



CERTIFIED PUBLIC ACCOUNTANT

STAGE 3 EXAMINATION

S3.3: TAXATION

DATE: FRIDAY 30 AUGUST, 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION 1 - 10

Marking Guide

Question one -10	Description	Marks	Total Marks
	Award 2 Marks on each correct answer		
1	B	2	
2	A	2	
3	D	2	
4	D	2	
5	B	2	
6	D	2	
7	A	2	
8	B	2	
9	C	2	
10	C	2	
	Total Marks		20

Model Answer.

QUESTION ONE

The correct Answer is B

The income tax law states that a resident taxpayer is liable to personal income tax from all domestic and foreign sources. A non-resident taxpayer is only liable to personal income tax which has a source in Rwanda.

A is not correct because resident taxpayer is not only liable to income sourced in Rwanda

C is not true because all statements are not true

D is not true because all statements are not false

QUESTION TWO

The correct Answer is A

Descriptions	Amount FRW
Contract price	46,500,000,456
Estimated cost	35,000,500,000
Cost to date	12,865,768,500
Percentage of completion (cost to date/estimated costs)	37%
Revenue (% of completion * contract price)	17,092,848,420
Costs	12,865,768,500

Taxable income (Revenue -costs to date)	4,227,079,920
Tax payable	1,268,123,976

- B** is not correct because tax was calculated at a rate of 28%
C is not correct because tax was calculated at a rate of 25%
D is not correct because A was found as appropriate answer

QUESTION THREE

The correct Answer is D

All revenues derived from rent of machinery and other equipment including agriculture and livestock equipment in Rwanda, are included in taxable income, reduced by:

- 1° ten percent (10%) of gross revenue as deemed expense;
 2° interest paid on loans;
 3° depreciation expenses calculated as provided for by Article 28 of this Law

- A** is not correct because allowed expenses is not 50%
B is not correct because it only considered one item and ignored others.
C is not correct because it considered finance costs which was not given in a question.

QUESTION FOUR

The correct Answer is D

Descriptions	Price per share	No of shares	Total price
Purchase price	1,200	500,000	600,000,000
Selling price	1,500	500000	750,000,000
Capital gain			150,000,000
Tax	5%		7,500,000

- A** is not correct as it considered 5% tax rate
B is not correct as it considered 15% tax rate which not correct
C is not correct as it considered 10% tax rate which is not correct

QUESTION FIVE

The correct Answer is B

Descriptions	Amount FRW
Rental Income (A)	150,000,000
50% deemed expenses (B)	(75,000,000)
Financial interest (C)	(54,000,000)

Taxable income (D)=A-B-C	21,000,000
Tax payable (E)=(D-1000,0000) *30%+164,000	6,164,000

A is not correct because the rate used are for rental income from movable asset

C is not correct because the rate used is for corporate income tax which is not applicable.

D is not correct because B was the answer

QUESTION SIX

The correct Answer is D

The income e tax law states that the following financial interests are not subject to the withholding.

- Interests on deposits in financial institutions for at least a period of one year;
- Interests on loans granted by a foreign development financial institution exempted from income tax under applicable law in the country of origin;
- Interests paid by banks operating in Rwanda to banks or other foreign financial institutions;

A, B, C are not correct because are all exempted from Withholding tax.

QUESTION SEVEN

The correct Answer is A

Descriptions	Amount FRW
Basic salary (A)	9,000,000
Housing allowance (20%*9,000,000) (B)	1,800,000
Car allowance (10%*9,000,000) (C)	900,000
Taxable income (D)=A+B+C	11,700,000

B is not correct as it only considered basic salary as taxable income

C is not correct as it only considered basic salary and housing allowance

D is not correct as it only considered basic salary and transport allowance

QUESTION EIGHT

The correct Answer is B

The tax procedural law states that if the last day to respect provisions of the tax legislation is an official holiday or a day of weekend, provisions of the law are respected on the following working day

A is not correct because deadline was on weekend day

C is not correct as it considered preceding working day.

D is not correct because B is the answer.

QUESTION NINE

The correct Answer is C

The tax is calculated for the calendar year, which starts on 1 January and ends on 31 December.

Upon written request, the Minister may allow in writing a taxpayer to apply any other twelve (12) months period as a tax period, if the taxpayer fulfils the following conditions:

- 1° he/she is an entity subject to corporate income tax;
- 2° he/she is required to keep books of accounts according to generally accepted accounting principles;
- 3° he/she presents sound reasons to change his/her tax period

A is not correct because Kamana is not an entity subject to the CIT

B is not correct as the company does not fulfil the requirement of keeping books of account.

D is not correct as there is no sound reasons for changing period.

QUESTION 10

The correct answer is C

The law says that an individual is considered to be a resident in Rwanda if he/she fulfils one of the following conditions:

- 1° he/she has a permanent residence in Rwanda;
- 2° he/she has a habitual abode in Rwanda;
- 3° he/she is a Rwandan representing Rwanda abroad. An individual who stays in Rwanda for more than one hundred eighty-three (183) days in twelve (12) month period, either continuously or intermittently, is considered to be a resident in Rwanda for the tax period in which the twelve (12) month period has ended.

A, B and C is not correct because James is not qualifying for being a resident and was included in all A B and C.

SECTION B

QUESTION 11

Marking Guide

Descriptions	Marks
Award 2 Marks for WHT computation on dividend income	2
Award 2 Marks for WHT computation on Interest income	2
Award 1 Mark for exemption on interest income	1
Award 2 Marks for WHT computation on capital loss	2
Award 1 Mark for WHT computation on dividend income	1
Award 2 Marks for exemption on capital gain	2
Total	10

Model Answer

1 Dividend income

Descriptions	Amount FRW
Dividend Income	4,500,000
Dividend Income Gross	4736,842
WHT @ 5%	236,842

2 Interest income from govt treasury bonds

Descriptions	Amount FRW
Interest income	5,000,000
WHT @ 15%	882,353

Bank interest income

Interest income	6,500,000	Exempted
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4. Capital Gain

Descriptions	No of shares	Price per share	Total price
Capital gain			
Selling price	5,000	300	1,500,000
Purchase price	5,000	200	1,000,000
Gain	5,000	100	500,000
Tax @ 5%			25,000

5. Dividend income

Descriptions	Amount FRW
No of shares	70,000

Dividend per share	150
Dividend income	10,500,000
WHT @ 5%	525,000

Capital gain

Descriptions	No of shares	Price per share	Total price
Capital gain			
Selling price	8,000	350	2,800,000
Purchase price	8,000	250	2,000,000
Gain	8,000	100	800,000
Tax @ 5%			Exempted as company is listed on capital market

QUESTION 12

Marking Guide

Model Answer

Descriptions	Marks
Award 2 Marks for each transaction max 5 transactions	10

Computation of the tax payable for each of transaction

1.

Descriptions	Amount		
Taxable profit	120,500,000		
Tax payable			
From	To	Tax rate	Tax
-	360,000	0%	
360,000	1,200,000	20%	168,000
1,200,000	above	30%	35,790,000
Total			35,958,000

2.

Descriptions	Amount
Annual turnover (A)	20,000,000,000
Without VAT (B)=A*100/118	16,949,152,542
Net receipt (C) B*97/100	16,440,677,966
Taxable income (D)=B	16,949,152,542
Tax payable(E)=B*30%	5,084,745,763
Less 3% WHT F=B*3%	- 508,474,576

Net tax payable	4,576,271,186
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3

Descriptions	Amount
Annual turnover (A)	17,000,000
Tax payable =A*3%	510,000

4

Descriptions	Amount
Annual turnover (A)	900,000,000
Expenses (B)	750,500,000
Taxable profit (C)=A-B	149,500,000
Loss carry forward D	350,000,000
Taxable loss E=-C-D	(200,500,000)

5

Descriptions	Amount
Annual turnover	250,000,000
Less expenses	190,564,000
Less: Exemption	(12,000,000)
Taxable income	71,436,000
Tax payable	21,430,800

SECTION C

QUESTION 13

Marking Guide

Descriptions	Marks
a)	
Profit before tax	DNA
Overstatement of Closing stock	1
Bonus provision	0.5
Bad debts	0.5
5% Withholding taxes on importations	0.5
Repair and maintenance	0.5
Donations	1
Communication	0.5
Entertainment	1
Fuel	0.5
Prepaid rent	1
Depreciation	0.5
Dividend	0.5
Purchase of delivery van	0.5
Fines and penalties	0.5
VAT	0.5
Local dividend	1
Agriculture income	1
Less Foreign dividend Net	1
Add Foreign dividend grossed up	1
Capital allowance	0.5
WHT on foreign dividend (25%)	0.5
5% Withholding taxes on importations	0.5
Sub Total	15
b) Award 1 Mark for exemption given max 3	3
c) Award 2 Marks for explanation of casual treatment given	2
Total Marks	20

Model Answer

Computation of the taxable income and tax payable for XYZ as at 31 December 2020

Descriptions	Workings FRW "000"	Amount FRW ""000"
Profit before tax		8,721
Add back non allowed expenses		
Overstatement of Closing stock		(10,958)
Bonus provision		12,000
Bad debts		11,000
5% Withholding taxes on importations		250,352
Repair and maintenance		16,800
Donations	W1 (Allowed)	
Communication		3,200
Entertainment	(Allowed)	
Fuel		1,500
Prepaid rent		27,857
Depreciation		14,000
Dividend		15,230
Purchase of delivery van		35,000
Fines and penalties		5,600
VAT		18,560
Total additions		400,141
Deductions		
Local dividend		(336,800)
Agriculture income		(12,000)
Less Foreign dividend Net		(310,500)
Add Foreign dividend grossed up		414,000
Capital allowance		(9,500)
Total deductions		(254,800)
Taxable income		154,062
Tax payable @ 30%		46,218
Less Tax paid at source		
WHT on foreign dividend (25%)		(103,500)
5% Withholding taxes on importations		(250,352)
Total credit		(353,852)
Net tax credit		(307,634)

Working One

Descriptions	Amount FRW "000"
Donation	5000
Donation allowed	10200
Excess donation	N/A

a) **The following are the persons exempted from the employment income tax.**

- A foreigner who represents his/her country in Rwanda;
- Any other individual employed in any Embassy, Legation, Consulate or Mission of a foreign state performing State affairs, who is a national of that State and who owns a diplomatic passport.
- A non-citizen individual employed by an international organization that has signed an

b) **The treatment of the Casual laborers is explained as follows:**

Income from a casual laborer is subject to tax on the special rate of fifteen percent (15%). However, in computing casual laborer's tax, an income not exceeding thirty thousand (30,000 Frw) per month is rated at zero percent (0%).

QUESTION 14

Marking Guide

Descriptions	Marks
Profit before tax	1
VAT on purchases	2
Landry interest on capital	1
Gabi interest on capital	1
Landry salary	1
Gabi salary	1
Partners Christmas gifts	1
School fees for partners' kids	1
Staff communication allowance	1
Provision for doubtful debts	1
Depreciation	1
Capital allowance	1
Profit after tax	1
Award 1 Mark for Profit sharing ratio for each partner	2
Award 1 Mark for salary allocation for each partner	2
Award 1 Mark for interest allocation for each partner	2
Total	20

Model Answer

Computation of the taxable income and the tax liability for the partnership business and the profit shared to each partner for the year ended 31 December 2019.

Descriptions	Workings FRW "000"	Amount FRW ""000"
Profit before tax		177,100
Add back non allowed expenses		
VAT on purchases		110,809
Interest on partners' capital		
Landry		37,800
Gabi		32,500
Partners 'salary		
Landry		2,000
Gabi		3,000
Partners Christmas gifts		7,500
School fees for partners' kids		6,000
Staff communication allowance	20%*18000	3,600
Provision for doubtful debts		25,780
Depreciation		15,000
Total additions		243,989
Deductions		
Capital allowance		(9,500)
Total deductions		(9,500)
Taxable income		411,589
Tax payable @ 30%		123,477
Profit after tax		288,112

Statement of profit distribution for partners for the year ended 31 December 2019

Descriptions	Landry (FRW 000)	Gabi (FRW 000)	Total
Interest on capital	37,800	32,500	70,300
Partner salary	2,000	3,000	5,000
Profit share	91,205	121,607	212,812

QUESTION 15

Marking Guide

Descriptions	Marks
2020	
Award 0.5 Mark for each cost of asset except Land	3
Award 0.5 for Accelerated depreciation on each asset	3
Award 0.5 Mark for Depreciation base on each asset except land	3
Award 0.5 Mark for Depreciation charge on each asset except Land	3
2021	
Award 1 Mark for Accelerated depreciation	1
Award 1 Mark for disposal	1
Award 10.5Mark for Depreciation base on each asset except land	3
Award 0.5 Mark for Depreciation charge on each asset except Land	3
Total	20

Model Answer

Descriptions	Land	Office building FRW "000"	Office computers FRW " 000"	Office furniture FRW "000"	Tractors FRW "000"	Heavy excavator FRW "000"	Motor vehicles FRW "000"	Total FRW "000"
COST/NBV	389,000	840,000	96,800	74,000	450,000	2,100,000	340,000	4,289,800
Accelerated Dep rate		50%	50%	50%	50%	50%	50%	50%
Accelerated depreciation	-	(420,000)	(48,400)	(37,000)	(225,000)	(1,050,000)	(170,000)	(1,950,400)
Disposal	-	-	-	-	-	-	-	-
Depreciation base	-	840,000	48,400	37,000	225,000	2,100,000	170,000	3,420,400
Depreciation rate		5%	50%	25%	25%	5%	25%	
Depreciation charge	-	(42,000)	(24,200)	(9,250)	(56,250)	(105,000)	(42,500)	(279,200)
Closing Balance for 2020	389,000	378,000	24,200	27,750	168,750	945,000	127,500	2,060,200
2021	-							-
Opening balance for 2021	389,000	378,000	24,200	27,750	168,750	945,000	127,500	2,060,200
Additions	-	-	-	-	415,000	-	-	415,000
Accelerated depreciation		-	-	-	(207,500)	-	-	(207,500)
Less disposal			-6000					(6,000)
Depreciation base	0	840,000	18,200	27,750	376,250	2,100,000	127,500	3,489,700
Depreciation charge		(42,000)	(9,100)	(6,938)	(94,063)	(105,000)	(31,875)	(288,975)
Closing Balance for 2021	389,000	336,000	9,100	20,813	282,188	840,000	95,625	1,972,725