

# CERTIFIED PUBLIC ACCOUNTANT ADVANCED LEVEL 2 EXAMINATIONS <u>A2.3 ADVANCED TAXATION</u> DATE: MONDAY 24, APRIL 2023 MARKING GUIDES AND MODEL ANSWERS

## **SECTION A**

3 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

# QUESTION ONE IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

#### 023 IeparApril Marking Guide 23 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2

023 Ic	parApril2023 IcparApril2023 IcparApril20	Maximum Marks
(a)	01 mark for showing understanding of Thin Capitalization	1.0
123 Ic	01 Mark for highlighting Rwanda tax law treatment of this	128 Jonar A. 1.0
023 Ic	01 mark for assessing the tax exposure on the \$10M Loan proposal	123 IcparAp1.0
023 Ic	01 Mark for advising CFO to stick to max. 4:1 debt: Equity ratio	23 IcparAp1.0
023 Ic	Sub-total for this section	23 IcparA <sub>1</sub> 4.0
(b)	Profit / (Loss) per accounts	1.0
123 IC	Additions:	23 IcparApril2
023 10 032 TA	Accounting depreciation	1.0
023 IC	Insurance prepayment	1.5
023 Ic	Prepaid Airport parking cost	123 IcparAp1.5
023 Ic	Pension (Employees' liability)	23 IcparAp1.5
023 Ic	Bonus provision April2023 IcparApril2023 IcparApril2023 IcparApril20	)23 IcparAp1.0
023 Ic	Best performers payment	)28 IcparAp1.0
023 Ic	Bad debt written by the company	<sup>128</sup> IcparAp1.0
)23 IC	Fuel reimbursement (Personal use)	1.5
023 10 032 T	IFRS 16: Amortization	1.0
023 IC	AFRRS 16: Finance cost	1.0
023 Ic	technical support fees 023 Jonar April 2023 Jonar April 2023 Jonar April 2023	$128 J_{cparA_1} 1.0$
023 Ic	Deductions: parApril2023 IcparApril2023 IcparApril2023 IcparApril20	)23 IcparApril
023 Ic	Tax depreciation April 2023 Icpar April 2023 Icpar April 2023 Icpar April 2023	)23 IcparAp1.0
023 Ic	Profit on disposal of Fixed assets	23 IcparAp1.0
023 Ic	Release of Bonus Provisions (2020)	2.0
023 Ic	Actual rent expense	1.0
123 IC	Tax losses brought forward (b/f)	1.0
023 IC	CIT rate 23 Junar April 2023 Junar April	123 IoparApril 128 IoparApril
023 Ic	CIT payable (N/A, company has a 7 years tax holiday)	1.0
023 Ic 023 Ic	parApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20 pc <b>W1:</b> il2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20	)23 IcparApril2 )23 IcparApril2
023 Ic	Additions qualifying for Accelerated depreciation	028 IcparAp1.0
023 Ic	Additions not qualifying for Accelerated depreciation	<sup>28</sup> IcparAp1.0
023 IC	Proceeds from disposal of fixed assets	<sup>125</sup> IcparAp1.0
<u>923 Ic</u>	Initial allowance (50% for assets of \$50k and above)	1.0
<u>125 10</u> 022 T-	Tear & Wear allowance rate	1.0
023 IC	Tear & Wear allowance - Amount	1.0
023 Ic	Total tax depreciation allowances	1.0

023 JeparApril A2.3 cparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril202 Page 2 of 14 23 JeparApril2

023 Ic	Total Marks for Question One	40.0
023 [c] 023 [c]	Sub-total for this section	6.0
(c) Icj 023 Icj	02 marks for each comprehensive explanation of the tax treatment, 202 citing relevant tax provisions and advising on the right treatment	3 IcparA <sub>1</sub> 6.0 3 IcparApril2
023 Icj	arApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril202	3 IcparApril2
023 Ic	Sun-total for this section	30.0
023 Ic	W3: Prior year losses (RWF '000)	1.0
023 Ic	W2: Management, Loyalty & Technical fees	1.0

## Model Answers<sup>23</sup> IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

023 IcparApril2

#### (a)Advise to the CFO regarding \$10 Million Loan parApril 2023 [cparApril 2023 ] cparApril 2023 ] cparApril 2023 [cparApril 2023 [cparApril 2023 ] cparApril 2023 [cparApril 2023 [cparA

Generally, interest on Loans is allowable expense for Income tax purposes provided the loan 23 Income tax purposes provided the loan 23 Income tax purposes.

Rwanda tax law puts some restrictions on interest on loans and advances from related entities, this is called 'Thin Capitalization'.

Article 26 (10) of law no. 16/2018 stipulates that interest paid on loans and advances from related entities is not deductible to the extent that the total amount of the loan for which interest is paid exceeds four (4) times the amount of equity during the tax period.

Currently with the equity of RWF 38.9M there is no exposure in this regard. The \$10M interest 23 approximately bearing loan would not be thinly capitalized.

However, while making future loan decisions, the company should bear in mind that the maximum recommended debt to equity ratio is 4:1.

1202	7	1	T
(h)	Income Tax Computation for the	tax period ending 31 December 2021.	icparAprii2025 icparAprii2
(0)	mediate run computation for the	tax period chang of December 2021.	

Description	Workings	RWF '000	RWF '000
Profit / (Loss) per accounts	12023 IcparApril2023 I	cparApril20.	22,386,486
Additions:	12023 1cparApril2023 1 11032 Tanay April2022	cpurAprii20. an an Anni 120	13 IcparApril 12 Ionar Amril
Accounting depreciation	12023 TopurApril2023 1 12023 Tenar Anril2023 1	7,973,827	13 IcnarApril
Insurance prepayment	(99M/12*8)	66,000	13 IcparApril
Prepaid Airport parking cost 2023 IcparApri	(75M/3*1)	25,000	3 IcparApril
Pension (Employees' liability) 23 IcparApri	(3.3% x Gross	83,249	23 IcparApril.
023 IcparApril2023 IcparApril2023 IcparApri	12023 IcparApril2pay	cparApril20.	3 IcparApril
Bonus provision 3 IcparApril2023 IcparApri	l2023 IcparApril2023	247,442	23 IcparApril
Best performers payment pail2023 LeparApril	l2023 IcparApril2023 I	6,000	23 IcparApril
Bad debt written by the company CourApril	l2023 IcparApril2023 I	65,000	l3 IcparApril.
Fuel reimbursement (Personal use)	20%	20,000	l3 IcparApril
IFRS 16: Amortization	12023 1cparApril2023 1	79,000	13 IcparApril.
IFRS 16: Finance cost	12025 1cparApril2025 1 12022 Tanan (mril2022	69,727	13 IcparApril. 22 Ionan Amril
Technical support fees	W2	58,100	13 IcparApru. 13 IcparApril
Total additions (Disallowable expenses)	12023 IcnarApril2023	cnarApril20	8,693,346

023 IcparApril A2.3 cparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril202 Page 3 of 14 23 IcparApril2

Deductions:	12022 Topuntprit2023	1 120	
Tax depreciation	1023 Innar Anri 12 W1	7,953,502	(5 IcparApril.) 93 IcparApril.
Profit on disposal of Fixed assets	2023 IcparApril2023	2,875,764	3 IcparApril
Release of Bonus Provisions (2020)	2023 IcparApril2023	205,000	3 IcparApril
Actual rent expense	(14m/1.18*100*1 0)	118,644	23 IcparApril. 23 IcparApril.
Total deductions cparApril2023 IcparApril	2 023 IcparApril2023     023 IcparApril2023	cparApril201 cparApril201	11,152,909
Adjusted taxable profit	2023 IeparApril2023 1	cparApril20.	19,926,922
Tax losses brought forward (b/f)	12 023 IcparApril2 W3	cparApril20. cparApril20.	(13,032,17 8)
Net Taxable profit	12023	cparApril201 cparApril201	6,894,744
023 Jopar April2023 Jopar April2023 Jopar Apri CIT rate April2023 Jopar April2023 Jopar Apri	12023 IcparApril2023	cparApril20	30%
CIT payable (N/A) due to tax holiday of 7 years	2023 IcparApril2023 I 2023 IcparApril2023 I	cparApril201	23 IcparApril 23 IcparApril

W1: Tax Depreciation (05 Marks)	Compute rs	Other Assets	Total
<b>Opening TWDV</b> <i>IcparApril2023 IcparApril2023 Ic</i>	345,605	33,738,060	34,083,66 5
Additions qualifying for Accelerated depreciation	62,000	IcparApril2023	62,000
Additions not qualifying for Accelerated depreciation	6,610	1,293,750	1,300,360
Proceeds from disposal of fixed assets	parApril2023	(4,108,234)	(4,108,23 4)
Sub-total	414,215	30,923,577	31,337,79 2
Initial allowance (50% for assets of \$50k and above)	(31,000)	IcparApril2023 IcparApril2023	(31,000)
Sub-total	383,215	30,923,577	31,306,79 2
Tear & Wear allowance rate	50%	25%	IcparApril.
Tear & Wear allowance - Amount	(191,608)	(7,730,894)	(7,922,50 2)
Closing TWDV 23 IcparApril2023 IcparApril2023 IcparApril2023 Ic	191,608	23,192,683	23,384,29 0
Total tax depreciation allowances	(222,608)	(7,730,894)	(7,953,50 2)
W2: Management, Loyalty & Technical fees (01 Mark)	<del>sarApril2023 .</del> parApril2023 . parApril2023 .	<del>leparApril2023</del> leparApril2023 leparApril2023	IcparApril IcparApril IcparApril

023 IcparApril A2.3 cparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril 202 Page 4 of 14 23 IcparApril 2

023 IcparApril2023 IcparApril2023 IcparApril2023 Ic 023 IcparApril2023 IcparApril2023 IcparApril2023 Ic	RWF '000	cparApril2023	IcparApril2
Amount expensed	905,000	loparApruz025	TeparApril'
Amount allowable (Caped at 2% of Income)	(846,900)	lopar April 2023	IcparApril)
Disallowed	58,100	IcparApril2023	IcparApril2
	parApril2023	cparApril2023	IcparApril2
W3: Prior year losses (RWF '000) and pril2023 14	Annual 23	Cumulated	IcparApril2
Year 1: 2018 2023 Icpar April 2023 Icpar April 2023 Id	(5,115,27	(5,115,271)	IcparApril2
	parApril201)	IcparApril2023	IcparApril2
Year 2: 2019 2023 IcparApril2023 IcparApril2023 Id	(4,622,91	(9,738,185)	IcparApril2
	parApril204)	IcparApril2023	IcparApril2
Year 3: 2020 2023 IcparApril2023 IcparApril2023 Id	(3,293,99	(13,032,178	IcparApril2
023 IcparApril2023 IcparApril2023 IcparApril2023 Ic	parApril203)	IcparApril20)3	IcparApril2

023 IcparApril2

023 IcparApril2

2023 IeparApril2 2023 IeparApril2 2023 IeparApril2 2023 IeparApril2 2023 IeparApril2 2023 IeparApril2

## (c) MEMO FROM: CPA FINALIST STUDENT

# TO: TWAGIYE MOBILITY CFO parApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

TOPIC: Explanation for Key Adjustments in CIT computation on some topics: \_\_\_\_\_\_

Area	Explanation
IFR S 16 Adju stme nt	The Interest on Lease Liability and Amortization of Right to use asset was disallowed and we allowed the actual rent per lease agreement. As much as article 19 of law no.16/2018 allows for taxable business profit to be determined in accordance with IFRS, you will note that IFRS 16 does not correspond to a real expense that can be substantiated with proper receipts.
Rele ase of provi sions	<ul> <li>An amount of RWF 205 million for bonus provision was deducted from taxable income (refer to computation above) in determination of taxable profit. Based on information shared, we understand that;</li> <li>The amount was taxed in prior year</li> <li>The cost was actualized in current year</li> <li>The corresponding taxes were dully paid (PAYE.)</li> <li>Based on this, it fulfils the requirements of article 25 of Rwanda income tax law to</li> </ul>
	be allowed for tax purposes. Par April 2023 Icpar April 2023 Icpar April 2023 Icpar April 2023
023 Icp 023 Icp 023 Icp 023 Icp	
023 Icp 023 Icp 023 Icp 023 Icp 023 Icp	be allowed for tax purposes. Par April 2023 Icpar April 2
	be allowed for tax purposes. April2023 Icpar April2023 Icpar A
	be allowed for tax purposes. April2023 CparApril2023 Cpar
	be allowed for tax purposes. Pur April2023 IcparApril2023 IcparApr
	be allowed for tax purposes: parApril2023 IcparApril2023 IcparApri
	be allowed for tax purposes. ParApril2023 IcparApril2023 IcparApri
	be allowed for tax purposes. ParApril2023 IcparApril2023 IcparApri
	be allowed for tax purposes. par April2023 Icpar April2023 Icp
	be allowed for tax purposes. ParApril2023 IcparApril2023 IcparApri
	be allowed for tax purposes.parApril2023 IcparApril2023 IcparApril2023 IcparApril2 arApril2023 IcparApril2023 I
023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp	bé allowed for tax purposes (parApril2023 IcparApril2023 IcparApril2023 IcparApril2 arApril2023 IcparApril2023
023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp	be allowed for tax purposes. <i>ParApril2023 IcparApril2023 IcparApr</i>
023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp 023 Icp	be allowed for tax purposes. par April2023 Icpar April2023 Icp
023 Icp 023 Icp	be allowed for tax purposes. <i>ParApril2023 IcparApril2023 IcparApr</i>

# 023 IcparApril2023 Ic

## 023 IcparApril QUESTION TWO IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Questio	Details IcparApril2023 IcparApril2023 IcparApril2023 IcparA	Marks	Total
n 3 Icpar	pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparA	pril2023 I	Marks
(a) Icpari	Award 2 marks of a well computed CIF value 2023 JoparA	pril202. <b>2</b> 1	cparApril
	Award 0.5 marks on well computed import duty	0.5	cparApril
	Award 2 mark on well computed excise tax	pril202311	cparApril
	Award 2.5 marks on well computed VAT	2.5	purapril 
	Award 0.5 marks on well computed withholding tax	0.5	parapris mar Anvil
	Award 0.5 marks on a well computed IDL tax	0.5	coar April
	Award 0.5 marks on a well computed AUL tax 12023 JeparA	0.5	cparApril.
	Award 2.5 marks on Total cost computed that will be	1202.5	parApril
	recognized in the P/L Statement 2023 IcparApril2023 IcparA	pril2023 1	cparApril
	Reasons why VAT and WHT were not included in the total	2	parApril marApril
23 Iopan	cost of P/L Statement	12023 1	and a second second
123 Janar	Total 3 Jonar April 2023 Jonar April 2023 Jonar April 2023 Jonar A	mi12023.7	12
(b) (i)	04 marks for a good illustration of Leasehold Improvement,	pril202341	cparApril
	comprehensive understanding that it is a capital expenditure	pril2023 I	parApril
23 Icpar	and correct proposal of tax treatment 3 JoparApril2023 JoparA	pril2023 1	parApril
(b) (ii)	Maximum 04 marks for a well detailed explanation of IFRS	pril202.41	cparApril
	16 adjustment, disallowable based on specific tax law	pril2023 1	parApril
23 Icpari	requirement and bringing out the right treatment	oruzuzo 1	parapri
	Total	uzuzo 1 :12022 1	8
20 Iopan 172 Iopan	Total Marks	1112023 1	2

## 023 IcparApril Model Answers<sup>23</sup> IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

# a) Computation of Taxes payables at Customs

Descriptio n	2023 IcparApril2023 IcparApril2024 IcparApril2023 IcparApril2023 IcparApril2024 IcparApril2023 I	FRW ''000''
CIF	FOB+I+F <sup>April2023</sup> IcparApril2023 IcparApril2023 IcparApril2023	pril2023 IcparApril2
023 IcparApri 023 IcparApri	(59,000+8,000+12,000) *950	75,050,000
Import duty	CIF *rate April2023 Jonar April2023 Jonar April2023 Jonar A	pril2023 IcparApril2
023 IcparApri	75,050,000*25%	18,762,500
Excise tax	(CIF + import duty+ Handling Fees) *rate	pril2023 IcparApril2
	(75,050,000+18,762,500) *10%	9,381,250
VAT	(CIF +import duty + excise tax + port charges) 18%	pril2023 IcparApril2
023 IcparApri 023 IcparApri 023 IcparApri	(75,050,000+18,762,500+9,381,250+(80,000*10) *18%)	18,718,875
WHT	CIF *rate	nril2023 IcnarAnril

023 IcparApril A2.3 cparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril202 Page 6 of 14 23 IcparApril2

	75,050,000*5%	April2023 April2023	3,752,500
IDL cpar	Apr CIF *Rate pril2023 IcparApril2023 IcparApril2023 Icpar	April2023	IcparApril2
023 Icpar	Apri 2023 IcparApril2023 IcparApril2023 IcparApril2023 Icpar	April2023	IcparApril2
	Apr (75,050,000*1.5%) IcparApril2023 IcparApril2023 Icpar	April2023	1,125,750
AUL	<sup>4pr</sup> CIF*Rate <sup>April2023</sup> IcparApril2023 IcparApril2023 Icpar	April2023	IcparApril2
023 Icparz	(75,050,000*0.2%)	April2023	150,100

Total cost that will be recognized in the P/L statement (CIF+ Import duty+104,469,Excise duty + IDL+ AUL)600

The reasons why VAT and WHT were not included in the total cost that will be recognized in the P/L Statement of Mountain Gorilla Ltd is because; VAT of FRW 18,718,875 will be claimed back in domestic VAT declarations (as Mountain Gorilla Ltd is not the final consumer), and the WHT 5% of FRW 3,752,500 will be claimed back in domestic Income Tax declarations.

(b)<sup>3</sup> IcparApril2023 Icpa

#### i. Lease hold Improvement:

The expenditure on the building, the improvement it makes of the asset's functionality and the duration if the contract (4 years) qualifies this to be a capital expenditure per IFRS requirements.

Since tax laws of Rwanda allow for accounting to base on IFRS rules, this should be capitalized and not expensed upfront.

The company shall then gradually depreciate the 'Leasehold Improvement' over its useful life, in this case falls under 'Other assets and expense the corresponding tax tear and wear.

Therefor the CFO's statement is not correct, the expensed amount shall be 'added back' to increase taxable profit and only recognize corresponding tear and wear.

#### ii. IFRS 16 Adjustment:

Ideally based on article 19 of law No. 16/2018 depreciation and interest on loans are allowable tax expenses, based on this alone you could argue that the current treatment is ok.

However, the same law stipulates the specific conditions that must be fulfilled for an expense to qualify as a tax expense (refer to article 25 of the same law).

IFRS 16 amortization of Right to use asset and interest expenses on Lease Liability do not constitute a real tax expense and cannot be supported with relevant receipts.

Therefore, both shall be added as disallowed (FRW 95 million + FRW 73 million) and actual rent expense of FRW 180 million annual cost shall be allowed and deducted to reduce taxable profit.

Finally, the prepayment aspect should not create confusion, we do not expense prepaid services, hence any payment made crossing into 2022 shall also be disallowed.

#### **QUESTION THREE**

### 023 IcparApril Marking Guide 23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

Questi on	Description <i>Description Description D</i>	Mar ks	Total Marks
(a)	July 2021 VAT computation	pril202	l Icpard
	Output VAT	pril202	3 IcnarA
	Standard sales April 2023 Icpar April 2023 Icpar April 2023 Icpar	pril2(12	3 IcparA
	Credit notes (for supplier, a credit = a reduction of the accounts receivable)	pril2(12 pril2(12)	3 IcparA 3 IcparA
	Input VAT ar April 2023 Icpar April 2023 Icpar April 2023 Icpar	pril202	3 IcparA
	Standard rated purchases operApril2023 IcparApril2023 IcparA	1 12 12	3 IcparA
	Imports of raw materials-from 4 lines in Working	pril24	3 IcparA
	Less return outwards	pruz 1	5 IcparA
	Add understated returns outwards	1	5 1cpurA 5 1
	Less purchases without fiscal invoices	1	lepard
	Office electricity bills	pril2d2	3 IcparA
	Office telephone bills 23 Icpar April 2023 Icpar April 2023 Icpar	pril2(12	3 IcparA
	VAT liability for July 2021 ar April 2023 Icpar April 2023 Icpar	pril2( <b>1</b> 2	3 IcparA
	Add non-declaration penalty	4pril202	3 IcparA
	Add late payment penalty (16,790*20%)	april 24	5 IcparA
	Total VAT payable for July 2021		.). Icpars
	June 2021 VAT computation	1 <u>27777202</u> (mil202	l Iopar
	Non-declaration penalty contract and 2023 Icour April 2023 Icour	bril2(12	3 Icnar/
	Explanation: Though the company did not had sales in June 2021, but it had the obligation to declare whether sales were made or not. The reason why it is charged fixed penalties for non-declaration.	pril2( <b>1</b> 2 pril2(02 pril2(02	3 Icpar/ 3 Icpar/ 3 Icpar/
123 Icpai 123 Icpa	Total	april202	2 Tonay
<b>b</b> 3 Icpai 23 Icpai 23 Icpai 23 Icpai	Award 0.5 on the correct answer to each available option for communication between RRA and taxpayers. (Maximum 2	pril202 pril202 pril202 pril202	lcpar/ lcpar/ lcpar/ lcpar/
<b>C</b> 23 Icpai 123 Icpai	Award 0.5 marks on explanation that a taxpayer is only	0.5	3 Icpar
	Award 0.5 marks on two circumstances that allow RRA to	4pril2( <b>1</b> 2	3 IcparA

Questi on	Description <i>Description</i> <i>April2023 IcparApril2023 IcparApril2023 Icpar</i>	Mar ks	Total Marks
$\frac{1}{2}$	Award 0.5 marks to the explanation that Mercure	0.5	л перигарті 2 т. – 1
	international company can be audited again. Maximum 0.5	2 prii 202	) icparapri
	marks	April202	) icparApri
3 Icpa	Total	Apru202	) icparapri
10 10 pt	Total Marks	2000	2

## Model Answers<sup>23</sup> IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

a) Computation of VAT position for Mercure International Company.

Computation of VAT for Mercure International Company for the Month of June & July 2023 [cparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Output VAT	Description Control Descriptica Control Descriptica Control Descriptica Control Descri	Workings April 2 ar April 2017 Stopar April 2	Amount "000" FRW
	Standard sales	799,000,000*18/10	143,820
	Credit notes (for supplier, a credit = a reduction of the accounts receivable)	46,000* 18/100 April 2023 Icpar April 2	023 ICP 8,280 023 Icpar April 2 023 Icpar April 2
23 IcparApril2023 23 IcparApril2023	Total Output VAT	arApril2023 IcparApril2 arApril2023 IcparApril2	135,540
Input VAT	Description	Workings	Amount ''000'' FRW
	Standard rated purchases	421,095*18/100	75,797
	Imports of raw materials	W1	42,219
	Less return outwards	17,620* 18/100	3,172
	Add understated returns outwards	9,000* 18/100	1,620
	Less purchases without fiscal invoices	7,500*18/100	1,350
	Office electricity bills	2,200*18/100	396
	Office telephone bills	3,000*18/100	540
	Total inputs VAT	arApril2023 IcparApril2 arApril2023 IcparApril2	118,751
<u>)23 IcparApril2023</u> MAT lishility for	IcparApril2023 IcparApril2023 Icp	arApril2023 IcparApril2	023 IcparApril2
VAT liability for July 2021	(135,540 - 118,751)	I I I	16,790
Add non-declaration	IcparApril2023 IcparApril2023 Icp on penalty 2023 IcparApril2023 Icp		023 Icpar 4 300
	penalty (16,790*20%)	arApril2023 IcparApril2	023 Icpa 3,358
Total VAT payable for July 2021	leparApril2023 IeparApril2023 Iep IeparApril2023 IeparApril2023 Iep	arApril2023 IcparApril2 arApril2023 IcparApril2 arApril2023 IcparApril2	023 Icpar April2 023 Icpar April2 023 Icp 20,447

023 JeparApril A2.3 cparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril202 Page 9 of 14 23 JeparApril2

June 2021 VAT computation	
Non-declaration penalty April 2023 Tepar April 2023 Tepar April	2023 IcparApril 223 (~300,000
Note 1. Though the company did not had sales in June 2021	, but it had the obligation to
declare whether sales were made or not. The reason why it i	s charged fixed penalties for
non-declaration. 3 Icpar April 2023 Icpar April 2023 Icpar April	

Working 1:

Description	Cep Workings CeparApril2023 CeparApril2023 CeparApril20 CeparApril2023 CeparApril2023 CeparApril2023 CeparApril20	FRW ''000''
CIF Kigali	cparApril2023 IcparApril2023 IcparApril2023 IcparApril20	152,400
Understatement insurance and freight	cparApril2023 IcparApril2023 IcparApril2023 IcparApril20 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20	16,000
023 IcparApril2023 I	cparApril2023 IcparApril2023 IcparApril2023 IcparApril20	168,400
Import duty	CIF *rate	25 IcparApril2
	168,400,000*25%	42,100
Excise tax	(CIF + import duty) *rate	24 IcnarAnril
	168,400,000+42,100,000*10%	2 21,050
VAT on imports	(CIF +import duty + excise tax + port charges) 18% 20	23 IcparApril2
023 IcparApril2023 I 023 IcparApril2023 I	(168,400,000+41,100,000+21,050,000+3,000,000) *18%	2 42,219 2 100 42,219

b) A communication between the Tax administration and the taxpayer is delivered through any of the following means:

-02A registered letter, parApril2023 IcparApril2023 IcparApril2023

- A written act or communication delivered with acknowledgement of receipt.

023 IcparApril-92An official notification by the court bailiff; 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

Electronic message sent to the email address given by the receiver, and pril2023 [cparApril2023] [cparApril2023] 023 IcparApril20

> c) With reference to Mercure International Company's audit case, explain the concept of the unique audit principle:

- The Tax administration audits a taxpayer only once on a type of tax and for a tax period. However, the Tax administration may conduct a new audit only once in case of one of the following circumstances: 12023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023
- Complicity of the taxpayer and the tax auditor to evade taxes or commit any other act intending to non-payment of required tax. 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023
- If the first audit was based on forged documents. ParApril2023 IcparApril2023 IcparApril2023 023 IcparApril20
  - If the first audit was issue-oriented and the Tax administration wants to conduct comprehensive audit,
  - When the Commissioner General cancels the first audit based on appeal.
  - For the case of Mercure International Company, RRA conducted an issue-oriented tax audit because it was only looking for VAT only for the month of June to July 2021. The tax

administration has the right to conduct a comprehensive audit which can include the reviewed taxes.

### QUESTION FOUR cpar April 2023 Icpar Apri

#### **Marking Guide**

	Marks Marks
(a) Good presentation of PVA	ril2023 IcparApri
Award 2 Marks for computation of Constant Payment, Award 2 Marks for correct computation of Interest, Award 2 Marks for Correct Computation of Principal, Award 2 Mark for Correct Computation of Balance. Max 8 Marks	ril2 023 IcparAp <sub>8</sub> ril2023 IcparApri ril2023 IcparApri ril2023 IcparApri ril2023 IcparApri
Good presentation of loan option cparApril2023 IcparApril2023 IcparAp	ril2023 IcparApri
PBTcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparAp	ril2023 IcparA1.5
Less interest 12023 IcparApril2023 IcparApril2023 IcparApril2023 IcparAp	ril2023 Icpar/125
P/L <sup>1</sup> cparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparAp	1.5
Less relief	1.5
Taxable income	1.5
Tax @ 30% 12023 Jepar April 2023 Jepar A	ril2023 Icpar 1.5
Retained profit023 IcparApril2023 IcparApril2023 IcparApril2023 IcparAp	ril2023 Icp/DNA
(b) Award 1 Mark for each scenario of registration. Max 3 Marks	ril2023 IcparAp3
Total Marks 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparAp	ril2023 IcparA20

#### 023 IcparApril Model Answers)23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

023 IcparApril2

023 IcparApril 023 IcparApril 023 IcparApril	a) Advise on how to finance the b Loan = FRW 1,000,000,000	usiness		
023 IcparApril	Interest (r) = $10\%$			
023 IcparApril 023 IcparApril	Period (n) = 5 years			
023 IcparApril 023 IcparApril	1 VII-II J.//0/000			
023 IcparApril	A=Constant payment			
023 IcparApril				

#### 1,000,000,000 =A\*3.7907868

Year	<b>Constant-FRW</b>	Interest-FRW	<b>Principal-FRW</b>	<b>Balance-FRW</b>
0	4pril2023 IcparApril	2023 IcparApril2023	TeparApruzuzo Tepa	1,000,000,000
s icpar	263,797,481	100,000,000	163,797,481	836,202,519
2	263,797,481	83,620,252	180,177,229	656,025,290
3 3	263,797,481	65,602,529	198,194,952	457,830,339
3 1-4	263,797,481	45,783,034	218,014,447	239,815,892

# $A = 1,000,000/3.7907868 = 263,797,481_{12023} \\ Icpar April 2023 \\ I$

023 JeparApril A2.3 cparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril20 Page 11 of 14 23 JeparApril2

Year	Constant-FRW	Interest-FRW	Principal-FRW	Balance-FRW
5	263,797,481	23,981,589	239,815,892	e Anril 2023 Ionar Anri

#### **Option 1: Loan**

Particulars	Y1-FRW	Y2-FRW	Y3-FRW
PBT	100,000,000	240,000,000	200,000,000
Less interest	(100,000,000)	(83,620,252)	(65,602,529)
P/L	0	156,379,748	134,397,471
Less relief	April2023 IcparApril0023	IcparApril2023 IcparAp	ril2023 Icpar April
Taxable income	rApril2023 IcparApril0023	156,379,748	134,397,471
Tax @ 30%	April2023 IcparApril0023	46,913,924	40,319,241
Retained profit	April2023 IcparApril0023	109,465,824	94,078,230

#### **Option 2: Equity**

Dividend=500,000 x 200 = 100,000,000

particular	4 ril2023 <b>[¥1</b> rApril2023	Icnar AnY2,023 Icnar	April2023 <b>Y3</b>
PBT nar April2023 Icnar	100,000,000	240,000,000	200,000,000
Tax @30%	30,000,000	72,000,000	60,000,000
PATcparApril2023 Icpar	4 12023 70,000,000 23	168,000,000	4pril202140,000,000
Dividend pril2023 Icpar.	4 12023100,000,000 23	IcparA 100,000,000	4pril202100,000,000
Retained profit	4 (30,000,000)	IcparAp 68,000,000	4pril202340,000,000

**Conclusion:** The loan is beneficial as it provides less taxes and higher retained profits

#### b) Advise on the company registration.

A person who sets up a business must register with the Register General. A person who carries out any taxable activity whose turnover is equivalent to twenty million Rwandan Francs (FRW 20,000,000) in the previous fiscal year, or five million Rwandan Francs (FRW 5,000,000) in the preceding calendar quarter is required to register for Value Added Tax within a period not exceeding seven (7) days from the end of the concerned year or quarter.

A person who is not required to register for Value Added Tax may voluntarily register with the Tax administration for Value Added Tax.

023 JeparApril A2.3 cparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril20 Page 12 of 14

### **QUESTION FIVE**

#### **Marking Guide** Question **Details** Total Marks five Marks (a) Award 1 Mark for stating Trading licence tax, Award 1 Mark for explaining exemption on Trading license tax, Award 1 Mark for stating public cleaning fees, and award 1 Mark on explanation. (b) (i) 06 marks for relevant workings, evenly distributed 6 05 marks for correct determination of taxable income (b) (ii) 8 and 03 marks for calculation of tax liability 2 Tax penalty for non-declaration (Explanation) Total 10 **Total Marks** 20

#### **Model Answers**

A2.3

- a) Taxes and fees applicable to Venus Ltd are as follows:
- Trading licence tax: Venus Ltd is qualified to register for trading license tax, however because he is a newly registered medium taxpayer, he will start to pay the trading licence tax after two years.
- Venus Ltd is also required to declare and pay Public Cleaning fees of FRW 10,000 per month, because its offices are located in Kigali City.

#### (b) (i) Calculation of Capital gains tax:

The standard formula for determining capital gains as base for calculation of capital gains tax is getting the difference between proceeds from sale of shares and the cost of the shares, but for this question we have to separate calculation for the cost of shares as it is not straight.

When	Particulars	Shares	Share Price (FRW)	Total (FRW)
April 2021	Purchase of shares	200,000	375	75,000,000
June 2021	Purchase of shares	185,000	250	46,250,000
023 IcparApril	12023 IcparApril2023 Icpa	385,000	rApril2023 IcparApril.	121,250,000
November 2021	Sale of shares	300,000	rApril2023 IcparApril rApril2023 IcparApril	2023 IcparApril. 2023 IcparApril.
Number share	es remaining after sale	85,000	rApril2023 IcparApril	2023 IcparApril.
Step 2: Calc	ulate the cost of the Sha	ares to be sold	arApril2023 IcparApril	2023 IcparApril.
Cost = (sale)	proceeds)/(Sale proceeds	+ value of shar	es remaining)* Cost of	shares pre-sale
Value of rem	aining shares is 85,000 s	hares * selling	price (123,000,000/300	0,000)
Value of rem	aining shares =	34,850,000	rApril2023 IcparApril. rApril2023 IcparApril.	2023 IcparApril. <del>2023 IcparApril</del> .
Cost		ares	sold	2023 IcparApril. 2023 IcparApril.

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Cost of shares sold =	94,480,519	rApril2023 IcparApril	2023 IcparApril
Calculation of capital gains and cap	oital gains tax	rApril2023 IoparApril	2023 IoparApril
Particulars	FRW	FRW	2023 Icnar April
Proceeds from sale of shares	123,000,000	2023 IcparApril	
Cost of net shares realized (refer to step 2)	94,480,519	rApril2023 IcparApril. rApril2023 IcparApril	2023 IcparApril 2023 IcparApril
Add: Broker fees (1% of 123m)	1,230,000	rApril2023 IcparApril	2023 IcparApril
Total cost mil2 23 Japar April 2023 Jap	ar April 2023 Icp	95,710,519	2023 IcparApril
Net capital gains IcparApril2023 Icp	rApril20227,289,481	2023 IcparApril	
Capital gains tax @ 5% mi2023 Im	1,364,474	2023 IcparApril	

#### (b) (ii) Rental income tax

23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20.	FRW '000	<b>FRW '000</b>
Gross Income (100m*3) pril2023 IcparApril2023 IcparApril20	23 IcparApril2	023 10300,000
Deductions: 2023 IcparApril2023 IcparApril2023 IcparApril20.		
Allowable expenses (10%) 2023 JeparApril2023 JeparApril202	30,000	
23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20.		
Depreciation (25% of cost) 12023 IcparApril2023 IcparApril20.		
Finance cost (Interest) (15%*300m)	45 000	
23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023		
223 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril20. 123 IeparApril2023 IeparApril2023 IeparApril20.		(187,500)
Net taxable rental income 2023 IcparApril2023 IcparApril20.		
Tax Liability calculation: 12023 JeparApril2023 JeparApril20.		
23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20.		
Tax bandpril2023 IcparApril2023 IcparApril2023 IcparApril20	Tax rate	(FRW '000)
(0 to 360,000) 23 IcparApril2023 IcparApril2023 IcparApril20.	23 Icpar /0% 2	023 IcparApril
(360,001-1,200,000) arApril2023 IcparApril2023 IcparApril20.	23 Icpar 20% 2	023 Icpar / 168
(Above 1,200,000) cparApril2023 JcparApril2023 JcparApril20	30%	023 Icp 33,390
Total tax liability [cparApril2023 [cparApril2023 [cparApril20]	23 IcparApril2	023 (733,558
Less Tax paid as at 28 <sup>th</sup> February 2022	23 IcparApril2	023 T ( <b>10,000</b> )
Net tax liability (To be paid not later than 31 <sup>st</sup> March 2022)	23 IcparApril2	023 Icp 23,558

No penalty and interest to be payable by Mrs Tengera because as per Article 43 of law nº 016/2018 of 13/04/2018 establishing taxes on income, all revenues derived from rent of machinery and other equipment including agriculture and livestock equipment in Rwanda, are included in taxable income and reduced by allowable expenses and for this case the deadline of 31st January 2022 is not applicable as the rental income received by Mrs Tengere is a Personal Income to be treated under Personal Income Tax (PIT) and for PIT, the deadline for declaration and payment is 31<sup>st</sup> March 2022. So even if she declared and paid on 28<sup>th</sup> February 2022 the lesser amount, she still has until 31st March to pay all due amount.

**END OF MARKING GUIDES AND MODEL ANSWERS** 

023 JeparApril A2.3 cparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril20 Page 14 of 14 23 JeparApril2