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## CERTIFIED PUBLIC ACCOUNTANT

## FOUNDATION LEVEL 2 EXAMINATIONS

### F2.4: TAXATION

**WEDNESDAY: 4 DECEMBER 2013**

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### INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This examination has seven questions and only five questions are to be attempted.**
- 3. Marks allocated to each question are shown at the end of the question.**
- 4. Show all your workings**

## TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

### Personal Income Tax Rates

Monthly Taxable Income		Tax Rate
From	To	
0	Rwf30,000	0%
30,001	Rwf100,000	20%
100,001	and above	30%

**Individual's housing benefit:** 20% of the employment income excluding benefits in kind

**Individual's Car benefit:** 10% of the employment income excluding benefits in Kind

### National Social Security Contribution

Employees contribution	3%
Employer's contribution	5%

### Corporate Income Tax Rate

30%

### Capital gains tax

Net aggregate gains are taxable at the company rate of tax

### Value Added Tax Rate

18%

### Annual tax depreciation allowances

Depreciable assets	Rate
Land, fine arts, antiquities, jewellery and any other assets that are not subject to wear and tear or obsolescence.	0%
The cost of acquisition or construction and the cost of refining, rehabilitation, reconstruction of buildings, equipment and heavy machinery fixed in walls	5%
The cost of acquisition or development and the cost of improvement, rehabilitation, and reconstruction of intangible assets including goodwill that is purchased from a third party	10%
Computers and accessories, information and communication systems, software products and data equipment	50%
All other assets (the tax depreciation is granted on reducing balance basis).	25%

Investment Allowance	Rate
Investment within Kigali	40%
Investment within priority sectors, or registered business located outside Kigali.	50%

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## QUESTION ONE

Kiyonga and Palege are partners in a wholesale business. For the year ended 31<sup>st</sup> December 2012 the partners made a loss of Frw 2,334,000 after debiting and crediting the following:

Details	"Frw"
Sales	24,600,000
Profit on sale of shares	760,000
Dividends on shares received	40,000
Bad debts recovered	85,000
Purchases	16,300,000
Medical expenses for partners	1,200,000
Salaries and wages including the partners	1,250,000
Interest on partners capital accounts	1,100,000
Rent, rates and taxes	460,000
Fire insurance	62,000
Partners house hold expenses	420,000
Advertisement	42,000
Legal and professional fees	210,000
Accountancy and audit	65,000
Stationery and postage	110,000
Income tax for 2011	400,000
Purchase of machinery	1,200,000
Depreciation	1,800,000
Reserve for bad debts	230,000

Additional information:

- Stocks of goods as at 1<sup>st</sup> January 2012 were **Frw 3,600,000** and as at 31<sup>st</sup> December 2012 were **Frw 630,000**. The stock at both dates had been consistently undervalued at 10% below cost price.
- Legal fees represents:
  - Frw 25,000** for renewal of 50year lease
  - Frw 18,000** for appeal to VAT tribunal
  - Frw 55,000** for defending partner against a private matter
  - Frw 25,000** for debt collection
  - Frw 87,000** for handling customer complain
- Advertising includes **Frw 20,000** used in promoting sales through construction of Permanent billboards.
- Sales include a charge at market value of **Frw 120,000** of goods used by partner's families. The goods had cost **Frw 90,000**.
- Capital allowances have been agreed at **Frw 1,350,000**.
- The partners share profit and losses equally and each drew **Frw 200,000** as salary during the year.
- Interest on partner's capital is in the ratio of 2:3 Kiyonga and Palege respectively.

**Required:**

- a) Adjusted profit or loss for tax purpose for year of income 2012. **(15marks)**
- b) Show allocation between partners. **(5marks)**
- (Total 20marks)**

**QUESTION TWO**

Tradelinks Limited is registered in Rwanda as a Public Limited company. The company made total sales of Frw **100million** exclusive of Value Added Tax (VAT) in the month of November 2013. Frw **5million** was Zero-rated income and **Frw 10million** were exports to China.

Tradelinks Limited charged reverse charge VAT of **Frw 2million** because of valuation fees paid to City Pty Ltd, a company incorporated in the South Africa. There are similar valuation firms offering same services in Rwanda but Tradelinks Limited wanted a valuer of high reputation.

In the same month, Tradelinks Limited imported goods from Kenya and paid VAT totaling to Rwf 3million at Customs offices at Kagitumba. It also paid VAT totaling to **Frw 1million** on local purchases made in Rwanda in the same month.

Tradelinks Limited had a VAT credit of **Frw 4million** carried over from the previous month of April 2013 that it had not claimed and was waiting to claim it in November 2013 because it is when it obtained the supporting documents. Tradelinks Limited registered for VAT on 1 February 2013 and does not deal in VAT exempted goods.

**Required:**

- a) Compute VAT Payable by Tradelinks Limited for the month of November 2013. **(7 Marks)**
- b i) What is the deadline for the VAT return if Tradelinks Limited files VAT on a monthly basis? **(1 Mark)**
- ii) Describe the requirements of a VAT registered taxpayer in Rwanda. **(3 Marks)**
- iii) What major conditions must be met in order for VAT to be refunded by the tax administration?(**4 Marks**)
- c) Using examples, explain the meaning of the following terms;
- i) VAT apportionment. **(2 Mark)**
- ii) E-filing **(1 Mark)**
- iii) Output VAT **(1 Mark)**
- iv) Going concern in relation to VAT in Rwanda **(1 Mark)**
- (Total: 20 Marks)**

**QUESTION THREE**

- a) Describe 4 types of company registration **(4 Marks)**
- b) Silifo Limited is a public limited company in Rwanda. The following Profit and Loss (P&L) account relates to Silifo Limited for the year ended 31 December 2012. Study the P&L for Silifo Limited together with its notes and answer the questions that follow;

<b>Silifo Limited</b>	<b>Dr</b>	<b>Cr</b>
<b>Profit and Loss account for the year ended 31 December 2012</b>		
	<b>Frw'000</b>	<b>Frw'000</b>
Total Sales		600,000
Cost of sales	210,000	
Administration expenses	110,000	
Finance Expenses	2,000	
Other operating expenses	11,140	
Bad debts	40,000	
Entertainment expenses	20,000	
Mobile Telephone Expenses	10,000	
Guest house expenses	18,000	
Withholding tax expense	20,000	
Electricity and gas for the director general use	7,000	
Other expenses	16,000	
Boad members allowances	6,000	
Office travel (air tickets)	7,000	
Courier services for Director general official documents	2,000	
Office tea and mineral water for staff	8,000	
Staff labour day cerebrations expense at Mount Kigali restaurant.	6,000	
<b>Profit before tax</b>		<b>106,860</b>

**Notes to the profit and loss**

- Included in sales were **Frw 20 million** for goods that were returned by customers because they were damaged. No credit note was issued as the chief accountant was in a holiday until January 2013.
  - Included in the cost of sales was **Frw 30 million** marketing expenses incurred at Serena hotel during cerebrations for Primus Gumaguma of Bralirwa Limited. In addition, the cost of sales includes 10 million relating to the cost of sales of 2011 that were not captured in the same year. The accountants decided to include it in 2012.
  - The company contributed **Frw 10 million** to the Agaciro development fund in the same year and this was included in administration expenses.
  - Clients who have taken 4 years were treated as bad debtors and the amount was expensed in 2012.
  - Other expenses are those whose documents cannot be obtained until the chief accountant comes back from the leave.
  - Withholding taxes expense relates to the grossed up payment to a non tax resident supplier who offered valuation services to the company in 2012. The company paid this amount to the tax administration to avoid penalties and interests
- i) Compute the Corporate Income Tax payable by Silifo Limited for the period 2012. **(15 marks)**
- ii) What is the tax calender year in Rwanda and what is deadline of filing corporate tax by Silifo Limited? **(1 Mark)**

#### QUESTION FOUR

- a) Describe the term assessment procedure without notice. (2 Marks)
- b) Under which circumstances can RRA conduct an assessment procedure without notice as a form of audit? (4 Marks)
- c) Discuss the contents of the notice of assessment letter issued by the Rwanda Revenue Authority to taxpayers. (4 Marks)
- d) Discuss the tax appeals process in details in accordance with the tax procedure law. (6 Marks)
- e) The tax administration has introduced electronic billing machines. What do you understand by the term electronic billing machines in relation to VAT? (2 Marks)
- f) Discuss what would happen if the tax payer's internet is not working and it is the tax deadline for VAT. (2 Marks)

(Total: 20 Marks)

#### QUESTION FIVE

- a) Discuss the mandate of the Rwanda Revenue Authority. (4 Marks)
- b) i) What is a customs Union? (2 Marks)
- ii) Discuss the objectives of the EAC Customs Union. (4 Marks)
- a) Identify taxes collected by Income tax department of the Rwanda revenue Authority. (4 Marks)
- b) Describe the meaning of the term **thin capitalization** as stipulated in the Income Tax law of Rwanda. (6 Marks)

(Total: 20 Marks)

#### QUESTION SIX

- a) Briefly explain the income tax treatment of free trade zone (4 Marks)
- b) With reference to the operations of the Customs and Excise Act, write brief notes on the following:
- (i) Duty free shop (4 Marks)
- (ii) Excisable goods (4 Marks)
- (iii) Bonded warehouse (4 Marks)
- c) Explain four measures that can be used to enhance tax compliance in your country. (4 Marks)

(Total: 20 Marks)

#### QUESTION SEVEN

- (a) Explain the tax position of the income of a deceased person. (2 Marks)
- (b) Give two examples of revenue that is exempt from corporate income tax in Rwanda. (2 Marks)
- (c) Mrs. Ogwethu is an employee of Wangira Ltd. and has provided you with the following information for the year ended 31 December 2012 in Frw.
- Pension from previous employment 20,000 per month.
- Salary 120,000 per month (P.A.Y.E 42,000 per month)

Mrs. Ogwethu and her husband own a company whose taxable income was agreed at 500,000 after charging husband's salary of 250,000 per month (P.A.Y.E 60,000 per month).

Anga Ltd. provided a company house to Mrs. Ogwethu in Kigali where rent of similar houses was 20,000 per month. Mrs. Ogwethu works over-time and her over-time income averages 10,000 per month. Mrs. Ogwethu enjoyed medical benefit of 160,000 during the year. She is a senior manager and the company has medical cover for all its employees. She obtained free consumables from the company as a Christmas gift worth 30,000 during the year. Mrs. Ogwethu owns rental property at Kagugu Estate and receives 50,000 as rental income per month. During the year, she incurred 60,000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to 3,000,000. She paid 900,000 during the year of which 500,000 was principal. Mrs. Ogwethu owns 20% of the shares of Wangira Ltd.

#### Required:

- (i) The taxable income for Mr and Mrs Ogwethu for the year of income 2012. (10 Marks)
- (ii) Tax payable on the income computed above. (4 Marks)
- (iii) Mrs. Ogwethu did not fill her sell assessment return form for 2012. State the penalties due, if any. (2 Marks)

(Total: 20 Marks)

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**End of question paper**

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