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**CERTIFIED PUBLIC ACCOUNTANT  
ADVANCED LEVEL 2 EXAMINATIONS**

**A2.3 ADVANCED TAXATION**

**DATE: MONDAY 26, AUGUST 2024**

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**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%
<b>Wear &amp; Tear Allowance</b>	
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

Uwimana Jean Paul relocated from Rusizi district to Kigali city in 2002 and started building his life there. Using his saving, he bought a motorcycle to provide transportation services. Through diligent savings, he established a small shop in Kimisagara neighborhood in 2008. His business prospered, leading him to move near Nyabugogo Carrefour in 2012. In 2015, he moved to downtown and began importing goods from Dubai and China. Throughout this period, he maintained the same taxpayer identification number (TIN) inscribed on the motorcycle's yellow card. Below is the information on his income and expenses for the year ended 31 December 2022.

Items	FRW "000"	FRW "000"
Sales		4,950,789
Cost of sales		4,358,000
<b>Gross profit</b>		<b>592,789</b>
<b>Other income</b>		
Income from Farming activities		23,000
Interests		2,000
Dividends		20,000
Consultancy Income		4,000
<b>Total income</b>		<b>641,789</b>
<b>Expenses</b>		
Salaries	250,000	
Interest expenses	35,000	
Water and Electricity	31,000	
Provision for bad and doubtful debts	2,500	
Depreciation	97,500	
WHT tax	55,000	
Tax paid	10,000	
drawings	800,000	
Audit fees	6,000	
Advertising costs	15,000	
Repair and maintenance	28,000	
Donation	3,000	
Communication	7,000	
VAT paid	2,500	
<b>Total expenses</b>	<b>1,342,500</b>	<b>1,342,500</b>
<b>Accounting loss</b>		<b>(700,711)</b>

**Additional information:**

1. FRW 23,000,000 was from the farming activities in Kamonyi District.
2. Interests were received from the government bond with a maturity period of 6 years.
3. 10% of the Dividends was received from investment in Kenya (Net of 20% Withholding tax), the remainder was received from shares bought in ABC Ltd a Rwandan resident company located in Musanze District.
4. The consultancy fees were from the tender awarded by Kicukiro District, VAT exclusive. The taxpayer doesn't have the Quitus certificate.
5. Bad and doubtful debts encompass provisions made during the year 2019, and Uwimana had taken all possible steps to recover the money but in vain.
6. Withholding tax relates to 5% WHT paid on importations.
7. The VAT paid is not recoverable due to input apportionment.
8. The quarterly prepayments were FRW 4,000,000 per quarter.
9. A donation was given in celebration of the City Mayor's son' wedding.
10. Communication costs include FRW 1,000,000 paid on airtime loaded into his sister's mobile phone. His sister is not employed by Mr. Uwimana. The remaining amount was loaded into the mobile phone of staff to facilitate them to reach out to the clients.
11. Tax paid concerns withholding tax declared and remitted to RRA for payments made to non-registered suppliers. The company policy is to record the net amount paid and the WHT separately
12. Depreciation pertains to the following assets:

On the 1<sup>st</sup> January 2022 the assets register had the following:

Description	Amount in FRW "000"
Land	85,000
Building	450,000
Motor vehicle	125,000
Furniture	12,000
Computer & accessories	15,000

The construction of the building cost him FRW 600,000,000 in the 2017; in the year 2022 he purchased a delivery van at FRW 15,000,000. The furniture was disposed of at FRW 15,000,000 as Mr. Uwimana was planning to replace the same in the year of 2023.

**Required:**

- a) **Compute the taxable income, tax liability for the year ended 31 December 2022.**  
(28 Marks)
- b) Since the first day he started importing goods, Mr. Uwimana was confused by customs process and procedures. **Explain to him the customs valuation, identical goods and deemed related persons in the context of customs valuation and the basic value for taxation of imported goods.**  
(8 Marks)
- c) Mr. Uwimana recently learned that his colleague had been imprisoned after being convicted of tax fraud. **Concerned about avoiding the same fate, he is seeking a clear explanation of the concepts of tax evasion, tax fraud and tax avoidance.** (4 Marks)

**(Total: 40 Marks)**

## SECTION B

### QUESTION TWO

a) Mrs. Uwamahoro Chantal works partly in Rwanda and partly in the UK. Her family is based in Rwanda. During the year ended 31 December 2022, Mrs. Chantal earned the equivalent of FRW 5,000,000 (Gross) from her employment in the United Kingdom. She paid the equivalent of FRW 650,000 Rwandan francs in income tax.

In addition, she earned FRW 2,500,000 Rwandan francs from consultancy services in Rwanda in addition to the gross employment income of FRW 1,500,000 Rwandan francs (PAYE FRW 500,000 Rwandan francs was remitted to RRA). Her employer in Rwanda provided accommodation for her family. The monthly rent for this accommodation was FRW 80,000 Rwandan francs per month, paid by the employer.

Assume that Rwanda has a double taxation agreement with the UK.

**Required:**

**The tax payable by Mrs. Uwamahoro Chantal for the year ending December 31, 2022.**

(14 Marks)

b) Mr. Owen, a British citizen, arrived in Rwanda in June 2021 and obtained a contract with a local bank to provide elevator maintenance services for a monthly fee of FRW 4,000,000. He returned to his home country shortly after securing the contract.

Before returning to the UK, Mr. Owen engaged Mr. Muhire Christian, a specialist based in Rwanda, to carry out the work and have the timesheets signed so that Mr. Owen could send monthly invoices to the local bank. The contract started in July 2021 and it is still in effect. Mr. Owen never registered a business in Rwanda, as he thinks there is no need to do so.

**Required:**

**Discuss the above scenario and advise Mr. Owen on how to proceed.**

(6 Marks)

**(Total: 20 Marks)**

### QUESTION THREE

a) You are a Tax Manager at D&B Consult. A customer, XYZ Ltd, a multinational company operating in Rwanda, has come to you for advice. It has requested your expertise on several advanced aspects of Value Added Tax (VAT) in Rwanda. The following transactions concern the month of July 2023.

Date	Description	Amount FRW "000"
02 July 2023	Standard rated purchase	300,000
04 July 2023	Rent for July 2023	6,000
06 July 2023	Standard rated sales	500,000
09 July 2023	Standard credit sales	150,000
12 July 2023	Standard credit purchases	250,000
15 July 2023	Purchase of office supplies	8,000
18 July 2023	Electricity bill	4,500
21 July 2023	Communication expense	2,500
24 July 2023	Consultancy fee	30,000
27 July 2023	Provision for bad and doubtful debt	60,000
29 July 2023	Purchased office furniture	45,000
31 July 2023	Export to Burundi	1,800,000

#### Additional information:

1. On 2 July 2023, the company hired a Ugandan consultant for auditing services. The audit fees amount to FRW 10,000,000 VAT exclusive. The service is locally available.
2. On 7 July 2023, among the items sold on 6 July 2023, goods valued at FRW 120,000,000 were returned by the customer and a corresponding credit note was issued. These goods, originally purchased for FRW 110,000,000 from the supplier, were then returned to the supplier, who issued a credit note accordingly.
3. On 25 July 2023, the supplier issued a debit note to the company, indicating that the VAT payable exceeded the amount shown on the original invoice. The debit note indicated that the VAT would be increased by FRW 700,000.
4. The provision for doubtful debts relates to standard credit sales made on 9 July 2023.
5. Communication costs correspond to airtime loaded to the Managing Director's telephone.
6. Unless otherwise indicated, all amounts mentioned include VAT.

#### Required:

**Calculate the amount of VAT to be paid or refunded to the Rwandan Revenue Office for the month ending 31 July 2023.** (15 Marks)

**b) As a CPA finalist, discuss the VAT mechanism in Rwanda** (5 Marks)  
**(Total: 20 Marks)**

#### QUESTION FOUR

- a) Mr, Nkundimana Emanuel is employed by RDA Holdings Ltd as Senior Marketing Officer during the year 2023, under the following are contractual terms:
1. Monthly salary of FRW 900,000
  2. Overtime allowance of FRW 60,000 per month
  3. Communication allowance of FRW 120,000 per month
  4. Rent contribution of FRW 150,000 per month for a residence provided by the company
  5. Use of a company vehicle for personal and business purposes
  6. Two domestic staff paid by the company at FRW 70,000 each per month
  7. Medical insurance contribution of FRW 100,000 per month, of which FRW 60,000 is paid to RSSB (RAMA).
  8. In October, the employer sent him to attend an international conference in South Africa, and the company reimbursed him FRW 4,000,000 for expenses incurred.
  9. In March, his wife underwent surgery and the company paid FRW 3,000,000 for treatment at the CHUK.
  10. The employer deducts FRW 180,000 per month from Nkundimana's PAYE (Pay As You Earn) tax.
  11. In addition to his employment income, Nkundimana works as a consultant and receives a gross income of FRW 15,000,000 during the year.

**Required:**

**Compute the taxable income and tax payable for the year ended 2023.** (15 Marks)

- b) The Rwanda Revenue Authority has several methods and procedures for verifying income that has been omitted or understated. **Explain How does RRA verify omitted or understated income?** (5 Marks)

**(Total: 20 Marks)**

## QUESTION FIVE

a) In the year ended 31 December 2023, Alex received income from the following assets:

1. **Investment in Zamora Enterprises:** Alex owns 120,000 shares at FRW 300 each in Zamora Enterprises, a private company not listed on the Rwanda Stock Exchange. During the year, he sold 8,000 shares at FRW 400 each.
2. **Fixed deposit account at Horizon Bank:** He invested FRW 25,000,000 in a fixed deposit account at Horizon Bank for a period of ten months at an annual interest rate of 8%.
3. **Government bonds:** Received Interest worth FRW 10,000,000 from investments in government bonds with a two -year maturity period.
4. **Qumara Holdings shares:** Alex holds 100,000 shares in Qumara Holdings, a company listed on the RSE market. The company declared a dividend of FRW 250 per share at the end of the year.
5. **ABC Bank fixed deposit:** Alex has a fixed deposit account at ABC Bank with a three-year maturity, receiving interest income of FRW 3,500,000 at the end of the year.
6. **Sale of copyrights:** Alex sold the copyright to his movie for FRW 20,000,000 during the year.
7. **Government securities:** Invested in six-year government securities, he received interest of FRW 7,000,000 during the year.
8. **Igara Limited shares:** He holds 30,000 shares at FRW 350 each in Igara Limited, a company listed on the Rwanda Stock Exchange. Sold 15,000 shares during the year at FRW 450 each.
9. **Umuraza Group dividend:** Received dividend income of FRW 3,000,000 from shares held in Umuraza Group, a private company listed on the Rwanda Stock Exchange.

### Required

- a) For each of the above transaction, **Compute the withholding taxes payable for the year 2023.** (13 Marks)
  - b) **Discuss the "most-favored-nation" principle in international trade. Provide examples to illustrate its application in contemporary trade relations 2023.** (3 Marks)
  - c) **Discuss the income reconstruction in tax assessment, including its methods and regulatory framework. Provide examples of methods used by tax authorities and explain how taxpayers can challenge reconstructed income assessments.** (4 Marks)
- (Total: 20 Marks)**

**End of question paper**



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