spreadsheet format in drafting the VAT account; Student who want to stick to the T-format can peruse it under VAT topic in this book. I have a comprehensive example there.

2.(c)(ii)

Cheptoo and Associates.

VAT bad debt refund

Date	Details	Input VAT	Output VAT	Amount Billed
10-Oct	Whitestar Ltd.		48,000	348,000
17-Oct	Whitestar Ltd		67,200	487,200
21-Oct	Whitestar Ltd	18,880		(136,880)
	Amount paid			(237,800)
	Total bad debt	73,683		460,520

V AT bad debt refunds claimable = 73,683

3.(a)(i) Transshipment. Is the process of moving goods from one mode of transport to another while they are in transit to their final destination.

3.(a)(ii) Ex-factory selling price. It is the manufacturer's selling price. It is a price at which a seller agrees to sell goods from their factory.

3.(a)(iii) Prohibited goods. Are that customs and excise act proscribes their importation. They include; counterfeit goods, hazardous materials, narcotics, pornographic materials, firearms and explosives, distilled beverages, plastics, timber, fish and matches.

3.(b)(i)

Rosemary Aswani

Taxable income for the year ended 31 December 2022

	SHS.	PAYE-SHS.
Basic salary(shs.204,000×12)	2,448,000	607,200
Bonus	204,000	
Terminal dues	700,000	
Commission	100,000	
Subsidized house buying (shs.6,000,000×20%)	1,600,000	
Insurance benefit(shs.240,000×40%)	96,000	
Car benefit (shs.36,000×4)/2	72,000	
Less insurance relief	(60,000)	
Employment income	5,160,000	
Add Royalties (shs.180,000×100/95)	189,474	
Add Gross farming income	450,000	
Add Part Content Creator sh.(600,000-24,000)	576,000	
Taxable income	6,375,474	

Notes:

- Only shs.700, 000 of the terminal dues would be taxed in the current year, the other half would be taxed in the following year as her terminal dues are spread over the unexpired terminated contract period.
- Sh.100,000 master class financial analysts seminar and shs. 12,000 subsistence allowance is wholly and exclusively in the production of her income from the employment or services as she was being trained to be more efficient, therefore not a taxable benefit.
- Interest of Sh.150,000 from Maisha Bank Ltd is qualifying interest hence withholding tax is final tax.
- Since life insurance policy where she pays 60% of the premiums while the employer pays the balance is intended to confer to her and her dependants benefit like sum assured on maturity of the policy, sh. 96,000 out Sh.240,000 paid by the employer is a taxable benefit. However she has a right to claim insurance relief on the premiums she is paying herself subject to a statutory maximum of shs. 60,000.
- For the saloon car of 2000cc provided by the employer for both personal use and official duties on 1 September 2022, in the computation of car benefit, the initial cost of Sh.2,800,000 and the commissioner's prescribed rates would be ignored. The real lease charges of sh. Sh.36,000 p.m paid by the employer would be used. The benefit would be reduced by a fraction agreed with the commissioner. It is assumed that the fraction is 50%.
- Group insurance where no party in the group is intended to benefit in monetary terms is not taxable. Therefore the United Homes medical cover for all management staff where she is entitled to a maximum cover of Sh.880,000 per year although and utilized Sh.420,000 only on medical costs during the year is not a taxable benefit.
- Income from Part-time practice is net of subscription fees to her professional body amounting to Sh.24,000 during the year.
- Royalties income of Sh.180,000 net of withholding tax is subject to further taxation on the gross Amount.

3.(b)(ii)

Rosemary Aswani

Tax payable on the income computed in 3.(b) (i) above.

Total taxable Income	6,375,474
Taxed as;	
The 1st shs. 288,000 @10%	28,800
The next shs. 100,000 @25%	25,000
The rest shs.5,987,474 @30%	1,796,242
Gross tax liability	1,850,042
Less PAYE deducted	(607,200)
Less Withholding tax on Royalties deducted	(9,474)
Less Personal Relief	(28,800)
Net tax payable by Mr. Musyoka	1,204,568

4.(a)(i) If a taxpayer is aggrieved with an objection decision, he may appeal to the tax appeals tribunal. One files a notice of appeal and a memorandum of appeal and statement of facts.

4.(a)(ii) High court. If a tax payer is dissatisfied with the decision of the tribunal, he would appeal to the High Court. Appeal should only be matters of law. The tax payer has to file notice of appeal before the tribunal then file a memorandum of appeal in the High Court and serve a copy on the respondent.

4.(b)(i)

Bright Décor Ltd.

Taxable profit or loss for the year ended 31 December 2022.

	Sh."000"	Sh."000"
Net profit for the year as reported		19,800
<u>Add Taxable Incomes omitted and Non-allowable expenses</u>		
Intangible assets written off	1,400	
Preparing lease for 100 years	800	

Defense against claims of breach of trade agreement	800	
Purchase of directors private residence	200	
Bad debts	80	
Floating expenses	1,400	
Pick up scrapped in an accident	2,000	
Depreciation	3,400	
Computer software purchase	300	
Pension to retired staff	8,700	
Directors allowances private legal suit	1,200	
Directors entertainment	440	
Overstates cost of sales	400	
Total Disallowable expenses		21,120
Adjusted net profit		40,920
<u>Less allowable expenses and non-taxable incomes</u>		
Interest from Bestway Bank (gross)	1,800	
Insurance recovery - Pick-up	1,000	
Profit from sale of marketable securities	900	
Dividend from Tea Co-operative Society (net)	600	
capital allowance	2,000	
investment allowance	75	(6,375)
Taxable profit		34,545
Add Dividend from Tea Co-operative Society (gross)		630
Taxable Income		35,175

Note:

-Defense against claims of breach of trade agreement has been disallowed since the expenditure was on allegations of breach and not the actual breach failing the test of an expense expended wholly and exclusively for revenue production.

W1 - Overstated cost of sales

	as P&L	Actual	
Opening inventory	6,000	6,600	
Purchases	40,000	40,000	
Closing inventory	-10,000	-11,000	
	<u>36,000</u>	<u>35,600</u>	400

W2 - Investment allowance

Computer software purchase	300	@25%	75
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4.(b)(ii)

Bright Décor Ltd.

Compute the tax payable (if any) on the income computed in (b) (i) above

Sh. "000"

Taxable Income	<u><u>35,175</u></u>
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Tax thereon @ 30%	<u><u>Shs. "000" 10,553</u></u>
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4.(c)

Fountain Ltd.

Investment allowances for each of the two years ended 31 December 2021 and 31 December 2022

			Year 2021	Year 2022
			shs.	shs.
<u>Building used for manufacture</u>				
Factory building	40,000,000	50/25%	20,000,000	10,000,000
<u>Machinery used for manufacture</u>				
Factory machinery	12,500,000	50/25%	6,250,000	3,125,000
Motor vehicles and heavy earth moving equipment				
2 lorries (Sh.5,000,000 each)	10,000,000	25%	2,500,000	2,500,000
2 saloon cars (Sh.3,500,000 each) restricted				
3,000,000	6,000,000	25%	1,500,000	1,500,000
<u>Computer software, calculators copiers and duplicating machines</u>				
Computers	800,000	25%	200,000	200,000
Computer software	240,000	25%	60,000	60,000
<u>Commercial building</u>				
Godown	4,100,000	10%	410,000	410,000
<u>Other machinery</u>				
Other machineries	300,000	10%		30,000
Total Investment allowance			30,920,000	17,825,000

5.(a) Distinctions between “direct taxes” and “indirect taxes”.

Direct taxes	Indirect taxes
People and entities are taxed	Goods and services are taxed
Are proportionate to the taxpayers income or assets, the rich pays more or are levied according to ability to pay principle	Are bases on the value of goods or services
Considered as progressive taxes	Considered as regressive taxes
They are non-transferrable, the tax is shouldered by the tax payer	Are transferrable. The consumers bears the ultimate tax. Cost is entrenched in the price of the product for customs duty, excise tax, and tariffs.
They include income tax, corporate tax and property taxes.	They include customs duty, excise tax, tariffs and VAT

5. (b) Rate of advance tax and the effective date as provided in the finance Act, 2023.

Advance tax is payable commencing on the 1st January, 1996 in respect of every commercial vehicle at the following rates.

Advance Tax On;	Rate
Vans, Pick-Ups, Trucks, Prime Movers, Trailers and Lorries	Higher of Kshs.1500 per tonne load or Kshs.2,400
Tractors or Trailers Used For Agricultural Purposes	Nil
For Saloons, Station-Wagons, Mini-Buses, Buses and Coaches	Higher of Kshs. 60 per passenger capacity or Kshs. 2400

5. (c) Objectives of the Medium Taxpayers Office (MTO).

- To ease filing and eliminating bottlenecks that medium sized organizations have been facing in filling returns.
- To process tax refunds of Medium sized firms efficiently.
- To enable medium sized tax payers to lodge complaints with Kenya Revenue Authority easily.
- To ease cost of tax compliance to medium sized tax payers by offering the personalized service
- To replicate the success of the Large taxpayers office in terms of responsiveness and revenue collection.
- To increase tax compliance levels among the medium tax payers

5.(d)(i)

James and Patrick trading as Highway Enterprises**Adjusted taxable profit or loss for the year ended 31 December 2022.**

	Shs.	shs.
Net profit as reported		11,745,800
<u>Add taxable incomes and non-allowable expenses</u>		
Purchase of a computer	220,000	
Partners salary: James	1,150,000	
Partners salary: Patrick	1,140,000	
Purchase of office machinery	480,000	
Commission to partners: James	2,120,000	
Commission to partners: Patrick	2,180,000	
Stamp duty	126,000	
Impairment of goodwill	114,000	
Fixing of neon sign	80,000	
VAT paid	180,000	
Purchase of telephone equipment	53,000	
Loan to employees written off	138,400	
Cost of relocating to new premises	275,600	
Redundancy payments to employees	1,184,300	
Investment seminar for retired employees	325,500	
Depreciation	185,000	
Insurance cover for imported machinery against loss on transit	150,000	
Drafting a loan agreement	25,000	
Carriage cost of a machine	34,000	
Understated cost of sales	23,000	
Total non-allowable expense		<u>10,183,800</u>
Adjusted profit		21,929,600
<u>Less non taxable incomes and allowable expenses</u>		
Interest on deposit with foreign bank	48,000	
Investment allowances	132,300	
Profit on disposal of machinery	35,000	
		<u>(215,300)</u>
Adjusted taxable profit or loss		<u><u>21,714,300</u></u>

W1 - cost of sales

Opening inventory	48,000
Cost of goods sold	<u>66,750,000</u>
Adjusted Cost of goods sold opening stock	66,798,000
Closing inventory	-25,000

Adjusted Cost of goods sold opening stock	<u>66,773,000</u>
Cost of goods sold as computed	66,773,000
Cost of goods sold per accounts	<u>-66,750,000</u>
Understated cost of sales	<u>23,000</u>

W2 - Investment allowances

Purchase of a computer	220,000	25%	55,000
Purchase of office machinery	480,000	10%	48,000
Stamp duty	126,000	10%	12,600
Fixing of neon sign	80,000	10%	8,000
Purchase of telephone equipment	53,000	10%	5,300
Carriage cost of a machine	34,000	10%	<u>3,400</u>
Total			<u>132,300</u>

5.(d)(ii)

James and Patrick trading as Highway Enterprises

Allocation of taxable profit or loss computed in (d) (i) above to the partners.

Currency	shs.	shs.	shs.
Partners	James	Patrick	Total
Profit sharing ratio	0.5	0.5	1
Partners salary	1,150,000	1,140,000	2,290,000
Commission to partners	2,120,000	2,180,000	4,300,000
Share of profit	7,562,150	7,562,150	15,124,300
Taxable income	<u>10,832,150</u>	<u>10,882,150</u>	<u>21,714,300</u>

CPA INTERMEDIATE LEVEL: CIFA INTERMEDIATE LEVEL; PUBLIC FINANCE AND

TAXATION: Tuesday: 22 August 2023.

1. (a)(i) Equitable share. This is revenue that is given to counties by the national government. It is etched in the Kenyan Constitution which stipulates that every financial year, revenue raised nationally should be allocated to counties and the amount should not be less than 15% of all revenue collected by the national government.

1. (a)(ii) Conditional grants. These are monetary transfers from the national government to county government subject to conditions on how the funds should be used. They include; Level 5 Hospital Grant, user fees forgone, World Bank Funds, World Bank-IDA: Transforming Health Systems for Universal Care Project, Universal Health Care-DANIDA, KDSP, Development of Youth Polytechnics, Agriculture Sector Support Program II and Road maintenance fuel levy fund.

1. (a)(ii) Own source revenue. This is revenue collected by county governments within the county's boundaries as they execute their mandate as specified in the Constitution of Kenya and other county enabling laws.

1. (b) Principles of public financial management regulations that govern all aspects of public finance in your country.

- **Openness and accountability.** The public should participate in financial matters of their government.
- **Equity.** Revenue raised nationally should be shared equitably among county governments.
- **Prudence.** Public officers should come up with ways to avoid wasting public funds.
- **Intergenerational equity.** The burdens of public borrowing and resource use are to be shared equitably between present and future generations.
- **Promotion of equitable development.** Expenditure is to promote the equitable development of the country, including making special provision for marginalized groups and areas.

1(c) Roles of the Senate as an oversight functions in public finance management.

- Represents counties and serves to protect counties' interests
- Approves bills concerning counties
- Determines allocation of national revenue among counties
- Participates in the oversight of state officers by considering and determining any resolution to remove the president, deputy president, governors and their deputies.

1. (d) Parameters used by the Commission on Revenue Allocation in sharing revenue among county governments .

- Constitution article 202 states that national revenue should be shared equally between the national and county governments. Article 203 outlines a framework based on factors like development needs, economic disparities and ability of counties to perform their duties.
- Parameters like population, poverty index, land area and fiscal responsibility have been devised by Commission on Revenue Allocation.
- County development index is used to identify marginalized counties.
- Historical injustices are considered when identifying marginalized counties
- County surveys are considered in identifying marginalized counties.

2.(a) Objectives of conducting an annual debt sustainability analysis in Kenya

- To appraise the country's ability to service its existing debt obligations.
- To identify possible risks to debt sustainability
- To guide informed borrowing decisions

- To ensure new debt taken on does not compromise future economic growth and development
- To monitor key debt indicators thus taking practical measures to manage debt levels within tolerable thresholds.

2. (b) Responsibilities of the county government procurement function.

- To plan procurement activities
- To identify critical suppliers and build partnerships
- To keep stakeholders and vendors updated of procurement activities
- To analyze expenditure data to identify cost saving opportunities and improve performance.
- To maintain accurate records of all purchases and manage inventories of purchased goods and services.
- To adhere with procurement and other enabling legislations.

2.(c)(i) Output tax – shs. 164,000

2.(c)(ii) Deductible input tax-shs. 121,479

2.(c)(iii) VAT payable -shs. 36,616

Workings

Baraka Traders

Output tax Computation.

Date	Details	Dr. Input tax Shs.	Cr. Output tax Shs.	VAT Refundable/(Payable) Shs.	Value + VAT
4-Dec	Purchases	100,000		100,000	725,000
8-Dec	Return outwards		8,000	92,000	58,000
12-Dec	Catering expenses	12,000		104,000	87,000
15-Dec	Repairs of delivery van	4,000		108,000	29,000
15-Dec	bankrupt debtor	7,000		115,000	50,750
18-Dec	Audit fees	3,600		118,600	26,100
	Cost insurance and freight				
20-Dec	(CIF) imports	20,690		139,290	150,000
22-Dec	Sales (local)		156,000	(16,710)	1,131,000
24-Dec	Sales (export)		0	(16,710)	250,000
27-Dec	Exempt sales			(16,710)	350,000
28-Dec	Photocopying	1,600		(15,110)	11,600
30-Dec	Telephone bill	3,200		(11,910)	23,200
31-Dec	Restriction factor	(24,706)		(36,616)	
		127,384	164,000		×16/116 to get VAT
	Total supplies				
	Sales (local)	150,000			
	Return outwards	8,000			
	Sales (export)	1,131,000			
	Exempt sales	250,000			
		1,539,000			

restricting input tax = taxable supplies÷total supplies×input tax

127,384

Note: I have used the spreadsheet format in drafting the VAT account; Student who want to stick to the T-format can peruse it under VAT topic in this book. I have a comprehensive example there.

3.(a) “Export levy” as used in miscellaneous fees and levies Act. It is a fee imposed on certain goods. The exporter pays the levy when exporting the goods. The rate is the higher of ad valorem (based on custom value of goods) rate or a rate specified in the first schedule.

3. (b) The role taxation policies play in achieving budgetary objectives.

- Taxation ensures a country achieves the best possible price level and a reduction of inflation to a single unit digit by making funds available to realize this budgetary objective.
- Taxation makes certain a country has an optimal employment level by encouraging investment which creates job for instance; by providing Investment allowance to investors.
- the constitution make a budgetary objectives of sharing national revenue equitably; Taxation aids this objective by promoting a desirable income distribution where the rich are taxed more than the poor.
- One of the budgetary objectives is attaining of a most advantageous level of consumption. Taxation plays a role in availing the funds to achieve this objective as well as distributing incomes in the economy.

3.(c)(i)

Solomon Chuchuh

Managing Director of Utamu Millers Ltd.

Taxable income for the year ended 31 December 2022

	shs.	PAYE-shs.
Basic salary (sh.120,000 ×12)	1,440,000	576,000
Medical allowance(sh.12,500×12)	150,000	
Insurance benefit(shs.4,800×4)×3	57,600	
Furniture Benefit(1% of sh.240,000) ×12	28,800	
Electricity benefit (W5)	21,600	
Water benefit (W6)	12,000	
Car benefit (W2)	192,000	
House servant benefit = Shs.14,000×3	42,000	
Night watchman benefit =Shs.14,000×3	42,000	
House benefit (W1)	528,000	
Less contribution to a registered pension scheme(W7)	(216,000)	
Total taxable employment income	2,298,000	
Add other incomes		
Net rental income(W3)	3,983,620	
Dividend from united Millers Co-Operative Society (=306,000×100/95)	322,105	
Total taxable income	6,603,725	

Notes;

- Lunch provided to employees from 1st august to 31 December of shs.6, 000 totals shs.30,000 per year, the first shs.48,000 lunch per employee per year is not taxable. The lunch is not taxable.
- Medical allowance of shs.12, 500 per month is taxable as it confers a benefit to the receipt in that whether he is sick or not he is paid the amount.
- The Life Insurance premiums of Sh.4, 800 per month paid by the company for each member of his family from 1 September 2022 is a taxable benefit, his family would gain by withdrawing the sum assured on maturity, and any other monetary benefits under the life insurance.
- School fees for his daughter of Sh.200, 000 is not a taxable benefit as it has been taxed on the employer.
- Dividend received from United Millers Co-Operative Society, Sh.306, 000 net is not qualifying dividend thus is grossed up and subjected to further taxation. Interest received from Fanaka Bank Ltd. Sh.240, 000 net is qualifying interest thus withholding tax is final tax.

Workings

W1 - House benefit

Higher of ;

1. Employer cost(Shs. 50,000×12)	600,000
less 5% basic salary	(72,000)
	528,000

2. 15% total pay(15% of 1,778,400)	297,900
less 5% basic salary	(72,000)
	225,900

W2 - Car benefit

Higher of ;

1. 2% of cost shs.3,200,000 * 3	192,000
2. 3000cc ratings =8600× 3	25,800

W3- Net rental income

shs.

Rental income as reported	2,400,000
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Add disallowable expenses

Fencing cost	640,000	
Loan repayment	320,000	
Monthly rental income tax	487,820	
Partitioning and CCTV cameras	222,000	
Total disallowable expenses		1,669,820
less Investment allowance		(86,200)
		3,983,620

W4-Investment allowance

Fencing cost	640,000	@10%	64,000
Partitioning and CCTV cameras	222,000	@10%	22,200
			86,200

W5-electricity benefit

higher of:

commissioners prescribed rate(1500×12)	18,000
Actual cost(=1800×12)	21,600

W6-water benefit

higher of:

commissioners prescribed rate(500×12)	6,000
Actual cost(3months=1000×12)	12,000

W7- Contributions to pension scheme

Is the lesser of;

30% of pensionable pay= (1,440,000×30%)	432,000
Employee's actual contribution= (1,440,000×15%)	216,000
Ksh.20,000 per month =(20,000×12)	240,000

3.(c)(ii)

Solomon Chuchuh**Managing Director of Utamu Millers Ltd.****Taxable income for the year ended 31 December 2022**

Tax payable from the income computed in (c) (i) above

Total taxable income	6,603,725
Taxed as;	
The 1st shs. 288,000 @10%	28,800
The next shs. 100,000 @25%	25,000
The rest shs.6,215,725 @30%	1,864,718
Gross tax liability	1,918,518
Less PAYE deducted	(576,000)
Less Rental Tax deducted	(487,820)
Less withholding tax on dividend	(16,105)
Less personal relief	(28,800)
Tax payable	809,792

4.(a) Factors that have contributed to the growth of Public Private Partnership (PPPs) arrangements in most developing countries

- Developing countries have enacted legal framework that provides policy continuity and flexibility thus attracting private capital.
- PPP has superior public services quality forcing the public sector to offer equivalent quality services through PPP.
- The government has been able to transfer risk of projects to privates sector making PPP popular with the government.
- Funding. PPP relieves governments of financial constraints they face thus making them popular as the government is able to tap private funds in undertaking projects that it could ordinarily be unable to access.

4. (b) Taxable capacity is the maximum amount of taxes a country or its citizen can pay without hardship, the determinants of taxable capacity are;

- Economic development.** The higher the economic development of a country, the higher the taxable capacity, and vice versa.
- National income.** National income which is pegged on availability of resources, how they are utilized and the level of technology; this determines taxable capacity. Higher national income equals to higher taxable capacity.
- Government expenditure,** government expenditure to promote growth of infrastructure and economic development would increase the taxable capacity.
- The cost of tax compliance** should be low to curb tax evasion and tax frauds. When tax compliance is high, the taxable capacity is high

4(c)(i)

Mambo, Moto and Mutokah**Adjusted taxable profit or loss o for the year ended 31**

December 2022.

Net Profit as reported 1,597,000

Add omitted taxable incomes and non-allowable expenses

Depreciation	148,000
Value added tax (VAT)	150,000
Purchase of furniture	620,000
Goodwill written off	225,000
Interest on capital - Mambo	80,000
Interest on capital - Moto	140,000
Neon sign	120,000
Partners end year party	150,000
Embezzlement by cashier	210,000
Bad debts	250,000
Parking fines	130,000
Appeal on a tax assessment	210,000
Total non-allowable items	2,433,000
Adjusted profit	4,030,000

less Omitted allowable expenses and non-taxable incomes

Sale of delivery van proceeds	1,400,000
Investment allowances	380,000
Additional Investment allowance	62,000
Total allowable items	(1,842,000)
Adjusted taxable Income	2,188,000

Workings**W1 - Additional Investment allowance**

Purchase of furniture 620,000 @10% 62,000

4(c)(ii)

Mambo, Moto and Mutokah

The allocation of the taxable profit or loss in 4 (c) (i) above to the partners

Profit Sharing Ratio	0.5	0.3	0.3	1.0
Currency	Shs.	Shs.	Shs.	Shs.
Partners	Mambo	Moto	Mutokah	Total
Interest on Capital	80,000	140,000		220,000
Share of profit	984,000	492,000	492,000	1,968,000
Taxable income on partners	1,064,000	632,000	492,000	2,188,000

4(d)

Bright Traders

Turnover tax position and turnover tax liability (if any).

January - April	1,800,000
May - August	2,200,000
September - December	3,200,000
Total	7,200,000

Since Bright Traders' incomes from business exceed Shs. 1,000,000 and does exceed Shs. 25,000,000 in a year, he is liable to turnover tax. The tax is 1.5% on gross sales effective from 1st July 2023(Finance Act 2023).

Therefore turnover tax for bright traders is: $1.5\% \times 7,200,000 = \text{Shs } 108,000$. This is before considering penalties and interests for non-compliance. The tax is due on every 20th day of the month after the month the sales were made.

5. (a) Challenges faced in taxing the digital economy

- Difficulty in indentifying and tracking online transactions.
- Non-disclosure and characterization of income earned.
- Lack of consensus on taxation of digital economy at global level.
- Difficulty in classifying gifts sent to one by his fans as income

5. (b) Instances in which the commissioner may refuse to grant an excise tax license to the applicant

- The applicant is insolvent or is in the process of liquidation or receivership.
- The applicant has not kept proper records as required by tax law
- the applicant is convicted of an offence under tax laws or tax procedures Act.
- The applicant has been convicted of an offense involving dishonesty or fraud under any law.
- The factory, plant or equipment specified in the application is not adequate to manufacture or secure excisable goods.

5. (c)(i)

Sky Rift Growers Ltd

Investment allowances for the year ended 31 December 2022.

Asset	Cost	Rate	Shs
Irrigation system	680,000	@50%	340,000
Construction of gabions	300,000	@50%	150,000
Farmhouse where the farm manager resides(shs. 5,100,000 restricted to 1/3)	1,700,000	@50%	850,000
Labour quarters for workers	1,800,000	@50%	180,000
Office partitions	120,000	@10%	12,000
water pump	120,000	@10%	12,000
Electrification network	1,200,000	@10%	120,000
Construction of godowns at the firm	2,400,000	@10%	240,000
Plough and lawn mower	380,000	@10%	38,000
Farm implements	540,000	@10%	54,000
Surveillance cameras	120,000	@10%	12,000
Total investment allowances			2,008,000

5. (c)(i)

Sky Rift Growers Ltd

Total taxable income for the year ended 31 December 2022

	Shs	Shs
Net profit as reported		1,180,600
<u>Add omitted taxable incomes and non-allowable expenses</u>		
Bad debts: General provision	220,000	
Loss on sale of investment	96,000	
Depreciation	840,000	
Office partitions	120,000	
Farm works	12,640,000	
Total non-allowable items		13,916,000
Adjusted profit		15,096,600
<u>less Omitted allowable expenses and non-taxable incomes</u>		
Dividend income	270,000	
Interest income (net)	264,000	
Surplus from pension scheme	120,000	
Investment allowances	2,008,000	
Total allowable items		(2,662,000)

Adjusted taxable profit

12,434,600

Note:

-Clearing land and planting roses shs.8,940, 000 could be disallowed if the roses are termed as biological assets. The cost is allowed above as it is assumed it relates to operational costs only.

5.(c)(i)

Sky Rift Growers Ltd

Tax liability due to the company for the year ended 31 December 2022.

Adjusted taxable profit

12,434,600

Taxed at 30%

Sh. 3,730,380

CPA INTERMEDIATE LEVEL: CIFA INTERMEDIATE LEVEL; PUBLIC FINANCE AND

TAXATION: Tuesday: 25 April 2023.

1. (a)(i) **Vertical sharing.** It is the equitable distribution of revenue raised nationally between national and county governments. The national government receives 84.5% of national revenue, county governments 15% and 0.5% goes to equalization fund.

1. (a)(i) **Horizontal sharing.** It is the distribution of at least 15% of the national governments revenue among county governments. The commission of revenue allocation is tasked with the assignment and would distribute the revenue on the following basis:

- Population
- Poverty index
- Land Area
- Basic equal share
- Fiscal responsibility
- Development index (considers access to water, electricity and roads)
- Health index
- Agriculture index
- Urban index
- Roads index

1. (b) Different entities whose accounts the Auditor General is required to audit and report within six months after the end of each financial year as provided in the constitution of Kenya, 2010.

- National and County governments
- All funds and authorities of the national and county governments
- All courts of law
- All commissions and Independent offices established under the constitution 2010.
- National Assembly, the Senate and County Assemblies.

1. (c) Matters that are included in the budget estimates submitted to the County Assemblies by the County Executive Committee members for finance in respect of the budget for every financial year.

- A summary of budget policies including revenue, expenditure, debt and deficit financing
- An explanation of how the budget relates to the fiscal responsibility principles and the financial objectives
- A memorandum by the County Executive Committee member for finance explaining how the resolutions adopted by the county assembly on the budget estimates have been taken into account
- A list of all county government entities that are to receive funds appropriated from the budget of the county government
- Estimates of revenue projected from the Equalisation Fund over the medium term
- All revenue allocations from the national government over the medium term, including conditional and unconditional grants
- All other estimated revenue by broad economic classification
- all estimated expenditure, by Vote, and by programme, clearly identifying both recurrent and development expenditures
- information regarding loans made to the county government, including an estimate of principal, interest and other charges to be paid by that county government in the financial year in respect of those loans

- Information relating to any payments and liabilities to be made or incurred by the county government for which an appropriation is not included in an Appropriation Act, together with the constitutional or national legislative authority for any such payments or liabilities
- a statement by the County Executive Committee member for finance specifying the measures taken by the county government to implement any recommendations made by the county assembly with respect to the budget for the previous financial year

1(d) Measures that could be taken to mitigate the level of increasing public debts.

- Debt restructuring. Government can restructure the debt with creditors instead of defaulting.
- Fiscal consolidation to gain market confidence and restore macroeconomic stability
- Policy reforms to boost growth and increase revenue.
- Lower interest rates to stimulate the economic growth and generate tax revenue
- Government can raise taxes to pay for expenditure and reduce debt
- Government can mobilize funds at lower costs.
- The government should coordinate monetary and fiscal policies to spur public debt management.
- The government should desist from implementing poorly thought out plans and engage in long-term planning.

2. (a) Electronic reverse auction. Is an online auction process where multiple sellers compete to provide the lowest price for a product or service.

2. (b) Benefits of applying e-procurement in the public sector.

- Transparency
- Cost reduction
- Increased productivity
- Increased transaction speed
- Improved inventory management
- Increased competitiveness
- Increased trust
- Improved growth
- Increased tax compliance

2. (c) Sources of funds deposited into the private partnership project facilitation fund.

- Grants
- Debt Capital
- Equity financing
- Blended finance
- Crowd funding
- Venture capital
- Retained earnings

2.(d)(i)

Hyrax Stores Ltd.

A value added tax (VAT) account for the month of January 2023.

Date	Details	Dr. Input Tax	Cr. Output Tax	Refund/(Payable)		
		Shs.	Shs.	Shs.	workings	multiply by to get VAT
2-Jan	Kikoi Traders Riverroad		110,345	(110,345)	800,000	16/116
3-Jan	Traders	27,034		(83,310)	196,000	16/116
7-Jan	Kikoi Traders	8,276		(75,034)	60,000	16/116
9-Jan	JB Ltd.		0	(75,034)	300,000	0
12-Jan	electricity bills	2,207		(72,828)	16,000	16/116
14-Jan	Riverroad Traders		6,621	(79,448)	48,000	16/116
18-Jan	office stationery	4,966		(74,483)	36,000	16/116

20-Jan	Ministry of Trade		(74,483)	1,600,000	-
21-Jan	Dubai	160,000	(234,483)	1,000,000	0
	fuel for business				
24-Jan	vehicles	20,690	(213,793)	150,000	16/116
	Catering				
28-Jan	services.	9,379	(204,414)	68,000	16/116
29-Jan	audit services	6,207	(198,207)	45,000	16/116
Total		78,759	276,966		

Note: I have used the spreadsheet format in drafting the VAT account; Student who want to stick to the T-format can peruse it under VAT topic in this book. I have a comprehensive example there.

2. (d)(ii) Penalties and interest due where the VAT is not paid by Hyrax Stores Ltd. on the due date.

Late payment of VAT would attract 5% penalty of the tax due or shs. 20,000. Whichever is higher. Late filing of VAT returns would attract 5% penalty of the tax due or shs. 10,000. Whichever is higher.

3. (a) Benefits of the Integrated Customs Management System (ICMS) in the administration of customs taxes.

- Improved efficiency
- Reduced errors
- Better compliance
- Improved risk management
- Better analytics
- Improved inventory management
- Improved foreign trade operations.

3. (b) Activities that require a license or registration by the commissioner before undertaking as per the excise duty Act 2015.

- Manufacture of excisable goods in Kenya
- Importation into Kenya of excisable goods
- Supply of excisable services
- Use of spirit or illuminating kerosene to manufacture goods in Kenya that are not excisable goods
- Carrying out any activity in Kenya for which the commissioner may impose a requirement for license.

3. (c)(i)

Oscar Ebala

IT Officer by County University

Taxable income for Oscar Ebala and his wife for the year ended 31 December 2022

	Shs.	PAYE Shs.
Basic salary	1,200,000	250,000
Motor vehicle benefit	280,000	
Sitting allowance (=120,000×70%)	84,000	
House benefit	210,000	
Mortgage interest benefit	50,000	
Excess Contribution to registered pension deducted (shs.300,000-240,000)	60,000	
Subscription to ICT Association	16,000	
Less HOSP interest (8,000×6)×15%	(7,200)	
Employment Income	1,892,800	
Add interest from Technology SACCO	48,000	
Total Taxable income	1,940,800	

Mrs. Erica Ebala

Basic salary (60,000×12)	720,000
Medical allowance(15,000×12)	180,000
Employment Income	900,000
Add Royalties on sale of literature books(shs.95,000×100/95)	100,000
Add Part time IT Consultancy	120,000
Total Taxable income	1,120,000

Notes:

-Employment Income is taxed when due and not when it is actually paid.

-Interest on mortgage loan from Technology SACCO of Sh.100, 000 is not an allowable deduction since it was not taken from a specified financial institution.

- Dividend from Technology Sacco Sh.24, 000 net is qualifying dividend hence withholding tax is final tax. Interest of Sh.48, 000 from Technology Sacco is subject to further taxation since it is not qualifying interest.

- It is assumed the figure given of Oscar Ebala's basic salary is net of; Family life insurance premiums shs.48,000, Subscription to ICT Association 16,000, Contribution to registered pension scheme 300,000, but since Subscription to ICT association is not a deduction allowed on an individual's Employment income before taxation, it has been added back- however, it could be deducted from part-time IT consultancy if he had one like his wife. In addition, the statutory maximum Contribution to registered pension scheme is shs.240, 000, the extra shs.60, 000 deducted has been added back.

- Enrollment for an online Cyber Security Certification course in September 2022 that the employer paid his fee of Sh.60, 000 is not a taxable benefit as the training is necessary to keep him more efficient.

-The subsistence allowance of Sh.7, 000 per day for 7 days while on official duty is deemed to be solely the reimbursement to Mrs. Erica Ebala an amount expended by him wholly and exclusively in the production of his income thus not a taxable benefit.

- His wife's attendance to one week training on Artificial Intelligence Master Class training Sh.120,000 paid by the employer is not taxable benefit as it is an expenditure to maintain her efficiency.

-Royalties on sale of literature books Sh.95, 000 net of tax at source for Mrs Oscar Ebala would be subjected to further taxation on gross value.

Workings.**Motor vehicle benefit****The higher of;**

1. 2600cc ratings = 14,400×5	72,000
2. 2% of cost Shs.2,800,000 × 5	280,000

House benefit**The higher of;**

1. market rent =shs 45,000×6	270,000
less rent contribution	(60,000)
	<u>210,000</u>
2. 15% of Total pay	234,600
less rent contribution	(60,000)
	<u>174,600</u>

3.(c)(ii)

Oscar ebala

IT Officer by County University

Tax payable on income computed in 3.(c) (i) above

Tax on self	Shs.
Total Taxable income	1,940,800
Taxes as	
The 1st shs. 288,000 @10%	28,800
The next shs. 100,000 @25%	25,000
The rest shs.1,552,800 @30%	465,840
Gross tax liability	519,640
Less PAYE deducted	(250,000)
Less Tax relief	(28,800)
Net tax payable by Oscar Ebal	240,840

Mrs. Erica Ebal	Shs.
Total Taxable income	1,120,000
Taxes as	
The 1st shs. 288,000 @10%	28,800
The next shs. 100,000 @25%	25,000
The rest shs.732, 000 @30%	219,600
Gross tax liability	273,400
Withholding tax on royalties	(5,000)
Less Tax relief	(28,800)
Net tax payable by Mrs. Erica Ebal	239,600

4.(a) “Single tax system” and a “multiple tax system”.

Single tax system is based exclusively on one tax, originally based on land value.

Multiple tax system is where the government imposes many types of taxes.

4.(b) Measures that could be applied to curb tax evasion

- Reducing the tax rates
- Anti corruption policies
- Well-structured tax administration
- Tax payer awareness
- Tax planning strategies
- Effective auditing and enforcement
- Strict penalty provisions
- Simplification of tax procedures

4.(c)**Zahari Processors Ltd.****Total taxable profit or loss for the year ended 31 December 2022.**

	Sh. “000”	Sh. “000”
Net profit for the year as reported		527,614
<u>Add omitted taxable incomes and non-allowable expenses</u>		
Depreciation expense	3,240	
Loan repayment	2,600	
Impairment loss of property	1,500	
Development of a strategic plan	1,280	
Installation of neon sign	820	

Tax consultancy fees	208	
Car grant to a director	2,800	
Installation of processing machine	1,560	
Retrenchment costs	580	
Negotiating a bank loan	1,168	
Defense against claims of breach of trade agreement	1,450	
Preparation of employment contracts	1,250	
Total non-allowable items		<u>18,456</u>
Adjusted profit		546,070
<u>less Omitted allowable expenses and non-taxable incomes</u>		
Provision for foreign exchange gain	84,000	
Gain on sale of motor vehicle	28,000	
Release of liability	32,000	
Refund of excise duty	16,000	
Investment Allowance	25,345	
Total allowable items		<u>(101,345)</u>
Adjusted taxable profit		<u><u>444,725</u></u>

Workings.

	Sh.“000”	Rate	Sh.“000”
Investment Allowance			
Factory building	28,800	50%	14,400
Processing machinery	16,000	50%	8,000
Installation of processing machine	1,560	50%	780
Lorry (4 tonnes)	3,500	25%	875
Saloon car(Shs. 4,840, 000 restricted to shs. 3,000,000)	3,000	25%	750
Warehouse	2,800	10%	280
Drainage system	2,600	10%	<u>260</u>
			<u><u>25,345</u></u>

5. (a)(i) Trading receipt. If the assets of any class are sold for more than the written down value of that class and the business is a going concern, it is called a trading receipt which is taxable.

5. (a)(i) Balancing deduction. If sales proceed are less than written down values when the business is ceasing, the loss arising will be referred to as a balancing deduction and is a tax allowable expense.

5. (b) Instances where a taxpayer is considered to have made self-assessment return, as provided under Section 28 of the Tax Procedures Act, 2015.

- The tax payer submits a self-assessment return in the prescribed form for a reporting period.
- The tax payer has a deficit for the year ,the amount of deficit being the amount set out in the return
- The tax payer’s total input for the period exceeds the output for the period, the excess input being the amount set out in the return.
- A tax return form is completed and submitted electronically by the tax payer.

5. (c) (i) Withdrawal of Sh.1,800,000 (gross) from a registered pension scheme by a resident who retired early in year 2022 at an age of 49 years after serving for 12 years.

Pension	1,800,000.00
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Tax exempt amount	(300,000.00)
Taxable amount	1,500,000.00

Taxed as:

On the first Shs.288,000 @10%	28,800
On the next Shs.100,000 25%	25,000
Every Kshs. above Shs. 388,000 @30%	333,600
Total tax before Personal relief	387,400

5.(c)(ii) Royalties of Sh.760,000 gross received by Janet Nikoye a popular Ugandan musician from sale of ringtone tunes in Kenya. The royalty is subject to 20% withholding tax which is final tax. Sh. 152,000 shall be deducted as tax and sh. 608,000 remitted to by Janet Nikoye.

5.(c)(iii) Moses Patibhai received Sh.68,000 (net) for placing bets on football from Shinda Pesa, a sports betting house.

A withholding tax of 15% would be charged on Moses Patibhai winnings which is final tax. Sh.10,200 would be deducted from sh.68,000. Moses Patibhai would be given sh.57,800.

5.(d)(i)

Shebe Abdallah

Capital gains tax (CGT) payable on the disposal of his property

Property Sale	18,500,000
Land	1,300,000
Legal costs	650,000
Stamp duty	13,000
Hotel building	9,800,000
Legal charges	3,450,000
Investment deductions	(740,000)
Total cost of the property	(14,473,000)
Capital gain	4,027,000

capital gain tax thereon at 5% **201,350**

Note:

-The costs incurred to dispose of the property namely; Valuation costs shs.247,000, Advertisement shs.52,000 and Commission to buyer-seeking agents shs.1,850,000 are ignored since capital gain is taxed on the gross proceeds.

5.(d)((ii) Citing a reason, identify which of the following forms Shebe will use to file returns on transactions in (d) (i) above. • CGT1. • CGT2P. • CGT3

CGT1- involves transfer of land and building by individuals and corporate bodies. This is the form **Shebe will use to file returns on transactions in (d) (i) above.**

CGT1P-involves transfer of land and building by partnership.

CGT2- involves transfer of marketable securities by individuals and corporate bodies

CGT2P- involves transfer of marketable securities by partnership

CGT3 – involves declaration for transactions that are exempt from CGT

CPA INTERMEDIATE LEVEL: CIFA INTERMEDIATE LEVEL; PUBLIC FINANCE AND

TAXATION : Tuesday: 6 December 2022.

1. (a)(ii) The contingency fund. Contingencies fund is established by Article 208(1) of the Constitution

1. (a)(ii) The equalization fund. Is a fund established by article 204 of the constitution to ensure ½% of national government revenue is specifically allocated to marginalized areas.

1. (b) Circumstances under which the procurement or asset disposal proceedings may be terminated or cancelled as provided under the Public Procurement and Asset Disposal Act, 2015.

- The subject procurement has been overtaken by operation of law; or substantial technological change.
- There is inadequate budgetary provision.
- No tender was received.
- There is evidence that the prices of bids are above market prices
- Material governance issues have been detected
- All evaluated tenders are non-responsive
- Force majeure
- Civil commotion, hostilities or an act of war
- Upon receiving subsequent evidence of engagement in fraudulent or corrupt practices by the tenderer

1. (c) Contents that should be included in development plan prepared by every county government as specified under Section 126 (1) of the Public Finance Management Act, 2012.

- Strategic priorities for the medium term that reflect the county government's priorities and plans
- A description of how the county government is responding to changes in the financial and economic environment
- Programmes to be delivered with details for each programme of
 - (i) the strategic priorities to which the programme will contribute;
 - (ii) the services or goods to be provided
 - (iii) measurable indicators of performance where feasible
 - (iv) the budget allocated to the programme
- Payments to be made on behalf of the county government, including details of any grants, benefits and subsidies that are to be paid;
- A description of significant capital developments
- A detailed description of proposals with respect to the development of physical, intellectual, human and other resources of the county, including measurable indicators where those are feasible
- A summary budget in the format required by regulations.

1. (d) Items that the county treasury should include in the statement setting out the debt management strategy of the county government

- The total stock of debt as at the date of the statement
- The sources of loans made to the county government
- The principal risks associated with those loans
- The assumptions underlying the debt management strategy
- An analysis of the sustainability of the amount of debt, both actual and potential.

2. (a) Triggers of PAYE audit.

- Failure to file PAYE returns
- Irregularity detected during a normal tax audit
- Aggrieved ex-employees or current employees making their complaints to Kenya revenue authority
- Unexplained variations in monthly PAYE remittance
- Salaries and wages figure in financial statements being different from the figure in PAYE returns
- Media reports and third parties on non compliance
- Failure to keep proper PAYE records.

2. (b) SIX circumstances under which a contracting authority could use direct procurement as one of the PPPs

- When other procurement methods are not appropriate to protect national security interests
- When there is an urgent need for goods, works or services.
- When there is a catastrophic event
- When goods, work, or service are only available from a particular supplier or contractor
- When an invitation for bids was sent out but no bids came in
- When the bids that came in were not got enough.

2.(c)

Starlite Traders

A value added tax (VAT) account for the month of August 2022

Details	Dr. Input tax(shs)	Cr. Output tax(shs)	Refundable/(Payable) Balance(shs)
Sales to unregistered customers			0
customer in South Sudan		0	0
Sales to registered customers		819,239	(819,239)
Purchases from VAT registered suppliers	499,024		(320,215)
Purchases from VAT unregistered suppliers			(320,215)
Electricity	28,200		(292,015)
Printing and stationery	9,200		(282,815)
Legal fees	18,400		(264,415)
Motor vehicle fuel	23,090		(241,325)
Repair and maintenance	14,600		(226,725)
Wema Traders		22,069	(248,794)

Note: I have used the spreadsheet format in drafting the VAT account; Student who want to stick to the T-format can peruse it under VAT topic in this book. I have a comprehensive example there.

Working guide in obtaining VAT from items given.

Starlite Traders

A value added tax (VAT) account for the month of August 2022

Details	item: × ...to get VAT	
Sales to unregistered customers		1,801,480
customer in South Sudan	536,000	0
Sales to registered customers		5,939,483
Purchases from VAT registered suppliers	3,617,924	16/116
Purchases from VAT unregistered suppliers		1,780,020
Electricity	204,450	16/116
Printing and stationery	66,700	16/116
Legal fees	133,400	16/116
Motor vehicle fuel	167,400	16/116
Repair and maintenance	105,850	16/116

3. (a) “Certificate of Origin” as used under customs and excise taxes. Is a document used in international trade to certify that the goods being exported originated in a specific country.

3. (b) Categories of information the Commissioner should include in the default assessment sent to the Tax payer.

- The amount assessed as tax or amount of deficit or excess input tax carried forward.
- The amount assessed as late submission of the tax, deficit or excess input tax assessed.
- The amount of any late payment interest payable in respect of tax assessed.
- The reporting period to which the assessment relates.
- The due date for payment of tax, penalty and interest being a date that is not less than 30days from the date of service of notice .
- The manner of objecting to the assessment

3. (c)(i)

Henry Mwala

Bestfreight Ltd. a logistic

	Shs.	Shs.
Basic salary (sh.180,000×6)	1,080,000	276,000
Overtime(sh.30,000×6)	180,000	
Risk allowance(sh.25,000×6)	150,000	
House allowance sh.(60,000×6)	360,000	
Car benefit (W1)	120,000	
Air ticket allowance	120,000	
Total employment income	2,010,000	
<u>Less</u>		
Pension contribution (W2)	(90,000)	
Insurance relief (W3)	(46,000)	
Owner occupied interest (W6)	(75,000)	
Taxable employment income	1,874,000	
Add hardware shop profit (W4)	260,000	
Total taxable income	<u>2,134,000</u>	

Notes:

- The employer provision of meals worth Sh.5,000 per month (sh.30,000 p.a) is not taxable as the first sh. 48,000 gifts from employment are not taxable.
- The employer reimbursement of monthly mileage allowance of Sh.40,000 is not a taxable benefit as reimbursement are not taxable.
- School fees of Sh.80,000 for each of his three children during the year is not a taxable benefit as it has been taxed on the employer.
- The per diem of Sh.6, 000 from the employer while on official duty was solely the reimbursement to Henry Mwala an amount expended by him wholly and exclusively in the production of his income thus not a taxable benefit.
- Gain from employment includes travelling expense. The air ticket to visit the rest of his family in Denmark during his annual leave is a taxable benefit as it is not expended in wholly and exclusively in the production of his income.

W1 - car benefit

the higher of:	shs.
2400 cc Rating (sh.8,600×6)	25,800
2% of cost shs.2,000,000 × 3 months	120,000

W2- Contributions to pension scheme

Is the lesser of;	shs.
30% of pensionable pay= (1,089,000×30%)	324,000
Employee's actual contribution=(1,440,000×15%)	90,000
Ksh.20,000 per month =(20,000×12)	240,000

W3-Insurance relief	shs.
the lesser of :	
Statutory maximum	60,000
actual payment(sh.92,000×6/12)	46,000

W4 - hardware shop profit	shs.
net loss as reported	-370,000
<u>add non allowable expenses</u>	
VAT paid	180,000
Furniture and fittings	250,000
Computers	300,000
adjusted profit	360,000
Less investment allowance	(100,000)
Taxable profit	260,000

W5 - Investment allowance	shs.	rate	shs.
Furniture and fittings	250,000	10%	25,000
Computers	300,000	25%	75,000
			100,000

W6 - Owner occupied interest

Is the lesser of;	
Statutory maximum(sh.25,000×3)	75,000.00
actual payment(sh.,6,000,000×16%)÷12×3	240,000.00

3.(c)(i)

Tax payable from the income computed in (c) (i) above.

Total taxable income	shs.
	2,134,000
taxed as:	
On the first Shs.288,000 @10%	28,800
On the next Shs.100,000 25%	25,000
The Rest Shs. 1,746,000 @30%	523,800
Total tax before relief	577,600
less PAYE paid	(276,000)
Less Personal relief	(28,800)
Tax payable	272,800

4.(a) “Railway development levy” as used in taxation. Is a tax on imported goods in Kenya that funds the construction and operation of the standard gauge railway network.

4.(b) benefits derived by member countries of the East African Community from use of the Single Customs Territory.

- Significantly reduced trade costs
- Faster customs clearance times
- Increased regional trade
- Improved ease of doing business
- Minimized smuggling by streamlining border procedures and harmonizing customs regulations across member states.
- Essentially facilitating the free movement of goods within the region

4.(c) Objectives of fiscal policies adopted by most developing countries.

- Achieving the best possible price level and a reduction of inflation to a single unit digit.
- Having an optimal employment level.
- Achieving a desirable income distribution.
- Attaining of a most advantageous level of consumption.

4.(d)(i)

Leeds Manufacturing Ltd			
Investment allowances for the year ended 31 December 2021.			
Building used for manufacture	Shs.	%age Rate	Shs.
Factory building	20,660,000	@50%	10,330,000
Machinery used for manufacture			
Processing machinery	12,500,000	@50%	6,250,000
Hospital buildings			
Staff clinic	960,000	@50%	480,000
Motor vehicles and heavy earth moving equipment			
Delivery van	3,600,000	@25%	900,000
Lorry (4 tonnes)	3,200,000	@25%	800,000
2 saloon cars for directors at (Sh.4,000,000 each) value restricted to shs.3,000,000	6,000,000	@25%	1,500,000
1 saloon cars for directors Disposal (Sh.4,000,000 original value)(value restricted shs.3,000,000	-3,000,000	@25%	(750,000)
Mobile forklift	3,000,000	@25%	750,000
Mitsubishi canter	3,200,000	@25%	800,000
Computer software, calculators, copiers and duplicating machines			
Computers	650,000	@25%	162,500
Computer software	420,000	@25%	105,000
Duplicating machines	240,000	@25%	60,000
Electronic type-writers	190,000	@25%	47,500
Calculators	10,000	@25%	2,500
Commercial building			
showroom	1,850,000	@10%	185,000
retail shop	1,690,000	@10%	169,000
Staff canteen	2,350,000	@10%	235,000
Boilers	800,000	@10%	80,000
Labour quarters	2,400,000	@10%	240,000

A perimeter wall	4,200,000	@10%	420,000
A borehole	1,400,000	@10%	140,000
Parking bay	560,000	@10%	56,000
Furniture and fittings			
Furniture and fittings	530,000	@10%	53,000
Other machinery			
Plant and machinery	680,000	@10%	68,000
Water pump	280,000	@10%	28,000
Conveyor belts	1,800,000	@10%	180,000
Workshop machine	720,000	@10%	72,000
Power generator	1,800,000	@10%	180,000
Total			23,543,500

4.(d)(i)

Leeds Manufacturing Ltd

Taxable profit or loss for the year ended 31 December 2021

Gross profit as reported 56,000,000

less allowable expenses

Selling and distribution expenses 8,400,000

Administrative expenses 4,200,800

Bad debt written off 120,000

Investment allowances 23,543,500

Total allowable expenses **(36,264,300)**

Taxable profit or loss **19,735,700**

5. (a) Factors that might influence tax shifting

- Commodity economy
- Elasticity of demand
- Availability of substitutes
- Ability to leave the industry
- Government's role

5. (b) Roles of the Parliamentary Budget Office.

- To scrutinize national budget and oversee its implementation
- Analysis the economy and public finance advice.
- Oversees financial matters of the parliament, departmental committees and select committees
- Provides technical support on matters relating to public finance management.

5.(c)(i)

Hightec Ltd

Adjusted taxable profit or loss for the year ended 31 December 2021

	Shs.	Shs.
Net profit as reported		16,407,600

Add omitted taxable incomes and non-allowable expenses

Preliminary Expenses	1,540,000
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General Provision For Bad Debts	360,000
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Depreciation	148,200	
Golf Club National Golf Tournament	340,000	
Tools And Implements	180,000	
Computer Software	56,000	
Withholding Tax From Jijenge Co-Operative Society Dividend Income	9,474	
Withholding Tax From Tenzi Sacco Ltd.	50,294	
Appeal Against VAT	40,000	
Total non-allowable items		<u>2,723,968</u>
<u>less Omitted allowable expenses and non-taxable incomes</u>		<u>19,131,568</u>
Gain on disposal of property	280,000	
Apex Ltd. (Associate company)	240,000	
Tawah Ltd. Company (Uganda)	380,000	
Investment Allowance	<u>32,000</u>	
Total allowable items		<u>(932,000)</u>
Adjusted taxable profit		<u><u>18,199,568</u></u>

Notes:

-Dividend from a company where the company holds more than 12 ½ % is tax exempt. Dividend from a foreign company is tax exempt. Disposal of Property is subject to capitals gain tax which is final tax.

- Dividend income received from Jijenge Co-operative Society 180,000 Net and Interest income was received from Tenzi Sacco Ltd 285,000 Net have been grossed up for further taxation.

Investment Allowance	shs.	rate	shs.
tools and implements	180,000	10%	18,000
computer software	56,000	25%	<u>14,000</u>
			<u>32,000</u>

5.(c)(ii)

Hightec Ltd	
Determine the tax liability (if any) arising from the profit or loss computed in (c) (i) above	
Total taxable Profit	<u><u>Sh. 18,475,568</u></u>
Taxed at 30%	<u><u>Sh. 5,542,670</u></u>

CPA INTERMEDIATE LEVEL: CIFA INTERMEDIATE LEVEL; PUBLIC FINANCE AND

TAXATION : Wednesday 1 September 2021.

1. (a)(i) Funds managed by the National Government

- Consolidated Fund
- Contingencies Fund
- Equalization Fund

1. (a)(ii) Funds managed by the County Government

- Revenue Fund
- Emergency Fund

1. (b) Functions of a County Treasury

- Monitor, evaluate and oversee the management of public finances and economic affairs of the county
- Provide the National Treasury with information which it may require to carry out its responsibilities
- Issue circulars with respect to financial matters relating to county government entities
- Advise the county government entities, the County Executive Committee and the county assembly on financial matters
- Strengthen financial and fiscal relations between the national government and county governments in performing their functions
- Report regularly to the county assembly on the implementation of the annual county budget
- Take any other action to further the implementation of the Public Financial Management Act in relation to the county

1. (c) Circumstances under which the procurement or asset disposal proceedings may be terminated or cancelled as provided under the Public Procurement and Asset Disposal Act, 2015.

- The subject procurement has been overtaken by operation of law; or substantial technological change.
- There is inadequate budgetary provision.
- No tender was received.
- There is evidence that the prices of bids are above market prices
- Material governance issues have been detected
- All evaluated tenders are non-responsive
- Force majeure
- Civil commotion, hostilities or an act of war
- Upon receiving subsequent evidence of engagement in fraudulent or corrupt practices by the tenderer

2.(a)(i) Periodicity – the budget shall be for a period of one fiscal year.that is 12 months commencing 1st July to 30th June . The budgetary process is a cycle starting with development plans, issuance of a circular to guide the process, ensuring the public participates in its making and the parliament approves it, it is executed and another budget preparation process begins.

2. (a)(i) predictability – is the ability of the government’s budget to accurately forecast its financial performance in a fiscal year – what would be the expenditure and what would be the revenue collected. This guides decision-making, efficient resource allocation, enhances operational efficiency, building trust with Kenyans and prevent financial crises.

2. (a)(i) Comprehensiveness – the budget should be detailed covering all financial aspects; that is recurring and non recurring expenses and incomes. Comprehensiveness is aimed at controlling government spending and revenue collection, to analyze trends and to plan for the future.

2. (b) Reports prepared by the controller of Budget

- Quarterly reports – provide information on budget implementation to the executive and law makers
- Annual reports - provide information on budget implementation the executive, law makers and the general public
- Special report – are investigative reports and reports on stoppage of funds to any government unit.
- Arbitration/mediation reports – inform the parliament on budget implementation.
- National government budget review reports – compare actual performance against annual targets and objectives
- County government budget implementation review reports – informs interested stakeholders on budget implementation by counties.

2.(c)

S and M associates

VAT account for the month of March 2001

Details	Dr. Input Tax Shs.	Cr. Output Tax Shs.	VAT Refundable /(Payable) Shs.
Revenue from VAT registered customers		247,000	(247,000)
Revenue from consultancy services in Rwanda			(247,000)
Revenue from ministry of Land			(247,000)
Revenue fromNon-VAT registered customers			(247,000)
Legal Services	60,000		(187,000)
Motor Vehicle Fuel	17,280		(169,720)
Motor Vehicle Insurance	9,600		(160,120)
Stationery	4,000		(156,120)
Audit Fees	69,120		(87,000)
Office Rent	31,500		(55,500)
Advertising	26,800		(28,700)
Total	218,300	247,000	

Note: I have used the spreadsheet format in drafting the VAT account; Students who want to stick to the T-format can peruse it under VAT topic in this book. I have a comprehensive example there.

3. (a) Activities that constitute tax evasion

- Smuggling of goods.
- Under declaration or non-declaration of income
- Tax fraud/false tax returns/ fake documentation for exemption
- Dishonest tax reporting
- Overstating deductions

3(b)(i)

Maxwel Bewa**Okoa Micro-finance Ltd**

	Shs.	PAYE- shs.
Basic salary($\text{shs.}175,000 \times 12$)	2,100,000	576,000
Goods Gifts($140,000 - 48,000$)	92,000	
Car benefit	420,000	
Furniture benefit	102,000	
Private entertainment	18,000	
Watchman (prescribed rate)	27,000	
Awards	430,000	
Holiday allowance	120,000	
House benefit	540,000	
Gross employment Income	3,309,000	
less Contribution to pension fund	(105,000)	
Taxable Employment income	3,204,000	

Workings**Car benefit****higher of;**

CC 2000 ratings	86,400
2% of Cost shs. $1,750,000 \times 12$	420,000

house benefit**higher of;**

Market Rent	501,675
15% of Total employment Income	540,000

Furniture benefit

1% of cost-sh. $850,000 \times 12$	102,000
------------------------------------	---------

W2- Contributions to pension scheme**Is the lesser of;**

	shs.
30% of pensionable pay= $(2,100,000 \times 30\%)$	630,000
Employee's actual contribution= $(1,440,000 \times 15\%)$	105,000
Ksh.20,000 per month = $(20,000 \times 12)$	240,000

Maxwel Bewa**Okoa Micro-finance Ltd**

Tax liability

Taxable Employment income	3,204,000
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Taxed as

The 1st shs. 288,000 @10%	28,800
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The next shs.200,000 @15%	30,000
The next shs.200,000 @20%	40,000
The rest shs.2,516,000 @25%	629,000
Gross tax liability	727,800
Less PAYE deducted	(576,000)
less Tax relief	(28,800)
Net tax payable	123,000

3(b)(i)

4. (a) Incomes that are not subject to minimum tax

- Employment income
- Residential rental income
- Capital gains tax
- Incomes from extractives sector

4.(b) Ways the Kenya Revenue Authority might prevent loss of tax revenue from Imports.

- Cross –check declared values against international market prices to identify discrepancies
- Simply customs procedures to reduce misreporting of imports
- Use customs data to detect under and over invoicing
- Monitor the value of both imported and exported goods to detect abusive transfer pricing practises
- Leverage technology to improve the targeting of audits.
- Continuous training of customs officers
- Conducting comprehensive audits
- Enhance scrutiny and stricter regulations on intra-firm transactions
- Promote international cooperation and information sharing

4.(c)

Lulu Ltd

Investment allowance for the year ended 31 December 2020

	Shs.	Rate	Shs.
Factory building	13,880,000	50%	6,940,000
Processing Machinery	4,800,000	50%	2,400,000
Photocopier	60,000	25%	15,000
Computers	150,000	25%	37,500
Motorbike	96,000	25%	24,000
Saloon car	3,400,000	25%	850,000
Forklift	720,000	25%	180,000
Pick-up	920,000	25%	230,000
Scanners	56,000	25%	14,000
tractor	1,700,000	25%	425,000
Godown	800,000	10%	80,000

Showroom	520,000	10%	52,000
Offices	600,000	10%	60,000
Retail shop	400,000	10%	40,000
Factory parking bay	1,640,000	10%	164,000
Sewerage system	560,000	10%	56,000
Industrial effluent treatment plant	2,400,000	10%	240,000
Furniture	240,000	10%	24,000
Carpets	36,000	10%	3,600
Portable weighing machine	460,000	10%	46,000
Total Investment allowance			11,881,100

5. (a) Ways in which taxation could be applied to achieve fiscal objectives of a developing country.

- Changes in taxes affect the consumer's income leading to changes in GDP through consumer consumption
- Taxes influence supply and demand.
- The rate of tax can stimulate or retard economic growth.
- Taxes can reduce poverty by redistributing incomes.

5.(b)(i)

Mazao ranch ltd

Adjusted taxable profit for the year ended 31 december 2020

Net profit as reported 157,000

Add omitted taxable incomes and non-allowable expenses

Construction of water tank	240,000	
Loan repayment	350,000	
Depreciation	180,000	
Conveyance fees	156,000	
Construction of chicken sheds	480,000	
Bad debts provision	150,000	
Parking fines	129,000	
Provision for fencing expenditure	145,000	
VAT dispute	500,000	

Total non-allowable items 2,330,000

Adjusted profit 2,487,000

Less Omitted allowable expenses and non-taxable incomes

Proceeds from an old tractor	180,000	
Investment allowance	1,250,000	

Total allowable items (1,430,000)

Adjusted taxable profit 1,057,000

Investment allowance

item	shs.	rate	shs
granary	420,000	50%	210,000
labour quarters	1,200,000	50%	600,000
cowshed	160,000	50%	80,000

construction of chicken sheds	480,000	50%	240,000
construction of water tank	240,000	10%	120,000
			<u>1,250,000</u>

5.(b)(i)

Mazao Ranch Ltd

Tax liability

Taxable income

shs.

1,057,000

Tax thereon at 25%

264,250

CPA INTERMEDIATE LEVEL: CIFA INTERMEDIATE LEVEL; PUBLIC FINANCE AND

TAXATION :Friday 17th December 2021.

1.(a)Pre-qualification procedure-Public procurement and asset disposal (PPAD) act(2015).

-pre-qualification procedures are a way to identify qualified suppliers or contractors before a solicitation or tender process. A pre-qualification questionnaire, due diligence reviews and health & safety compliance are tools used.

1. (b)Requirements that an accounting officer should set out when preparing an invitation to tender-PPAD Act (2015).

- Detailed specification of the goods or services needed.
- Clear timeline for submission
- Evaluation criteria
- Mandatory documentation for tenderers
- Pricing structure
- Payment terms
- Tender validity period
- Designated contact point for inquiries.

1.(c)Role of Council of Governors in county financial management.

- Consultation among county governments
- Sharing information on the performance of counties to promote best practices and initiate necessary preventive and corrective action.
- Considering matters of common interest among counties
- Resolving disputes between counties within the intergovernmental relations act framework.
- Facilitating capacity building for governors
- Receiving reports and monitoring the implementation of inter-county agreements on inter-county projects.
- Considering matters referred to the council by interested stakeholders.
- Considering reports from other intergovernmental forums on matters affecting national and county interests or performance by counties.

1.(d) Sources of revenue to the PPP project facilitation fund.

- Grants
- Debt Capital
- Equity financing
- Blended finance
- Crowd funding
- Venture capital
- Retained earnings

2.(a) Objectives of the PFM Act.

- Accountability
- Transparency
- Decentralization
- Budget management
- Capacity building

2.(b) Measures developing Countries could adopt to reduce escalating public debt.

- Cutting spending, reducing wastage in public resources and freezing non-essential development spending.
- Governments can limit borrowing to finance the budget deficit.
- Improving economic growth through structural reforms.
- manage debt risks

2.(c)

Sabaki Enterprises Ltd.				
VAT payable or Refundable				
Date	Details	Dr. Input Tax	Cr. Output Tax	VAT Payable/Refundable
		Shs.	Shs.	Shs.
2-Aug	Dubai Ltd	128,000		128,000
2-Aug	Ministry of Tourism			128,000
4-Aug	Hekima and Associates	4,800		132,800
5-Aug	Mambo Restaurant-Uganda		0	132,800
9-Aug	Infor Tech Limited	144,000		276,800
10-Aug	Stationery	2,400		279,200
12-Aug	Flashbulbs	57,931	64,000	273,131
16-Aug	Mambo Restaurant-Uganda	36,000		309,131
19-Aug	Electricity	5,600		314,731
21-Aug	8 Televisions		115,200	199,531
24-Aug	Umoja Communications Ltd		32,000	167,531
27-Aug	motor vehicle repair	8,000		175,531
28-Aug	Local supplier	160,000		335,531
30-Aug	Water Bill			335,531
		546,731	211,200	

VAT Refundable = 335,531

Note: I have used the spreadsheet format in drafting the VAT account; Students who want to stick to the T-format can peruse it under VAT topic in this book. I have a comprehensive example there.

3.(a)(i) Default assessment

It is an assessment made by the commissioner of income tax based on available information and to the best of his judgment where the tax payer has failed to file a tax return.

3.(a)(i) Advance assessment

It is an assessment made by the commissioner of income tax based on available information and to the best of his judgment to the tax payer before the date on which the tax payer's return for the period is due.

3.(a)(i) Amendment assessment

It is an assessment made by the commissioner of income tax based on available information and to the best of his judgment to modify an assessment by making alterations or additions.

3.(b)(i)**Alex Makali****Pengo Ltd****Taxable Income for the year ended 31st December 2020.**

	Shs.
Basic salary	1,735,200
Salary increment	64,000
School fees Benefit	148,000
Car benefit	415,200
Furniture benefit	20,000
Telephone benefit	48,000
House benefit	243,040
Total Employment income	2,673,440
Less allowable deductions	
HOSP interest $(4,800 \times 10\%) \times 4$	(1,920)
Insurance relief	(24,000)
Contribution to pension scheme	(240,000)
Mortgage interest	(300,000)
Taxable employment income	2,107,520
Add other Incomes	
Dividends from Wali Cooperative $(100/95 \times 85,000)$	89,474
Net rent income	316,000
Taxable income	2,512,994

Notes:

-Out of pocket allowance paid to Alex Makali by the employer when he was out of work station of Kshs. 4,800 per day for 10 days is not taxable as it is considered a reimbursement.

-Dividend from Wali cooperative society is unqualified dividend hence would be taxed further.

Workings;**Car benefit**

higher of;

Cc ratings	not given
and	
2% of original Cost Shs. 1,730,000 per month for 12 months	415,200

Furniture Benefit

is 1% of cost of Furniture Shs.250,000 per month for 8 months

20,000

Telephone benefit

Is the actual average cost of shs.6, 000 per month for 8 months. 48,000

House benefit

is 15% of total pay shs. 2,430,400 prorated to 8 months 243,040

contribution to pension scheme is the lesser of;

30% of pensionable pay. 520,560

Employee's actual contribution. 360,000

Ksh.20,000 per month 240,000

Mortgage Interest**Is the lesser of:**

Actual interest for the year 400,000
statutory maximum 300,000

life insurance relief is the lesser of

Actual contribution 24,000
statutory maximum 60,000

Net rent income

Net rent income as given 280,000

Add purchase of furniture deducted 40,000

adjusted rent 320,000

less investment allowance (4,000)

taxable rental income 316,000

investment allowance

	shs	Rate	shs
furniture	40,000	10%	4,000

3.(b)(ii)

Alex Makali

Pengo Ltd

Tax liability for the year ended 31st December 2020.

	Shs.
Taxable income	2,512,994
Taxed as	
The 1st shs. 288,000 @10%	28,800
The next shs.200,000 @15%	30,000
The next shs.200,000 @20%	40,000
The rest shs.1,820,520 @25%	456,248
Gross tax liability	555,048
Less PAYE deducted	(235,200)

Withholding tax on dividend-Wali Cooperative	(4,474)
Less Personal relief	(28,800)
Net tax payable	286,575

4.(a) The roles of the Senate Budget Committee under PFM Act (2012)

- By reviewing budget Estimates to ensure they are in line with budget policy
- By making recommendations and reviews on the national budgets hence ensuring they comply with financial management laws.
- By examining bills related to the national budget to ensure consistency.
- By evaluating fiscal policies, economic and budgetary policies, it ensures sound financial stewardship
- by considering reports from controller of budget on implementation of the budget and auditor general's reports on expenditure and revenue, the offer oversight role leading to prudent financial management in public sector.

4.(b) The need for Introduction of Integrated Customs Management System(ICMS).

- Improved efficiency
- Reduced errors
- Better compliance
- Improved risk management
- Better analytics
- Improved inventory management
- Improved foreign trade operations.

4.(c)

Kencoff Company Ltd			2020
Investment Allowances for the year ended 31 December 2020			
	Shs.	Rate %	Shs.
Buildings used for manufacture			
Factory building	37,000,000	50%	18,500,000
Machinery used for manufacture			
coffee milling machinery	4,200,000	50%	2,100,000
Farm works			
Farm labour quarters	4,800,000	50%	2,400,000
irrigation system	1,480,000	50%	740,000
construction of gabions	1,120,000	50%	560,000
fencing of the farm	780,000	50%	390,000
Farm house(cost of Shs.2,620,000 restricted to 1/3)	873,333	50%	436,667
Motor vehicle and heavy earth moving equipment)			
lorry(3.5 tonnes)	3,400,000	25%	850,000
Tractor	3,600,000	25%	900,000
delivery van	2,600,000	25%	650,000
2 saloon cars (each costing 3,300,000)	6,000,000	25%	1,500,000
1 saloon car	(3,000,000)	25%	(750,000)
Computer, computer software, calculators, photocopiers and duplicating machine			
computers	720,000	25%	180,000
Furniture and fittings			
Furniture and fittings	350,000	10%	35,000

office curtains	320,000	10%	32,000
Commercial building			
borehole	2,360,000	10%	236,000
godown	1,860,000	10%	186,000
Factory perimeter wall	948,000	10%	94,800
Sports pavilion	1,840,000	10%	184,000
other machinery			
trailer for tractor	520,000	10%	52,000
Conveyor belts	6,200,000	10%	620,000
Fax machine	180,000	10%	18,000
water pump	560,000	10%	56,000
packaging machine	1,720,000	10%	172,000
Total			30,142,467

Notes:

It is assumed the whole investment allowance is given on an asset that was in business at the end of year and none is given for the asset that was disposed off. There is no prorating to reflect the period an item was owned during the year.

5. (a)(i) **Lottery.** Is a tax charged on lottery turnover

5.(a)(ii) **Tax charges and due date in relation to Lottery.** Tax is charged at a rate of 15% of lottery turnover. The lottery tax is remitted on 20th day of the month following the month of collection.

5.(b) How tax payers could engage in tax avoidance.

Loan payments – interest on loans is a tax allowable expense. Funding business through loans would reduce the taxable income as one would deduct interest on loan before taxation.

-Tax deductions – tax laws allow one to make deductions on ones income before taxation. The deduction include; Meal benefit, Insurance Relief, Owner occupied interest, Home ownership savings plan, Medical services or free medical insurance, Registered defined benefit fund or defined contribution, National Social Security Fund (NSSF) + Pension scheme or Provident fund. Therefore, persons saving for retirement and building own houses are avoiding taxes.

-Tax credits – input tax and business losses are allowable against VAT payable and future profits respectively thus enabling one to avoid taxes. One would invest heavily in capital assets or manufacturing to avoid taxes.

-Exemptions- privileged persons like embassy employees; army and Persons with disabilities are exempted from some taxes. If a person works hard to join an embassy he is avoiding taxes.

5.(c)(i)

Patah Plc

A statement of Adjusted taxable profit or loss for the year ended 31 December 2020

	Shs"000"	Shs"000"
Net profit as reported		18,750
<u>Add omitted taxable incomes and non-allowable expenses</u>		
Impairment of rental property	180	
Purchase of furniture	124	
Purchase of computers	150	
Purchase of saloon car	3,400	
Overstated purchases	8,410	
Redundancy	4,800	
Christmas party for directors family	474	
Processing title deeds	720	

Negotiating bank loan	460	
Tax appeal against assessment	188	
Parking fines	360	
Defending director for breach of law	202	
Installment tax paid	700	
Penalties-late return filing	124	
Billboard	380	
Neon sign	240	
Fork lift	720	
Total non-allowable items		<u>21,632</u>
Adjusted profit		40,382
<u>Less Omitted allowable expenses and non-taxable incomes</u>		
Decrease-provision for bad debts	480	
Dividends from subsidiary company	1,500	
Capital gain on sale of building	390	
Investment allowances	2,840	
Additional investment allowance	1,012	
Total allowable items		<u>(6,222)</u>
Adjusted taxable profit		<u>34,160</u>

Workings

Additional investment allowance	Shs"000"	Rate %	Shs"000"
Purchase of furniture	124	10%	12
Purchase of computers	150	25%	38
Purchase of saloon car (shs. 3,400,000 restricted to shs. 3,000,000)	3,000	25%	750
Billboard	380	10%	38
Neon sign	240	10%	24
Fork lift	600	25%	<u>150</u>
Total			<u>1,012</u>

5.(c)(i)

Patah Plc	
Tax Liability and amount payable	
	<u>Shs"000"</u>
Adjusted taxable profit	<u>34,160</u>
25% tax thereon	8,540
less Installment tax paid	<u>(700)</u>
Tax Payable	<u>7,840</u>

CPA PART 1 SECTION 2. CS PART 1 SECTION 2. CIFA PART 1 SECTION 2.CCP

PART 1 SECTION 2. PUBLIC FINANCE AND TAXATION :Wednesday 19 May

2021.

1.(a) Functions of the National Assembly Budget committee as per PFM Act(2012)

- By reviewing budget Estimates to ensure they are in line with budget policy
- By making recommendations and reviews on the national budgets hence ensuring they comply with financial management laws.
- By examining bills related to the national budget to ensure consistency.
- By evaluating fiscal policies, economic and budgetary policies, it ensures sound financial stewardship
- by considering reports from controller of budget on implementation of the budget and auditor general's reports on expenditure and revenue, the offer oversight role leading to prudent financial management in public sector.

1.(b)Fiscal Responsibility principles

- Maintainance of a sustainable fiscal balance.
- maintaining prudent levels of public debt
- managing fiscal risks prudently
- promoting prudence and enterprise in fiscal management
- maintaining predictable and stable tax rates
- maintaining an operating balance on average over a reasonable time
- maintaining a buffer level of public net worth.

1.(c) Users of Consolidated Fund reports and their needs.

- National Government Ministries, Departments and Agencies(MDAs)
- County Governments
- Consolidated Fund Services (CFSs)

1.(d) Responsibilities of county Treasury with respect to County Public Funds

- Managing all county funds.
- Prepares and coordinates budget preparation.
- Ensuring Compliance with accounting standards.
- Is a custodian of county government assets.
- Coordinates county financial planning.
- Implements the budget
- Mobilizes resources for funding budgetary requirements.

2. (a) Functions of the disposal committee under PPAD Act(2015).

-To dispose of unserviceable, obsolete, obsolescent or surplus stores, equipment or assets.

-To verify and process all disposal recommendation in liason with the head of procurement.

2. (b) Sources of information in regard to identification of new tax payers.

-Tax payer himself - voluntary confession

-Informancy – a business rival.

-The public and social media

-Income tax department intelligence

-Farming organization

- Registrar general

-Licensing department.

2.(c)

Zawadi Ltd

VAT Payable or Refundable for the month of October 2020.

Details	Dr. Input Tax Shs.	Cr. Output Tax Shs.	VAT Refundable /Payable Shs.
Sales at std rate		147,368	(147,368)
purchases /sales	34,386	34,386	(147,368)
Exports to foreign country		0	(147,368)
Audit fees	9,616		(137,753)
Electricity bills	4,470		(133,282)
Imported raw material	64,842		(68,440)
Purchases at standard rate	76,693		8,253
Exmpt supplies			8,253
Catering services	11,544		19,796
Entertainment services	14,737		34,533
Telephone bills	3,439		37,972
Car parking services			37,972
Bottled drinking water for staff	7,860		45,832
Zero rated supplies-exports		0	45,832
Repair of motor vehicles	6,902		52,733
Credit note to debtor	5,895		58,628
debit note to under-invoicing customers		20,140	38,488
fuels and oils			38,488
Total taxes	240,382	201,895	

3.(a) Measures Kenya Revenue authority could employ to reduce instances of tax evasion

- Application of cutting edge technology to facilitate return filing and cargo scanners and trackers.
- Lowering the tax rates – higher tax rates encourage tax evasion.
- Simplifying the tax system – a simplified tax system enhances tax compliance but a tax system with many exemptions, deductions and other complications may encourage tax evasion from the confused tax payers.
- Curbing corruption – high rate of corruption encourages tax payers to take risk of evading taxes, reducing corruption boosts confidence of taxpayers thus compliance with the tax system.
- Give incentives to produce more to all tax payers. Capital allowances in Kenya are currently benefiting the wealthy tax payers only. This is because of the introduction of turnover tax and Residential rent incomes tax on gross proceeds thus any of their investment in capital assets is ignored. When they see their rich counterpart benefiting from capital deduction, they will evade taxes. Tax incentives should be equitable.

3.(b) Ground under which the commissioner might suspend or cancel a licence to manufacture excisable goods.

- Has not kept proper records
- Breachd a condition of the license
- Made false or misleading statement to the commissioner
- No longer adequate to manufacture or secure excisable goods.

3.(c)(i)

Benson Kapila

Daity ltd.

	Kshs.	Kshs-PAYE
Basic salary	960,000	223,200
Furniture benefit	18,000	
Car benefit	192,000	
Free products	8,000	
Telephone benefit	60,000	
House benefit	139,275	
Total employment income	1,377,275	
Less contributions to pension scheme	(240,000)	
Less Mortgage Interest	(108,000)	
Less Insurance relief	(48,000)	
Taxable employment income	981,275	
<u>Add other taxable incomes</u>		
Rental income	96,000	
Dividend from Hazita cooperative society(gross)	50,105	
Professional fees	78,000	
Total taxable income	1,205,380	

Note:

- Farming loss would be carried forward to be offset against future farming profit.
- Low interest loan given by the employer is a fringe benefit taxed on the employer.

Workings

Car benefit

Higher of;	
2000 Cc ratings	86,400
And	
2% of original Cost Shs. 800,000 per month for 12months	192,000

House Benefit	
15% of Total pay for 9 months	139,275

Less contributions to pension scheme

Is the lesser of;	
30% of pensionable pay.	288,000
Employee's actual contribution.	360,000
Ksh.20,000 per month	240,000

Mortgage Interest

Actual interest for the year	108,000
Statutory maximum	300,000

3.(c)(i)

Benson Kapila

Daity Ltd.

Tax payable on income computed in 3.(c) (i) above

Total taxable income	1,205,380
Taxed as	
The 1st shs. 288,000 @10%	28,800
The next shs.200,000 @15%	30,000
The next shs.200,000 @20%	40,000
The rest shs.517380 @25%	129,345
Gross tax liability	228,145
Less PAYE deducted	(223,200)
Less withholding tax on dividend	(2,505)
Less Tax relief	(28,800)
Net tax Refundable	(26,360)

4.(a)(i)

Excel Communications Ltd

Taxable Profit and loss for year ended 31st December 2020

	Shs.	Shs.
Ner Profit as reported		2,609,750

Add omitted taxable incomes and non-allowable expenses

Depreciation	670,000	
Disposal loss on assets	180,000	
Club membership fees	135,000	
Private expenditure-directors	102,000	
Directors private residence	9,375	
Communication equipment traders association	22,500	
Renewal 100 years lease	45,000	
Staff employment contracts	60,000	
Counterfeit equipment suit in the High Court	87,000	
General provision for bad debts	21,250	
Signboard	28,750	

Total non-allowable items		<u>1,360,875</u>
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Adjusted profit		<u>3,970,625</u>
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Less Omitted allowable expenses and non-taxable incomes

Disposal gain on asset sold	180,000	
Insurance compensation	105,000	
Investment allowance	<u>645,000</u>	

Total allowable items		<u>(930,000)</u>
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Adjusted taxable profit		<u><u>3,040,625</u></u>
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4.(a)(ii)

Excel Communications Ltd

Tax Payable

	<u>Shs.</u>
Taxable Profit	<u><u>3,040,625</u></u>
Tax thereon @30%	<u><u>912,188</u></u>

4.(b)

Machine used for manufacture

Processing machinery	2,600,000	50%	1,300,000
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Motor Vehicle and Heavy earth moving equipment

Tractor	1,800,000	25%	450,000
Two Saloon cars	7,000,000	25%	1,750,000
Mobile forklift	1,500,000	25%	375,000

Computers ,computer software, calculators, copies and duplicating machines

Scanners	320,000	25%	80,000
Computers	250,000	25%	62,500
Computers	68,000	25%	17,000
Computers	(40,000)	25%	(10,000)

Commercial building

Godown	320,000	10%	32,000
Showroom	24,000	10%	2,400
Administrative offices	680,000	10%	68,000
Labour quarters	920,000	10%	92,000
Parking bay	630,000	10%	63,000
Borehole	720,000	10%	72,000
Additional staff quarters	1,200,000	10%	120,000
Sports pavilion	890,000	10%	89,000
Bridge	1,200,000	10%	120,000

Furniture and fittings

Office cabinets	180,000	10%	18,000
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Other Machinery

Power transformer	820,000	10%	82,000
Boilers	960,000	10%	96,000
Water pump	540,000	10%	54,000

Total			4,932,900
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5.(a) Reasons for the declining trend in tax revenue in most countries.

- Corruption in the revenue collection system, both the tax collector and the tax payer leading to leakage of tax revenue.
- Large informal sector. It is difficult to tax and track the informal sector.
- Migration of human capital to developed countries means developing countries loose taxable revenue.
- Special economic zones that give investors tax incentives lead to declining tax revenue.
- Tax breaks given to investors or extractive tax payers lead to lose of a huge chunk of revenue
- As countries form economic zones, removal of tariffs and othe taxes reduce tax revenues.
- Economic slow down like the corona virus epedermic causes sharp decline in production leading to a huge drop in tax revenue.
- Picketing, mass action and armed conflicts lead to difficulties in revenue collection as well as decline in production
- Unstable electricity supply causes revenue to fluctuate leading to decline in tax revenue.

5.(b) The objectives of fiscal policies in a country

- Achieving the best possible price level and a reduction of inflation to a single unit digit.
- Having an optimal employment level.
- Achieving a desirable income distribution.
- Attaining of a most advantageous level of consumption.

5.(c)(i)**Mark and Wangu Trading as Mawah enterprises****Adjusted statement of loss or profit for the year ended 31 December 2020**

	Shs.	Shs.
Net profit as reported		994,500

Add omitted taxable incomes and non-allowable expenses

Commission to Partners	180,000	
Interest on partners capital	250,000	
Purchase of furniture	96,000	
Partition of office business premises	64,000	
Cash embezzled by partners wife	48,000	
Bad debts written off	24,800	
Negotiating sale contract	60,000	
Defending business against trade dispute	42,600	
Mortgage interest for mark	140,000	
Defending partner against wrong tax assessment	94,600	
Conveyance fees for business premises	125,800	
Tax consultancy fees	72,500	
Understated purchases	<u>273,600</u>	
Total non-allowable items		<u>1,471,900</u>
Adjusted profit		<u>2,466,400</u>
<u>Less Omitted allowable expenses and non-taxable incomes</u>		
Overstated closing stock	39,310	
Unrealised foreign exchange gain	16,000	
Overprovision for bad debts	34,000	
Interest on Drawings	45,000	
Investment allowance	<u>16,000</u>	
Total allowable items		<u>(150,310)</u>
Adjusted taxable profit		<u><u>2,316,090</u></u>

Workings

purchases

40% of 2,736,000	1,094,400
understated by	
25%; $25 \div 75 \times 1,094,400$	273,600

closing stock

sales +VAT	2,736,000	
sales-VAT	2,358,621	
closing stock = 10% Of 2,358,621	235,862	
actual stock = $100 \div 120 \times 235,861$	<u>196,552</u>	
Overstatement	<u><u>39,310</u></u>	

Investment allowance

Purchase of furniture	96,000	10%	9,600
partition of office business premises	64,000	10%	<u>6,400</u>
Total			<u><u>16,000</u></u>

5.(c)(ii)

Mark and Wangu Trading as Mawah enterprises

Allocation of profit computed in 5.(c)(i) above to Partners

	Shs.	Shs.	Shs.
Profit sharing ratio	0.40	0.60	1
Partners	Mark	Wangu	Total
Commission to Partners	72,000	108,000	180,000
Interest on partners capital	100,000	150,000	250,000
Interest on Drawings	(18,000)	(27,000)	(45,000)
Share of Profit	772,436	1,158,654	1,931,090
Total	926,436	1,389,654	2,316,090

CHAPTER ELEVEN

SUGGESTED SOLUTIONS TO CPA ADVANCED LEVEL: ADVANCED TAXATION

PAPER

Students are expected to obtain question papers from KASNEB since I have no rights to reproduce them here.

CPA ADVANCED LEVEL: ADVANCED TAXATION. Tuesday: 20 August 2024

1 (a) (i) Steps followed by Alternative Dispute Resolution (ADR) process.

Alternative Dispute Resolution process is a method of handling tax disputes outside the judicial process or courts of law and Tax Appeals Tribunals. It follows the following steps.

- The tax payer applies by filling in an ADR application form and submitting the form with necessary attachments to Tax Disputes Resolution office at Ushuru Pension Towers. The form provides information about the dispute and reasons to support the dispute.
- Following receipt of the application, an Alternative Dispute Resolution team would convene to discuss the application in more detail.
- The Alternative Dispute Resolution team would consider the issues and decide whether Alternative Dispute Resolution is the effective way of resolving the dispute.
- The Kenya Revenue Authority would confirm within 30 days if the case has been accepted and thereby a facilitator would be appointed.
- Within 90 days of the date of acceptance, mediation meetings would take place. The meetings should be attended to as scheduled and timelines adhered to.
- If no resolution is achieved from mediation, the aggrieved party may proceed to formal proceedings. All information disclosed by either side in dispute during the arbitration can be referred to in formal proceedings.

1 (a) (ii) Benefits of using ADR instead of proceeding directly to the Tax Appeals Tribunal or the courts.

- It improves the experience of dealing with Kenya Revenue Authority and allows the taxpayer to meet face to face with Kenya Revenue Authority to discuss information provided, calculations, points of law in dispute and to clarify any misunderstanding between the parties.
- It reduces the time taken to complete a tax compliance check of a business.
- It reduces the costs of disputes to both the tax payer and the tax collector.
- It reduces the need to proceed to the tax tribunal or courts of law as it narrows the dispute issues significantly.

1. (b) Tax planning strategies that corporations could use to maximize tax benefits when they dispose of business operations in Kenya.

- The dividend policies and capital structure - corporations could use more of Debt financing. Debt financing is cheaper because interest payments on debt is tax allowable expense. Dividends paid to equity owners on the other hand, is not deductible from profit and loss for tax purposes. The corporation would have hurdles accounting for withholding tax on any dividend paid upon disposing off a business and accounting for any capital gain on shares disposed off. It is cheaper with debt capital as interest paid is tax allowable expense and there is little likelihood the debt would be redeemed more than its principle value.

-Chargeable income and deductible expenses – corporation should be able to distinguish between chargeable incomes and deductible expenses to minimize their tax liability. Disposal of capital assets would not be income and any gain on them would attract only 15% capital gains tax as opposed to 30% corporate tax.

-Investment allowances available – the corporation should take advantage of capital allowances it is legible to and claim all of them which would reduce the tax payable on disposing of the business.

-Taxes and the treatment of tax losses – on disposure of a business, a loss in any pool of assets is a balancing deduction which would reduce the tax payable and a gain is a balancing charge which would increase tax payable. Knowledge about treatment of these tax items would help corporations maximise tax benefits on cessation.

-VAT planning - VAT legislation is complex and compliance may be difficult. Penalties resulting from non-compliance results into punitive penalties and tax losses may result by failure to plan taxable transactions. Corporation should in disposing off a business plan to comply with VAT regulations to maximize tax benefits.

1. (c)(i)**John Mwema****Trading As Logistic Company****Own Declaration****In-Depth Examination**

year	2021	2022	2023	2021	2022	2023
	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.
Assets	10,000,000	11,000,000	12,000,000	11,000,000	12,500,000	14,000,000
less liabilities	(2,000,000)	(2,500,000)	(3,000,000)	-1,800,000	-2,300,000	-2,800,000
Net Assets	8,000,000	8,500,000	9,000,000	9,200,000	10,200,000	11,200,000
increase in net assets	0	500,000	500,000		1,000,000	1,000,000
<u>add</u>						
Personal expenses	500,000	600,000	700,000	600,000	700,000	800,000
living expenses	300,000	400,000	500,000	400,000	500,000	600,000

business expenses	3,200,000	3,600,000	4,000,000	2,900,000	3,200,000	3,500,000
Gross income for the year	4,000,000	4,600,000	5,200,000	3,900,000	4,400,000	4,900,000
Declared Income	4,000,000	4,500,000	5,000,000	3,900,000	4,400,000	4,900,000
less business expenses	3,200,000	3,600,000	4,000,000	2,900,000	3,200,000	3,500,000
Taxable Profit	800,000	900,000	1,000,000	1,000,000	1,200,000	1,400,000
taxable income per KRA data				1,000,000	1,200,000	1,400,000
taxable income per own data				800,000	900,000	1,000,000
Additional Taxable income				200,000	300,000	400,000

2. (c)(ii)

John Mwema

Trading As Logistic Company

Back Duty Tax Liability That John Mwema's Logistics Company Ltd

year	2021	2022	2023	Total
	Shs.	Shs.	Shs.	Shs.
Additional Taxable income	200,000	300,000	400,000	
Tax thereon at 30%	60,000	90,000	120,000	270,000

Assumption: The gross income declared by Kenya Revenue would be contested on the basis of data found by Kenya revenue Authority. Income from KRA's data prevails not the income they claimed.

2. (a) Challenges of taxing digital economy by the Kenya Revenue Authority.

- Kenya Revenue's inadequate access to data from online digital transactions cripples tax collection.
- Due to non-disclosure of income earned, it is difficult to classify it for example as royalties, business income or any other classification.
- There is lack of consensus on taxation of digital economy at global level posing challenges; a tax payer may earn revenue globally on his content.
- There are instances of double taxation as the revenue can be taxed in various countries before being taxed in Kenya. There is not yet an agreed double taxation relief.

2. (b)(i)

Pelly, Mark and Colley

income of the partnership and Pamac Limited for the year ended 31 December 2023.

Business type	Working Ref.	Partnership	Pamac Ltd.	Total
Currency		Shs'000'	Shs'000'	Shs'000'
Sales	WVI&WIX	54,315	27,158	81,473

Less cost of sales	WVIII	(38,021)	(19,010)	(57,031)
Gross profit		16,295	8,147	24,442
Provision is specific bad debts realised	WX	3,267	1,633	4,900
Gross income		19,561	9,781	29,342
<u>Less allowable Expenses</u>				
Salary and Wages	WII	6,000	3,000	9,000
Electricity	WIV	1,232	616	1,848
Motor vehicle expenses	WVI&WIX	294	147	441
Web hosting cost	WVI	17	8	25
Directors allowance	WVI		450	450
General expenses	WVI	7,186	3,593	10,779
Interest on debenture	WVI		400	400
Repair and maintenance	WIX	13	7	20
Stationery	WIX	16	8	24
Sundry expenses	WIX	21	11	32
Capital allowance	WXI	835	417	1,252
Rent	WII	1,317	658	1,975
Total expenses		(16,930)	(9,315)	(26,246)
Taxable income		2,631	465	3,096

Assumptions:

Interest on capital, partner's salary, debenture interest was paid in full for the period and none was owing.

2. (b)(ii)

Pelly, Mark and Colley

Taxable income of each partner for the year ended 31 December 2023.

Currency	Shs.000	Shs.001	Shs.002	Shs.003
Partner	Pelly	Mark	Colley	Total
Interest on capital for the 1st 4Months	400	500		900
Salary for the 1st 4Months	333	833		1,167
Share of profit and loss for 1st 4Months	(301)	(451)		(751)
Interest on capital for the next 4Months	400	500	600	1,500
Salary for the next 4Months	333	833	1,000	2,167
Share of profit and loss for next 4Months	(523)	(784)	(1,045)	(2,351)
Taxable income of each partner	644	1,432	555	2,631

Workings

WI Payables

Date	Details	Shs.'000"	Date	Details	Shs.'000"
				bal b/d	7,200
	bank	52,640		Purchases	56,680
	cash	190			
	bal c/d	11,050			
		<u>63,880</u>			<u>63,880</u>

WII Accrued salary and wages

Date	Details	Shs.'000"	Date	Details	Shs.'000"
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			bal b/d	1,600
Bank and Cash	8,300		P & L	9000
bal c/d	<u>2,300</u>			
	<u>10,600</u>			<u>10,600</u>

WII Accrued rent

Date	Details	Shs.'000"	Date	Details	Shs.'000"
				bal b/d	2,100
	Bank and Cash	2,250		P & L	1,975
	bal c/d	<u>1,825</u>			
		<u>4,075</u>			<u>4,075</u>

WIV Prepaid electricity bills

Date	Details	Shs.'000"	Date	Details	Shs.'000"
	bal b/d	293			
	Bank and Cash	1,800		P & L	1848
		<u>2,093</u>		bal c/d	<u>245</u>
					<u>2,093</u>

WV Furniture and fittings

Date	Details	Shs.'000"	Date	Details	Shs.'000"
	bal b/d	600		Dep	150
		<u>600</u>		bal c/d	<u>450</u>
					<u>600</u>

WVI Balance at bank

Date	Details	Shs.'000"	Date	Details	Shs.'000"
	bal b/d	7,910		Rent	2,250
	Capital Corey	18,000		Motor vehicle expenses	420
	8% debentures	15,000		Web hosting cost	25
	Sales	56,153		Directors allowance	450
				General expenses	10,779
				Electricity	1,800
				Purchase of goods	52,640
				Floatation cost	200
				Salaries and wages	8,300
				Purchase of saloon car	4,500
				interest on debenture	400
				partners annual salary-p	667
				partners annual salary-m	1,667
				partners annual salary-c	1,000
				partnersinterest on cap-p	800
				partnersinterest on cap-m	1,000
				partnersinterest on cap-c	600
				bal c/d	<u>9,566</u>
		<u>97,063</u>			<u>97,063</u>

WVII Equipment

Date	Details	Shs.'000"	Date	Details	Shs.'000"
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bal b/d	670
	670

Dep	140
bal c/d	530
	670

WVIII cost of sales	
Opening Inventories	1,248
purchases	56,680
	57,928
Closing Inventories	(897)
Cost of sales	57,031
sales 100/70 of Cost of sales	81,473

WIX
Cash

Date	Details	Shs.'000"	Date	Details	Shs.'000"
	Sales	25,320		Repair and maintenance	20
				Stationery	24
				Sundry expenses	32
				Motor vehicle expenses	21
				Purchase of goods for resale	190
				Bal c/d	25,033
		25,320			25,320

WX Specific provision for bad and doubtful debts

Date	Details	Shs.'000"	Date	Details	Shs.'000"
				bal b/d	8,300
	Decrease	4,900			
	bal c/d	3,400			
		8,300			8,300

WXI Capital Allowances

Equipment	670	@10%	67
Furniture and fittings	600	@10%	60
Purchase of saloon car	4,500	@25%	1,125
Total capital allowances			1,252

3. (a)

(i) Capital gains tax payable

Superlite Investments Ltd.

Sale of land		31,200,000
Less Cost of land acquisition		
Land	15,600,000	
Legal fees	464,320	
Commissions	3,400,000	
Stamp duty	312,040	
Survey fees	100,000	
Land board consent facilitation	20,000	
Total		(19,896,360)
Capital gain		11,303,640
Capital gain tax at 15% thereon		1,695,546

(ii) Penalty if the company paid after one year and two months from the due date of transfer.

Superlite Investments Ltd.

Capital Gains Tax Payable	1,695,546
Late Filing Of Return (The Higher Of 5% Of Tax Due Or Shs. 20,000)	84,777
Late Payment Of Tax(@ 5%)	84,777
Tax Interest Thereon At 1% P.M	19,781
Penalty And Interest	189,336

(iii) Factors that could be considered by the revenue authority while negotiating for settlement of taxes, penalties and interest.

- Circumstances beyond the tax payer's control made him late in paying taxes.
- The application for waiver is justified with supporting documents and evidence.
- The principal tax must have been paid.
- The tax payer is compliant on all other taxes.

3. (b)(i)

Sharp bank Ltd.

Taxable income Computation

Taxable incomes	Kshs'000"	Kshs'000"
Interest on loans and advances	435,400	
Interest on government securities	238,200	

Foreign exchange income	72,000	
Fees and commission income	170,200	
Interest on placement and bank balances	36,000	
Non-operating income	17,000	
Interest income	1,500	
Total Income		970,300
Less allowable expenses		
Directors emolument	12,500	
Depreciation expense	42,000	
Staff costs	295,000	
Interest on customers deposits	145,000	
Interest on borrowed funds	35,000	
Auditors fees	3,500	
Contribution to staff provident fund	14,500	
General administration expenses	142,500	
Legal and professional fees	20,000	
Total allowable expenses		(710,000)
Taxable profit		260,300

Notes:

-Institutions such as banks and insurance companies are exempted from imposing the specified sources concept for legislative reasons since they are institutions which must be seen in the eyes of the public to be financially sound and thereby maintain public trust.

-It is assumed Depreciation has been endorsed by the Commissioner of income tax as allowable expense in place of Investment allowances.

3. (b)(ii) Tax payable if any by Sharp Bank Ltd. for the year ended 31 December 2023

Sharp Bank Ltd.	Kshs'000"
estimated taxable profits	100,000
instalment tax paid at 30%	30,000
Actual Profit for the year	260,300
tax thereon at 30%	78,090
less tax already paid	(30,000)
Tax payable	48,090

3. (b)(iii) Due dates, amount of tax payable and any penalty applicable for installment tax payable by Sharp Bank Ltd. for the year ended 31 December 2023

For persons with accounting periods commencing on or after	30th Apr 2023	30th Jun 2023	30th Sep 2023	31st Dec 2023
1st January 1996	25%	25%	25%	25%

penalty applicable for installment tax payable

instalment tax payable	78,090
actually paid	(30,000)
difference	48,090

20% Penalty on difference 9,618

4. (a) FIVE tax base expansion strategies that the Kenya Revenue Authority could adopt

- Recruiting new tax payers
- Modernize and computerize the tax systems
- Simplifying the tax process
- Management of the tax debt
- Improve compliance in payment of taxes
- Enhance efficiency in managing tax refunds
- Promote integrity of both tax payers and tax collectors

5. (b) shortfall distribution tax computation for the year ended 31 December 2023

Pembe Ltd.

Shortfall distribution tax Computation for the year ended 31 December 2023

	Trading(shs.)	Rental(shs.)	Total (shs.)
Incomes	33,600,000	4,800,000	38,400,000
<u>Add Disallowable expenses and Incomes</u>			
Advertising before letting		400,000	400,000
Loan Mortgage repayment		840,000	840,000
CCTV cameras and partitions cost		360,000	360,000
Dividend from Mazera Co-operative Society	214,737		214,737
Investment allowances Overstated	2,000,000		2,000,000
<u>Less allowable expenses</u>			
Foreign exchange gains unrealised	(1,926,000)		(1,926,000)
Bad debts recovered previously written off	(144,000)		(144,000)
Loan interest	(520,000)		(520,000)
Investment allowances[CCTV and partions](10% of sh.360,000)		(36,000)	(36,000)
Adjusted Taxable income	33,224,737	6,364,000	39,588,737
Corporat tax @ 30%	(9,967,421)	(1,909,200)	(11,876,621)
Profit Available for Distribution	23,257,316	4,454,800	27,712,116
Dividend Payout ratio	40%	100%	
Dividend payable	9,302,926	4,454,800	13,757,726
			Withholding Tax
Dividend payable	13,757,726	tax at 5%	687,886
Dividend Actually paid	7,600,000	tax at 5%	(380,000)
Shortfall distribution tax			307,886

4.(c)

Bright Sacco Ltd			
Taxable income			
	Sh.	Sh.	
Rental income			2,581,000
Entrance fees			430,000
Gross incomes			3,011,000
<u>Less allowable expenses</u>			
Travelling expenses: Staff	88,030		
Bank charges	40,000		
Bank interest	280,500		
Salaries and wages	543,600		
Interest on mortgage for rented property	482,000		
Printing and stationery	316,500		
Entertainment	105,000		
Audit fees	613,650		
Legal fees	440,000		
Capital allowance	9,000		
Total allowable expenses			(2,918,280)
Taxable rent and entrance income			92,720
<u>Add other taxable incomes</u>			
Dividend from investments			1,200,000
50% Interest income SBN Bank			1,302,250
50% Interest income CMC Wealth Fund			402,000
Total taxable incomes			2,996,970
Total taxable incomes			2,996,970
Coporate tax at 30% thereon			899,091

Workings

Capital allowance			
Furniture and office equipment	90,000	@10%	9,000

Notes:

-Interest income of Saccos derived from member deposits is exempted from taxation.

-Taxable incomes of a sacco are:

*50% of interest income from non-members(banks,treasury bills etc)

*The gross Rental income

*Capital gains

*Any other income that may be deemed to be taxable.

*Administrative or operating expenses are deductible only if they are incurred wholly and exclusively in earning taxable income

*Incomes from FOSA's are treated like commercial banking.

5. (a) Ethical issues when designing tax systems

-Confidentiality

-Personal Gain

-Misrepresentation

-Conflict of interest

5. (b) FIVE challenges faced by governments in regulating and combating the use of tax havens.

Tax havens are jurisdictions that have lower taxes and low residency requirements for foreign entities and individuals willing to park money in their financial institutions. Challenges of regulating and combating use of tax havens are:

-**Inequity and inequality** - wealthy individuals and corporations have resources to research and take advantage of tax breaks, these makes them to grow even richer at the expense of other individuals or corporations.

-**Enforceability** – tax havens often have lax or opaque regulatory frameworks making it difficult to regulate them.

-**Unpredictable Revenues** – it leads to unstable and unpredictable revenue to the government since offshore entities can be risky to the government.

-**Hidden Wealth** – lack of transparency in operations of tax haven lead to growth of hidden wealth denying a country the needed revenue.

-**Erosion Of The Tax Base**-when there is a possibility some people can pay low taxes while others pay higher taxes, the tax base is eroded.

5. (c) (i) “value added tax (VAT) reverse charge”. Reverse charge can loosely be termed as self-accounting VAT. Normally VAT is charged and accounted for by supplier of goods and services. In reverse charge, the recipient rather than the supplier would account for VAT.

5. (c)(ii)

Laser Limited				
VAT account				
Date	Details	Dr. Input VAT	Cr. Output VAT	VAT Refundable/ (Payable)
1-May-24	Inventory	112,138		112,138
	Purchases-credit	655,172		767,310
	Purchases-cash	386,207		1,153,517
	Sales		496,276	657,241
	credit note	82,759		740,000
	Debit note		74,483	665,517

	imported goods	517,241	1,182,759
	Legal expenses	48,276	1,231,034
	Office rent	80,000	1,311,034
	Electricity	7,448	1,318,483
31-May-24	Restricted input tax	(848,864)	469,619

VAT refundable	Kshs. 469,619
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W1 - Restricted input tax

value of taxable supplies	4,498,000
total supplies	8,168,000
exempt supplies	3,670,000

=Taxable Supplies ÷ Total Supplies × Input Tax

= 4,498,000 ÷ 8,168,000 × 1,889,241

=1,040,378

Total Input Tax	1,889,241
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Restricted Input Tax	1,040,378
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Restriction Factor	848,863
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Notes: VAT on motor vehicle is not claimable but company would capitalize it and claim Investment allowances.

1. (a) impact of digital service tax

-This tax could lead to higher costs of digital services making them unaffordable and inaccessible to potential users.

- The tax burden could also drive away non-residents from the Kenyan market.

1. (b)(ii)

Henry, Titus and Stellah

Statement Showing The Taxable Profit Or Loss Of The Partnership

Currency	workings	shs.	sh.s	shs.
Period		Jan- Aug	sep-dec	Total
Sales	WI	108,206,400	54,103,200	162,309,600
Discount received		384,000	192,000	576,000
Total receipts		108,590,400	54,295,200	162,885,600
Less cost of sales	WVI	(85,813,333)	(42,906,667)	(128,720,000)
Gross receipts		22,777,067	11,388,533	34,165,600

Less expenses

Staff salaries	WII	640,000	320,000	960,000
Bank charges	WII	19,200	9,600	28,800
Telephone bills	WII	51,200	25,600	76,800
Electricity bill	WII	64,000	32,000	96,000
Office rent	WIII	184,000	92,000	276,000
Office expenses	WIII	277,333	138,667	416,000
Salaries and wages - casual workers	WIII	124,800	62,400	187,200
Carriage outwards	WIII	180,267	90,133	270,400
Investment allowances	WVII	1,965,067	982,533	2,947,600

Total allowable expenses	3,505,867	1,752,933	5,258,800
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Taxable profit	19,271,200	9,635,600	28,906,800
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1.(b)(ii)

Henry, Titus and Stallah

Allocation of the profit or loss to the partners.

Partners currency	Henry shs.	Titus sh.s	Stallah shs.	Total shs.
interest on capital(Jan-Aug)	1,666,400	1,666,400	0	3,332,800
Drawings(Jan-Aug)	640,000	512,000	0	1,152,000
Salary to partners(Jan-Aug)	128,000	192,000	0	320,000
Share of Profit(Jan-Aug)	8,679,840	5,786,560	0	14,466,400
interest on capital(Sep-Dec)	1,666,400	1,666,400	533,333	3,866,133
Drawings(Jan-Aug)	320,000	256,000	144,000	720,000
Salary to partners(Jan-Aug)	64,000	96,000	160,000	320,000
Share of Profit(Jan-Aug)	2,364,733	1,576,489	788,244	4,729,467
Total	15,529,373	11,751,849	1,625,578	28,906,800

WORKINGS

WI-Trade receivables

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
1-Jan-23	Bal Bd	640,000		bank	160,000,000
	Sales	162,309,600		cash	1,829,600
			31-Dec-23	bal cd	1,120,000
		<u>162,949,600</u>			<u>162,949,600</u>

WII-Bank overdraft

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
1-Jan-23	Capital-Henry	5,000,000	1-Jan-23	Bal Bd	480,000
1-Jan-23	capital-Titus	5,000,000		Purchase of computers	102,400
1-Sep-23	Capital -			Purchase of motor cycle for	
	Stalleh	16,000,000		salesmen	160,000
	sales	160,000,000		Staff salaries	960,000
				Purchase of goods for resale	124,800,000
				Drawings per month: Henry	960,000
				Drawings per month:Titus	768,000
				Drawings per month:Stallah	144,000
				Bank charges	28,800
				Telephone bills	76,800
				Electricity bill	96,000
				Interest on Capital-Henry	3,364,800
				Interest on capital-Titus	3,364,800
				Interest on Capital -Stalleh	533,333
			31-Dec-23	bal cd	50,161,067

186,000,000186,000,000

WIII-Cash in hand

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
1-Jan-23	Bal Bd	64,000			
	Trade receivables	1,829,600		Office rent	276,000
				Office expenses	416,000
				Laptop for office use	40,000
				Salaries and wages - casual workers	187,200
				Carriage outwards	270,400
				Salary to partners: Henry	192,000
				Salary to partners: Titus	288,000
				Salary to partners: Stellah	160,000
			31-Dec-23	bal cd	64,000
		<u>1,893,600</u>			<u>1,893,600</u>

WIV-Trade payables

Date	Details	Amount-Kshs.	Date	Details	Amount-Kshs.
	Bank	124,800,000		purchases	126,080,000
31-Dec-23	bal bd	1,280,000			
		<u>126,080,000</u>			<u>126,080,000</u>

WV-state of affairs as at 1st January 2023

	Dr.shs	Cr.shs
Freehold land Cost	64,000,000	
Office equipment Net book value	4,160,000	
Furniture and fittings Net book value	4,800,000	
Delivery vans Net book value	8,000,000	
Stock	8,800,000	
Trade receivables	640,000	
Trade payables		
Bank overdraft		480,000
Cash in hand	64,000	
capital		89,984,000
Total Assets	90,464,000	90,464,000

Capital-Henry;opening

44,992,000

additional	5,000,000
Total	49,992,000
Interest on Capital-Henry(Jan-Aug)	1,666,400
Interest on Capital-Henry(Sep-Dec)	1,666,400
capital-Titus;opening	44,992,000
additional	5,000,000
Total	49,992,000
Interest on Capital-Titus(Jan-Aug)	1,666,400
Interest on Capital-Titus(Sep-Dec)	1,666,400
stellah	16,000,000
Interest on Capital-Stellah(Sep-Dec)	533,333

WVI-cost of sales

Opening stock	8,800,000
add purchases	126,080,000
	134,880,000
less closing stock	(6,160,000)
	128,720,000

WVII- Investment allowances

Purchase of motor cycle for salesmen	160,000	at 10%	16,000
Office equipment Net book value	4,160,000	at 10%	416,000
Furniture and fittings Net book value	4,800,000	at 10%	480,000
Purchase of computers	102,400	at 25%	25,600
Laptop for office use	40,000	at 25%	10,000
Delivery vans Net book value	8,000,000	at 25%	2,000,000
			2,947,600

2. (a) Benefits emanating from Tax Dispute Resolution Mechanisms on taxpayer adherence to regulations and the efficiency of administrative processes in Kenya.

- The tax payer can be given waivers on penalties and interest if he adhered to regulations.
- The tax payer can be allowed to sort his disputes outside courts of law and tax tribunals.
- It speeds up compliance checks by tax authority on tax payers business.
- The costs of settling tax disputes for the tax payer and the tax collector are drastically reduced.

2. (b) **FOUR** strategies employed by multinational corporations in mitigating complex tax risks during corporate restructuring across multiple jurisdictions.

-**Corporate tax planning** - the focus would be on chargeable income, deductible expenses, capital allowances available, taxes and the treatment of tax losses, the dividend policies and transfer pricing.

- **Remuneration planning** – staff costs are significant to operational costs, the employer needs to reward labour in the highest possible way but at the same time keeping in line with laid down tax regulations. He can consider;

- a) Lump sum payments
- b) Contribution on behalf of employees retirement benefits
- c) Other benefits

- **VAT planning** – VAT legislation is complex and compliance may be difficult. Penalties resulting from non-compliance results into punitive penalties and tax losses may result by failure to plan taxable transactions.

- **Duty planning** – it deals with import as well as excise duty e.g. amount on imports will have a significant effect on cost of goods finally exported and will also affect the competitiveness and profitability of the business.

- **Excise Duty Planning** - Excise duty added to cost on locally manufactured goods affect the prices finally. It eventually affects price and profit margins.

2.(c) Value Added Tax (VAT) payable by or refundable to Weddy Associates

Weddy Associates				
Date	details	Dr. Input(shs)	Cr. Output(shs)	VAT Refundable/(Payable)
2-Oct-23	Weka Ltd.		165,517	(165,517)
5-Oct-23	Institute of Accountancy		110,345	(275,862)
9-Oct-23	Bima Ltd.	38,621		(237,241)
11-Oct-23	Apex Bank Ltd		55,172	(292,414)
21-Oct-23	Royal Ltd		6,897	(299,310)
17-Oct-23	RR International Ltd		0	(299,310)
25-Oct-23	UK Firm		288,000	(587,310)
30-Oct-23	Shakir family		85,517	(672,828)
30-Oct-23	Bema Ltd.		193,103	(865,931)
30-Oct-23	Safi hospital		49,655	(915,586)
30-Oct-23	Electricity	13,793		(901,793)
30-Oct-23	Rent	66,207		(835,586)
30-Oct-23	legal education subscriptions	49,655		(785,931)
30-Oct-23	Training fee	57,931		(728,000)
30-Oct-23	Fuel for partners	12,414		(715,586)
30-Oct-23	Professional indemnity cover	17,103		(698,483)
30-Oct-23	Stationery	41,379		(657,103)
	Total	297,103	954,207	
(VAT) payable		Shs. 657,103		

3.(a) Tax reforms aimed at promoting investment and economic growth while ensuring fairness and equity in taxation

-Reduced income tax rate for foreign companies. The tax rate was reduced to 30% making them at par with domestic companies, thus they are all taxed fairly.

-Expanding the special tax operating framework. Large capital investment in manufacturing has been included in this scope. This spurs economic growth as well as ensuring equity among peer manufacturing companies.

-Exemption of special economic zones from taxes on gains from property transfer, interest and management fees paid to non-resident persons for the first ten years. This allows quick capital transfer spurring economic growth. In addition, investment allowance of 100% given on hotel and manufacturing buildings is extended outside cities and special economic zones harmonizing the economic playing field for every investor.

-Paying tax refunds within 6 months or allowance to offset future tax liabilities gives investors the needed cashflow to spur growth. Since VAT on exported services and e-mobility supplies is zero-rated, it minimizes the tax burden on investors.

-Cost of importing goods for investors has been reduced with the relaxation of the import declaration fee and railway development levy.

-Local industries can compete with their foreign counterparts as goods with local content imported into special economic zones are exempt from import duties.

3 (b)(i) Taxable Income Or Loss For Masterway Insurance Company Ltd Computation

Masterway Insurance Company Ltd.				
taxable income or loss for Masterway Insurance Company Ltd. for the year ended 31 December 2023.				
	workings	motor vehicles Shs.'000'	Life assurance policy Shs.'000'	Total Shs.'000'
Gross premium		757,000		757,000
Interest on policy holders outstanding premiums	W_IV	240	58,000	58,240
Investment income	W_III		16,125	16,125
Commission on reinsurance ceded		684		684
rental income				1,800
Decrease in reserve for unexpired risk	WI		4,972	
Gross Income		757,924	79,097	833,849
less Expenses				
Claims paid	W_II	121,016		121,016
Management expenses		112,640	36,000	112,640
Specific provision for bad debts		728		728
General expenses		1,280	1,000	1,280
Office utilities		300		300
Commission on reinsurance accepted		600		600
Agency expenses		344		344
management fees				2,600
Total Expenses		(236,908)	(37,000)	(239,508)
Taxable Profit		521,016	42,097	594,341
Add other taxable incomes				
rental income			1,800,000	
less management fees			(2,600,000)	
Net rental income				(800,000)

Dividend from Highrise Ltd	820,000
Interest from fixed deposits	509,490
Total	1,123,831

Notes:

-Institutions such as banks and insurance companies are exempted from imposing the specified sources concept for legislative reasons since they are institutions which must be seen in the eyes of the public to be financially sound and thereby maintain public trust. Therefore rental loss and insurance business profits would be aggregated and taxed together..

-Gross dividend from a foreign company of shs. 180,000 is tax exempt

3(b)(i)

Masterway Insurance Company Ltd.

Tax payable

Taxable Incomes	1,123,831
tax thereon at 30%	337,149
Total tax payable	337,149

WORKINGS

W_I Reserve for unexpired risk:

DATE	DETAILS	shs.000	DATE	DETAILS	shs.000
	P&L	4,972		bal b/d	968
	bal c/d	716		Reinsurance	4,720
		<u>5,688</u>			<u>5,688</u>

W_II Claims owing:

DATE	DETAILS	shs.000	DATE	DETAILS	shs.000
	Premiums returned	696		bal b/d	119,700
	cashbook	124,900		P&L	121,016
	bal c/d	115,120			
		<u>240,716</u>			<u>246,404</u>

W_III Investment Income

DATE	DETAILS	shs.000	DATE	DETAILS	shs.000
------	---------	---------	------	---------	---------

Claims paid	128,000	bal b/d	240,000
5% shareholders	13,500	Gross premium	189,000
Surplus	14,875		
15% of Surplus	2,625		
bal c/d	270,000		
	<u>429,000</u>		<u>429,000</u>
investment			
5% shareholders	13,500		
15% of Surplus	2,625		
	<u>16,125</u>		

W_IV Premiums outstanding for life insurance

DATE	DETAILS	shs.000	DATE	DETAILS	shs.000
	bal b/d	15,000		premium	189,000
	claims	128,000			
	interest	58,000		bal c/d	12,000
		<u>201,000</u>			<u>201,000</u>

4.(a) FOUR factors that a tax practitioner should consider in evaluating new clients before acceptance of a new tax assignment.

-**Financial risk** – clients’ financial stability and history, past tax return accuracy and compliance, and any potential red flags regarding financial misconduct.

-**Compliance risk** – history of tax violations or non compliance, clients understanding of tax laws and regulations, and potential for complex or high-risk tax situations like VAT compliance.

-**Client’s reputation** – the business practices and industry reputation, and references from previous accountants or business associates.

-**Record-keeping practices** – quality and organization of financial documents and records and ability to produce necessary information for tax preparation.

-**Complexity of tax situation** – clients’ number of income sources and deductions, international tax implications and specialized tax areas requiring expertise.

-**Client communication and expectation** – openness and willingness to provide information, expectations regarding tax planning and compliance.

-**Professional conduct and ethics** – history of ethical violations or disputes, alignment with the practitioner’s ethical standards.

-**Geographical risk** – potential for tax laws or regulations specific to client’s location

-**Prior accountant relationship** – reasons for leaving the previous accountant, any outstanding issues or disputes with the previous firm.

4.(b)(ii) John Pritt

John pritt,

Job offer A:African Airway Ltd

Basic Salary (Sh.130000×6+sh.130000×110÷100×6)	1,638,000
Monthly bonus (5% of sh.1,638,000)	81,900
Fuel allowance (sh. 10×10,000×1/4)	25,000
Travel allowance	16,000
Furniture allowance (1% of sh.480,000×12)	57,600
House benefit (w1)	300,000
Total taxable pay	2,118,500
Tax thereon;	
The First shs. 288,000 @ 10%	28,800
The next shs.100,000 @ 25%	25,000
The rest Shs.1,730,500 @ 30%	519,150
Total gross tax liability	572,950
Net income	1,545,550

John Pritt,

Job offer B:Watts Ltd

Basic salary (sh.145,000×12)	1,740,000
Committee allowance(sh.5,000×12)	60,000
Car benefit (W2)	672,000
Electricity (prescribed rates)	18,000
Water (prescribed rates)	6,000
Watchman-night (prescribed rates)	27,000
Total taxable pay	2,523,000
Tax thereon	
The First shs. 288,000 @ 10%	28,800
The next shs.100,000 @ 25%	25,000
The rest Shs.2,135,000 @ 30%	640,500
Total gross tax liability	694,300
Net income	1,828,700

He should accept offer B as it has a higher net Income than offer A

Workings

House benefit

The higher of;

15% of Total employment pay	272,775
less contribution	(60,000)
	212,775
Actual market rent	360,000
less contribution	(60,000)
	300,000

Car Benefit

The higher of:

3000cc Ratings	172,800
2% of sh.2,800,000×12	672,000

4.(b)(ii) John Pritt**Conditions that one is required to meet in order to qualify for double taxation relief in Kenya**

- Double tax relief conventions must exist between Kenya and Rwanda
- Double Taxation relief does not cover all taxes therefore the kind of tax one is claiming must be covered.
- Double taxation relief is only applicable to Tax resident Kenyans.
- If Double taxation relief was to encourage of mobility of labour and attract expatriates
- If one is a Diplomatic and consular officials

5. (a) Initiatives undertaken by the revenue authority in your country to entrench ethics and integrity in administration of tax.

- Establishment of corruption reporting channels e.g. hotline +254726984668, email: corruptreporting@kra.go.ke and complaints information centre; CIC@ Kra.go.ke
- Implementing integrity policy on KRA anti-corruption policy, gifts policy, conflict of interest policy, lifestyle audit guidelines and staff vetting framework.
- Automation of KRA's functions: to enhance service delivery and seal corruption loopholes.
- Investigating and prosecuting individuals involved in tax evasion.

5. (b) Procedure followed by the revenue authority tax officers in conducting a particular tax investigation.

- Notice to the tax payer of an impending investigation, outlining reasons and potential amount of tax fraud.
- Request for documents through ordinary requests or through a court warrant.
- Analysis of records. Records are scrutinized to establish potential tax liability.
- Interviewing and recording statements. Statements are recorded from the taxpayer and other persons of interest.
- Finalization of investigations

5. (c)(i) Total taxable income or loss of SmartTech Ltd. Computation**SmartTech Ltd.****total taxable income or loss of SmartTech Ltd. for the year ended 31 December 2023**

	workings	Shs.	Shs.
Sales.			84,200,000
Cost of sales	W1		(84,960,000)
Gross profit/Loss			(760,000)
Hire charges			2,400,000
Lease of laptops			720,000
Sale of defective laptops			75,000
Gross income			2,435,000

Less expenses

Rent	W2	540,000	
Legal expenses		880,000	
Marketing cost		405,000	
Salaries and management expense		590,000	
Investment allowance	W3	32,000	
			(2,447,000)
Taxable Loss			(12,000)

Other taxable Income

Dividend income from unit trust -gross		120,000
(withholding tax is final tax)		

W1_cost of sales per laptop

deposit	12,000
4 quartely instalments	24,000
	36,000

cost of sales for 2360 laptops 84,960,000

W2_Prepaid rent

DATE	DETAILS	shs.	DATE	DETAILS	shs.
	bal b/d	180,000		P&L	540,000
	cash	420,000		bal c/d	60,000
		600,000			600,000

W3_capital allowance

CCTV cameras	200,000 @ 10%	20,000
signpost	120,000 @ 10%	12,000
Total		32,000

1. (a) Information that should be included in Transfer Pricing Policy document.

Transfer pricing documentation involves pricing goods and services, or intellectual property exchanged between related entities within a multinational corporation, mimicking transactions between unrelated entities. Key information to be included in Transfer Pricing Policy document is;

- Functions, assets and risks of each related entity in controlled transactions.
- Comparable transactions or companies as benchmarks to arm's length transactions.
- Justification for arm's length pricing by applying the chosen method and considering economic factors like profit levels, cost structures and market conditions.
- Assessment of functions, assets and risks associated with each entity and determination of an appropriate transfer pricing method.

1.(b)(i)**Asili and Tulivu partnership****statement of adjusted taxable profit or loss for the year ended 31 December 2022**

Net loss	(672,400)
----------	-----------

Add back Non-allowable expenses included

Purchase of computers	180,000
Partners salaries	2,160,000
Purchase of Asili's private residence	150,000
Appeal against tax assessment	82,000
Acquisition of business loan	20,800
Purchase of furniture	96,000
Designing office block	390,000
Negotiating for additional land for business expansion	56,000
Interest on partners capital	300,000
Changes in inventory	1,260,000

Preliminary expenses	262,800	
Directors fees	600,000	
Audit fees	148,200	
Debenture interest	360,000	
Notice for change of business name	64,800	
Conveyance fees of business premises	72,400	
Stamp duty	116,600	
		<hr/>
		6,319,600
		<hr/>
		5,647,200
<u>Less allowable expenses omitted and disallowable incomes</u>		
Gain on sale of shares	352,000	
Foreign exchange gain-unrealised	150,000	
Dividend - Wakaguzi Co-operative Society (gross)	51,000	
Capital allowances	54,600	
		<hr/>
		(607,600)
Adjusted taxable Profit		<hr/> <hr/>
		5,039,600

1.(b)(ii)

Asili Ltd. Company.

statement of adjusted taxable profit or loss for the year ended 31 December 2022

Net loss (2,017,200)

Add back Non-allowable expenses included

Purchase of computers	360,000	
Purchase of Asili's private residence	300,000	
Appeal against tax assessment	164,000	
Acquisition of business loan	41,600	
Purchase of furniture	192,000	
Designing office block	780,000	
Negotiating for additional land for business expansion	112,000	
changes in inventory	2,520,000	
Preliminary expenses	525,600	
Notice for change of business name	129,600	
Conveyance fees of business premises	144,800	
Stamp duty	233,200	
		<hr/>
		5,502,800
<u>less allowable expenses omitted disallowable incomes</u>		
Gain on sale of shares	704,000	
Foreign exchange gain-unrealised	300,000	
Dividend - Wakaguzi Co-operative Society (gross)	102,000	
Capital allowances	109,200	
		<hr/>
		(1,215,200)
Adjusted taxable Profit		<hr/> <hr/>
		4,287,600

Notes:

- Gain on shares would be subject to capital gains tax.

- Foreign exchange gain-unrealized is not taxable income as taxes are computed on earned and receivable incomes only, not contingent incomes.
- Dividend - Wakaguzi Co-operative Society (gross) would not be part of taxable profit/loss, but since the dividend is unqualified dividend, it would be added back to taxable incomes in tax computation and withholding tax on it netted off against gross tax liability

1.(b)(iii)

Asili and Tulivu partnership

Allocation of adjusted partnership profit or loss

Partners	Asili	Tulivu	Total
Interest on Capital	180,000	120,000	300,000
SALARIES	1,296,000	864,000	2,160,000
Share of profit	1,547,760	1,031,840	2,579,600
Total	3,023,760	2,015,840	5,039,600

Working 1.

Capital allowances on:

Purchase of computers	540,000	at 25%	135,000
Purchase of furniture	288,000	at 10%	28,800
			163,800
Apportioned To Partnership			54,600
Apportioned To Company			109,200
			163,800

2. (a) **THREE** potential areas the Revenue Authority may collaborate with tax agents to bridge tax gaps in MSEs.

- Helping MSEs get professional tax advice.
- Edifying MSEs of the tax laws and changes encouraging compliance
- help MSEs to reduce tax audit by enhancing their compliance.
- helping MSEs to take advantage of tax incentives available hence increasing productivity and the tax base.

2. (b) **THREE** ways in which the implementation of the Most Favoured Nation (MFN) status may impede the attainment of economic goals of individual member states within the East African Customs Union.

The Most Favoured Nation is a non-discriminative principal which is extended to all trade firms such that any reciprocal tariff deductions are negotiated. Member countries who are signatories to that favoured nation status benefit from the negotiations in order to boost international trade. The Most Favoured Nation (MFN) status may impede the attainment of economic goals of individual member states within the East African Customs Union since;

- The benefit may accrue to non-member countries as well, thus diluting the real purpose of such agreements.

- The tariff negotiations may be based on certain commodities only excluding service, and since member countries may be producing these same products, it limits trade between members.
- Developed countries can fund their domestic industries allowing them to export at low prices leading to dumping in East African union.

2. (c)

ABC Ltd

Capital gains tax payable by ABC Ltd Computation

	shs.	shs.	
Sale of Building			12,400,000
Less allowable costs			
Acquisition Costs	8,500,000		
Renovation costs	465,000		
valuation fees	220,000		
legal costs	450,000		
advertisement	140,000		
agent fees	128,000		
		(9,903,000)	
Taxable Capital gain		2,497,000	
tax payable thereon at 15%			374,550

Notes:

The costs incurred in the process of of selling the building; advertisement Sh.140,000, agent fees Sh.128,000 and valuation fees Sh.136,000 would not be allowable costs since capital gains tax is computed on gross proceeds. The costs I have allowed above are part of the price of the property.

2. (d)(i)

Turkanah Oil Ltd.

a statement of taxable profit or loss of Turkanah Oil Ltd. for the year ended 31 December 2022

	shs.000 000	shs.000 000
Proceeds from sale of oil (2,800,000 barrels at Sh.15,000 per barrel)	42,000	
Value of chargeable oil disposed of to local refineries	21,000	
Value of chargeable natural gas and other incomes	26,500	
Freight charges received from other oil transport	22,800	
		112,300
Allowable xpenses:		
Royalties paid for crude oil exported	4,800	
Staff accommodation expenses	2,820	
Royalties incurred in respect of natural gas disposed of to local refineries	3,420	
Employee salaries and emoluments	8,200	
Specific bad debts	240	

Contribution to approved pension schemes	720	
General expenses	7,800	
Administration expenses	750	
Exploration costs	1,680	
Exploration and drilling costs of oil wells	2,592	
Investment allowance	5,430	
		(38,452)
Taxable profit		73,848

Notes: it is assumed that the year is not the first year in drilling therefore capital expenditure qualifying for capital expenses at 50% in the first year have been allowed at 25%.

			Shs.'000
Workings- Investment allowances			00'
Petroleum oil tankers (ships)	1,800	@ 25%	450
Cost of generator	500	@ 25%	125
Pipeline and storage tank	16,920	@25%	1,692
Buildings-onshore-factory	5,400	@ 25%	1,350
Fixtures and fittings	630	@10%	63
Purchase of drilling machines	5,500	@ 25%	1,375
Customs duties on drilling machines	1,500	@ 25%	375
			5,430
Workings- Exploration and drilling costs of oil wells			
	12,960	@ 20%	2,592

2.(d)(ii) Clarifications that the tax authority may seek from the company concerning exploration and drilling costs.

- That the expenditure was incurred in the year of income(2022).
- That the expenditure was not construction of social structure

3. (a) FOUR circumstances that could trigger tax investigations.

- Filling a Nil return or not filling tax returns at all
- Differences between sales declared under VAT system and those declared under end of year income tax return.
- Reporting losses every year
- Whistleblower or informancy.
- Publicity in the media
- Information gathered by KRA's tax base expansion unit or intelligence unit.

3. (b) how the adoption of the following policy frameworks would strengthen revenue mobilisation in your country:

Fiscal policy options.

- Using taxes to correct negative externalities
- Strengthening international tax cooperation
- Enhancing regional cooperation

Tax policy options.

- Broadening tax bases
- Tapping into capital income, residential property and other under taxed bases
- Improving tax administration
- Ensuring fairer taxation of digital economy and curbing tax base erosion and profit shifting

3.(c) Titanic Air Ventures Ltd.

Titanic Air Ventures Ltd		
Taxable income and tax payable for the year ended 31 December		
Net profit for the year as reported		2,340
<u>Add back disallowable expenses and omitted revenue</u>		
Depreciation on aircrafts and engines	4,641	
Depreciation on rotables and equipment	393	
Depreciation of buildings and office equipment	1,290	
Amortization of intangible assets	546	
Bad debts written off	1,410	
		8,280
<u>Less allowable expenses and non taxable revenue</u>		
Aircraft purchase subsidy from government	261	
Investment allowances	411	
Interest income (net)	558	
		(1,230)
Taxable Profit		9,390
<u>Workings - Investment allowances at 50%</u>		
Aircraft purchase subsidy from government	261	131
Aircraft purchase	560	280
		411

4. (a) FOUR ways through which the Revenue Authority may address potential tax risks associated with the import and export activities of manufacturing firms.

- Political risks** mitigated by creating regional integration
- Import risks** – help firm to find out in advance custom duties and prevailing legislation.
- Zero rating** imported goods and serving to keep manufacturing costs low
- Awarding manufacturing firms **100% capital allowances** on buildings and machinery used to manufacture

4.(b)(i) adjusted taxable income and tax payable by Express Commercial Bank Ltd.

Express Commercial Bank Ltd.	
Adjusted taxable income and tax payable for the year ended 31 december 2022	

Net profit as reported	Sh."000"	Sh."000"
		18,438
<u>Add back omitted incomes and non- allowable expenses</u>		
Reduction in bad and doubtful debts	18,480	
Impairment of intangible assets	10,440	
Depreciation	42,800	
Deposit protection fund contribution	16,360	
Redemption reserve	3,240	
Purchase of delivery van vehicle	3,500	
Installation of online banking system	32,600	
Loss on sale of equipment	19,640	
Provision for proposed tax increment	480	
Entertainment allowance for clients	1,560	
Negotiating loans for staff	1,000	
Provision for staff leave arrears	8,680	
		158,780
<u>Less allowable expenses and non taxable incomes</u>		
Royalty income (net of withholding tax)	11,400	
Interest on Treasury bills and bonds	168,000	
Interest on placement with Central Bank	51,240	
Investment revaluation surplus	11,232	
Profit on sale of motor vehicle	5,256	
Capital allowances	9,025	
		(256,153)
Taxable income		<u>(78,935)</u>

workings- capital allowances

Purchase of delivery van vehicle	3,500	@25%	875
Installation of online banking system	32,600	@25%	8,150
			<u>9,025</u>

4.(b)(ii)

Express Commercial Bank Ltd.'s

taxable income for the year ended 31 December 2021
tax thereon at 30%

Sh.260,000,000.
78,000,000

TAX FOR THE year ended 31 December 2021	30-Apr-21	30-Jun-21	Ninth Month	31-Dec-21
	25%	25%	30-Sep-21	25%
Express Commercial Bank Ltd.'s-	19,500,000	19,500,000	19,500,000	19,500,000

5. (a) THREE benefits that could be derived from establishing a specialised tax court.

- They serve as impartial adjudicators providing a friendly environment to tax payers and tax collectors to present their arguments and evidence.
- They review the tax collectors decisions, assessments, audits, penalties and related tax matters objectively.

- The accord the tax payer and tax collector an opportunity to present their arguments and evidence.
- They consist of members who are experts in tax law and related fields thus they make informed decisions on complex tax matters.

5.(b) VAT treatment on exported taxable services.

- With effect from 1st july 2023, VAT on exported taxable services is zero rated. Prior to this date, the services attracted a 16% VAT charge.
- Time of supply on imported taxable services. It is the date of supply; it is also referred to as the tax point
- VAT treatment on taxable digital services. All taxable, internet and digital marketplace supplies made in Kenya are subject to VAT at 16%

5. (c)(i)

Alexia Gosselin

Double taxation relief for the year ended 31 December 2022 Computation

Shs.

Gross Tax Liability on Kenyan Income Only

Basic salary Kenya	2,880,000
Subsistence allowance	140,000
Employment income	3,020,000
Add Rental income	3,234,000
Interest from Mjengo co. Ltd(gross)	465,750
Total taxable income	6,719,750

Taxed as:

$$=10\% \times 288,000 + 25\% \times 100,000 + 30\% \times 5,866,000$$

1,953,325

Gross Tax on Kenyan and Country Z Income

Kenyan income	6,719,750
Country z income	2,400,000
Total taxable income	9,119,750

taxed as:

$$=10\% \times 288,000 + 25\% \times 100,000 + 30\% \times 8,266,000$$

2,673,325

Kenyan tax on Country Z income

Gross Tax on Kenyan and Country Z Income	2,673,325
Tax Liability on Kenyan Income Only	1,953,325
Kenyan tax on Country Z income	720,000

Double Taxation Relief

The Lower of:

Kenyan Tax on country Z Income	720,000
Actual tax on Country Z income	300,000

Note: Interest income from Mjengo Company Ltd., Sh.405,000 net is not qualifying interest. Thus withholding tax is not final tax. The interests has been grossed up and taxed assuming withholding tax on it was 15%.

Workings

W1-Commercial property rental income

rental income	2,400,000
<u>add back</u>	
partitions	460,000
mortgage repayment	540,000
	<hr/>
	3,400,000
less mortgage interest	(120,000)
less capital allowance	(46,000)
	<hr/>
Taxable Rental income	3,234,000

W2- capital allowance on partitions	460,000	@10%	46,000
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5.(c)(ii)

Alexia Gosselin

Net tax liability payable in Kenya for the year ended 31 December 2022

TAX LIABILITY	Kshs.
Actual Tax In Kenya	1,953,325
Actual tax in z	300,000
Double tax relief	(300,000)
PAYE from Basic salary	(446,400)
Withholding tax on Mjengo co. Ltd interest	(60,750)
Personal relief	(28,800)
	<hr/>
Tax payable in kenya	1,417,375

1. (a) Discuss how the following issues may generate ethical dilemmas to a tax professional:

i) Conflict of interest. A conflict of interest occurs when a tax professional firm or a person in the firm vested interest raise a question of whether their judgment or decision as regards tax matters of a client would be unbiased. It arises when a person chooses personal gain over duties to their client. This puts a professional in dilemma whether to go for monetary benefit or perform his duties professionally. Avoid conflict of interest by writing conflict of interest policy to define what constitutes conflict of interest, adopt a questionnaire method to determine if conflict of interest exists, make formal review to evaluate potential conflict of interest, implement measures to mitigate and eliminate conflict of interest.

ii) Contingent fee tax representations. Contingent fee can be charged by a practitioner in connection with KRA audits to an original tax return, an amended tax return, refund claim or judicial proceedings against the tax payer. However this poses a dilemma to a practitioner since they cannot charge a fee based on refund of tax, amending a return and the outcome of judicial proceedings. It becomes conflict of interest as a professional may be greedy to benefit from the tax payer's problems.

1. (b) THREE criteria for evaluating modern tax systems.

Fairness or equity - every tax payer should pay a fair share of taxes.

Adequacy – taxes must provide enough revenue to the government to meet its basic needs and that of the society.

Simplicity – a tax payer is able to understand the system and is readily to comply with it.

Transparency – the tax payer and any other interested party can easily find information about the tax system and how tax money was used.

Administrative ease – the tax system is cost effective to the tax payer and the tax collector.

1. (c) FOUR signs that may point to tax fraud in a business entity

-Paying less tax when the business turnover is enormous

-Overstating expenses comparable to the nature of business

-Failure to keep accountable documents and failing to furnish KRA with tax returns.

-Keeping two sets of accounts

-Purposely not reporting some incomes

-When sales reported for VAT purposes differ with those in Final Accounts.

1. (d) case for double taxation agreements as tax incentives(four reasons)

- Attraction of foreign investors through tax incentives.
- Encouragement of mobility of labour to attract expatriates
- Tax incentives as a loss of revenue to the government
- Levels areas of economic interactions between the states concerned.
- Creates political climate or relations
- Rhymes with the overall cost and benefit principle

2. (a) (i)

EK Enterprises

Adjusted partnership profit or loss for the year ended 31 December 2022.

	Shs.	Shs.	
Sales		206,486,400	W1
Less cost of sales			
Purchases	128,160,000		W2
Less closing stock	(7,440,000)		W3
Cost of sales		(120,720,000)	
Gross profit		85,766,400	
Add Discounts received		1,590,000	
Gross income		87,356,400	
Less allowable expenses			
Discount allowed	1,416,000		
Motor vehicle expenses	1,656,000		
Wages	1,944,000		
Sundry expenses	420,000		
Salaries and wages	4,344,000		
Godown rent	5,400,000		
Repairs and maintenance	5,320,000		
Insurance	903,600		
Interest paid	1,584,000		
Motor vehicle expenses	2,022,000		
General expenses	2,616,000		
Electricity bill	840,000		
Medical expenses	7,560,000		
Capital allowances	11,250,000		W4
		(47,275,600)	
Taxable profit		40,080,800	
Other incomes			
Dividend: Weka Co-operative Society (gross)		21,420,000	
Total taxable Income		61,500,800	

Note: Dividend: Weka Co-operative Society (net) Kshs. 20,400,000 is not qualifying dividend therefore it has been grossed up for further taxation.

Workings

W1-debtors

Date	Details	Shs	Date	Details	Shs
	Sales	206,486,400		Bank	122,400,000
				bank	62,400,000
				cash	10,946,400
			31-Dec-22	Bal c/d	10,740,000
		<u>206,486,400</u>			<u>206,486,400</u>

W2-creditors

Date	Details	Shs	Date	Details	Shs
	bank	118,800,000		purchases	128,160,000
31-Dec-22	bal cd	9,360,000			
		<u>128,160,000</u>			<u>128,160,000</u>

W3-cost of sales

Closing stock 7,440,000

W4-Capital allowances

Delivery van acquired	36,000,000	@25%	9,000,000
Office equipment	22,500,000	@10%	2,250,000
Total			<u>11,250,000</u>

2,(a) (i)

EK Enterprises

Distribution of the profit or loss to the partners and tax thereon

partners	E	K	total
interest on capital	3,360,000	2,400,000	5,760,000
salaries	2,880,000	3,456,000	6,336,000
drawings	4,492,800	2,433,600	6,926,400
share of profit	21,239,200	21,239,200	42,478,400
taxable income	<u>31,972,000</u>	<u>29,528,800</u>	<u>61,500,800</u>

2. (b) SIX challenges faced in the administration of ADR

-Unless the tax payer and the tax collector uses the binding process, settlements and negotiations of the outcome are not binding, a party can still go to court.

-If parties are not cooperative, the process may drag on for a long time.

-The party with the financial muscle can often sway the process in its favour.

-The courts and tribunal rely on past precedents; ADR does not rely on them making guiding of the process cumbersome.

- Expected compromise in ADR means that the tax payer or the tax collector may not get the ideal bargain.
- ADR may be costly as compared to formal process as the Courts of Law are free, but ADR rooms or conferences may have to be hired, in addition to travelling expenses and hiring of experts like accountants and lawyers, the cost of ADR may surpass the formal costs as the parties may after all seek formal resolution method.
- Parties to ADR resolution can still appeal through the formal channels if dissatisfied with ADR's decision making ADR time consuming and costly.

2. (c) Income Tax Act provisions in relation to taxation of collective investment schemes.

S20(1) - collective investment schemes registered with the commissioner are exempt from tax on their incomes except for payment of withholding tax on dividends or interest paid to unit holders who are not tax exempt.

S20(2) All distributions of income, and all payments for redemption of units or sale of shares received by unit holders or shareholders shall be deemed to have been already tax paid.

The sole purpose of the unit trust or collective investment scheme is to carry on investments on behalf of the unit holders or shareholders

After six months of commencement of the unit trust or collective investment scheme no unit holder or shareholder shall own or be capable of holding more than twelve and one half per cent (12½%) of the units or shares in any one unit trust or collective investment scheme it will, within six months of its commencement and thereafter, maintain at least twenty-five unit holders or shareholders

Application for the registration of a unit trust or collective investment scheme shall be made by the manager or trustee of the unit trust or collective investment scheme to the Commissioner in writing and shall be accompanied by two copies of the trust deed and a copy of the license issued under Capital Markets Act, The Commissioner shall, as soon as practicable after considering the application, register the unit trust or collective investment scheme and notify the manager or trustee in writing the year of income in respect of which the registration is to take effect.

Where unit holders or shareholders in any unit trust or collective investment Scheme are exempt persons under the First Schedule to the Act, the manager or Trustee of the unit trust or collective investment scheme shall maintain separate but identifiable account of the funds of such persons.

3. (a) FOUR methods that multinational companies operating in Kenya can use in order to adjust transfer prices for purposes of computing taxable income as provided under the Transfer Pricing Rules (2006).

-Comparable uncontrolled price (CUP) – cost would be adjusted to ensure it was priced at arm's length, adjustments made eliminate material price differences.

-Resale price method – resale price margins must be comparable in order for an arm's length price to be identified. The multinational company must adjust the transaction's cost to account for margin discrepancy.

-Cost plus method – the gross mark-ups of branches need to be adjusted to be comparable with the headquarters'.

-Transactional net margin method – adjustment is needed for the gross profit mark-up to be comparable.

-Transactional profit split method – in which the profits earned in very closely interrelated controlled transactions are split among the related enterprises.

3.(b)(i)

Nalo Ltd.

Adjusted Taxable income

	Shs.	Shs.
Sales		10,652,960
Sales Returns		(34,800)
		<hr/> 10,618,160
less cost of sales		
opening stock	5,184,000	
Purchases	3,469,470	
	<hr/> 8,653,470	
Goods available for sale		
closing stock	(2,475,000)	
		<hr/> (6,178,470)
gross profit		4,439,690
discount received		52,000
		<hr/> 4,491,690
Gross Income		4,491,690
Less Expenses		
Bank charges	29,600	
Salaries and wages	1,240,000	
Rent and rates	152,000	
Electricity	166,000	
Telephone and postage	125,800	
Investment allowances	414,600	
		<hr/> (2,128,000)
Total Expenses		(2,128,000)
Taxable Profit		2,363,690
Rental Income		1,040,000
		<hr/> 3,403,690
Taxable incomes		3,403,690
		<hr/>
Taxed at 30%		
Tax payable		Shs. 1,021,107
		<hr/>

3. (b)(ii) Pay the tax due, then negotiate with Kenya revenue authority to waive penalties and interests.

3. (c) What “digital assets” entail.

Digital assets are contents that are stored electronically and can be bought, sold or traded. They include;

-investments

-content creation (documents, audio, videos, logos, spreadsheets and websites)

4. (a) FIVE possible reasons for the shortfall in tax collection.

-Introduction of tax on gross receipts discouraging investment in business and residential houses as capital allowance is not claimable.

-The tax legislation has broadened in the past few years thus increasing non-compliance of tax payers who are unaware of changes which eventually drive them out of business due to tax penalties and interests.

-Confusion introduced by agricultural sector being devolved, thus being taxed at county level and national level crippling production as well as taxes.

-Confusion in taxing digital transaction, some are exchange of services and goods, others are receipt of royalty from ones contents while others are out rightly owning assets. Clarity must be sought as which

transactions one has to calculate profit or loss, which would be termed as royalties and which one are capital gains.

-The general feeling by Kenyans that they are overtaxed and taxes embezzled by the government encourages tax evasion aided by unscrupulous KRA officials.

4. (b)(i)

KK Realtors

Tax payable under the VAT computation

Date	Details	Dr. Input vat	Cr. Output vat	Vat refundable/(payable)
				0
31-Dec-22	Office block Rent		999,200	(999,200)
	Repairs and maintenance	14,940		(984,260)
	Housing agents fee	49,960		(934,300)
	Security firm	48,000		(886,300)
	Webhosting	6,960		(879,340)
	Audit and assurance fee	138,000		(741,340)
	Telephone and electricity	5,478		(735,862)
	Architect's fee (based in France)	19,110		(716,752)
Total VAT payable				716,752
withholding rental tax payable =10% of 1,248,450				124,845
Total tax liability				841,597

4.(b)(i)

KK Realtors		shs.	withholding tax @ 10%
Rent: Apartment		1,248,450	124,845
	7,244,20		
Rent:Office block	0		
less VAT	<u>(999,200)</u>		
Net Rent		6,245,000	0
			124,845

5. (a) Why investment allowances as tax incentives have not achieved the intended objectives

-Introduction of other taxes on gross income like turnover tax and residential income tax makes investment allowance un-claimable thus it is not an incentive.

-Investment allowance can only be claimable by businesses with huge capital but these businesses have an option of investing in countries that have low cost of production, hence investment allowance is not an incentive.

5. (b) specific and generic tax risks

Generic tax risks are risks that affect all tax payers, while specific tax risks affect particular tax payers or business only.

Generic risks are related to tax control activities such as tax inspection, inflation rates which force governments to increase taxes on goods and services.

Specific risks are related to potential tax errors e.g. foreign currency translation, accounting method change, transfer pricing or valuation allowance.

5.(c)(i)

Johnson Shauri				
Statement of assets and liabilities				
year	2019	2020	2021	2022
	shs.'000'	shs.'000'	shs.'000'	shs.'000'
Leasehold property	11,760	11,760	11,760	11,760
Motor vehicles	5,040	4,720	9,360	10,760
Furniture	864	864	864	864
Computers	620	720	840	720
Personal clothes and effects	60	80	100	120
Inventory	620	572	482	520
Accounts receivable	432	504	408	600
Bank account	240	268	272	286
Loss on sale of investment		(100)		
Mortgage loan	(2,080)	(1,840)	(1,620)	(1,500)
Bank overdraft	(1,288)	(1,400)	(1,210)	(1,115)
Net Assets	16,268	16,148	21,256	23,015
Increase in Net Assets		(120)	5,108	1,759
Add				
Drawings	600	660	726	799
Provision for taxation	360	396	436	479
Ling expenses	800	920	1,058	1,217
Donation to political party		142		
Rent Donation				605
Contingent liability				1,000
Total income for the year		2,118	2,220	4,099
Less Disallowable incomes				
Gifts from relatives			(840)	
Taxable income		2,118	1,380	4,099

5. (c)(ii) **THREE specific actions that a tax practitioner could undertake upon discovery of an irregularity in the client's business.**

-Advise the client to make claim of the overpaid tax having regard to relevant time limits.

-Advise the client to make disclosure of the underpaid tax, pay it and negotiate with KRA to pardon him penalties and interests.

-Consider carefully whether it is appropriate to continue acting in relation to tax matters of the client and if he opts ceasing, inform the client accordingly, in writing.

1.(a) FOUR roles of an arbiter in a tax alternative dispute resolution (ADR) process.

- To impartial and independently guide tax payer and tax collector to resolve their issues.
- To fix the time and venue for arbitration that is convenient to the parties
- To determine the rules for arbitration procedure
- To efficiently resolve the dispute

1.(b)(i)**Sema and Tena****Statement of taxable profit or loss of the partnership for the year ended 31 December 2022**

	Shs.	shs.
Sales (W5)		19,200,000
Less cost of sales (W1)		(10,210,000)
Gross profit		8,990,000
Interest on Withdrawals		18,000
Insurance claim		40,000
Stock withdrawal at cost		280,000
Gross proceeds		9,328,000
<u>Less allowable expenses</u>		
Loan interest	48,000	
Advertising(W3)	480,000	
Salaries and wages (W6)	2,510,000	
Motor vehicle expenses	340,000	

Electricity (W4)	96,000	
Employee welfare costs	300,000	
Investment allowances (W8)	283,700	
Total allowable expenses		(4,057,700)
Taxable profit		5,270,300

1. (b)(ii)

Sema and Tena

Allocation of the profit or loss to the partners for the year ended 31 December 2022

Currency	shs.	shs.	shs.	shs.
Partners	Sema	Tena	Vuna	Total
For the first 8 months				
Stock withdrawals	210,000	70,000		280,000
Cash withdrawals	200,000	233,333		433,333
Interest on capital	48,000	32,000		80,000
Salary	720,000	720,000		1,440,000
Bonus	700,000	700,000		1,400,000
Share of profit	(79,867)	(39,933)		(119,800)
For the last 4 months				
Stock withdrawals				
Cash withdrawals	100,000	116,667		216,667
Interest on capital	24,000	16,000	18,000	58,000
Salary	360,000	360,000		720,000
Bonus				0
Share of profit	254,033	254,033	254,033	762,100
Total	2,536,167	2,462,100	272,033	5,270,300

W1-Inventory

opening stock	260,000	
Purchases	10,300,000	W2
Goods available for sale	10,560,000	
Closing stock	(350,000)	
cost of sales	10,210,000	

W2-Accounts payable

date	details	Shs.	date	details	Shs.
	cash	900,000		bal bd	2,600,000
	Cash	9,000,000		purchases	10,300,000
	bal cd	3,000,000			
		<u>12,900,000</u>			<u>12,900,000</u>

W3-Prepaid advertising

date	details	Shs.	date	details	Shs.
	bal bd	440,000		profit and loss	480,000
	cash	250,000		bal cd	210,000
		<u>690,000</u>			<u>690,000</u>

W4-Outstanding electricity bill

date	details	Shs.	date	details	Shs.
	cash	90,000		bal bd	20,000
	bal cd	26,000		p&l	96,000
		<u>116,000</u>			<u>116,000</u>

W5-Accounts receivable

date	details	Shs.	date	details	Shs.
	bal bd	2,700,000		bank	15,600,000
	sales	19,200,000		cash	2,400,000
		<u>21,900,000</u>		bal cd	3,900,000
					<u>21,900,000</u>

W6-Accrued salaries and wages (excluding partners)

date	details	Shs.	date	details	Shs.
	cash	2,230,000		bal bd	230,000
	bal cd	510,000		P&L	2,510,000
		<u>2,740,000</u>			<u>2,740,000</u>

W7-Accumulated depreciation

date	details	Shs.	date	details	Shs.
				bal bd	440,000
				P&L	260,000
	bal cd	700,000			
		<u>700,000</u>			<u>700,000</u>

W8- capital allowances

Computer software	70,000	@25%	17,500	
Purchase of office equipment	62,000	@10%	6,200	
depreciation for the year			260,000	W7
Total			283,700	

W9- Accrued bonus due to partners

date	details	Shs.	date	details	Shs.
	bal bd	900,000		cash	1,300,000
	bonus for the year	1,400,000		bal cd	1,000,000
		2,300,000			2,300,000

2.(a)

Chris Alexo					Total tax and Penalties to be Waived
Tax, penalties and interest to be waived or paid by Chris Alexo under the VTDP.					
Year	2020	2021	2022	2023	
Income	18,000,000	3,000,000	3,000,000	3,000,000	
Tax	6,000,000	(3,000,000)	(1,500,000)	(1,000,000)	
Penalties	1,500,000		250,000	100,000	
Interest	600,000		100,000	60,000	
Paid					
Total	8,100,000	(3,000,000)	(1,150,000)	(840,000)	3,110,000

2(b)

Rick lenon

Taxable income and tax liability

Basic salary	12,000,000
Travel allowance	360,000
Hardship allowance	1,200,000
Meal allowance	270,000
Total taxable income	13,830,000

Tax thereon

On the first shs.288,000	@ 10%	28,800
On the next shs. 100,000	@ 25%	25,000
On the rest shs.1,3442,000	@ 30%	4,032,600
Gross tax liability		4,086,400

Personal relief

Net tax liability

4,086,400

2(c)(i) THREE objectives of a national tax policy.

- To raise revenue for the provision of public goods and services.
- To fuel growth and development of the economy through fiscal measures.
- To discourage vices and undesirable behaviours in the society for instance curbing smoking and containing drunkenness.
- To reallocate income and wealth in the country.
- To provide employment and maintain a reasonable price level of commodities in the economy.

2(c)(ii) THREE practical challenges that a national tax policy is aimed at addressing.

- Infrastructural challenges which may hinder policy implementation.
- Data quantification and verification
- Human resource challenges
- Supply chain challenges
- Limited awareness
- Inadequate funding
- Ambiguous or inconsistent goals
- Unforeseen circumstances
- Stakeholder resistance

3. (a)(i) “tax health checks”

Tax health check is a methodological approach that is adopted in reviewing financial transactions with an objective of determining and addressing the nature and extent of the exposure of organizations to inherent tax risks.

3. (a)(ii) FOUR reasons why businesses should conduct regular tax health checks.

- To avoid costly penalties as a result of non-compliance with tax legislation.
- Improve financial management as the checks may expose the tax incentives a business is legible to such as capital allowance and tax credits freeing up cash to reinvest in the business.
- To stay compliant with the ever changing tax laws.
- To improve the business reputation as a business that complies with all tax laws is known to transparent and operates ethically.
- To anticipate changes in the business environment and plan accordingly.

3. (b)

Saika Ltd.

Total taxable income and tax payable for the year ended 31 December 2022.

	Shs.		VAT (output)/ Input
Sell of residential houses	86,206,897	W2	(13,793,103)
<u>less cost of sell</u>			
Land	13,140,000	W1	
Material cost	30,000,000	W2	4,800,000

Architectural and surveying fee	1,400,000	W2	224,000
Approval of the construction	400,000	W2	
Professional fees for engineers	3,000,000	W2	480,000
Labour cost	28,800,000	W2	
Interest on 12% ujenzi housing bank loan	6,720,000	W2	
Drainage system and sewerage line	960,000	W2	
Lease of equipment	1,724,138	W2	275,862
Legal fees	960,000	W2	132,414
Valuation fee	1,200,000	W2	165,517
Advertising	1,000,000	W2	137,931
Landscaping	258,621	W2	41,379
Total cost	(89,562,759)		
Taxable loss/vat	(3,355,862)		(7,536,000)

Rental income	10,800,000	W5
Key money	750,000	
Gross income	11,550,000	
Less expenses		
Monthly premium charge	1,800,000	W5
Maintenance expenses	900,000	W5
Advertising costs	280,000	W5
Insurance	120,000	W5
Interest on loan	960,000	W5
Capital allowance	7,320,000	W6
Total expenses	(11,380,000)	
Taxable rental income	170,000	

Saika Ltd.	
Tax payable	
VAT on sale of residential property	7,536,000
corporate tax on rental income	51,000
Total tax	7,587,000

Workings

W1 - Cost of land

land	10,000,000
Legal fees	180,000

stamp duty	1,800,000
brokerage fees	800,000
legal fees	360,000
	<u>13,140,000</u>

W2 - other costs

Material cost	4,350,000	×8	34,800,000
Architectural and surveying fee	1,624,000		1,624,000
approval of the construction	50,000	×8	400,000
Professional fees for engineers	3,480,000		3,480,000
Labour cost	400,000	×8×9	28,800,000
interest on 12% Ujenzi Housing Bank loan			6,720,000
Drainage system and sewerage line	960,000		960,000
lease of equipment	2,000,000		2,000,000
landscaping	300,000		300,000
Legal fees	120,000	×8	960,000
Valuation fee	1,200,000		1,200,000
Advertising	1,000,000		1,000,000

W3 - selling price

selling price	12,500,000	×8	100,000,000
less VAT at 16%			<u>(13,793,103)</u>
			<u>86,206,897</u>

W4 - Interest on loan

12% Ujenzi Housing Bank loan	<u>56,000,000</u>
interest on residential building loan	<u>6,720,000</u>

interest on commercial building loan

12% Ujenzi Housing Bank loan	24,000,000
interest on Commercial building loan	2,880,000
Interest for 3 months	960,000

W - 5 Rent and other expense for commercial building computation

rent	1,200,000	×3×3	10,800,000
Key	1,000,000	÷12×3×3	750,000
monthly premium charge	200,000	×3*3	1,800,000
Maintenance expenses	300,000	×3	900,000
advertising costs	400,000	less	280,000

		120,000	
insurance	480,000	÷12×3	120,000

W6 - capital allowance

Computer software

180,000*3

Installation of CCTV = 540,000

capital allowance @25% 135,000

commercial buildings

commercial buildings 30,000,000 90,000,000

shops 2,200,000 (6,600,000)

gymn and steam bath 1,450,000 (4,350,000)

a swimming pool 2,400,000 (7,200,000)

71,850,000

capital allowance @10% 7,185,000

Total 7,320,000

4.(a) FOUR aspects of compliance with the tax code that constitute the major pain points for the SME sector.

Tax compliance refers to the act of adhering to all tax laws and regulations. Aspects of compliance are;

-Filling all tax returns accurately within the stipulated deadlines.

-Keeping proper records available for scrutiny by tax officers

-Paying all tax due within the stipulated deadline

-Being conversant with tax laws and adhering to them

4(b)

Tusaidiane SACCO

taxable income or loss for the year ended 31 December

	BOSA		FOSA		Total
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	
Interest income:				820,000	820,000
Commission received from Visa Card (FOSA)				80,000	80,000
Foreign exchange gains realised		8,000		8,000	16,000
Other operating income		<u>11,500</u>		<u>11,500</u>	<u>23,000</u>
Gross incomes		19,500		919,500	939,000
Administration and governance expenses			31,600		31,600
Salaries and wages	100,800		67,200		168,000

Interest on deposits:		280,000	280,000
Sales and marketing costs	32,280	21,520	53,800
Insurance expense	15,000	10,000	25,000
Allowance for doubtful debts		120,000	120,000
Repairs and maintenance	4,800	3,200	8,000
Audit and accounting fee	3,360	2,240	5,600
Motor vehicle running expenses	780	520	1,300
Rent and rates	50	34	84
Interest on loans (BOSA and FOSA)	7,524	5,016	12,540
capital allowances	6,627	4,418	11,045
Total Expenses	(171,221)	(545,748)	(716,969)
Taxable income or loss	(151,721)	373,752	222,031

other sources of income

Rental income (net of allowable expenses)			30,000
Dividends from Cooperative Bank	78,375	withholding tax is final	
Capital gains	9,000	withholding tax is final	
Total taxable income			252,031

tax liability

taxed at 30% of total taxable income above	75,609
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W1 - capital allowances

Toyota Van	2,000	@25%	500
Computers and printers	25,500	@25%	6,375
Software	12,800	@25%	3,200
Furniture and fittings	9,700	@10%	970
			11,045

4.(c)

Venture Miners Ltd

Taxable income or loss and tax payable for the year ended 31 December 2023

Sh."000" Sh."000" Sh."000" Sh."000"

	A	B	C	Total
Sales	2,000,000	2,500,000		4,500,000
Disposal of interest (gross) 54% of A	5,400,000			5,400,000
Gross income	7,400,000	2,500,000	0	9,900,000

Development expenditure	280,000	320,000	190,000	600,000
Cost of disposal of interest	1,200,000			1,200,000
Exploration expenditure	42,000	35,000	20,000	77,000
Loose tools	90,000		76,000	90,000
Decommissioning expenditure	80,500		33,200	80,500
Decommissioning refund from account capital allowance on Machinery for exploration operations	77,450	66,300		66,300
		104,200	55,050	181,650
Total expenditure	(1,769,950)	(525,500)	(374,250)	(2,295,450)
Taxable income	5,630,050	1,974,500	(374,250)	7,604,550

taxed as @37.5%	2,851,706
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5. (a) **FOUR** reasons that may have contributed to the Revenue Authority being unable to achieve the strategic objectives.

-Economic slowdowns - less profits and lower income hence low taxes. Fluctuations in global commodity prices affect key export sectors.

-Widespread tax evasion - inadequate enforcement mechanisms and limited capacity to monitor tax compliance contribute to tax evasion.

-A large informal sector - it is difficult to track and tax income from informal sector

-High levels of tax exemptions - tax exemptions granted to persons and specific industries reduce tax revenue.

-Volatile global markets conditions

-Poor enforcement mechanisms which hinder the collection of taxes from businesses and individuals - corruption within the tax collection system curtail revenue collection and tax compliance

-Complex tax system - this poses challenges for businessmen and individuals leading to errors, non-compliance and outright tax evasion.

5. (b)(i)

Miki Traders Ltd.

VAT payable or refundable for the month of December 2022.

Date	details	Dr. input(shs.)	Cr. Output(shs)	VAT (payable)/ Refundable
	Sales		579,310	(579,310)
	Sales-export		0	(579,310)

Purchases	314,483		(264,828)
Purchases-import	517,241		252,414
Sales returns	49,655		302,069
Purchase returns		25,655	276,414
Understatements: sales		74,483	201,931
Understatements: purchases	39,724		241,655
Office rent	33,103		274,759
Hire of taxis for staff	3,972		278,731
Customer satisfaction survey by a management consultant	22,759		301,490
Renovation of building	107,586		409,076
Donations		20,690	388,386
	<u>1,088,524</u>	<u>700,138</u>	

VAT refundable	388,386
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5.(b)(i)

Miki traders is allowed to carry forward the VAT refundable and offset it off against future output tax.

VAT on purchase of capital items is not claimable but would be included on the cost of items and the business can claim capital allowances.

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1. (a) the application of each of the following in tax disputes settlement:

Tax appeals tribunal.

- The tax payer is required to notify the commissioner of his intention to appeal within 30 days from the date of service or non-agreed amended assessment or the confirming notice.
- Copies of memorandum of appeal and statement of facts.
- Notice of the intention to appeal.

High Court.

- If a tax payer or the commissioner disputes the decision of the appeals tribunal, the affected party can appeal to the High Court. The appeal to courts must only be on matters of:
 - a) Law
 - b) A mix of law and fact

Court of Appeal.

- If a tax payer or the commissioner disputes the decision of the High Court, the affected party can appeal to the Court of Appeal. The appeal to courts must only be on matters of:
 - a) Law
 - b) A mix of law and fact

Out of Court settlement.

This is in accordance with article 159(2) (c) of the constitution which provides that courts and tribunals shall promote alternative forms of dispute resolution, mediation, arbitration and traditional dispute resolution mechanism. Kenya revenue authority spell out procedures a tax payer who would like to use this method should follow.

1. (b) TWO factors that the Tribunal might consider in ruling in favour of Axe Ltd are:

-Destination principle under the OECD guidelines which provides that the jurisdiction where a customer is located has the taxing rights over internationally traded services.

- Export of services is zero rated

-Past court cases on export of services

In Google **Kenya Ltd Vs. Commissioner of Domestic Taxes (2021)**, Google Kenya was offering marketing and support services to Google Ireland and held to the position that these were exported services thus they were Zero rated. Google Kenya additionally argued that Kenyan customers contract directly with Google Ireland for the products. Google Kenya contended that the services are related to non-resident entities, and were exported according to VAT's zero rates. Kenya Revenue Authority on the other hand claimed that Research and Developments costs, Marketing and support services were consumed in Kenya because the audiences for the advertisements were based in Kenya.

The Tax Tribunal ruled that the marketing support services that Google Kenya provided were consumed outside Kenya by the two related non-resident entities, hence constituting exported services which were zero-rated for VAT purposes. The Tribunal relied on the destination principle under the OECD guidelines which provides that the jurisdiction where a customer is located has the taxing rights over internationally traded services. Similar rulings were made in **Panalpina Airflo Limited Vs. Kenya Revenue Authority (2018)** and **Coca Cola Central East And West Africa Vs. Kenya Revenue Authority (2020)**.

1. (c) **TWO** ethical principles governing the services provided by tax practitioners.

-**Integrity.** Tax practitioners should be straightforward, fair, truthful and honest in all professional and business relationship.

Objectivity. Tax practitioners should be unbiased. Therefore, they should not allow undue influence and conflicts of interest to override their professional decisions.

-**Professional competence and due care.** Have duty to maintain their professional knowledge and skill at levels that clients receive competent services based on current developments in practice and legislation.

-**Confidentiality**-respect information acquired as a result of their work and should not disclose it to third parties without authority or unless there is a legal or professional right or duty to disclose. The information should not be used to advantage of the tax practitioner.

2.(a)(i)

Mawingu Ltd.

Adjusted taxable profit or loss for the year ended 31 December 2021

	Sh."000	Sh."000
Income from cargo freight: Country A/Country B		567,720
Income from passengers' freight: Country A/Country C		765,000
Income from passengers' freight: Country C/Country A		1,001,880
Income from cargo loaded into aircraft on other routes		630,000
Gross income		2,964,600
Salaries and other costs	1,413,000	
Investment allowances	244,800	
Compensation costs for stolen baggage	23,600	
Additional Investment allowances	58,500	
Total allowable expenditure		(1,739,900)

Taxable Income

1,224,700

2.(a)(ii)

Mawingu Ltd.

Shs.

tax payable (or refundable)

Taxable Income

1,224,700

corporate tax at 30%

367,410

Workings

W1 - capital allowances

Purchase of twin engines 117,000 @50% 58,500

2.(b)

ZamZam Company Ltd.

Sale of property

	Sh Option 1	Sh Option 2
Sales	2,000,000	2,680,000
Cost of property		
Deposit	400,000	400,000
Monthly instalments	960,000	1,440,000
Mortgage interest	384,000	576,000
Total cost	(1,744,000)	(2,416,000)
Capital gain	256,000	264,000
Capital gain tax at 5%	12,800	13,200

Note: cost of valuation Sh.54, 000 and legal fees Sh.72,000 are ignored since capital gain is computed on gross proceeds. The tax payer is not allowed to deduct allowable expenses on gross capital gain.

2. (c) FOUR aspects that may constitute obstruction.

- Using physical force or threats to prevent investigators carrying on their work.
- Intimidating or attempting to intimidate investigators
- Giving false or misleading information to investigators.
- Interfering with the work of investigators like putting off power when they are retrieving electronic files.
- Promises or offer benefits to investigators to compromise their investigation.
- Out rightly refusing to give investigators the required documents or giving them piecemeal.

3.(a)(i)

A, B and C partnership

A statement of adjusted taxable profit or loss for the for the year ended 31 December 2021

Sales		8,078,400
Less cost of sales		
Opening stock	252,000	
Purchases	4,200,000	
Stock available for sale	4,452,000	
Less closing stock	(436,800)	
Cost of sales		(4,015,200)
Gross profit		4,063,200
Discount received		124,000
Gross income		4,187,200
Less allowable Expenses		
Salaries and wages	302,400	
Legal and professional fees	1,227,800	
Rent and rates	168,000	
Insurance	65,000	
Sundry expenses	42,400	
Specific bad debts	32,000	
Investment allowances	1,041,500	
Total allowable expenses		(2,879,100)
Taxable income		1,308,100

Workings

Prepaid insurance

Date	Details	Shs.	Date	Details	Shs.
	bal Bd	8,000		P&L	65,000
	cash	70,000		bal cd	13,000
	78,000			78,000	

Accrued sundry expenses

Date	Details	Shs.	Date	Details	Shs.
	cash	50,400		bal Bd	10,000
	bal cd	2,000		P&L	42,400
	52,400			52,400	

Investment allowances

Delivery lorry	896,000	@25	224,000
Computers	150,000	@25	37,500
Saloon car	3,120,000	@25	780,000
			1,041,500

3.(a)(ii)

A, B and C partnership				
Taxable income for each partner				
Partners	A	B	C	Total
Interest on capital-8 Months	168,000	140,000	126,000	434,000
Interest on drawings-8months	4,480	3,733	4,480	12,693
Salaries- 8 months	112,000	112,000	84,000	308,000
Share of profit-8 Months	286,743	286,743	143,371	716,857
Interest on capital-8 Months	84,000	70,000		154,000
Interest on drawings-8months	2,240	1,867		4,107
Salaries- 8 months	56,000	56,000		112,000
Share of profit-8 Months	(216,778)	(216,778)		(433,557)
Taxable income	496,684	453,564	357,851	1,308,100

3. (b) FOUR circumstances under which The Commissioner is empowered to cancel or terminate the license of any person acting as a tax agent

- A tax return prepared and filled by a tax agent is false
- The tax agent ceases to satisfy the conditions for licensing as a tax agent
- The tax agent stops performing his duties as a tax agent and informs KRA in writing
- The tax agent notifies KRA that he wants to stop performing duties as a tax agent.

4. (a) THREE conditions for qualifying Sub-Sahara African countries must meet in order to qualify and be eligible for AGOA consideration

- Establish or make continual progress toward establishing a market based economy.
- Follow or abide by the rule of law and the right to due process
- Encourage political pluralism

4. (b)(i)

Mijengo Contractors Ltd.
total taxable income for the year ended 31 December 2021

	Shs.	
Revenue realized to date	43,400,000	W1
cost of sales	(13,450,000)	W1
Gross profit	29,950,000	
add material sold	300,000	W1
Gross income	30,250,000	

Less allowable expenses

Office salaries	850,000
Pension contributions	236,000
Subscriptions due to contractors association	35,680
Interest on overdue loan	22,000
Legal fee on defense against claim of breach of	80,000

contract		
Rent for the office premises	614,000	
Utilities	245,600	
Investment allowances	<u>72,700</u>	W2
Total allowable Expenses		<u>(2,155,980)</u>
Taxable Profit		28,094,020
Add Dividend income from Lima co-operative society		<u>360,000</u>
Taxable Income		<u><u>28,454,020</u></u>

Workings

W1 - Direct cost of the contracts and percentage completion computation

	Contract X	Contract Y	Total
Materials	2,500,000	1,800,000	4,300,000
Direct labour	2,000,000	3,600,000	5,600,000
Consultancy fee	300,000	260,000	560,000
Subcontracting fee	1,420,000	2,030,000	3,450,000
Other direct costs	<u>34,500</u>	<u>45,500</u>	<u>80,000</u>
Total material cost at site	6,254,500	7,735,500	13,990,000
less material at site/sold	<u>(240,000)</u>	<u>(300,000)</u>	<u>(540,000)</u>
Total material cost consumed	6,014,500	7,435,500	13,450,000
Cost to complete the contracts	9,021,750	11,153,250	20,175,000
% completion to date	67	67	67

Gross Contract Price	22,500,000	20,900,000	43,400,000
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Revenue realised = gross contract price by percentage completion	15,000,000	13,933,333	28,933,333
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W2 - capital allowances

Billboard cost and billboard erection cost	202,000	@10%	20,200
Purchase of computers and software	210,000	@25%	<u>52,500</u>
			<u><u>72,700</u></u>

4.(b)(ii)

Mijengo Contractors Ltd.

Tax payable	
Taxable income	<u><u>28,454,020</u></u>
Corporate tax at 30%	8,536,206
Less withholding dividend on Lima cooperative society's dividend	<u>(36,000)</u>
Tax payable	<u><u>8,500,206</u></u>

5.(a)

tax lost by the Revenue Authority

Zamon XL

Zamon XL

Sales at transfer price/market value	15,000,000	30,000,000
Cost of sales	(10,000,000)	(10,000,000)
taxable profits	<u>5,000,000</u>	<u>20,000,000</u>
lost revenue		15,000,000
corporate tax thereon at 30%		4,500,000
Withholding tax thereon at 10%		<u>1,500,000</u>
Total tax revenue lost		<u>6,000,000</u>

5.(b)

-Contractual terms of the transaction-the terms may be found in communications other than written contracts. Terms spell out responsibilities, risks and anticipated outcomes of the contract.

-Functional analysis-focuses on what parties actually do and the capabilities they would provide eg decision making, strategy and risks.

-Characteristics of property or services-e.g. tangible property, nature and extent of services and intangibles (license, patent, trademark or know-how)

-Economic circumstances-includes geographical location, size of market, extent of competition in the market and the relative competitive positions of buyers and sellers, availability of substitute goods and services, levels of supply and demand, consumer purchasing power, nature of government regulation of the market, costs of production, including the costs of land, labour and capital, transport costs, level of the market, date and time of transactions.

-Business strategies-include; innovation and new product development, degree of diversification, risk aversion, assessment of political changes, input of existing and planned labour laws, duration of arrangements and other factors that affect daily conduct of businesses'

5.(c)(i)

Input tax claimable.

Shs.1,442,069

5.(c)(ii)

Output tax

Shs.1,211,586

5.(c)(iii)

VAT payable or refundable

Shs.263,586

Workings.

Popote Ltd.

Input tax claimable

Date	Details	Dr. input(shs)	Cr.output(shs)	refund/(Payable)
	Sales at standard rate		1,178,483	0
	Sales at zero rate		0	(1,178,483)

Exempt sales		0	(1,178,483)
Purchases at standard rate	786,207		(1,178,483)
Raw material	258,621		(392,276)
Purchases at zero rate	0		(133,655)
Rent for factory building	165,517		(133,655)
Audit and accountancy	99,310		31,862
Printing and stationery	132,414		131,172
bad debts		33,103	263,586
Total	1,442,069	1,211,586	263,586

CPA ADVANCED LEVEL: ADVANCED TAXATION. Tuesday: 2 August 2022

1.(a) “tax health checks” and “tax audits”

Tax health check is a methodological approach that is adopted in reviewing financial transactions with an objective of determining and addressing the nature and extent of the exposure of organizations to inherent tax risks. Tax health checks are carried out by the business owner to: avoid costly penalties as a result of non-compliance with tax legislation, improve financial management as the checks may expose the tax incentives a business is eligible to such as capital allowance and tax credits freeing up cash to reinvest in the business, to stay compliant with the ever changing tax laws, to improve the business reputation as a business that complies with all tax laws is known to transparent and operates ethically and to anticipate changes in the business environment and plan accordingly.

Tax audits on the other hand are carried out by Kenya revenue authority. They are formal investigations of financial information of a business to verify if a business has complied with tax laws, paid taxes and filed the required returns. They can be triggered by incomplete reporting, mistakes on tax returns, unusual expenses reducing taxable income, money in foreign banks and cash-based or cash focused businesses.

1. (b) In one of the recent tax cases decided by the Tax Appeals Tribunal, the Tribunal allowed an application for extension to file an appeal out of time.

A summary of the case facts was as follows:

1. The taxpayer missed on the statutory deadline for filing the Notice of Appeal and Memorandum of Appeal due to factors beyond their control.

2. The revenue authority countered that the objection decision was issued in time via the email provided on the iTax platform and that they were not under any obligation to follow up with the taxpayer on the receipt of the email.

3. In a rejoinder, the taxpayer stated that they were unaware and did not find any email and further that they were unaware of the existence of the Objection Decision until later when applying for a tax compliance certificate.

Four factors that the Tax Appeals Tribunal might have considered in arriving at the decision above are:

-It is reasonable the tax payer may not have received objection decision since most tax payers use cyber personnel to file tax returns and they not own the emails used to file returns.

-Revenue collection is a major goal to KRA and at least they should have notified the tax payer through short message service or phone call of an objection.

-An objection is so important that it should not be sent silently through the email, the law recognized objection in writing, which meant, a letter should be sent to the tax payer.

-The law recognizes date of service of an objection in letter form. The date of service through emails is yet to be recognized.

1. (c)Tax treaties represent an important aspect of the international tax rules of many countries. Experts estimate that over 3,000 bilateral income tax treaties are currently in effect, and the number is growing. Tax treaties are agreements between countries to settle tax issues such double taxation and tax evasion. Objectives of international tax treaties are;

-To prevent double taxation.

-To encourage cross border trading by eliminating tax barriers

- And help address tax evasion

2. (a)(i)

Bale Ltd.

Combined adjusted taxable profit or loss for the year ended 31 december 2021

	Head office Shs.	Branch Shs.	Consolidated Shs.
Net profit	2,310,000	4,027,000	6,337,000
Add: non allowable expenses and ommitted taxable incomes			
Preliminaries expenses	100,000	30,000	130,000
Goodwill written off	20,000	0	20,000
Depreciation	180,000	70,000	250,000
Interest on overdue tax	80,000	0	80,000
Donations	100,000	70,000	170,000
Purchase of a lorry	3,200,000	0	3,200,000
Understated goods	66,667		66,667
Provision for leave	80,000	30,000	110,000
Overstated rent, rates and insurance		66,000	66,000
Provision for staff gratuity	800,000	500,000	1,300,000
Overstated loan interest	72,000		72,000
Total	4,698,667	766,000	5,464,667
Taxable profit before allowable deductions	11,707,333	5,559,000	17,266,333
Less specified sources of incomes and allowable expenses omitted			
Gain on shares sold	30,000		30,000

Gain on sale of land and building		600,000	600,000
Interest income: lex bank	180,000		180,000
Bonus shares	120,000		120,000
Interest income: beta microfinance	200,000		200,000
Overstated insurance recovery	9,000	2,700	11,700
Capital allowance	832,500		832,500
Total deductions	1,371,500	602,700	1,974,200
Taxable profit	10,335,833	4,956,300	15,292,133

2. (b)(i) roles of a tax agent in relation to the ADR process.

-Providing all tax returns he prepared for the tax in dispute.

-Availing or documents required like notices of the objection

-Producing information on any business he transacted with the commissioner of tax on behalf of the tax payer.

-To confirm the authenticity of documents before an alternative dispute resolution meeting.

2. (b)(ii) circumstances under which the Commissioner may cancel the license of a tax agent.

-Where a tax return prepared and filed by a tax agent is false

-Where the tax agent ceases to meet the conditions required to license a tax agent.

-Where the agent stops performing his duties as an agent and notifies KRA in writing.

-Where the agent notifies KRA that he wants to stop performing duties as a tax agent.

3.(a)

Pete Masa

Gross Tax liability on kenyan and Uk income in kenya	Kshs.	PAYE
Employment income-UK (sh.120×30,000)	3,600,000	504,000
Employment income-Kenya	1,960,000	384,000
Furniture benefit (2% of 340,000×12)	81,600	
House benefit (15% of 2,041,600)	306,240	
Total employment income	5,947,840	
Add other incomes		
Consultancy fees	720,000	
Royalties (sh.95,000×100÷95)	100,000	
Taxable income	6,767,840	
Taxed thereon		
The first shs.288000 @ 10%	28,800	
The next Shs.100000 @25%	25,000	
The rest Shs.6,379,840 @30%	1,913,952	
Gross tax liability	1,967,752	

Pete Masa

Gross Tax liability on kenyan income only	Kshs.	PAYE
Employment income-Kenya	1,960,000	384,000
Furniture benefit	81,600	
House benefit	306,240	
Consultancy fees	720,000	
Royalties	100,000	
Taxable income	3,067,840	
<u>Taxed thereon</u>		
The first shs.288000 @ 10%	28,800	
The next Shs.100000 @25%	25,000	
The rest Shs.6,379,840 @30%	803,952	
Gross tax liability	857,752	

Tax on UK salary in Kenya

Gross Tax liability on kenyan and Uk income in kenya	1,967,752
Less Gross Tax liability on kenyan income only	857,752
	<u>1,110,000</u>

Double tax relief is the lower of

tax on UK salary in Kenya	1,110,000
Actual tax in UK	504,000

Pete masa

Tax payable

Actual tax in Kenya	857,752
Actual tax in Uk	504,000
Less double tax relief	(504,000)
Less PAYE	(384,000)
Less Personal relief	(28,800)
Tax payable	444,952

3. (b) four measures that a tax revenue authority might adopt to reduce tax gaps or revenue leakages in taxation of the digital economy.

- Working on the double taxation agreements
- Defining clearly digital assets
- Requiring netizen to enter into agreements using PIN numbers
- Requiring money transfer facility like PayPal to disclose the remitter of money.

3. (c)(i) Tax implications of ; two or more entities enter into a joint venture agreement or partnership

-All the entities must be tax compliant.

-Each entity would account for its profit separately.

-If the entities are individual businesses, the profits would be distributed to individuals and taxed on individuals

-The partnership must register for PIN certificate with KRA.

3. (c)(ii) tax implications of ; shareholders are wholly or partly paid in cash for forfeiting their shares in a cessation of business

Capital gains on disposal of shares would be taxed. Any other distribution other than their shareholding would be dividend and would be taxed and prevailing withholding tax.

3. (d) possible tax implications of transferring or selling a subsidiary to another subsidiary where both belong to the same parent company.

-Transfer pricing issues

-Non-taxable dividends

4(a)(i)

Riziki Insurance Company Ltd.

Taxable income or loss for the year ended 31 December 2021.

	Shs.	Shs.	Shs.
	Motor vehicle	Fire	Total
Gross premiums received from direct clients	3,520,000	2,590,000	6,110,000
Commission on reinsurance ceded:	700,000	300,000	1,000,000
Unearned premiums Realised	1,984,000	1,205,000	3,189,000
Gross earnings	6,204,000	4,095,000	10,299,000

Less Expenses

Directors' fees			495,000
Reinsurance premiums paid:	400,000	150,000	550,000
Claims paid:	2,420,000	1,750,000	4,170,000
Sundry expenses on motor vehicle claims	220,000		220,000
Management expenses:	450,000	380,000	830,000
Investment allowances			1,200,000
Investment managers			750,000
Total allowable expenses	3,490,000	2,280,000	7,720,000

Taxable profit	2,714,000	1,815,000	2,579,000
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Add investment income	4,150,500
Less Investment allowances	(1,200,000)
Taxable income	<u>5,529,500</u>

4(a)(ii)

Riziki Insurance Company Ltd.

Tax payable	shs.
Taxable income	<u>5,529,500</u>
Taxed at 30%	<u>1,658,850</u>

Workings

Claims outstanding

DETAILS	shs.	shs.		shs.	shs.
				Motor vehicle	Fire
cash	2,770,000	2,110,000	bal b/d	1,100,000	840,000
			P&L	2,420,000	1,750,000
bal c/d	750,000	480,000			
	<u>3,520,000</u>	<u>2,590,000</u>		<u>3,520,000</u>	<u>2,590,000</u>

Unearned premiums

DETAILS	shs.	shs.		shs.	shs.
				Motor vehicle	Fire
P&L	1,984,000	1,205,000	bal b/d	4,800,000	2,500,000
bal c/d	2,816,000	1,295,000			
	<u>4,800,000</u>	<u>2,500,000</u>		<u>4,800,000</u>	<u>2,500,000</u>

Gross premiums received

DETAILS	shs.	shs.		shs.	shs.
				Motor vehicle	Fire
Premiums returned	800,000	700,000	direct clients	3,000,000	2,500,000
P&L	4,200,000	3,000,000	agents:	2,000,000	1,200,000
	<u>5,000,000</u>	<u>3,700,000</u>		<u>5,000,000</u>	<u>3,700,000</u>

4(b)(i)

Zawadi Associates

VAT payable by (or refundable to) for the month of November 2021.

Date	Details	Dr.VAT refundable	Cr. VAT payable	VAT (payable)/or refundable
25-Oct-21	Audit services to XL Supermarkets		96,552	(96,552)
3-Nov-21	Training services to Kyle Securities		33,103	(129,655)
5-Nov-21	Industrial training license	4,138		(125,517)
5-Nov-21	Legal fees	49,655		(75,862)
5-Nov-21	Rent	24,828		(51,034)
5-Nov-21	Accountancy services: Watoto children's home		82,759	(133,793)
9-Nov-21	Debt collection services to Zuwela computers		113,103	(246,897)
10-Nov-21	Strategic Plan development: Bazo (Rwanda) Ltd.		296,552	(543,448)
10-Nov-21	Electricity bill	20,690		(522,759)
13-Nov-21	Management consultancy: Sylok Investments		198,621	(721,379)
18-Nov-21	Internal controls reviewed: Lema Ltd		132,414	(853,793)
20-Nov-21	Financial consultancy to W Ltd.		165,517	(1,019,310)
30-Nov-21	Management consultancy: Sylok Investments	198,621		(820,690)
30-Nov-21	Fuel	12,414		(808,276)

VAT payable =Shs. 808,276

4(b)(i) the point would be the destination where the services are offered .

5.(a) four limitations of tax holidays in developing countries.

- Only investors who would have made a profit even without tax holidays benefit from tax holidays casting doubt on it as an incentive.
- Tax holidays provide a strong incentive for tax avoidance as taxed enterprises can into economic relationships with exempt ones.
- Tax holiday is prone to abuse by investors through creativity may close and restart the same projects under a different name.
- Tax holidays attract short-term projects that are typically not beneficial to the economy.
- The revenue cost of tax holiday to the budget is seldom transparent, unless firms enjoying the holiday are compelled to file tax returns.

5.(b) factors that might have led to achievement of tax agents

- Having implemented administrative measures like curbing corruption.
- Having put in place tax policy reforms by widening the tax base and tapping new revenue streams
- Computerizing the tax system and filling returns online which has greatly reduced the cost of tax collection
- Issuance of tax compliance certificate has encouraged firms to be tax compliant in order to boost their reputation.

5.(c)

John malih

Taxable income for the four years ended 31 December 2018, 2019, 2020 and 2021.

Shs'000' Shs'000' Shs'000' Shs'000' Shs'000'

Years	2018	2018	2019	2020	2021
Business premises	144,000	160,000	172,000	152,000	160,000
Plant and machinery	68,000	72,000	87,000	82,000	92,000
Motor vehicles (commercial)	22,000	24,000	24,000	26,000	24,000
Private residence	16,400	32,400	32,400	32,400	32,400
Inventory	9,000	11,200	16,200	22,000	14,800
Trade receivables	7,690	8,630	8,600	7,800	8,200
Cash	7,400	9,600	7,800	8,260	8,840
Mortgage loan	(7,800)	(7,800)	(7,800)	(7,800)	(7,800)
Bank loan	(22,400)	(21,800)	(19,400)	(7,900)	(18,900)
Loan from a friend	(1,580)	(1,320)	(1,180)	(1,690)	(1,020)
Trade payables	(14,900)	(19,200)	(20,400)	(18,100)	(15,200)
Net assets	227,810	267,710	299,220	294,970	297,320
Increase in Net Assets		39,900	31,510	(4,250)	2,350
Add personal expenses and omitted incomes					
Personal expenses		162,400	296,000	178,000	340,000
Income for the year		202,300	327,510	173,750	342,350
Less non-taxable incomes and allowable expenses					
Sale of Motor vehicle					(2,600)
Mortgage interest		(300)	(300)	(300)	(300)
Taxable income		202,000	327,210	173,450	339,450

CPA ADVANCED LEVEL: ADVANCED TAXATION. Tuesday: 5 April 2022

1.(a) Ale Limited
To Kenya Revenue Authority

Subject: Report Ale Limited's Argument that Interest revenue should not be recognized.

I refer to the arguments of Ale Ltd that the Kenya Revenue Authority exceeded its powers and has no authority to demand withholding tax on interest due to its contractor. The bases of contending the withholding tax according to Ale Ltd are tabulated below alongside tax provision they contradict.

Ale Ltd arguments	What tax laws stipulate.
1. The term paid can only mean delivery of money and discharge of settlement.	<p>-Interest is brought to taxation when;-</p> <p>a) It has been credited to ones account.</p> <p>b) It has matured.</p> <p>c) It has been paid out.</p> <p>-point (a) and (b) do not involve delivery of money and discharge of settlement.</p>

2. Ale Ltd never settled contractual fee or interest even though it was recognized in the books.	Recognizing interest was an intimation it had matured. Ale Could not benefit from having interest expensed to reduce its tax liability and deny that its contractor was not accessible to it.
3. Payment is a necessary prerequisite for withholding tax to apply	Payment is not a pre-requisite, income tax recognizes income and expenses for tax purposes when they have accrued and not when they have been received or paid. In fact VAT tax payers have to pay for it even before being paid by Clients. Employees have to pay tax on remuneration earned irrespective of when they would be paid. The same applies to interest that, once it has matured, it should be paid.
4. Settlement of an obligation may be through receipt of cash, cheque or other mode of settlement or discharge. An accrual is therefore not discharge of debt.	The argument is self contradictory in that Ale Ltd has recognized the interest in its books on accrual basis and claimed it as an expense. Taxation is in fact on accrual basis and tax is paid on revenue that has been recognized irrespective of when the business receives actual cash.

Conclusion:

The Kenya revenue authority is therefore justified to demand that Ale Ltd pays withholding tax on interest recognized in its books. In Kenya Revenue Authority Vs. Republic (Exparte Fintel Ltd) (2019), Fintel Ltd affianced China Jiangsu International Economic Technical Co-operation the construction of a rental building on April 21, 2009. Fintel would pay contractual fees to the Chinese company. The payment was not made in time and thus was accounted for as a liability in their financial statements. KRA made a claim of Kshs.4,787,257 as withholding tax on interest accrued. Fintel challenged the claim and the High Court disallowed KRA's claim. KRA appealed and it was held, withholding tax is payable on the interest on contractual fee for late payment of contractual fee. Interest income may also arise in the following cases .

Abc Certified Public Accountants

1.(b)

Sambamba Sports club

Taxable income for the year ended 31st December 2021

Subscriptions	2,382,000
Entrance fee	600,000
Dinner dance	723,000
Beverage sales	657,000
Investment income	2,400,000
Gross income	6,762,000

Salaries and wages	322,000
Repairs and maintenance	124,000
Cost of beverage sales	475,000
Office expense	415,000
Printing and stationery	168,000

Dinner dance expenses	315,000	
Transport	248,000	
Fee to investment managers	1,100,000	
Investment allowances	186,000	
Total allowable expenses		(3,353,000)
Taxable profit		3,409,000
Dividend from Weco cooperative Society		884,000
Total allowable income		4,293,000

Workings

W1 - subscriptions			
P&L	2,382,000		
refund	45,000		
write off	288,000	bank	2,500,000
bal c/d	85,000	bal c/d	300,000
	<u>2,800,000</u>		<u>2,800,000</u>

W2 - Beverage cost of Sales	
Stock of beverages	162,000
Purchase of beverages	<u>497,000</u>
	659,000
Closing stock	<u>(184,000)</u>
	<u>475,000</u>

W3 - salaries and wages for the year	
Salaries and wages	254,000
Accrued salaries	<u>68,000</u>
Salaries and wages for the year	<u>322,000</u>

W4 – Investment allowances	
New equipment	930,000
Furniture	240,000
Equipment	690,000
	<u>186,000</u>

2.(a) factors to consider when developing mitigation strategies for taxation risks

- Nature of field or geographic location, employees and their needs.
- Quantifying the level of risk, involves measures, processes and controls to reduce the impact of risk
- Ranking quantified risks in terms of severity
- Monitoring risks as the change in severity or relevance to the firm.

-Implementing and monitoring progress. Reevaluating the plans effectiveness in identifying risks and improving as needed.

2.(b)(i)

Amua and Beba

Schedule of Profit and loss for the year ended 31 december 2021

	Partnership	ABC Ltd.	total
Sales	13,500,000	13,500,000	27,000,000
Less cost of sales	(10,800,000)	(10,800,000)	(21,600,000)
Gross profit	2,700,000	2,700,000	5,400,000

Less Expenses

Salaries and wages	541,500	541,500	1,083,000
Electricity and telephone	194,700	194,700	389,400
Repairs and maintenance	147,200	147,200	294,400
General insurance	235,500	235,500	471,000
Debenture interest		150,360	150,360
Director's fee		507,720	507,720
Legal expenses	255,120	255,120	510,240
Medical contribution for partners and directors	325,920	325,920	651,840
Rent and rates	157,980	157,980	315,960
Motor vehicle running expense	250,380	250,380	500,760
Printing and stationery	16,260	16,260	32,520
Investment allowances	279,600	279,600	559,200

Total allowable expenses (2,404,160) (3,062,240) (5,466,400)

Taxable profit/loss 295,840 (362,240) (66,400)

2.(b)(ii)

ABC Ltd

Taxable loss	(362,240)
taxed At 30%	
Tax refundable	(108,672)

2.(b)(iii)

Amua, Beba and Chanda

Distribution of Profit for the year ended 31 december 2021

currency	shs.	shs.	shs.	shs.
Partners	Amua	Beba	Chanda	Total
Interest on capital-first 3months	30,000	30,000		60,000
drawings-first three months	49,500	50,700		100,200

Salaries -first 3months	101,544	101,544		203,088
share of profit-first three months	(107,684)	(107,684)		(215,368)
Interest on capital-next 3months	30,000	30,000	30,000	90,000
drawings-next three months	49,500	50,700	65,400	165,600
Salaries -next months	101,544	101,544	101,544	304,632
share of profit-next three months	(137,437)	(137,437)	(137,437)	(412,312)
Taxable Income	116,967	119,367	59,507	295,840

3.(a) Factors to consider when considering the appropriate method for transfer pricing

- Legal requirements-different countries have different rules and standards for transfer pricing and some require specific methods or documentation.
- Functional analysis-systematic examination of functions performed, asset used and risks assumed by each entity in relation to the transaction. Helps to identify value drivers and the economic contribution of each entity.
- Available data-data on comparable transactions, products, services or companies in the market.
- Simplicity and consistency-choose a method that is easy to understand, apply and monitor,
- Business strategy and objectives-pricing should align with the overall goals and vision of the group, and should support the operational and financial performance of related entities.
- Flexibility and adaptability-pricing should accommodate changes in internal and external environment of the group and related entities.

3.(b)

Bora Ltd	
sales	4,000,000
expenses	(40,000)
arm's length price to ceda ltd	<u>3,960,000</u>

3.(c)(i)

Petro ltd	
Profit as reported	143,600,000
Add back non-allowable expenses	
Legal costs for title deeds	562,500
Dry hole contributions	448,000
Drilling and development costs	942,600
Capital losses	192,800
Memorandum of understanding credit	2,840,000
Non productive rent	2,374,800
Customs duty on plant and machinery	672,300

Purchase of asset for offshore operations	7,840,000	
Provision for restoration of wells	1,575,000	
Depreciation	378,200	
Tractor	920,000	
Total non-allowable expenses		18,746,200
Less allowable expense		
Investment allowances		(663,000)
Adjusted taxable profit		161,683,200

W1 Investment allowances

Partitioning the office	1,480,000	@10%	148,000
Computers and software	1,140,000	@25%	285,000
Tractor	920,000	@25%	230,000
			<u>663,000</u>

3. (c)(i)

Petro Ltd

Tax payable

Taxable income	<u>161,683,200</u>
Taxed at 30%	<u>48,504,960</u>

4. (a)

The stake holder engagement process

-Identify the stakeholders. Identify who needs to be sensitized on taxation and the stake holders that need to comply with tax laws mostly. The goal is to ensure stakeholder understands tax risks and how they affect them.

-Map the stakeholders- map the stakeholders on grid base based on the kind of taxes they pay. The goal is to ensure that sufficient information on tax is given to each group, information overload or misinformation is avoided.

-Prioritize stakeholders- prioritize stakeholders based on their tax needs and tax problems. The goal is to foster trust and confidence ensuring stakeholders are receptive.

-Build a communication plan- develop a plan on how you would communicate with stakeholders. The goal is to enable understanding of tax issues discussed.

-Provide platform for feedback- create a way for stakeholders to provide feedback, raise concerns or make complaints. The goal is to clarify and misunderstanding or provide more information or engagement.

-Use feedback to revise your plan- use feedback to improve the engagement to create awareness and enhance tax compliance.

-Consider cultural appropriateness- accommodate cultural inclination and inclusiveness. The is to improve communication to stakeholders and information dissemination.

-Track response rates-keep tracking response rates to invited engagements and follow up door to door with non-responders. The goal is to foster trust and confidence in stakeholders ensuring they remain receptive.

-Record attendance at consultative and hearing engagements. The goal is to have data for future data mining and also to report to Kenya revenue of the achievement of the engagement.

4. (b)(i)

Bebabeba Supermarket Ltd			
Date	Details	Input Shs.	Output Shs.
July	Dispensed drinks		41,379
		output VAT	41,379

Supa bread ltd			
Date	Details	Input Shs.	Output Shs.
August	Sales		3,200,000
	Bread distribution	275,862	
	Electricity	413,793	
	Consultancy	137,931	
		output VAT	3,200,000

4. (b)(ii)

Bebabeba Supermarket Ltd			
Date	Details	Input Shs.	Output Shs.
July	Dispensed drinks		41,379
		intput VAT	0

Supa Bread Ltd			
Date	Details	Input Shs.	Output Shs.
August	Sales		3,200,000
	Bread distribution	275,862	
	Electricity	413,793	
	Consultancy	137,931	
		input VAT	827,586

4.(b)(iii)

VAT payable	Business	Shs.
	Bebabeba Supermarket Ltd (=sh.41,379 – 0)	41,379
	Supa Bread Ltd (=3,200,000 - 827,586)	2,372,414

4. (c)

Reverse charge can loosely be termed as self-accounting VAT. Normally VAT is charged and accounted for by supplier of goods and services. In reverse charge, the recipient rather than the supplier would account for VAT. In this case Supa Bread Ltd would account for VAT of on bread distribution, consultancy services and electricity. He would pay Kenya revenue 6% of the VAT due and issue certificate of payment to its suppliers. The suppliers would pay the remaining 10%.

4. (d)

A tax agent is an individual or partnership licensed by the commissioner to handle tax matters on behalf of a taxpayer.

A tax representative operates in his own name. He is personally committed to pay tax. He is collectively liable for tax owned by the client he represents.

5. (a)

- Financial literacy level of taxpayers
- Book keeping problems
- Apathy to filing tax returns
- Most business go out of business within few years, casting doubt on going concern of the businesses.

5. (b)

- Empowering tax payers with accessible support systems
- Simplifying the tax filing process
- Encouraging tax payers to embrace the digital platforms.
- Carrying out tax filing campaigns to encourage taxpayers to comply with their tax obligations.

5.(c)(i)

Haraka Ltd.

Taxable income or loss for the year ended 31st December 2021

Revenue-hired Assets

Zito Ltd-6 delivery van	1,080,000
Cham Ltd-4 Pick-up	9,600,000
Upper university-20 computers	960,000
B ltd- a bmw	60,000
Z contractors- 2 landcruiser	1,080,000
Sokoni Supermarket-6 delivery van	576,000

Gross income **13,356,000**

Less allowable expenses

General administration	1,600,000
Legal	360,000
Repairs and Servicing	320,000
Investment allowance	620,000

(2,900,000)

Taxable income **10,456,000**

5.(c)(ii)

Haraka Ltd.

Tax payable for the year ended 31 December 2021

Taxable income	<u>10,456,000</u>
Taxed at 30%	<u>3,136,800</u>

CPA ADVANCED LEVEL: ADVANCED TAXATION. Thursday: 16 December 2021

1.(a)

- Social media posts would expand tax base by netting more people in the tax net.
- Social media spreads information and kra can use it to advertise its services and enhance compliance.
- KRA would be able to distinguish actual tax cheats from social media verified information.
- KRA is a partner with tax payers who share a common objective of ensuring all eligible persons are contributing their fair share of taxes, the use social media to achieve such goal, the better.

1.(b)(i) background information on AGOA

- Enactment; African growth and Opportunity Act(AGOA) was signed into law on May 18, 2000 as part of the Trade and Development Act (2000).
- AGOA is a preferential trade agreement whose purpose is to promote economic growth and political reform in Sub-Saharan African Countries with the united states of America.
- AGOA was recently, 30 september 2024, re-authorized, though trade with its participants has stagnated since 2008.

1. (b)(ii) Condition to be considered as an AGOA beneficiary Country

For a country to jion AGOA it must meet the following conditions:

- Establish or make progress toward a market-based economy
- Establish the rule of law
- Establish political pluralism
- Establish the right to due process
- Eliminate barriers to US trade and investment
- Enact policies that reduce poverty
- Combat corruption
- Protect human rights
- Not engage in activities that undermine US national security
- Not engage in gross violations of human rights or support for terrorism.

1. (b)(iii) Trade benefits provided under AGOA

- Participating countries access duty free market in United States for over 1800 products. The countries would thus benefit by;
 - *growing their economies
 - *diversifying their export to United States
 - *creating jobs for its citizens

1.(c)(i) disputes that may not be suitable for ADR mechanism.

- The settlement of the dispute would be contrary to the constitution, the revenue laws or any other law.
- The matter in the dispute is that of interpretation of law
- The dispute is in the public interest to have judicial clarification
- There are undisputed judgements and rulings on such dispute
- The tax payer or the Kenya revenue authority is unwilling to engage in ADR process.

1.(c)(i) Documents that must be submitted to support and facilitate the ADR discussions.

- ADR application forms
- Attachments to support the dispute.

2.(a)(i)

Msanii Sacco Ltd

Adjusted Profit for the year ended 31 December 2020

	"Shs.000"	"Shs.000"
Net profit as reported		19,140
<u>Add non-allowable expenses and omitted incomes</u>		
office expenses	3,800	
General expenses	920	
credit loss	60	
		<u>4,780</u>
		23,920

less non taxable incomes and omitted allowable expenses

interest from member loans	16,200
50% interest from treasury bills	1,600
50% interest from government infrastructure bond	900
50% interest from ABA bank	750
dividends from Mazao Sacco	1,000
Capital allowances	580

	(21,030)
Taxable income	2,890

Notes:

1. It is assumed the depreciation amount was agreed by the commissioner of tax as capital allowances for the year.
2. Dividend from Mazao Sacco is qualifying dividend hence withholding tax is final tax.

Workings

capital allowances			
Depeciation			480
computers	400	@25%	100
			<u>580</u>

2.(a)(ii)

Msanii Sacco Ltd

Tax liability for the year ended 31 December 2020

Taxable profit	2,890
taxed at 25%	
Gross tax liability	723
<u>less tax credits</u>	
<u>withholding tax on</u>	
dividends from sopa cooperative	(90)
50% interest from treasury bills	(240)
50% interest from government infrastructure bond	(135)
50% interest from ABA bank	(113)
Net tax liability	<u>145</u>

2.(b)

Triplecom Insurance Company Ltd

Currency	Shs."000" General Insurance	Shs."000" Life insurance	Shs."000" Total
Premiums	15,824		15,824
Commission Ceded	8,000		8,000
Recovery from reinsurance	1,200		1,200
Transfer to shareholders fund		28,320	28,320
Gross income	25,024	28,320	53,344

Less allowable Expenses

Premium paid to reinsurance	7,680		7,680
Commission	1,050	2,960	4,010

Management	2,034	25,000	27,034
Travelling	1,200	2,400	3,600
Marketing	314	1,820	2,134
Legal expenses-claims	740	120	860
General	4,430	4,640	9,070
Bad and doubtful debts	468	1,280	1,748
Claims paid	10,160		10,160
Bonus	180		180
Capital allowances	508	508	1,015
Increase in reserve for unexpired risks	2,960		2,960
Total expenses	(31,724)	(38,728)	(70,451)
Taxable profit/Loss	(6,700)	(10,408)	(17,107)

Other taxable incomes

Profit on sale of investments	14,200	
Fees paid to investment managers	(900)	
		13,300
Rental income	2,800	
Management fees	(3,200)	
		(400)
Interest from fixed deposit		780
Taxable Income		(3,427)

Notes:

- Capital allowances have been apportioned equally between General insurance and life insurance.
- Dividend received from a qualifying company is qualifying dividend thus withholding tax on it is final tax.

W1- Premiums

Details	shs."000"	Details	shs."000"
P&L	15,824	cash	15,450
		returned	374
bal cd		bal cd	
	<u>15,824</u>		<u>15,824</u>

W2- claims

Details	shs."000"	Details	shs."000"
bal bd		bal bd	6,640
cash	9,800		
		P&L	10,160
bal cd	<u>7,000</u>		
	<u>16,800</u>		<u>16,800</u>

W3- reserve for unexpired risks

Details	shs."000"	Details	shs."000"
		bal bd	3,240
		increase	2,960

bal cd	6,200	
	6,200	6,200

W4- life fund

Details	shs."000"	Details	shs."000"
		bal bd	250,000
		8% shareholder	24,800
		10% of surplus	3,520
bal cd	310,000	Surplus	31,680
	310,000		310,000

W5- Capital allowances

Computers	800	@ 25%	200
Saloon car	3,260	@ 25%	815
			1,015

3.(a)

Mfanya Yote Yawezekane
ABC International Plc
P. O. Box XXX,
Kisiwa
16th december,2021

The Commissioner of Income tax
Kenya Revenue Authority
P. O. Box xxx
Nairobi.

Dear Sir,

Subject: Request for company registration with tax identification number(PIN).

Dear Commissioner of Income Tax.

As the tax Consultant for the newly registered ABC International Plc, registered under the companies act registration no. yyyy, I hereby write to formally request the registration of the company for purposes of obtaining a tax Identification Number (PIN) and complying with the income Tax Act.

Company Details

ABC International Plc

Registration no. yyyy

Business address: ABC International Plc

P. O. Box XXX,

Kisiwa

Nature of business: construction of infrastructure of all kinds, suppliers of all building materials and general contractors.

Directors:

Mjenzi shupavu – general manager

Sivulo mwenyewe – managing director

Mpaka tufanikiwe – head of corporate services

Attached documents:

Certified copy of the certificate of incorporation

Memorandum and articles of association

Directors identification documents

I kindly request that you process this application promptly and provide me with the necessary forms to complete the registration process. Please do not hesitate to contact me if any additional information is required.

Yours faithfully,

Mfanya Yote Yawezekane

Tax Consultant

3.(b)

Reward investment company ltd

VAT statement

Date	Details	Dr. Input Shs.	Cr. Output Shs.	VAT refundable/(payable) Shs.
	Purchases-credit	96,000		0
	Purchases-cash	64,000		96,000
	Sales-vatable		27,200	160,000
	Sales-exempt		0	132,800
	Purchases	92,800		132,800
	Purchases returns		19,200	225,600
	Sales returns	10,080		206,400
	Purchases returns		3,680	216,480
	Electricity	4,480		212,800
	Audit fees	3,840		217,280
	Purchases returns		8,640	221,120
	Exports		95,172	212,480

~ 352 ~

Imports	41,379	117,308
Catering services	8,000	158,687
Bad debt relief	6,240	166,687
	326,819	153,892

Deductible input 326,819

**VAT refundable(=sh.326,819-
153,892)**

172,927

VAT refundable can be carried forward to be offset against future output tax.

3.(c)

- Compliance risks; filing errors, late or incomplete reporting, incorrect tax classification
- Operational risks; change in tax legislation, cross border transactions, transfer pricing
- Reputational risks-tax controversies, aggressive tax planning, corporate social responsibility

4.(a)

- Corporations or wealthy individuals benefiting from low taxes on their incomes in foreign countries where loopholes, credits, or other special tax considerations are legal.
- It is less expensive for a corporation or wealthy individuals to borrow funds internationally.
- Activities of some corporation or wealthy individuals are private and they share no financial information with Kenya revenue authority
- When a company or a wealthy individual stash money earned abroad legally, or they illegally hide money earned from Kenya revenue authority for taxation.
- When there exist companies or individuals who are uncooperative with Kenya revenue authority in divulging financial information and the get away with it.
- Illegal activities beyond tax evasion, for instance money laundering prevalence point to existence of tax havens.

4.(b)(i)

Lipa and Mali T/A Lima Enterprises

Adjusted Taxable profit or loss for the year ended 31 December 2020

	shs.	shs.
Net profit as reported		872,100
<u>Add back non allowable expenses and ommitted incomes</u>		
Partners Salaries and wages	428,000	
Interst on capital	150,000	
Current account-lipa	42,000	
Current account-Mali	48,000	
Insurance	24,500	
Drawing partnership deed	28,000	
Conveyance fees	14,900	
Loan negotiation fees	36,000	
Depreciation	128,400	

Purchase of furniture	240,000	
Provision for bad debts	18,400	
Computers	90,000	
Computer software	45,000	
Total items added back		1,293,200
Adjusted profit		2,165,300
<u>Less non taxable incomes and allowable expenses omitted</u>		
Capital allowances		(347,750)
Taxable income		1,817,550

W1- capital allowances

purchase of furniture	240,000	@10%	24,000
computers	90,000	@25%	22,500
computer software	45,000	@25%	11,250
motor vehicle	800,000	@25%	200,000
import duty on motor vehicle @25%	200,000	@25%	50,000
VAT on Motor Vehicle and custom duty	160,000	@25%	40,000
			347,750

4.(b)(ii)

Lipa and Mali T/A Lima Enterprises

Taxable income for each partner

Partners	Lipa shs.	Mali shs.	Sasa shs.	Total
3months profit sharing ratio	0.67	0.33		1.00
9months profit sharing ratio	0.44	0.22	0.33	1.00
Interest on Capital-1st 3 Months	25,000	12,500		37,500
Current Account-1st 3months	10,500	12,000		22,500
Salaries- 1st 3 months	71,333	35,667		107,000
Share of profit-1st 3 months	191,592	95,796		287,388
Interest on Capital-next 9months	50,000	25,000	37,500	112,500
Current Account-next 9months	31,500	36,000		67,500
Salaries- next 9months	142,667	71,333	107,000	321,000
Share of profit-next 9 months	383,183	191,592	287,388	862,163

Total taxable income	905,775	479,888	431,888	1,817,550
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5. (a)(i) Process of appointing a tax agent

- Apply for tax agent license from KRA
- Pay a prescribed fee
- Get recommendation for registration by tax agents committee
- Be indentified fit and proper person to prepare tax returns and notices of objection
- Be declared person of good character and integrity
- KRA to respond in writing if one is appointed and publish his name and license as a tax agent.

5. (a)(ii)

- Name of applicant- full names as shown on the ID/Passport
- PIN details
- Registered/physical address, street/road, postal address, telephone and email address.
- professional applicants to fill the name of professional body and the registration number.
- Non-professional to attach a brief two page curriculum vitae summarizing work experience and qualifications.
- Tax compliance serial number and date of issue
- Endorsement from ones professional body

5.(b)(i)

Linda Obari

Taxable income for the years ended 31st December 2017-2020

Statement of assets and liabilities

	2016	2017	2018	2019	2020
Building		2,050,000	2,050,000	2,050,000	2,050,000
Equipment	2,345,670	2,391,840	2,395,350	2,210,000	2,285,000
Investment in shares	300,000	150,000	270,000	320,000	325,000
Inventory		303,000	540,000	620,000	685,000
Debtors		180,000	450,000	720,000	830,000
Bank Balance	3,000	4,500	6,000	7,000	7,500
Total assets	2,648,670	5,079,340	5,711,350	5,927,000	6,182,500
<u>Less liabilities</u>					
Creditors		(810,000)	(891,000)	(972,000)	(1,053,000)
Bank loan		(1,425,000)	(1,566,000)	(1,716,000)	(1,866,000)
Net assets	2,648,670	2,844,340	3,254,350	3,239,000	3,263,500
Increase in assets		195,670	410,010	(15,350)	24,500
<u>Add personal expenses</u>					
Repair of house		172,000		180,000	
House managers salary		259,000	302,000	344,000	358,000
Drawings		192,000	220,000	300,000	340,000
School fees		228,000			
House expenses		163,000	331,600	356,000	382,000
Linda Obari's husband salary		358,800	412,620	474,513	545,690
Taxable Business income		1,568,470	1,676,230	1,639,163	1,650,190

Add other taxable incomes

Rental income	182,000	166,560	120,000	218,000
Interest from bank deposits	2,750	14,970	20,000	22,000
Total taxable income	1,753,220	1,857,760	1,779,163	1,890,190

Note:

- Kshs. 360,000 cash inheritance from her father in 2019 is not taxable.
- Any withholding taxes from Rental income would be subtracted from the gross tax liability to arrive at net tax payable.
- Interest from bank deposit is only subjected to withholding tax at the rate of 15% which is final tax.

5.(b)(ii) Factors that a Revenue Authority would consider in ascertaining the adequacy of living expenses under back duty investigations.

- The tax payers standards of living
- Assets donated to other persons
- Marital status/status in the society
- Assets and cash donated to the tax payer.

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