



**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

DATE: MONDAY 24, APRIL 2023

MARKING GUIDES AND MODEL ANSWERS

QUESTION ONE

Marking Guide

Question	Description	Marks	Total Marks
(a)	Adjusted taxable income and corporate income tax (CIT)		
	Calculation of understatement of the closing stock	1	
	Sitting allowance to the shareholders	0.5	
	Calculation MD electricity	1	
	Calculation of 20% Electricity	1	
	Calculation of 50% of Bad debts	1	
	Calculation 10% of fuel	1	
	Calculation of Management fees in excess of 2% of turnover	1.5	
	Calculation of Donation in excess of 1% of turnover	1.5	
	Calculation of 20% of Communication	1	
	Fines and penalties	0.5	
	Increase in provision	0.5	
	Accounting depreciation	0.5	
	Calculation of Investment allowance	2	
	Calculation of tax depreciation	1.5	
	Adjusted taxable Income	0.5	
	Tax payable (CIT)	0.5	
	Net tax due	0.5	
	Total		16
(b)	Award 1 Mark for the correct (2) two criteria		2
(c)	Award 1 Mark for any two other types of tax		2
	Total		20

Model Answers

a) Computation of adjusted taxable income

Description	Amount (FRW)	Amount (FRW)
Taxable income declared		638,985,783
Add: Non-deductible expenses		
Understatement of the closing stock (W1)	27,696,807	
Sitting allowance to the shareholders	50,000,000	
MD electricity (W2)	500,000	
20% Electricity (W2)	900,000	
50% of Bad debts (W3)	25,250,227	
10% of fuel (W4)	3,500,000	
Management fees in excess of 2% of turnover (W5)	36,319,454	
Donation in excess of 1% of turnover (W6)	20,613,637	
20% of Communication (W7)	2,404,613	
Fines and penalties	16,395,164	
Increase in provision	12,000,000	
Accounting depreciation	1,020,199,473	
Total add backs		1,215,779,375
Less Tax depreciation (W9)		735,119,699
Adjusted taxable Income		1,119,645,459
Tax payable (CIT)		335,893,638
Quarterly Prepayments	63,524,386	
Withholding on Imports	48,320,642	
Withholding on Public Supplies	4,583,310	
Total Credits		116,428,338
Net tax due		219,465,300

Workings:

W1.

*Closing stock declared 249,271,259=90%

*Closing stock that would have been declared= 249,271,259*100/90=276,968,066

*Closing stock that was not declared = (276,968,066-249,271,259) = 27,696,807

W2.

- Electricity bills worth FRW 500,000 that was paid on behalf of MD is not allowed.
- 20% of electricity should not be allowed according to the article 26.8 of the law no 16 of 13/04/2018 on income tax.

Therefore, (5,000,000-500,000) *20% = 900,000

W3.

50% of bad debts related to the debtor who was not declared insolvent and no other process that was put in place to recover the debt hence this will be rejected.

$$50\% * 50,500,454 = 25,250,227$$

W4.

10% of fuel cost is related to the fuel of MD and hence added back to CIT taxable base.

$$10\% * 35,000,000 = 3,500,000.$$

W5.

Article 26.9 of the law no 16 of 13/04/2018 on income tax state that management fees should not exceed 2% of the turnover, hence

$$\text{Management fees that were declared} \quad 95,092,180$$

$$\text{Management fees that were allowed (2\% * 2,938,636,320) = 58,772,726}$$

$$\text{Management fees that is not acceptable (95,092,180 - 58,772,726) = 36,319,454}$$

W6.

Article 26.4 of the law no 16 of 13/04/2018 on income tax says that donation should not exceed 1% of the turnover and for charitable organizations.

$$\text{Donation that was expensed} \quad 50,000,000$$

$$\text{Donation that was allowed (1\% * 2,938,636,320) = 29,386,363}$$

$$\text{Donation that is not acceptable (95,092,180 - 58,772,726) = 20,613,636}$$

W7.

20% of telephone should not be allowed according to the article 26.8 of the law no 16 of 13/04/2018 on income tax, hence added back

$$\text{Telephone charge added back} = 20\% * 12,023,067 = 2,404,613$$

W8. Computation of investment allowance.

Investment allowance will be allowed to the investor whose investment in assets is worth USD`50,000 each as indicated in the conditions to be fulfilled.

Therefore, Building is the only asset that qualify for investment allowance and was calculated as follows:

Since the old building was acquired 2 years ago as mentioned in the question, this means that it was depreciated at 5% per annum means 10% in 2 years. = $290,935,978 * 100/90 = \text{FRW } 323,262,198.$

The new building is worth FRW 281,596,157 and it qualifies to an investment allowance at 50%.

Computation of Investment Allowance

Description	Cost	Invest allowance @ 50%	Dep base	Dep charge @ 5%
	FRW	FRW	FRW	FRW
New Building	281,596,157	140,798,079	281,596,157	14,079,808
Old Building	323,262,198	0	323,262,198	16,163,110
Total				30,242,918

W9.

Computation of tax depreciation charge for the period

Item	Tax WDV b/f	Additions	Depreciable amount	Investment allowance @50%	Depreciation rate	Depreciation charge
	FRW	FRW	FRW	FRW		FRW
Buildings	290,935,978	281,596,157		140,798,079	5%	30,242,918 (W8)
Workshop equipment	2,500,000	1,392,906	3,892,906	-	25%	973,227
Computer equipment	1,201,432	7,394,517	8,595,949	-	50%	4,297,975
Leased vehicles	1,033,149,498	1,186,580,000	2,219,729,498	-	25%	554,932,375
Furniture and fittings	5,500,000	10,000,500	15,500,500	-	25%	3,875,125
Total	1,333,286,908	1,486,964,080	2,247,718,853	140,798,079		594,321,620

Total depreciation=FRW 594,321,620+FRW 140,798,079= FRW 735,119,699

b) The following are criteria required for a registered investor to be entitled to a flat accelerated depreciation rate of fifty per cent (50%) for the first year for new or used assets:

1. Invest in business assets worth at least fifty thousand US Dollars (USD 50,000) each.
2. Operate in at least one of export projects, manufacturing, telecommunications, agro-processing, education, health; transport excluding passenger vehicles with less than nine (9) people seating capacity, etc...
3. Keep the assets for at least three (3) years after benefiting from the accelerated depreciation.

c) other types of taxes are:

1. Pay As You Earn (PAYE) due to the benefits in kind given to the Managing Director,
2. WHT of 15% will be applied to the payment of Management fees because the recipient is not in Rwanda
3. Import duty, excise duty and VAT due to the imported vehicles from Japan.

QUESTION TWO

Marking Guide

Question	Description	Marks	Total Marks
(a)	Choosing the best offer to Mrs Jane		
	1 Mark for each School fees of the children computed	2	
	1 Mark for each Bonus computed well	2	
	1 Mark for a well computed company car benefit	2	
	1 Marks for a well computed company housing benefit	2	
	1 Mark for each Computation of PAYE due	2	
	1 Mark for a well Computation of net salary	2	
	2 Mark Choosing best employer	2	
	Total		14
(b)	1 Mark for employee and employer RSSB Contribution for each offer		4
(c)	0.5 for a valid point of exempted employment income		2
	Total Marks		20

Model Answers

a) Computation of net salary for Jane for each employee:

Employer A

Description (Monthly)	Amount (FRW)
Basic salary	1,500,000
Communication allowance	200,000
School fees of the children per quarter (450,000/3)	150,000
Cash allowance	150,000
Housing allowance	400,000
Bonus in 3 months (1,200,000/3)	400,000
Total	2,800,000
A company car (2,800,000*10%)	280,000
Total employment income	3,080,000

PAYE due

Between 0-30,000 0%

Between 30,001-100,000 20%

Above 100,001 30%

70,000*20%=14,000

(3,080,000-100,000) *30%= 894,000

PAYE due = 894,000+14,000 = 908,000

Summary

Descriptions	Amount in FRW
Total employment income	3,080,000
Less: PAYE due	(908,000)
Partial Net salary	2,172,000

Employer B

Description (Monthly)	Amount (FRW)
Basic salary	1,500,000
Communication allowance	350,000
School fees of the children per quarter (600,000/3)	200,000
Cash allowance	300,000
Total	2,350,000
A company house (20%*2,350,000)	470,000
A company car (10%*2,350,000)	235,000
Total employment income	3,055,000

PAYE Due**Between 0-30,000 0%****Between 30,001-100,000 20%****Above 100,001 30%****70,000*20%=14,000****(3,055,000-100,000) *30%= 886,500****PAYE due=886,500+14,000= 900,500****Summary**

Descriptions	Amount
Total employment income	3,055,000
Less: PAYE DUE	(900,500)
Partial Net salary	2,154,500

Net salary after PAYE from offer B is FRW 2,154,500, Thus, **A** is the best offer.

b) Calculation of total employee and employer's RSSB contribution (pension and maternity) for each job offer payable per month

Offer A

Type of RSSB Contribution	Descriptions	Amount (FRW)
Pension	3% Employee RSSB contribution 3%*(3,080,000-280,000)	84,000
	5% Employer RSSB contribution 5%*(3,080,000-280,000)	140,000
	Total Pension contribution	224,000
Maternity	0.3% Employee RSSB contribution 0.3%*(3,080,000-280,000)	8,400
	0.3% Employer RSSB contribution 0.3%*(3,080,000-280,000)	8,400
	Total Maternity contribution	16,800
	Total Contribution for offer (A)	240,800

Offer B

Type of Contribution	Descriptions	Amount (FRW)
Pension	3% Employee RSSB contribution 3%*(3,055,000-235,000)	84,600
	5% Employer RSSB contribution 5%*(3,055,000-235,000)	141,000
	Total Pension contribution	225,600
Maternity	0.3% Employee RSSB contribution 0.3%*(3,055,000-235,000)	8,460
	0.3% Employer RSSB contribution 0.3%*(3,055,000-235,000)	8,460
	Total Maternity contribution	16,920

Type of Contribution	Descriptions	Amount (FRW)
	Total Contributions for offer (A)	242,520

c) The following payments are not included in the calculation of taxable employment income:

1. The discharge or reimbursement of expenses incurred by the employee or his/her associate;
2. Contributions made by the employer for the employee to the public institution in charge of social security;
3. Pension payment from the public institution in charge of social security or from a qualified pension fund;
4. Employment income received by an employee who is not a Rwandan citizen from a foreign Government or a nongovernmental organization under an agreement signed by the Government of Rwanda, when the income is received for the performance of aid services in Rwanda;
5. Employment income received from an employer who is not a resident in Rwanda by a non-resident individual for the performance of services in Rwanda, unless such services are related to a permanent establishment of the employer in Rwanda.

QUESTION THREE

Marking Guide

Question	Description	Marks	Total Marks
(a)	1 Mark for each item defined well		6
(b)	0.5 Mark for one valid item provided		2
c) i.	1 Mark for computation of markup	1	
	1 Mark for computation of excise duty base	1	
	1 Mark for computation of excise duty per one bottle	1	
	2 Marks for computation of total excise duty	2	
	Total		5
c) ii.	1 Mark for computation of selling price per unit without VAT	1	
	1 Mark for computation of selling price per unit VAT inclusive	1	
	2 Marks for computation of total revenues	2	
	Total		4
c) iii.	1 Mark for each due date stated		3
	Total Marks		20

Model Answers

a) Definition of different terms:

- i. Pre-clearance:** is a quick release procedure that allows trade facilitation in that declaration can be submitted to Customs and processed before the arrival of goods.
- ii. Blue channel:** Blue channel is a facility accorded to compliant taxpayers by not subjecting their consignments to physical and documentary verification during the customs clearance process but rather allow their goods to clear faster and follow up with a customs post clearance audit.
- iii. Inward processing:** It is the customs procedure under which certain goods can be brought into customs territory conditionally relieved from payment of import duties and taxes on the basis that such goods are intended for manufacturing, processing or repair and subsequent exportation
- iv. Outward processing:** It is the customs procedure under which goods which are in free circulation in a Partner State may be temporarily exported for manufacturing, processing or repair outside the Partner State and then re-imported.
- v. Export processing zone (EPZ):** This refers to a Customs area where one is allowed to import plant, machinery, equipment and material for the manufacture of export goods under security, without payment of duty.
- vi. A Bonded warehouse:** refers to a customs-controlled warehouse for the retention of imported goods until the duty owed is paid.

b) The following is an example of some goods, which are not warehoused:

- Salt;
- Cement;
- Acids for trade and business;
- Ammunition for trade and business
- Chalk;
- Fireworks;
- Dried fish;
- Perishable goods;
- Combustible or inflammable goods except petroleum products for storage in approved places
- Live animals

c)

i) Calculation of excise duty payable to RRA

Descriptions	Amount FRW
Production cost per unit	750
5% Markup (Production cost*5%)	38
Excise duty base (Production cost +markup)	788
Excise duty @ 39% per one bottle	307
Total excise duty (55,456*307)	17,031,924

ii) Selling price of one bottle equal to= Production cost +Markup Excise duty VAT

Descriptions	Amount FRW
Production cost per unit	750
5% Markup	38
Excise duty base (Production cost +markup)	788
Excise duty @ 39% per one bottle	307
Total selling price without VAT	1,095
Total selling price VAT inclusive	1,292
Total revenues (55,456*1292)	71,649,152

iii) The tax period is the calendar month divided into the following three periods:

1. From 1st date to 10th date of the month;
3. From 11th date to 20th date of every month;
3. From 21st date towards end of the month

Within five (5) days following periods mentioned above, the taxpayer declares and pays the excise duty.

QUESTION FOUR

Marking Guide

Question	Description	Marks	Total Marks	
(a)	Giving and defining the following tax recovery procedures			
	Security on movable property	1		
	Mortgage	1		
	Registration of security or mortgage on property	1		
	Warning	2		
	Seizure of the property of a taxpayer	1		
	Publication of auction	2		
	Debtors of the taxpayer and possessors of the taxpayer's funds	1		
	Recovery from directors and shareholders of a company	1		
	Liability of representatives of non-residents with a permanent establishment	1		
	Liability for subcontractors	1		
	Total			12
	(b)	1 Mark of the books of (accounts and record (2000,001-12,000000) given	1	
0.5 Mark for each book of account (12,000,001-20,000000) given		1		
0.5 Mark books of account (20,000,001-Above) given		2		
1 Mark for the maximum of 5 years to preserve books and records given		1		
Total				5
(c)	Taxpayers classified under (12,000,001-20,000,000) are taxed at 3% lumpsum on turnover	1		
	Taxpayers classified under (20,000,001 and above) are taxed at 30% Real regime.	1		
	Taxation of Taxpayers classified under (2,000,001-12,000,000)	1		
	Total			3
	Total Marks		20	

Model Answers

a) The following are tax procedures that are applied by Tax Administration to recover the tax assessed during the audit or any other tax assessment method:

The procedures are classified under the following sections.

Section 1: Security and mortgage on the property of the taxpayer

- **Security on movable property:** The Tax administration has security on income and movable property of the taxpayer, wherever it may be located, for recovery of tax, interest, administrative fine and the cost of recovery.
- **Mortgage:** The Tax administration has a mortgage right on immovable property of the taxpayer wherever it may be located for recovery of tax, interest, administrative fine and the cost of enforcement.
- **Registration of security or mortgage on property:** Security on movable property and mortgage must be registered with the Registrar General for a period of two (2) years starting from the date security or mortgage was registered. In case of administrative or legal recourse, the security and the mortgage are extended for another period of two (2) years after the date of the final decision ordering the taxpayer to pay.

Section 2: Warning and seizure of the property of a taxpayer

- **Warning:** If tax, interest, administrative fine and enforcement costs are not paid within the period provided for by this Law, the Tax administration sends a warning letter to the taxpayer. The warning letter indicates the amount of tax, interest and administrative fine to be paid and the requirements of the law if they are not paid within fifteen (15) days from the receipt of the warning letter by the taxpayer.
- **Seizure of the property of a taxpayer:** If the taxpayer does not pay within the period referred to in of 15, the Tax administration may seize any movable or immovable property of the taxpayer, held by the taxpayer or a third person.

Section 3: Auctioning of property of a taxpayer

- **Publication of auction:** The Tax administration can start the public auction procedure on seized property without recourse to the court order.

Section 4: Recovery from third parties

- **Debtors of the taxpayer and possessors of the taxpayer's funds:** In case the tax is not paid within the fifteen (15) days period, the Tax administration may require any debtor, bank or any other party in possession of the taxpayer's funds to pay to the Tax administration the amount due to the taxpayer against the tax liability.
- **Recovery from directors and shareholders of a company:** Directors who are directly involved in the control and management of a private company are jointly liable for any tax

liabilities incurred by the company if it is evident that they intentionally or negligently caused the company to incur the tax liabilities, shareholders who are involved in the management of the company or misuse company's funds are also liable for any tax liability if willfully or by negligence, they caused the company's inability to meet its tax obligations.

Section 5: Representatives of non-residents and subcontract.

➤ Liability of representatives of non-residents with a permanent establishment:

Representatives acting on behalf of non-residents with a permanent establishment in Rwanda,

➤ **Liability for subcontractors:** A taxpayer, who subcontracts another person, must inform the Commissioner General in writing within fifteen (15) days from the date of commencement of the subcontract.

b)

➤ A person who carries out taxable activities in Rwanda and has an annual turnover exceeding twelve million Rwandan francs (**FRW 12,000,000**) but not exceeding twenty million Rwandan francs (**FRW 20,000,000**) must keep books of accounts and records including the following information:

1. Tax liability;
2. Withheld tax;
3. A declaration of a tax withheld;
4. Sales record.

➤ A person who carries out taxable activities in Rwanda and has an annual turnover exceeding two million Rwandan francs (**FRW 2,000,000**) but not exceeding twelve million Rwandan francs (**FRW 12,000,000**) must keep only records of sales.

➤ A person who has an annual turnover exceeding twenty million Rwandan Francs (**FRW 20,000,000**) per year must keep the following additional documents:

1. A record of assets and liabilities;
2. Records of daily income and expenses related to the business activity;
3. Records of purchases and sales of goods and services related to his or her business;
4. Records of stock inventory at the end of the accounting period;
5. Information related to controlled transactions.

c)

- Taxpayers classified under **(2,000,001-12,000,000)**, are taxed as follows:

Annual turnover	Annual flat amount of tax due FRW
From 2,000,000 to 4,000,000	60,000
From 4,000,001 to 7,000,000	120,000
From 7,000,001 to 10,000,000	210,000
From 10,000,001 to 12,000,000	300,000

- Taxpayers classified under **(12,000,001-20,000,000)** are taxed at **3% lumpsum on turnover**
- Taxpayers classified under **(20,000,001 and above)** are taxed at **30% Real regime.**

QUESTION FIVE

Marking Guide

Question	Description	Marks	Total Marks
a) i.	Computation VAT payable or refundable		
	Computation of the selling price VAT exclusive (consider total)	1	
	0.5 Mark for each output VAT Computed (3.5 marks) and input VAT computed (1.5 marks) (consider dates)	5	
	Computation of the apportionment of the Input VAT	2	
	Computation of VAT refundable	2	
	Total		10
a) ii.	Define of VAT reverse charge and its cause		2
b) i.	1 Mark of import duty computed for Rice and Sugar		2
	1 Mark of VAT duty computed for Rice and Sugar		2
	1 Mark of CIF computed for Rice and Sugar		2
b) ii.	2 Marks for accounting for the taxes (Import and VAT)		2
	Total		10
	Total Marks		20

Model Answer

a) i. Calculation of VAT payable or refundable in the month of December 2018

Date	Nature of Goods	Of Total Value of supplies	Exempted Sales	Taxable Sales incl VAT	Taxable Sales Excl VAT	Output VAT
29/12/2018	Diesel	5,865,520	5,865,520	-	-	-
05/12/2018	Rice +sugar	15,189,601	-	17,923,729	15,189,601	2,734,128
19/12/2018	Cooking oil	14,291,870	-	16,864,407	14,291,870	2,572,537
29/12/2018	Sugar	11,490,951	-	13,559,322	11,490,951	2,068,371
20/12/2018	Cooking oil	14,220,052	-	16,779,661	14,220,052	2,559,609
12/12/2018	Tyres	9,695,490	-	11,440,678	9,695,490	1,745,188
04/12/2018	Sugar	11,707,555	-	13,814,915	11,707,555	2,107,360
26/12/2018	Oil + sugar+ rice	7,345,591	-	8,667,797	7,345,591	1,322,206
29/12/2018	Transport sales	13,232,640	13,232,640	-	-	-
29/12/2018	Hire machine	7,919,564	-	9,345,085	7,919,564	1,425,521
27/12/2018	Tyres	7,066,935	-	8,338,983	7,066,935	1,272,048
03/12/2018	Sugar	5,368,429	-	6,334,746	5,368,429	966,317
18/12/2018	Transport	11,888,700	11,888,700	-	-	-
Total		135,282,896	30,986,860	123,069,323	104,296,036	18,773,287

Summary of computation of Input VAT

Date	Goods Nature	Value	Input VAT paid (Price*18/118)
12/12/2018	Block	1,101,695	168,055
21/12/2018	Insurance on importation of goods	463,421	70,691
27/12/2018	Advertisement	1,662,097	253,540
24/12/2018	Construction material	1,883,720	287,347
01/12/2018	Training costs	457,627	69,808
21/12/2018	Insurance import	2,040,020	311,189
14/12/2018	400 bags of cement	2,881,356	439,529
11/12/2018	Alarm system	2,966,150	452,464
12/12/2018	Security service	450,000	68,644
28/12/2018	Vehicle Insurance	2,474,430	377,455
13/12/2018	Stationeries	1,447,458	220,799
17/12/2018	Consumables	550,847	84,028
14/12/2018	Steel plats	2,386,254	364,005
14/12/2018	55 m3 concrete mix	8,555,000	1,305,000
07/12/2018	Audit fees 2018	1,780,000	271,525
Total		31,100,075	4,744,079

Because Imena Limited is selling both exempted and taxable goods, Inputs must be apportioned to the taxable sales

Apportionment of Input

Details	FRW
Taxable Sales VAT Exclusive	104,296,036
Exempted Sales	30,986,860
Total Value of supplies	135,282,896

Input VAT allowable = Total input * $\frac{\text{Taxable sales}}{\text{Total sales}}$

Input VAT allowable = 4,744,079 * $\frac{104,296,036}{135,282,896}$ = 3,657,437

VAT payable or Refundable = Output VAT - Input VAT

Output VAT	18,773,287
Input VAT (Apportionment)	3,657,437
VAT payable	15,115,850

ii. VAT reverse charge refers to the VAT chargeable to the import of the services from foreign suppliers while the service is available within the country.

b) i. Computation of Import duties, excise and VAT payable to RRA by INGENZI Limited in the month of May 2018.

Import duty=	CIF*Import duty rate
Excise duty =	(CIF+Import duty) *Excise duty
VAT=	(CIF+Import duty +Excise duty) *VAT rate
CIF=	Cost+Insurance+Freight
Calculation of CIF=	
FOB: 3,000USD per bag *900.19=	FRW 2,700,570
Insurance: 450/bag*900.19=	FRW 405,086
Transport: 800USD/bag*900.19=	FRW 720,152
CIF=2,700,570+405,086+720,152=	FRW 3,825,808/Bag
CIF for Rice=789bags*3,825,808=	FRW 3,018,562,512
CIF for Sugar=850 bags*3,825,808=	FRW 3,251,936,800

***Rice**

Rice	Amount (FRW)
Import duty (CIF*25% = 3,018,562,512*25%=	754,640,628
Excise duty	-
VAT= (CIF+Import duty + Port Charges) *18%= (3,018,562,512+754,640,628) *18%	679,176,565

***Sugar**

Sugar	Amount (FRW)
Import duty (CIF*25%) = 3,251,936,800 *25%	812,984,200
Excise duty	-
VAT= (CIF+Import duty + Port Charges) *18%=(3,251,936,800+812,984,200)*18%	731,685,780

ii. Import duty and excise duty are added up to the CIF and form part of the cost of the product imported while VAT that was charged on Customs is not part of Purchase price but claimed on VAT filling and it is refundable.

Dr. Purchase price xxxx

Excise duty xxxx

Import duty xxxx

Cr. Supplier account xxxx

RRA payable xxxx

(Recognition of the purchase, import and excise duty)

QUESTION SIX

Marking Guide

Question	Details	Marks	Total Marks
(a)	0.5 for each content of audit notice		6
(b)	Advise of postponement of the audit		2
(c)	Fixed fines	2	
	Understatement fines	2	
	Computation of the months late	2	
	Interest for late payment computation	2	
	Total penalties to be paid	2	
	Total tax payable	2	
	Total		12
	Total Marks		20

Model Answers

a) The following are contents of an audit notice according to the article 28 of the law n^o 026/2019 of 18/09/2019:

1. The audit to be conducted;
2. The place where the audit is to be conducted and the possible duration of the audit;
3. Any document required to be audited or any information required.
4. Type of the audit to be done whether comprehensive, issue, or refund
5. Expected completion date
6. Names of the auditors to conduct the audit
7. Address of the taxpayer and Taxpayer Identification Number
8. Signature of the stamp of the Tax Administration representatives

b) If the taxpayer is not ready for audit, he or she writes to the Tax administration requesting for a postponement, which should not exceed thirty (30) days and can only be allowed once.

c) Penalties that will be paid on the assessed tax are as follows:

Fixed fines of late filling and payment of the tax

Understatement of the tax and interest for late payment

*Fixed fines are **300,000** because taxpayer is a medium taxpayer with a turnover of more than 20,000,000

* Understatement tax is equal to 100% because the tax declared was FRW 0, if the understatement tax is 20% and above the understatement rate become 20%
 $=20\% * 33,312,540 = \text{FRW } 6,662,508.$

*1.5% per month times the month late.

Months late counted are from 01/04/2020 until 31/12/2020

9 Months were counted therefore, the total interest for late payment worth

$1.5\% * 33,312,540 * 9 = \text{FRW } 4,497,193$

Total Penalties= 4,497,193+6,662,508+300,000= FRW 11,459,701

Total Tax Payable= 11,459,701+33,312,540=FRW 44,772,241

QUESTION SEVEN

Marking Guide

Question	Description	Total Marks
(a)	0.5 Mark for points given on source of revenue for decentralised entities	2
(b)	1 Mark for one type of decentralised tax given and explained	3
(c)	0.5 Mark for on item given on contents of the notice of assessment	3
(d)	1 Mark for one reason given on the waiver of tax	2
(e)	1 Mark for annual income calculated on each building	2
	2 Mark for interest computation on building	2
(f)	1.5 Marks of Computation of rental income for each building	3
	1 Mark for 10% penalty calculation	1
	1 Mark for 1.5% interest calculation	1
	1 Mark for 40% non-declaration of tax	1
	Total Marks	20

Model Answers

a) The revenue and property of decentralized entities come from the following sources:

- Taxes and fees paid in accordance with this Law;
- Funds obtained from issuance of certificates and their extension by decentralized entities;
- Profits from investment of decentralized entities and interests from their own shares and income-generating activities;
- Administrative fines
- Loans;
- Government subsidies;
- Donations and bequests;
- Fees from partners;
- Fees from the value of immovable property sold by auction;
- Funds obtained from rent and sale of land of decentralized entities;
- All other fees and administrative fines that can be collected by decentralized entities according to any other Rwandan law.

b) Taxes to be paid to decentralized entities are as follows:

- 1) **Immovable property tax:** this is tax assessed and paid by the owner of the property, the usufructuary or any other person considered the owner.
- 2) **Trading license tax:** this refers to the tax, which is supposed to be paid by any person for each place who opens a business activity within a District.
- 3) **Rental income tax:** This refers to the tax, which is charged on income generated by an individual or any other person who is not subject to corporate tax from a rented immovable property located in Rwanda.

c) The tax assessment notice of the tax administration to be addressed to a failing tax declarant contains at least the following details:

- a) Tax base calculation outline;
- b) Calculation of the value of the concerned immovable property;
- c) Calculation of the tax;
- d) Names of the owner, his/her proxy or usufructuary;
- e) Address of the owner, the proxy or the usufructuary;
- f) The due date for tax payment;
- g) Mode of payment;
- h) Consequences of late payment or nonpayment of tax;
- i) A reference to the taxpayer's right to complain and appeal.

d) The concerned District Council can only waive the due immovable property tax in the following cases:

- i. The taxpayer has provided a written statement of an inventory of his property justifying that he/she is totally indebted so as a public auction of his/her remaining property would yield no result;
- ii. The taxpayer proves that he/she is not able to pay immovable property tax.

e) Two buildings of Kagabo located in Musanze City

New one was generating income starting from 1/06/2011, as at 31/12/2021, income generated is worth $7 \times 1,500,000 = \text{FRW } 10,500,000$

New building rental income calculation

Annual Income generated $\text{FRW } 10,500,000$

50% of gross revenue deemed as general expense $\text{FRW } 5,250,000$

Annual interest paid $12\% \times 30,000,000 = \text{FRW } 3,600,000$

Taxable rental income (10,500,000 - 8,850,000) = FRW 1,650,000

0-180,000 = 0%

180,001-1,000,000 = 20%

Above 1,000,000 = 30%

(1,000,000 - 180,000) * 20% = FRW 164,000*

(1,650,000 - 1,000,000) * 30% = FRW 195,000*

Rental income tax payable for New Building 164,000 + 195,000 = FRW 359,000

Second building (Old one)

The old one is generating 1,200,000 in a quarter i.e $1,200,000 / 3 = 400,000$, in a year $= 400,000 \times 12 = 4,800,000$

50% of gross revenue deemed as general expense $= 50\% \times 4,800,000 = 2,400,000$

Taxable rental income $(4,800,000 - 2,400,000) = \text{FRW } 2,400,000$.

$(1000,000 - 180,000) \times 20\% = 164,000$

$(2,400,000 - 1000,000) \times 30\% = 420,000$

Total = 164,000 + 420,000 = FRW 584,000

Total Rental Income Payable = 584,000 + 359,000 = FRW 943,000

f) Penalties to be paid are:

a. 10% of due tax = $10\% \times 943,000 = \text{FRW } 94,300$

b. 40% of due tax = $40\% \times 943,000 = \text{FRW } 377,200$

c. 1.5% * tax due/ month = $1.5\% \times 943,000 \times 2 = \text{FRW } 28,290$

Total Tax Payable = 943,000 + 94,300 + 377,200 + 28,290 = FRW 1,442,790

END OF MARKING GUIDES AND MODEL ANSWERS