
**CERTIFIED PUBLIC ACCOUNTANT(CPA)
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

MONDAY: 4 JUNE 2018

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.

QUESTION ONE

M/s Anisia Uzeyman Company Ltd (AUC) is registered in Rwanda and has its head office in Rwamagana in East Province. The company does not hold an investment license. It started trading on 1 January, 2017 and deals in stage performance and playwright consultancy services. The company's loss before tax for the period ended 31 December, 2017 was Frw (27,000,000).

Their extract of the income statement for the year ended 31 December, 2017 includes the following incomes and expenses.

Income:	Note	Frw
Proceeds on the disposal of fixed assets		40,000,000
Income from stage performance consultancy		250,000,000
Income from playwright consultancy		190,000,000
Expenses:		
Depreciation		18,000,000
Staff costs	2	99,000,000
Contribution to approved staff retirement fund		60,000,000
Bad debts	3	130,000,000
Leasehold amortisation	4	200,000,000

(AUC) offered services to music celebrities in Kenya, Tanzania, and Uganda and received net incomes equivalent of Frw 50 million, Frw 60 million and Frw 70 million respectively. The accounts assistant left this out on grounds that it was income earned from outside Rwanda. No tax was withheld on the incomes from those countries.

Notes:

- 1 The company bought a commercial building in Kibungo for Frw 250 million on 28 February, 2017. The company incurred an additional Frw 30 million for renovation to put the building to a usable state on 30 May, 2017.
- 2 Staff costs include the following:

	Frw
Relocation costs for staff to get near the workplace	15,000,000
Staff feeding at the staff canteen	3,000,000
Donation to an approved child affairs NGO	7,000,000
Masters degree tuition for Silver Williams, one of the directors	10,000,000
Staff computer courses fees	4,000,000
Donation to Tumurere family	15,000,000
Salary	10,000,000
Directors' sitting allowance	15,000,000
Marketing expenses	<u>20,000,000</u>
	<u>99,000,000</u>

- (iii) The bad debt account includes a provision of Frw 70 million. The balance relates to money not yet paid by a customer after all reasonable steps have been taken to recover the debt.

(iv) The company acquired a ten year lease for a warehouse at Frw 200 million. It is being amortised over a ten year period on a straight line basis. This is yet to be treated in the books of account.

(v) The company's additions of plant and machinery for the year were as follows:

Purchases	Frw
Office furniture	50,000,000
Computers	60,000,000
Computer software	40,000,000
Motor vehicles – saloon cars	20,000,000
One Pajero wagon	50,000,000
A mini bus of 32 passengers	70,000,000

(vi) The company made quarterly payments of tax of Frw 500,000 and tax withheld from its supply of Frw 700,000 for the period ending 31 December, 2017.

REQUIRED:

- (a) Calculate the corporation tax payable by Anisia Uzeyman Company Ltd for the year ended 31 December, 2017. Ignore depreciation of building. **(18 Marks)**
- (b) You work as a tax accountant for AUC. The director, Mr. Anisia Uzeyman was invited by the revenue officers for a meeting and he requested you to accompany him. During the meeting, the tax officers were talking about taxes withheld at source and the director did not fully understand.

REQUIRED:

Explain to the director the treatment of taxes withheld, and the rates used on the company services rendered.

(2 Marks)
(Total 20 marks)

QUESTION TWO

M/s Dusabimana Enterprises Ltd is a supplies company based in Nyarugenge. The company deals in the supply of general merchandise and is duly registered for value added tax (VAT) under the tax laws of Rwanda.

The following transactions are for the month of May, 2017.

Sales:

- (i) 1,000,000 packets of washing powder at Frw 500 each VAT inclusive.
- (ii) 4,000 boxes of laundry soap for Frw 200,000,000 VAT inclusive.
- (iii) 3,000 bags of sugar for Frw 300,000,000 VAT exclusive
- (iv) Exported goods to Uganda for Frw 150,000,000 VAT inclusive.
- (v) Supplied road transport from Rwanda to Burundi for Frw 25,000,000.
- (vi) Supplied minerals to the central bank of Rwanda for Frw 150,000,000.

Purchases and expenses:

- (i) Made standard rated purchases of Frw 400,000,000 VAT inclusive.
- (ii) Made standard rated purchases of Frw 100,000,000 VAT exclusive.
- (iii) Made zero rated purchases of Frw 40,000,000.

REQUIRED:

- (a) Compute M/s Dusabimana Enterprises Ltd's VAT payable/ claimable for the month.
(10 Marks)
 - (b) Explain any **two** circumstances under which output tax incurred on bad debts are allowed as a deductible in accordance with the Law N° 37/2012 of 09/11/2012 establishing the value added tax.
(2 Marks)
 - (c) As an iCPAR tax student, explain any **three** circumstances under which a registered taxpayer may be denied input tax as per Article 17 of the law establishing value added tax.
(6 Marks)
 - (d) State any **two** conditions that must be fulfilled for a taxpayer to be deregistered from any tax head by Rwanda Revenue Authority (RRA) and Article 13 (Admission for de-registration) under Commissioner General rule N° 002/2007 of 15/06/2007
(2 Marks)
- (Total 20 Marks)**

QUESTION THREE

(a) Explain the circumstances under which an individual is considered a resident individual in Rwanda in accordance with the Law on Direct Taxes on Income.

(4 Marks)

(b) Ms. Akayesu Imbabazi, a certified public accountant, is the finance manager of Ruhengeri Gori Volcanoes Company Ltd, and her remuneration terms are as follows:

1. The company pays a gardener Frw 87,500 per month, but Ms. Imbabazi contributes Frw 12,500 per month.
2. The company provides meals for 26 days in a month; each meal costing Frw 2,500. Ms. Imbabazi does not contribute anything towards this benefit.
3. The company advanced her a school fees loan Frw 250,000; a furniture loan Frw 375,000 and an appliances loan Frw 325,000 at 10% interest in the month of April, 2018. The National Bank of Rwanda rate is 15%.
4. In the month of April, 2018, Ms. Imbabazi owed the bank Frw 500,000. The company decided to pay the full amount for her loan on 30 April, 2018 and opted not to recover that amount from her.
5. The company transferred a car valued at Frw 6,250,000 to Ms. Imbabazi in April, 2018. She was asked to contribute Frw 500,000 for that car transfer fees.
6. The company pays Ms. Imbabazi a basic salary Frw 5,750,000 per month; transport allowance Frw 450,000 per month and medical allowance Frw 500,000 per month.
7. The company provides her with a company house whose market rent is Frw 500,000 per month for which she contributes Frw 125,000 per month.
8. Ms. Imbabazi incurred reimbursable expenses of Frw 150,000 in the month of April, while performing duties of the company.
9. The company paid premiums Frw 250,000 for insurance of the life of Ms. Imbabazi and her dependants.
10. The company contributed Frw 200,000 to a retirement fund for the benefit of Ms. Imbabazi, which is 9% of her employment income.

REQUIRED:

Compute Ms. Imbabazi,s chargeable income and tax payable for the month of April, 2018.

(16 Marks)

(Total 20 Marks)

QUESTION FOUR

Taxation is the process of imposing compulsory contribution on the private sector to meet the expenses which are incurred for a common good. A US Supreme Court Justice Oliver Wendell Holmes Jr. once stated that “..... Taxes are what we pay for civilized society.” And for a tax system to be considered good, it must meet certain principles considered for a good tax system”.

REQUIRED:

(a) As a student of taxation, explain any **five** roles of taxation in achieving budgetary objectives of an economy like Rwanda.

(10 Marks)

(b) Write short notes on any **five** of the following principles of a good tax system:

- (i) Convenience.
- (ii) Adequacy.
- (iii) Broad based.
- (iv) Simplicity.
- (v) Neutrality.
- (vi) Predictability.

(10 Marks)
(Total 20 Marks)

QUESTION FIVE

(a) M/s Rukundo and Sons Limited is one of the leading powdered milk manufacturers in Rwamagana in East Province. Given the increasing demand for its powdered milk, the company's board of directors decided to start importing powdered milk from Malaysia. During the first import consignment, the company incurred the following:

		(USD)
(i)	Free on board (FOB) value	40,000
(ii)	Freight to Mombasa	4,000
(iii)	Insurance	3,000

Additional information:

(i)	Import duty	25%
(ii)	VAT	18%
(iii)	Excise duty	10%
(iv)	Withholding tax	5%

(iv) The prevailing USD exchange rate for Rwanda was Frw 864 at the time of importation.

REQUIRED:

Determine the customs value and customs taxes applicable to M/s Rukundo and Sons Limited's first consignment.

(10 Marks)

(b) In reference to the East African Community Customs Management Act 2004, explain what is meant by the term "restricted goods" and give at least two reasons why countries impose restrictions on certain products.

(4 Marks)

(c) Article 26 of the consumption tax law of Rwanda requires any manufacturer of products subject to consumption tax (excise duty) to own a register.

REQUIRED:

As a student of taxation, explain what is meant by "consumption tax" (excise duty) and list at least **four** items which are always included on the consumption tax register, on a daily basis.

(6 Marks)
(Total 20 Marks)

QUESTION SIX

- (a) Mr. Kayibanda John, a well-known businessman, owns a number of properties in Rwanda both residential and commercial. The following is a summary of his rental income and rental expenses incurred to maintain these properties for the period 1 January, 2017 to 31 December, 2017.

Rental income tax computation:

No.	Property location	Monthly rental income	Monthly maintenance expense
		Frw	Frw
1	Rwamagana	294,186,047	20,058,140
2	Kigali	668,604,651	60,174,419
3	Byumba	320,930,233	26,744,186
4	Kibuye	254,069,768	14,040,698
5	Gitarama	481,395,349	33,430,233
6	Kibungo	561,627,907	50,813,954
7	Kibeho	374,418,605	25,406,977
8	Nyanza	294,186,047	17,383,721
9	Ruhengeri	160,465,116	10,029,070
10	Gisenyi	<u>100,290,698</u>	<u>5,988,372</u>
	Total	<u>3,510,174,421</u>	<u>264,069,770</u>

REQUIRED:

Determine Mr. Kayibanda's rental tax for the rental period January, 2017 to December, 2017 in accordance with Article 36 (Rental Income) of the laws of Rwanda.

(6 Marks)

- (b) Assuming that during the year ended 31 December, 2017 in addition to the above information, Mr. Kayibanda incurred Frw 234,924,000 as annual interest payment on a bank loan obtained to construct the above properties and has provided you with proof of the existence of this bank loan and the respective payments of the interest.

REQUIRED:

Determine Mr. Kayibanda's rental income for the rental period January, 2017 to December, 2017 in accordance with Article 36 (Rental Income) of the laws of Rwanda.

(6 Marks)

- (c) State the due date for Mr. Kayibanda John to submit his declaration of the rental tax referred to in (a) and (b) above and the due date of payment of the taxes thereon?

(4 Marks)

- (d) State any **four** examples of houses and buildings exempted from tax on immovable property as per the tax laws of Rwanda.

(4 Marks)

(Total 20 Marks)

QUESTION SEVEN

- (a) State any **three** circumstances under which a notice of assessment is issued under Law N° 16/2005 of 18/08/2005 on Direct Taxes on Income. **(6 Marks)**
- (b) Differentiate between ‘refund of taxes’ and ‘tax waiver’ in accordance with the taxation law of Rwanda. **(4 Marks)**
- (c) Write short notes on the following terms as used in the Rwanda VAT Law:
- (i) Compulsory registration, and;
 - (ii) Voluntary registration under the VAT laws of Rwanda;
 - (iii) Business changes;
 - (iv) Taxpayer Identification Number (TIN).
- (8 Marks)**
- (d) The tax administration shall audit only once in respect of a certain tax or in a certain taxable period.

REQUIRED:

Mention any **two** circumstances that may lead the Rwanda Revenue Authority to initiate a new audit in respect of a certain tax or taxable period which had been previously audited by the Authority.

(2 Marks)
(Total 20 Marks)

END OF QUESTION PAPER