



**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3 ADVANCED TAXATION

DATE: MONDAY 24, APRIL 2023

INSTRUCTIONS:

1. Time allowed: **3 hours and 45 minutes** (15 minutes reading and 3 hours 30 minutes writing)
2. This examination has **two** sections; **A&B**
3. Section **A** has one Compulsory Question while section **B** has Four optional questions to choose any **Three**
4. In summary attempt **Four** questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings
7. The question paper should not be taken out of the examination room

TAX RATES AND ALLOWANCES:

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

Personal Income Tax Rates (PIT)

Monthly Taxable Income		Tax Rate	Annual Taxable Income		Tax Rate
From (FRW)	To (FRW)	%	From (FRW)	To (FRW)	%
0	30,000	0	0	360,000	0
30,001	100,000	20	360,001	1,200,000	20
100,001	And above	30	1,200,001	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.

RSSB contribution - Pension

Employer's contribution	5%
Employee's contribution	3%

RSSB contribution – Maternity leave

Employer's contribution	0.3%
Employee's contribution	0.3%

Corporate Income Tax Rate: 30%

Capital gains tax

Net aggregate gains are taxable at the company rate of tax

Gains on sale of shares are taxable at the rate of 5%

Value Added Tax (VAT) Rate: 18%

Withholding tax

Standard	15%
Government securities	5%
Import	5%
Public Tender	3%

Gaming tax: 13%

Capital allowance

Description	Rate
Accelerated depreciation	50%
Wear & Tear Allowance	
Buildings, heavy industrial equipment and machineries	5%
Intangible assets	10%
Information and communication systems whose life is over ten (10) years	10%
Computers and accessories, information, and communication systems whose life is under ten (10) years	50%
Other business asset	25%

Your answers should be based on Law N° 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

SECTION A

QUESTION ONE

Twagiye Mobility solutions is one of modern Mobility solutions provider in Kigali Rwanda that was launched in May 2018 with office in the Special Economic Zones. The company is 100% subsidiary of Light Motors (PYT), a multinational automotive company based in South Africa. Light Motors (PYT) got a deal with the Government of Rwanda to be importing unassembled vehicle kits, which are assembled by a third-party dealer before being handed over to its subsidiary Twagiye Mobility Solutions.

The Rwanda Subsidiary uses these brand-new vehicles in different mobility businesses, both Business to Customer (B2C) and Business to Business (B2B), after 2-3 years then sales these vehicles as used cars, orders for new ones and the model goes on, the main objective is to renew the Vehicle fleet in Rwanda. Recently the company has included some Electric Vehicles in its fleet to be in line with Rwanda's vision for transport renovation and green mobility strategy.

The Company imports unassembled vehicle kits duty free per Memorandum of Understanding (MoU) with Government and has a 7 years income tax holiday from date of inception. Due to Sophisticated technology & capacity building needs, the company incurs significant management fees payable to parent company to train local staff and other expert services. Parent company incurs some costs on behalf of Twagiye Mobility Solutions and charges them back without adding any markup.

Twagiye Mobility Solutions only starts depreciating a vehicle once it has been assembled, pre-delivery inspection done and has got a number plate. Unassembled vehicle kits are treated as Capital work in progress (CWIP) and not subject to depreciation.

You are a CPA Finalist student and the Chief Finance Officer (CFO) has provided you with the following information below, please use it to answer resulting questions;

Extract of account balances for period ending and as at 31 December 2021

Main account name	Notes	Amount (FRW '000)
1. Income Statement main line items		
Revenue		42,345,000
Volume based costs	1	(17,719,615)
Other Income	2	3,594,704
Staff costs	3	(3,114,442)
Fixed costs & other administrative expenses	4	(2,649,434)
Finance costs	5	(69,727)
Income taxes		-
Net profit / (Loss) after Income tax		22,386,486
2. Balance sheet main items		
Property, Plant & Equipment	6	38,914,884
Trade and other receivables		8,575,382
Cash and bank		1,913,436

Total Assets		49,403,702
Share capital		63,993,134
Share Premium		-
Accumulated Loss	7	(26,423,071)
Related party payable	8	7,076,949
Lease Liability		773,755
Trade and other payables		3,982,936
Total Equity & Liabilities		49,403,702

Notes:

1. Volume based costs

	Note	FRW '000
Depreciation of Vehicles	i	7,973,827
Driver and Fuel costs		7,087,846
Vehicle Insurance cost	ii	1,771,962
Maintenance and other vehicle costs	iii	885,981
		17,719,615

- i. Depreciation method is straight line, 4 years with 20% residual value
- ii. Insurance cost includes FRW 99 million paid for new batch of Vehicles for period 01 Sep 2021 to 31 Aug 2022
- iii. Maintenance and Other Vehicle costs include FRW 75 million invoice for airport parking received early November 2021, this invoice was for three months from November payable on receipt.

2. Other Income:

	Note	FRW '000
Gain on Disposal of used cars		2,875,764
Discount received from Insurance	i	718,941
		3,594,704

- i. FRW 200 million was approved by Golden Insurance, corresponding EBM invoice was issued but money is yet to be received in January 2022

3. Staff costs

	Note	FRW '000
Gross pay		2,522,698
Pension (total paid @ 8.3% of Gross pay)		209,384
Bonus provision for financial year 2021	i	247,442
Other staff costs	ii	134,918
		3,114,442

- i. Bonus provision is made yearly in line with staff contracts but only paid out in April subsequent year, subject to Board approval. FRW 205 million relating to 2020 was approved and paid in April 2021 & corresponding taxes paid, this amount had been disallowed for 2020 income tax.
- ii. Other staff costs include FRW 65 million for training of Operational staff on new Fleet management software, there is also FRW 6 million paid to best performers at year end party, this was done after December payroll HR is waiting for Finance's guidance in January 2022.

4. Administrative expenses

Admin expenses include the following information which could be of interest to you;

- i. FRW 65 million bad debt written off in line with Company policy, after exceeding 6 months without pay and client no longer actively in business.
- ii. FRW 195 million realized foreign exchange losses on liabilities owing to parent company, the FRW has been depreciating by over 3% year on year versus USD.
- iii. FRW 100 million is fuel reimbursement and airtime for managers and directors per their contracts. The beneficiaries are strongly advised to claim business related costs.
- iv. FRW 95 million was used to repair the new administrative block for 1st and 2nd floor, the lease contract is for 4 years and repairs shall be reinforced annually.
- v. FRW 79 million relates to Amortization in line with IFRS 16 requirement

5. Finance costs

The Finance cost is for compliance purposes with IFRS 16, the actual lease agreement has a monthly cost of FRW 14 million Value Added Tax (VAT) inclusive, contract was entered into from March 2021.

6. Capital Expenditure

Summary	Server & computers (FRW '000)	Registered Vehicle Fleet (FRW '000)
Opening Tax Written Down Value	345,605	33,738,060
Purchase of 60 Vehicles @ \$20,000 per unit		1,293,750
Purchase of 52 phones for drivers @ FRW 150,000 per unit	6,610	-
Proceeds from sale of 25 Used cars		4,108,234
Accounting profit from sale of 25 used cars		2,875,764
Purchase of new 'Twagiye App server'	62,000	

7. Prior years losses:

The company has been suffered significant losses in the first years as shown below, however 2021 was a magical turnaround.

Prior Year Losses	FRW '000
FY 2018	(5,115,271)
FY 2019	(4,622,914)
FY 2020	(3,293,993)

8. Related party Transactions:

- i. FRW 905 million is amount for technical support invoiced in 2021 by parent company, payment due by February 2022, this is for work done in 2021.
- ii. The rest relates to Cost recharges for costs incurred on behalf of Twagiye Mobility Solutions. These are substantiated with support invoices and no markup is added. All amounts relate to 2021.

Required:

- a) The company is planning to seek a \$10 million Loan from the parent company to purchase expensive Electric Vehicles to remain as a market leader, **advise the CFO on main consideration and potential tax limitations on such a Loan.** (4 Marks)
- b) **Perform a detailed computation of Income tax payable in line with Rwanda corporate tax laws, show all relevant workings and disclose all relevant information.** (30 Marks)
- c) **Write a Memo to the CFO highlighting key tax treatments of the following areas in computation in “(b)” above in line with income tax law?**
 - i) IFRS 16 adjustments (2 Marks)
 - ii) Prior year provisions crystalized and paid in current period under review (2 Marks)
 - iii) Profit on disposal of Used cars (2 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

a) Mountain Gorilla Ltd is a Rwandan company which is specialized in importing scarce products from foreign markets. During the year ended 31st December 2021, Mountain Gorilla Ltd imported 80 tons of Basmati rice from Egypt. The following information relating to importation was obtained from Customs office:

Description	USD''000''
Free on Board (FOB)	59,000
Marine Insurance	8,000
Transport Mombasa	12,000
Exchange rate was 1 USD = FRW 950	
Port charges fixed at FRW 10 per 1 KG	

The customs rates are as follows:

Tax	Rate
Excise tax	10%
Import duty	25%
Value Added Tax (VAT)	18%
Infrastructure Development Levy (IDL)	1.5%
African Union Levy (AUL)	0.2%
Withholding Tax (WHT)	5%

Required:

Compute the taxes applicable in customs that Mountain Gorilla Ltd will pay on the imported rice and the total cost of imported Basmati rice that will be recognized in the Profit or Loss statement of Mountain Gorilla Ltd and for those which is not included in the total cost, state the reason why? (12 Marks)

b) You have been recommended for a tax associate job at one of the big 4 audit firms in Kigali, the hiring manager prepared the following tax problems gathered all over from different clients.

The objective is to test your strength in Rwanda tax law and its practical application.

You are required to write a memo to the Country Partner on the tax implication and tax treatment of each of the scenarios provided below;

i) New Manufacturing Company rents a 2-floor building in special economic zones for four years but the building was not in good shape. So, the company spends FRW 230 million in the first quarter renovating the building, portioning offices, and paving parking and roofing the basement. The Chief Finance Officer (CFO) says “*Finally, I can minimize CIT to zero with this payment, after all it is not our building*”. **Assess the CFO’s statement for CIT purposes.**

(4 Marks)

ii) In order to comply with IFRS 16, F&N Adventure adopted a new way of treating their finance lease rental cost in accounting. They recognized a 'Lease Liability' and capitalized 'right to use asset'. So, on a monthly basis the accounting team expenses finance cost on lease liability and amortization of right to use asset. Last year 2021 they expensed FRW 95 million finance cost on lease liability and FRW 73 million amortization on right to use asset. The contract is FRW 15 million per month, paid every 4 months in advance. **Illustrate your view on this, for CIT purposes.** (4 Marks)

(Total: 20 Marks)

QUESTION THREE

a) Mercure International Company is a medium company operating in Rwanda since 2019. The company is undergoing tax audit relating to VAT transactions for the month of June and July 2021. The audit took place in August 2021. The following financial information was obtained from the company's accounting records for the month of July 2021.

No	Description	FRW''000''
1	Purchase of goods at a standard rate	421,095
2	Standard sales	672,580
3	Returns outwards	17,620
4	Electricity bills for office only	2,200
5	Office telephone bills	3,000
6	Imports (CIF Kigali)	152,400
7	Credit notes received	46,000

Additional information:

1. Unless where otherwise indicated, all the figures were VAT exclusive.
2. The company did neither file nor pay the VAT for June and July 2021. However, according to company's records, no sales were made in the month of June 2021.
3. Tax officers established that imports were understated by FRW 16,000,000 as per Cost Insurance and Freight Kigali imports documents. Port charges were fixed at FRW 3,000,000. Import rates were as follows:

Tax	Rate
Excise tax	10%
Import duty	25%
VAT	18%

4. Purchases amounting to FRW 7,500,000 did not have fiscal accepted invoices.
5. Electronic billing machine back-office system showed overall sales records amounting to FRW 799,000,000.
6. The returns outwards were understated by FRW 9,000,000.
7. Credit notes received related to the goods that customers returned in.

Required:

Analyse the above transactions and compute the correct VAT position for Mercure International Company for the Month of June and July 2021. (16 Marks)

b) Mercure International Company was undergoing the tax audit by the tax authority to establish its VAT position, and the results will be communicated to the company. **Explain the means of communication that Rwanda Revenue Authority can use to deliver the notice of tax assessment to Mercure International Company.** (2 Marks)

c) With reference to Mercure International Company's audit case, **explain the concept of the unique audit principle.** (2 Marks)

(Total: 20 Marks)

QUESTION FOUR

Mr Alex has approached you for advice on how to finance his investment. He is considering to register a company and either finance a business using equity, that is, through Equity or debt. The investment requires an initial capital of FRW 1,000 million. Equity will require him to issue 500,000 shares of FRW 2000 each. The dividend per share is FRW 200.

Using the debt, the interest rate on the loan is 10% and the loan must be paid within a period of 5 years making equal payment at the end of each year. The investor forecasted the following profit for the next 3 years:

- Y1= FRW 100 million
- Y2= FRW 240 million
- Y3= FRW 200 million

Required:

a) **Advise Mr Alex on how to finance the business if he wants to minimize loses as much as possible.** (17 Marks)

b) **Mr Alex doesn't have information on the registration requirement and the process thereon. He wants your advice on the company registration.** (3 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) Venus Ltd is a consulting company established in Rwanda in June 2020, with its office located in Kigali City. During the year ended 31st December 2021, the firm wanted to secure three consultancy contracts and was requested by the client to provide the annual income statements for the period ended 31st December 2021. The information below was extracted from the company's accounting records:

Items	Year 2020 Amount "FRW"	Year 2021 Amount "FRW"
Sales	78,000,450	228,935,400
Cost of sales	56,842,000	118,740,000
Gross profit	21,158,450	110,195,400
Expenses	4,700,000	77,890,632

Venus Ltd was not aware of the Local government taxes in Rwanda. The company did not file any local government tax or fees for the fiscal year ended 31st December 2021. The company approached you as a qualified tax expert, to advise on all local government taxes applicable to the company.

Required:

Advise the company all the local government taxes and fees that are applicable to Venus Ltd. (4 Marks)

b) Diane Tengera is a successful business woman in Kigali, she has several investments in 2021. She has approached you for guidance on what could be her likely tax liabilities for timeous planning and avoiding having unrealistic expectations on her return. With help of illustrations, **compute the withholding tax applicable on the following investment income:**

i) Investment in Techmax Ltd:

- ✓ On 18 April 2021, Purchased 200,000 shares for FRW 75 million
- ✓ Acquired additional 185,000 shares this time at a lower price of FRW 250 per share in June 2021
- ✓ In November 2021, Mrs Tengera sold 300,000 of her shares for FRW 123 million. The broker who helped to unlock the deal charges 1% of proceeds from the sale.

(6 Marks)

ii) Mrs Tengera owns three Excavator Machines she rents out to generate additional passive income for herself, the three machines were purchased at a price of FRW 150 million each, partially financed with a bank Loan of FRW 300 million, at annual interest rate of 15%. During the year ended 31st December 2021 she generated FRW 100 million from each Machine. Mrs Tengera declared and paid a rental income tax equivalent to FRW 10,000,000 for the year ended 31st December 2021 on 28th February 2022. **Calculate the tax base and the resulting tax payable as well as penalty and interests payable if any.** (10 Marks)

(Total: 20 Marks)

End of question paper

