

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATION

L2.4: TAXATION

THURSDAY: 30 NOVEMBER 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven (7)** questions and only **five (5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Any assumptions made must be clearly and concisely stated.
5. Show all your workings.
6. All iCPAR Examination rules and regulations apply.

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		
From	To	Tax Rate
0	Frw 30,000	0%
30,001	Frw 100,000	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	3.3%
Employer's contribution	5.3%

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, jewelry 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%

Attempt any five questions

QUESTION ONE

- (a) Explain the term "long-term contract" in accordance with the Rwandan income tax law. **(2 Marks)**
- (b) Bikidi Rwanda Limited (BRL), based in the eastern province of Rwanda in Kirehe district was incorporated in October, 2015 and commenced operations on 1 January, 2016. The company deals in the packaging and distribution of soft drinks. Ms. Esther Njuguna, a Kenyan citizen was recruited by BRL to head the marketing department with effect from 1 August, 2017. At the time of her appointment, Esther was informed that after staying in Rwanda for a period exceeding 183 days, she would be considered a Rwandese resident for tax purpose and taxed according to the provisions of Article 9 of the Rwanda Income Tax Law. Esther has approached you for advice given that you are the tax assistant in BRL.

REQUIRED:

- (i) Explain to Esther how non-resident and resident persons are taxed in Rwanda. **(2 Marks)**
- (ii) BRL recently signed a contract with KX Limited, the leading distributor of soft drinks in Rwanda located in Rulindo district, in the north province. In order to satisfy the demand from KX Limited, BRL incurred substantial expenditure in 2016.

The following is BRL's statement of profit or loss and other comprehensive income for the year ended 31 December, 2016:

Details	Frw
Revenue	18,976,500
Cost of sales	<u>(15,678,900)</u>
Gross profit	3,297,600
Administrative expenses	(1567,000)
Operating expenses	(568,000)
General expenses	<u>(432,000)</u>
Net profit	<u><u>730,600</u></u>

Additional Information:

1. Included in administrative expenses is Frw 232,000 for telephone expenses. BRL is unable to make a clear distinction between private and business telephone expenses.
2. During the year BRL acquired computers and computer software which cost Frw 1,245,000 and Frw 1,765,000 respectively to be used to compile daily sales.

3. The national environmental watch dog reviewed BRL's operations and fined the company Frw 422,900 as a penalty for draining untreated waste water into the nearby swamp. This amount was booked under general expenses.
4. BRL engages in corporate social responsibility activities and donated baby diapers to a baby's home valued at Frw 243,900. This amount was recorded under administrative expenses.
5. The marketing team that put together the winning proposal to KX Limited was recognised in a dinner organised by the CEO at Giramata Hotel. The dinner cost Frw 442,000 and was recorded under operating expenses.
6. The cost of the office air conditioner that was acquired on 31 December, 2016 at Frw 110,000 was also included in operating expenses.
7. The tax written down values as at 1 January, 2016 were:

Item	Frw
Computers & accessories	1,300,000
All other business assets	230,000

REQUIRED:

Compute BRL's taxable income and tax liability for the year ended 31 December, 2016.

(16 Marks)

(Total 20 Marks)

QUESTION TWO

- (a) Joel, a former nursery teacher in a government school opened JT nursery school in the north province with 12 employees in January, 2016. Although, he is educated he does not know how the tax system works. On learning that you are a student of taxation, he has approached you for assistance.

REQUIRED:

Advise Joel on the following issues:

- (i) Penalty for failure to withhold tax. **(2 Marks)**
- (ii) Penalty for failure to pay tax withheld. **(2 Marks)**
- (iii) Due date for filing a pay as you earn return. **(2 Marks)**
- (iv) Taxpayers exempted from annual tax declaration. **(2 Marks)**

- (b) Ntampaka, a water engineer graduate from the University of Rwanda, joined Geo Consult Limited which provides geological services across Rwanda in January, 2016. His employment contract includes the following terms:

(i)	A monthly salary of Frw 1,000,000.
(ii)	A motor vehicle provided by the company for his use since it is a long distance between his home and the office with a market value of Frw 10,000,000.
(iii)	Geo Consult Limited made a monthly retirement contribution on his behalf to Rwanda social security fund of Frw 200,000.
(iv)	Due to his busy work schedule during the year, he did not take his annual leave and as a result he was paid Frw 800,000.
(v)	He went to the field for an urgent official assignment and he paid for his accommodation and lunch amounting to Frw 150,000 which was reimbursed by the company when he returned.
(vi)	The company gave him a plot of land located in Gisagara which was bought in 2012 at Frw 2,000,000 with a current market value of Frw 3,000,000 as a bonus for his exceptional performance.
(vii)	He is entitled to medical allowances and a bonus of Frw 600,000 and Frw 700,000 per annum respectively.
(viii)	The company pays his house keeper a monthly salary of Frw 50,000.
(xi)	Before joining Geo Consult Limited, Ntampaka was formally employed by one of Geo Consult Limited's competitor from where he was head hunted with a promise of Frw 1,200,000 which was paid in March, 2016.

REQUIRED:

Compute Ntampaka's annual employment income and tax liability for the year ended 31 December, 2016. **(12 Marks)**

(Total 20 Marks)

QUESTION THREE

- (a) (i) Distinguish between input tax and output tax. **(2 Marks)**
- (ii) State the time limit for claiming input tax as per the VAT Act. **(2 Marks)**
- (iii) Explain the requirements of a valid tax invoice. **(4 Marks)**
- (b) Mrs. Umutoni retired early this year from civil service of the Rwandan Government where she has been working for the last 20 years and opened up a company called PPP Supermarket Limited dealing in a variety of items. The company had the following transactions during the month of August, 2017.

Purchases/ expenses (all inclusive of VAT)

S/N	Item	Frw
1	Toilet papers	300,000
2	Solar water heaters	3,000,000
3	Telephone expense	2,000,000
4	Bicycles	5,000,000
5	Educational books	1,000,000
6	Television sets	9,000,000
7	Gas cylinders	8,000,000
8	Carpets	7,500,000
9	Tooth brushes	2,500,000
10	Buckets	1,500,000

Sales (all exclusive of VAT)

S/no	Item	Frw
1	Shoes	7,000,000
2	Energy saving lamps	10,000,000
3	Carpets	9,000,000
4	Television sets	10,000,000
5	Cartons of salt	5,000,000
6	Newspapers used as educational materials	3,000,000
7	Sweets	6,500,000
8	Gas cylinders	15,000,000
9	Bread	7,500,000
10	Basins	6,000,000

REQUIRED:

- (i) Compute PPP Supermarket Ltd's VAT payable or claimable for the month of August, 2017. **(10 Marks)**
 - (ii) State the due date for filing of its VAT return for the same month. **(2 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

Mr. Mukunzi, an employee of Toto Kigali Limited was confirmed as a permanent member of staff in May, 2017. In June, 2017 Mukunzi applied for an employer guaranteed car loan from Success Bank Rwanda Limited to enable him import a personal car from Japan for his private use. In July, 2017 Mukunzi placed an order with Kismai Japan Limited for a Toyota Probox, engine capacity 1,300 CC, model 2005. In August, 2017, Kismai sent the following particulars to Mukunzi:

Details	USD
Cost of the vehicle	14,300
Insurance from Japan to the port of Mombasa	1,000
Freight from Japan to Mombasa	1,500

After reviewing the above details, Mukunzi confirmed to Kismai his acceptance of the terms in totality and then effected payment. Kismai delivered the car at the port of Mombasa on 28 September, 2017 and then arranged for its transportation by road to Kampala in accordance with the terms of the agreed contract. On 30 September, 2017 Mukunzi engaged Swift Forwarders Uganda Limited to transport the car from Kampala to Kigali. After payment of the relevant taxes and registration fees on 5 October, 2017, the car was issued with a number plate and a registration certificate by the Rwanda Revenue Authority.

Hint: Import duty rate = 25%, Excise duty rate = 10%, Withholding tax rate = 5% and the exchange rate on 5 October, 2017 was USD 1 = Frw 900.

REQUIRED:

- (a) In accordance with the East African Community Customs Management Act, explain to Mr. Mukunzi the meaning of the term "customs value". **(2 Marks)**
- (b) Compute the customs duties paid to the Rwanda Revenue Authority (RRA) on 5 October, 2017. **(13 Marks)**
- (c) Given that Mr. Mukunzi had a personalised number plate put on his car; determine the registration fees he paid to RRA. **(2 Marks)**
- (d) Mention any **three** documents that Mr. Mukunzi was required to present to RRA to support his declaration. **(3 Marks)**

(Total 20 Marks)

QUESTION FIVE

- (a) Iradukunda Moses was born and raised in Nyiramata, Central province, Kigali and inherited his late father's estate that comprised of 50 acres of arable land. Effective January, 2014 Moses resigned his job at Rwanda Grain Millers Limited and started engaging in commercial farming involving fish breeding and general agriculture. By the end of December, 2014 Moses had over 10 fish ponds, 26 acres of tea and 20 acres of a banana plantation. For the year ended 31 December, 2015 Moses sold 2 light weight trucks of fresh fish with each truck valued at Frw 2 million. He also sold 100 tonnes of green tea leaf to a nearby tea factory valued at Frw 23,000 per tonne. Moses was

awarded a tender to supply fresh bunches of Matooke to Uburanga n'ikimero High School on a weekly basis. A total of 30 bunches was sold per week for 52 weeks in 2015 with each bunch valued at Frw 5,000.

REQUIRED:

Determine Moses' gross turnover in the year ended 31 December, 2015 and the tax payable in accordance with the Rwanda Tax law. **(8 Marks)**

- (b) Moses has expanded his agricultural projects and his total income and expenditure for the year ended 31 December, 2016 are summarized below:

	Frw "000"
Turnover	23,000
Administrative expenses	7,900
Operating expenses	8,700
Selling & distribution expenses	5,600
Profit before tax	800

Advise Moses on his tax liability for the year ended 31 December, 2016. **(3 Marks)**

- (c) Since the start of his business, Moses has been keeping records in a manual system and although he can accurately determine his cash sales and purchases, he is unable to tell his credit sales and purchases. He was recently visited by the Rwanda Revenue Authority tax compliance team who advised him to start using an electronic billing machine (EBM).

REQUIRED:

- (i) Explain to Moses how an EBM operates. **(1 Mark)**
- (ii) Discuss the 5 punishable acts associated with the use of an EBM and the penalties imposed on each act. **(8 Marks)**

(Total 20 Marks)

QUESTION SIX

- (a) Define the term 'royalty income' with reference to the Income Tax Law of Rwanda. **(4 Marks)**
- (b) Make Shift Limited is a leading provider of software solutions to mid-sized organisations in the west province of Rwanda. During the year ended 31 December, 2016 it received royalty income from its clients amounting to Frw 95,000,000 net of withholding tax.

REQUIRED:

Compute Make Shift Limited's withholding tax paid in respect of royalty income for the year ended 31 December, 2016. **(4 Marks)**

- (c) Given that Rwanda Revenue Authority has a target of tax to be collected for the current fiscal year ending 31 December, 2017 and the subsequent year; discuss the tax recovery procedures as per the Income Tax Law it should deploy in order to realise its targets as set by the Government of Rwanda. **(12 Marks)**

(Total 20 Marks)

QUESTION SEVEN

- (a) Mr. Dukuzumuremyi is a seasoned trader who deals in buying and selling of produce. During the year ended 31 December, 2016 he had the following transactions:
Sold beans, maize flour and rice to Rwanda National Police and was paid Frw 10,000,000 net of withholding Tax.

Expenses:

Transport	Frw 800,000 for the whole year.
Electricity	Frw 80,000 monthly
Warehouse rent	Frw 500,000 monthly
Stationery	Frw 200,000 for the whole year

REQUIRED:

- (i) Compute Mr. Dukuzumuremyi's tax liability for the year ended 31st December, 2016. **(5 Marks)**
- (ii) Advise Mr. Dukuzumuremyi on the option available and procedure he can take if he chooses not to declare tax under small business taxpayer regime. **(2 Marks)**
- (b) Mukombozi James is a small enterprise taxpayer running a grocery shop in Gasabo district in Kigali Province. His turnover for the year ended 31 December, 2016 was Frw 11 million. James usually takes groceries out of the shop at cost for his personal use at his home. For the year ended 31 December, 2016 groceries taken for personal use were worth Frw 1,100,000. James charges a mark-up of 5% on sales made to all his customers.

REQUIRED:

Compute the tax payable by James to the Rwanda Revenue Authority assuming that he did not apply to the Commissioner General to pay taxes on actual profits. **(4 Marks)**

- (c) James also has rental properties in the same district from which he earns a monthly gross income of Frw 5,000,000. These rentals were constructed using a bank loan of Frw 150,000,000 for which he paid interest of Frw 8,000,000 during the year ended 31 December, 2016. However, he could only provide supporting documents for the interest paid of Frw 7,000,000 to Rwanda Revenue Authority.

REQUIRED:

- (i) Compute James' rental income and tax liability for the year ended 31 December, 2016. **(7 Marks)**
- (ii) Advise him on when he is required to file his return and the likely penalty that he would pay if the tax per return is paid 3 months late assuming tax payable is Frw 7,000,000. **(2 Marks)**

(Total 20 Marks)

End of question paper

