



**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

DATE: MONDAY 24, APRIL 2023

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven questions** and **only five** questions are to be attempted.
- Marks allocated to each question are shown at the end of the question.
- Show all your working.
- 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 Rate: (VAT)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.

QUESTION ONE

Excellent Motors Rwanda Limited (EMRL) is a subsidiary of Excellent Motors Limited – Uganda. (EML) owned by two shareholders namely: EML –Uganda with 80% and Kalisa Claude with 20%. Its business is for leasing of vehicles, motor vehicle dealership and after sales motor vehicle services, the company offers both operating and hire of vehicles on short terms basis, operating leases and hire of short-term leases contribute to about 80% of the total revenues of the company while other sources (after sales servicing of cars) contribute to about 20% of the total revenues. At the financial year ended 2020, EMRL has presented the following profit and loss account:

Profit or Loss account for the year ended 31 December 2020.

Description	Amount (FRW)
Business Income/Sales	2,938,636,320
Opening Stock	246,753,581
Purchases	777,343,521
Closing Stock	249,271,259
Cost of Goods/Services sold	774,825,843
Gross Profit	2,163,810,477
Operating Expenses	676,467,565
Accounting Depreciation	1,020,199,473
Total Expenses and Depreciation	1,696,667,038
Net Operating Income	467,143,439
Other income	171,842,344
Total Income	638,985,783
Corporate Income Tax to Pay	191,695,735
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	75,267,397

Note:

- Closing stock was understated by 10% of the figure indicated in profit or loss account.
- The operating expenses is composed of the following items:

Description	Note	Amount (FRW)
Wages and salaries	i	350,456,700
Electricity bill	ii	5,000,000
Telecommunication fees		12,023,067
Bad debt written off	iii	50,500,454

Increase in provision		12,000,000
Fines and penalties		16,395,164
Description	Note	Amount (FRW)
Fuel	iv	35,000,000
Maintenance costs		50,000,000
Management fees	v	95,092,180
Donation	vi	50,000,000
Operating Expenses		676,467,565

- i. Wages and salaries include sitting allowance worth FRW 50,000,000 paid to the shareholders of the company.
- ii. Electricity bills includes the amount worth FRW 500,000 that was paid to the company's Managing Director's house, some of the employees live in the places where offices are located as their residence.
- iii. 50% of Bad debts refers to the major client who was not declared insolvent by the court.
- iv. 10% of the fuel was related to the Managing Director's car, the remaining is related to the company daily operations.
- v. Management fees was paid to the parent company.
- vi. Donation was given to the charitable organisations in Rwanda.

3. The following assets were bought in the year of 2018 and no assets were disposed off during the year.

Item	Tax WDV b/f (FRW)	Additions (FRW)	Total value(FRW)
Buildings	290,935,978	281,596,157	572,532,134
Workshop equipment	2,500,000	1,392,906	3,892,906
Computer equipment	1,201,432	7,394,517	8,595,948
Leased vehicles	1,033,149,498	1,186,580,000	2,219,729,498
Furniture and fittings	5,500,000	10,000,500	15,500,500
Total	1,333,286,907	1,486,964,079	2,820,250,986

- Building that has net book value of FRW 290,935,978 was acquired 2 years ago.
- 50-leased vehicles were purchased from Japan with an equal value.
- EMRL is a registered investor in Rwanda Development Board (RDB) with an investment certificate worth USD 50,000,000 and entitled to an investment allowance when meet the required criteria.

Required:

- a) Basing on the above information, **Compute the adjusted taxable income and corporate income tax (CIT) payable to RRA.** (16 Marks)
- b) A registered investor shall be entitled to a flat accelerated depreciation rate of fifty per cent (50%) for the first year for new or used assets, **what are the criteria for an investor to be allowed the accelerated or investment allowance.** (2 Marks)
- c) **What are the other types of taxes that should be computed in the case study?** (2 Marks)

(Total: 20 Marks)

QUESTION TWO

Kirabo Jane has been offered two employment contracts from different employers and she is not aware of the taxes that are paid by an employee, she approached you to help her choosing the best offer among the two.

Employer A

Description (Monthly)	Amount (FRW)
Basic salary	1,500,000
Communication allowance	200,000
A company car	
School fees of the children per quarter	450,000
Cash allowance	150,000
Pension & Maternity contribution (RSSB)	
Housing allowance	400,000
Bonus in 3 months	1,200,000
Total employment income	3,900,000

Employer B

Description (Monthly)	Amount (FRW)
Basic salary	1,500,000
Communication allowance	350,000
A company car	
School fees of the children per quarter	600,000
Cash allowance	300,000
Pension & Maternity contribution (RSSB)	
A company house	
Total employment income	2,750,000

Required:

- a) Advise Kirabo on the best job offer based on the net salary after the employment income tax. (14 Marks)
 - b) Calculate total employee and employer's RSSB contribution (pension and maternity) for each job offer payable per month. (4 Marks)
 - c) State the payments which are exempted from employment income tax. (2 Marks)
- (Total: 20 Marks)**

QUESTION THREE

a) Define the following terms used under customs taxes administration:

- i) Pre-clearance. (1Mark)
- ii) Blue channel. (1Mark)
- iii) Inward processing. (1Mark)
- iv) Outward processing. (1Mark)
- v) Export processing zone. (1Mark)
- vi) Bonded warehouse. (1Mark)

b) State the items that cannot be warehoused according to the customs laws. (2 Marks)

c) Agahebuzo Company Limited (ACL) is a local manufacturer that is specialized in production of different juices including Agahebuzo and Akeza, in the month of January 2021 the company produced 55,456 bottles of Agahebuzo product and the cost of production for each bottle was worth FRW 750 per bottle and the company wishes to add 5% Markup on the production cost.

Required:

- i) Calculate the excise duty payable to RRA. (5 Marks)
 - ii) Calculate the selling price VAT inclusive of one bottle and total revenues in the month of January assuming that all the production was sold. (4 Marks)
 - iii) State the Agahebuzo Company Limited (ACL) declaration and payment due date of excise duty tax. (3 Marks)
- (Total: 20 Marks)**

QUESTION FOUR

a) Rwanda Revenue Authority has audited Mulindi Company Limited (MCL) for the periods of 2019 and 2020 and issued the final note for rectification indicating that MCL owes to the tax administration the total amount worth FRW 100,000,000 (one hundred million Rwandan Franc). The Tax Administration is now in the process of recovering the amount that was mentioned in the audit report. Mulindi Company Limited has been declared insolvent and not ready to pay the assessed amount

Required:

As tax expert, **clearly explain to the Mulindi Company Limited all the possible procedures that should be applied by tax administration (RRA) to recover the assessed tax during the audit.** (12 Marks)

b) The audit results indicated that MCL did not keep all the required documents and records as per the article 13 and 14 of the law no 026/2019 of 18/09/2019 on tax procedures.

Required:

As tax expert, **advise MCL about all the books of accounts and records that must be kept by the taxpayer basing on the annual turnovers and the maximum time period these books and records should be preserved.** (5 Marks)

c) **Explain how taxpayers are being taxed according to their categories of turnovers which are (2,000,001-12,000,000), (12,000,001-20,000,000) and (20,000,001 and above).**

(3 Marks)
(Total: 20 Marks)

QUESTION FIVE

a) Ingenzi Limited is the multi business company located in Kigali and deals with imports of different products including sugar, rice, tyres, cooking oil, hiring and transport services of different machine and vehicles. The following sales and purchases were made by Ingenzi Limited for the month of December 2018. All the prices were Value Added Tax (VAT) inclusive.

December 2018 sales, VAT Inclusive where applicable:

Date	Nature Of Goods	Exempted Sales	Taxable Sales
29/12/2018	Diesel	5,865,520	-
05/12/2018	Rice +Sugar+ tyres	-	17,923,729
19/12/2018	Cooking oil	-	16,864,407
29/12/2018	Sugar	-	13,559,322
20/12/2018	Cooking oil	-	16,779,661
12/12/2018	Tyres	-	11,440,678
04/12/2018	Sugar	-	13,814,915
26/12/2018	Cooking Oil + sugar+ rice	-	8,667,797
29/12/2018	Transport sales	13,232,640	-
29/12/2018	Hire machine	-	9,345,085
27/12/2018	Tyres	-	8,338,983
03/12/2018	Sugar	-	6,334,746
18/12/2018	Transport sales	11,888,700	-
Total		30,986,860	123,069,322

December 2018 local purchases, VAT Inclusive where applicable:

Date	Goods Nature	Value
12/12/2018	Block	1,101,695
21/12/2018	Insurance on importation of goods	463,421
27/12/2018	Advertisement	1,662,097
24/12/2018	Construction material	1,883,720
01/12/2018	Training cost	457,627
21/12/2018	Insurance import	2,040,020
14/12/2018	400 bags of cement	2,881,356
Date	Goods Nature	Value
11/12/2018	Alarm system	2,966,150
12/12/2018	Security service	450,000
28/12/2018	Vehicle Insurance	2,474,430
13/12/2018	Stationeries	1,447,458
17/12/2018	Consumables	550,847
14/12/2018	Steel plats	2,386,254

14/12/2018	55 m ³ concrete mix	8,555,000
07/12/2018	Audit fees 2018	1,780,000
Total		31,100,075

Required:

- i) Compute VAT payable or refundable to RRA by Ingenzi Limited for the month of December 2018.** (10 Marks)
- ii) Define the term VAT reverse charge and give the circumstances that attract the VAT reverse charge.** (2 Marks)
- b) During the month of May 2018, Ingenzi Limited has imported 850 bags of sugar from India and 789 bags of rice from Pakistan. The Free on board (FOB) price was 3,000 USD per bag, marine insurance 450 USD per bag and transport to Mombasa was 800 USD per bag. The exchange rate for the period was 1USD = FRW 900.19.**

Tax	Rate
Import duty	25%
Value Added Tax (VAT)	18%
Excise duty (Where applicable)	20%

Required:

- i) Calculate the Import duty, excise duty and VAT that will be payable to RRA by Ingenzi Limited in the month of May 2018.** (6 Marks)
 - ii) Explain the accounting procedures and entries of Customs taxes which are Excise, import duty and Value Added Tax** (2 Marks)
- (Total: 20 Marks)**

QUESTION SIX

a) Akeza Limited has been informed by Tax administration that there is a tax audit which will be conducted for the periods of 2019 and 2020, due to the restructuring that has recently undertaken in the company, they are not ready for the informed period of the audit,

Required:

What are the contents of an audit notice according to the article 28 of the law n° 026/2019 of 18/09/2019 on tax procedures? (6 Marks)

b) According to the article said in a), advise the accountant of Akeza Limited the actions to be undertaken on the informed audit period (2 Marks)

c) Tax audit for the period ended 31 December 2020 was concluded and tax liability of Akeza Limited as of that period worth FRW 33,312,540 without penalties resulting from Corporate Income Tax that ought to have been paid on 31 March 2021.

Required:

Advise Akeza Limited and compute all fines, interest and penalties payable to RRA according to the article 79 of the law no 026/2019 of 18/09/2019 on tax procedures knowing that Akeza Limited is medium company and counted penalties and interests should be paid on 31 December 2021. (12 Marks)

(Total: 20 Marks)

QUESTION SEVEN

a) What are the main sources of revenue for decentralized entities? (2 Marks)

b) Give and explain the types of taxes collected by decentralised entities. (3 Marks)

c) Tax Administration reviews the tax declaration on immovable property within a period of six (6) months starting from 1st January of the year following the year for which the tax declaration was made. After the review the Tax Administration (TA) issues to the taxpayer a tax assessment notice,

Required:

What are the main contents of the Tax assessment notice issued by tax administration? (3 Marks)

d) What are the circumstances that may lead to the waiver of the tax liabilities of the immovable property tax? (2 Marks)

(e) Kagabo is the owner of the two buildings in Musanze City, which he rents to different persons. One building was finished in May, 2021 and on 1/6/2021 was occupied by a tenant at a monthly rent of FRW 1,500,000. This building was financed by repayable loan of FRW 30,000,000 from XY Bank at 12%. The second one is the old building which is generating FRW 1,200,000 in a quarter.

Required:

Compute rental income tax payable for the period of 2021. (7 Marks)

f) The accountant of Kagabo declared and paid due tax three months late; **Calculate the total tax payable to RRA?** (3 Marks)

(Total: 20 Marks)

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