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**CERTIFIED PUBLIC ACCOUNTANT  
LEVEL 2 EXAMINATIONS**

**F2.4: TAXATION**

**WEDNESDAY: 12 JUNE 2013**

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**INSTRUCTIONS:**

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven** questions and only **five** questions are to be attempted.
- Marks allocated to each question are shown at the end of the question.
- Calculations and workings need only be made to the nearest Rwf'000, unless directed otherwise.
- All apportionments should be made to the nearest month.
- Show all your workings

## SUPPLEMENTARY INFORMATION:

### 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

Employer's contribution	3%
Employee'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, antiques, 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

- a) Discuss the reasons why Rwanda Revenue Authority (RRA) conducts tax audits. **(3 marks)**
- b) What information should be kept by the taxpayer and availed for tax audit and how long should this information be kept? **(3 marks)**
- c) Janvier is a self-employed person in Rwanda and runs a supermarket in Kicukiro District. Rwanda Revenue Authority has notified him of an audit for the periods of 2010, 2011 and 2012.
- (i) Discuss the contents of the notice of assessment letter issued by the Rwanda Revenue Authority to taxpayers. **(4 marks)**
- (ii) RRA finalized its audit for Janvier in January 2013 and issued him with the first notice of assessment totaling to Rwf 400M including fines and penalties. Discuss the actions Janvier should take assuming that he is entirely not satisfied with the assessment. Indicate the dates in case certain actions have deadlines stipulated in the Rwanda tax procedures as amended to date. **(6 marks)**
- d) What is Assessment procedure without notice? Mention reasons that may trigger Assessment procedure without notice by Rwanda Revenue Authority **(4 marks)**

**(Total 20 marks)**

## QUESTION TWO

Angellique Limited is a company incorporated in Rwanda. The following Profit and Loss account relates to Angellique Limited for the year ended 31 December 2012.

Study the P&L for Angellique Limited together with its notes and answer the questions that follow;

Angellique Limited		
Profit and Loss account for the year ended 31 December 2012	Rwf'000	Rwf'000
Sales		2000
Cost of sales	470	
Administration expenses	300	
Finance Expenses	200	
Other operating expenses	140	-1,110
Profit before tax		890

### Notes to income statement

- 1) Included in sales was Rwf 800,000 generated from South Korea because Angellique Limited owns business in this country. Sales were arrived at after removing estimated bad debts totaling to Rwf 900,000.
- 2) In the cost of sales there is entertainment expense because Angellique Limited entertained its clients as a result of winning a job. The total entertainment expense is Rwf 200,000. The company contributed to genocide memorial site maintenance an amount totaling to Rwf180,000. Entertainment and other contributions do not exceed 1% of the total turnover. The company incurred marketing expenses totaling to Rwf 110,000 and this was posted to the cost of sales by an experienced newly recruited accountant.
- 3) The three board members of Angellique Limited meet three times a year and are paid allowance of Rwf 30,000 per member per meeting.

- 4) In the administration expenses there is Rwf 170,000 relating to electricity and water for the staff dormitory the company paid to EWSA. This was charged to staff when computing their salaries. Staff donated Rwf 400,000 to Agakiro Development Fund, a national fund where people voluntarily contribute for the development of the nation.

The company gave managers airtime for their cell phones totaling to Rwf 230,000. Airtime was used for both business and private purposes. It was difficult for managers to distinguish airtime used for business and private calls. For example, one of the managers called a relative in Goma three times and was charged Rwf 80,000 by MTN.

Angellique Limited registered and pays taxes in real regime and has books of accounts.

- a) Compute corporate income tax payable by Angelliques Limited for the period 2012 (15 marks)
- b) What is the deadline of filing corporate tax by Angellique Limited (1 mark)
- c) Identify the documents that should accompany the corporate income tax return for Angellique Limited. (2 marks)
- d) In which period is a person required to register his or her business activities with RRA? (2 marks)

(Total 20 marks)

### QUESTION THREE

Mr Rubayiza, a resident taxpayer, has been working for Kigali Consultants (KC) as a managing director for more than ten years. Mr Rubayiza is also a shareholder in KC. In the year ended 31 December 2012, his remuneration package consisted of the following:

- i) A basic salary of Rwf 120,000,000 per annum.
- ii) A fully furnished house provided free of rental charge by KC. KC pays a monthly rent of Rwf1,500,000 per month to the landlord.
- iii) A company car costing Rwf20,000,000. KC provides all senior managers with motor car allowances of Rwf500,000 per month. This is to cover fuel costs, maintenance and repair expenses.
- iv) A personal loan of Rwf15,000,000 granted by KC on 1 June 2012. The loan was payable over a five-year period at the interest rate of 3% per annum. The National Bank of Rwanda's rate of interest offered to commercial banks was 7% throughout the year ended 31 December 2012.
- v) Reimbursement of house keeper salaries and garden payments which are substantiated. Mr. Rubayiza submitted his claim amounting to Rwf 200,000 per month.
- vi) School fees allowance of Rwf3,400,000 per year.
- vii) Dividends of Rwf2,500,000 from a resident company.
- viii) During the year, Mr. Rubayiza was involved in an accident to an extent that he was unable to drive his motor car. KC provided him with a chauffeur at a total cost of Rwf1,300,000.
- ix) KC makes a monthly contribution of Rwf100,000 to a qualified pension fund on behalf of Mr. Rubayizi.

## Other income

- x) Mr. Rubayiza owns two properties in Nyarutarama for which he receives a monthly rental of Rwf1,200,000 from each. Property 1 was occupied for 7 months while Property 2 was occupied for 11 months during the year 2012

### Required:

- a) Briefly explain the operation of the Pay As You Earn system. **(2 marks)**
- b) Briefly explain the tax treatment and calculate the taxable amount of the employment benefits provided to Mr. Rubayiza **(8 marks)**
- c) Calculate the tax payable by Mr. Rubayiza for the tax year ending 31 December 2012. Your answer should indicate by the use of '0' those items which are exempt. **(4 marks)**
- d) Calculate the amount of the employee's and employer's social security contribution. **(3 marks)**
- e) Calculate the tax payable on the income earned from the 2 properties and indicate when the tax is due. **(3 marks)**

**(Total 20 marks)**

## QUESTION FOUR

Discovery Ltd commenced trading as a wholesaler on 1 November 2011. Its sales have been as follows:

		<b>Rwf</b>			<b>Rwf</b>
<b>2011</b>	November	1,200,000	<b>2012</b>	June	1,500,000
	December	800,000		July	1,300,000
<b>2012</b>	January	1,300,000		August	1,100,000
	February	2,100,000		September	1,900,000
	March	1,700,000		October	1,200,000
	April	1,700,000		November	1,800,000
	May	1,900,000		December	2,700,000

The company's sales are all standard rated, and the above figures are exclusive of VAT

Discovery Ltd only sells goods, and at present issues sales invoices that show:

- the invoice date and invoice number;
- the type of the supply;
- the quantity and description of the goods supplied;
- Discovery Ltd's name and address; and
- the name and address of the customer

The company does not offer any discount for prompt payment

### Required

- a) Explain from what date Discovery Ltd will be required to compulsorily register for VAT, and what action the company must then take. **(6 marks)**
- b) Explain the circumstances in which Discovery Ltd will be allowed to recover input VAT incurred on goods purchased prior to the date of VAT registration. **(6 marks)**

- c) State the additional information that Discovery Ltd will have to show on its sale invoices in order that these are valid for VAT purposes. **(4 marks)**
- d) Advise Discovery Ltd of the VAT rules that determine the tax point in respect of supply of goods. **(4 marks)**
- (Total 20 marks)**

### QUESTION FIVE

- a) Identify the available sources of taxable income in Rwanda. **(8 marks)**
- b) Comourferage Limited was registered with the Rwanda Development Board (RDB) and obtained an investment certificate of Rwf 6 billion in 2011 to operate in Nyabihu district. The company mines Wolfram. It did not start its operations until February 2012 because it was looking for a qualified geologist. Comourferage Limited imported equipments worth Rwf3 billion in the initial year of investment and acquired a building for office premises. These equipments are as follows;
- Moto vehicles that carry more than 36 persons worth Rwf 600M, computers and software worth Rwf1.4billion and office premises worth Rwf1billion during initial year of investment.

#### Required

- i) Compute the investment allowance and depreciation for Comourferage Limited for the year ended 31 December 2012 and conditions to fulfill in order to benefit this allowance. **(10 marks)**
- ii) Mention types of tax discounts available to investors in the Rwanda income tax law. **(2 marks)**
- (Total 20 marks)**

### QUESTION SIX

- 5 a) Discuss the major functions of Rwanda customs administration **(4 marks)**
- b) i) What is a customs Union? **(2 marks)**
- ii) Discuss the objectives of the EAC Customs Union **(4 marks)**
- c) Identify taxes collected by the Rwanda customs administration and the respective legal instruments used by the customs administration to collect these taxes **(4 marks)**
- d) Define the following terms;
- i) Airway bill **(1 mark)**
- ii) Bill of lading **(1 mark)**
- iii) F.O.B **(1 mark)**
- iv) C.I.F **(1 mark)**
- v) Temporary importation **(2 marks)**
- (Total 20 marks)**

### QUESTION SEVEN

- a) Discuss the purpose of e-filing and e-payments. **(8 marks)**
- b) Describe the types of penalties and fines available in Rwanda income tax law **(6 marks)**
- c) Discuss commonly committed VAT related offences in Rwanda. **(6 marks)**
- (Total 20 marks)**

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**End of question paper**



