



**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

DATE: MONDAY 26, AUGUST 2024

MARKING GUIDE & MODEL ANSWERS

QUESTION ONE

Marking guide

Question No	Description	Marks
(a)	<p>On employment income</p> <p>Award 1 mark for each transaction of employment income, the maximum marks should be 7.</p> <p>On PAYE</p> <p>Award 0.5 marks for indicating correct tax band rate and 0.5 marks on tax amount well computed, the maximum marks should be 3.</p> <p>Note: Do Not Award (DNA) any marks to the student who used the tax band of annual or who included not taxed transaction into the employment income.</p>	10
(b)	<p>Award 1 mark for each principle well discussed, the maximum marks should be 5.</p> <p>Note: consider marking any other valid principle not stated in the model answers</p>	5
(c)	<p>Award 1 mark for each income grossed up</p> <p>1 marks on correct computation of CIT for the year</p> <p>and 0.5 mark on each withholding tax computed, the maximum marks should be 5</p>	5

Model answers

(a)

Mukamana's Total employment Income for the Month of April 2024		
Description	Amount (FRW)	Comment
Basic salary	1,500,000	
Sick leave allowance	200,000	
Overtime allowance	100,000	
Salary advance	0	Salary advance granted to her is less than 3 times of her gross salary. Then, is not subject to tax
Loan	0	Loan granted to her at the high rate compared to the central bank rate. And it is less than 3 times of her gross salary
Security allowance	100,000	Even if the security companies' union set FRW 150,000 as minimum payment, the remaining FRW 50,000 to top up on FRW 100,000 will be covered by

		Mukamana herself and this FRW 50,000 is not part of her employment benefit.
Mission allowance	0	Expense relating to business affair paid by the employer to employee is not taxed
Total Employment Income	1,900,000	
PAYE		
Tax band	Rate	Tax (FRW0)
0-30,000	0%	0
30,001-100,000	20%	14,000
100,001 and above	30%	540,000
Total PAYE		554,000

(b)

The principles of taxation applicable in the jurisdiction of Rwanda include the followings

1. **Legality**, this principle states that no tax can be imposed, removed, modified or reduced by any tax authority staff except by the provision of the law, and this is done to safeguard the taxpayer's right.
2. **Equality**, this principle states that all peoples, businesses and institutions as far as tax is concerned are equal, and no one can be discriminated from others either due because of his/her background or status unless it is within the provision of the law. All tax payers and partners having part in the tax system should receive similar treatment
3. **Certainty**, under this principle, tax system should be certain to allow a taxpayer predict the tax obligation of a given transaction. This means that the tax rate should be stable from period to period, not changing tax rates or tax base over time.
4. **Efficiency**, this principle states that a tax system should be set in the way it raises the revenues needed at the lowest cost to the taxpayer and should not cause the negative distortion to the taxpayer or consumer.
5. **Equity and benefit**, this principle states that the taxes to be collecting should be fair and based on people's ability to pay. In addition, the tax payers 'should pay taxes based on the benefit (utility) they derive from consuming government goods or services.
6. **Broad based**, this principle states that the taxes should be spread over a wide section of population as possible in order to minimize the individual's burden.
7. **Compatibility**, this principle states that, taxes should be coordinated to ensure tax neutrality and the overall objectives of good governance.
8. **Convenience**, this principle states that, the taxes should be enforced in a manner that facilitates voluntary compliance at a maximum level.
9. **Neutrality**, this principle states that, the taxes should not favour any one group or sector over another and should not also influence individual decision making.

(c)

Details of income received	Applicable Withholding tax	Grossed amount in FRW
Interest Income	Exempted	2,400,000
Royalty Income	15%	5,882,353
Dividend Income	20%	2,500,000
Investment Income		10,782,353
Taxable income		10,782,000
Tax liability	30%	3,234,600
Tax Payable will be		
Tax liability		3,234,600
Less withholding tax		
Royalty Income	15% of 5,882,353	882,353
Dividend Income	20% of 2,500,000	500,000
Tax Payable		1,852,247

QUESTION TWO

Marking guide

Question No	Description	Marks
(a)(i)	Award 0.5 for each transaction posted in the profit or loss except wear and tear Award 1 mark for wear and tear Award 1 mark for computation of tax Note: No marks on gross profit, total allowable expenses, profit before tax and net profit as well	6
(a)(ii)	Each transaction awarded 1 mark on each partner except the totals, the maximum marks should be 6	6
(b)	Award 1 mark for each special incentive outlined, the maximum marks should be 4	4
(c)	Award 2 marks for criteria to be considered to invest in government treasury bond and 2 marks for investing in commercial bank through deposit, the maximum marks should be 4	4

Model answers

(a)(i)			
Item description	Amount (FRW'000)	Amount (FRW'000)	
Revenue		12,500	
Less Purchase cost		- 5,500	
Gross Profit		7,000	
Less allowable expenses			
Rent	2,400		
Trade license	120		
Cleaning fees	120		
Transport	300		
Security fees	60		
Bank charges	30		
Wear and Tear-Computer (50% of 600,000)	300		
VAT not recovered	375		
Salary	2,400		
Total allowable expenses		3,330	
Profit before tax		3,670	
Less Tax % 30%		1,101	
Net profit		2,569	
(a)(ii)			
Share of Profit			
Item description	Peter	John	Total
Salary	1,200,000	1,200,000	2,400,000
Interest on Capital (10% of 5,000,000 each)	500,000	500,000	1,000,000
Share of Profit (50:50)	1,284,500	1,284,500	2,569,000
Total shared profit	2,984,500	2,984,500	5,969,000

(b)

The special incentives for registered investors in Rwanda include the following:

A registered investor is entitled to the following incentives if they meet conditions specified in the investment code

1. Preferential Corporate Income Tax Rate of Zero Percent (0%)
2. Preferential Corporate Income Tax Rate of Fifteen Percent (15%)
3. Corporate Income Tax Holiday of Seven Years
4. Corporate Income Tax Holiday of up to Five (5) Years
5. Exemption of Customs Tax for Products Used in Export Processing Zones
6. Exemption of Capital Gains Tax
7. Value Added Tax Refund
8. Immigration Incentives

(c)

- The criteria to be considered before investing in government treasury bond in order to minimize the tax liability is based on the maturing period of the bonds because, according to article 60 of Law 16/2018, interest income is subject to a withholding tax of 15%. However, the interest income derived from the Treasury bond with a maturity period of three years and above, the withholding tax is 5%, this means that in order to minimize the tax liability, a taxpayer should invest in the treasury bonds with maturity period of more than 3 years in order to be withheld 5% instead of 15%.
- The criteria to be considered before investing in commercial bank through deposit, there are many but as far as tax is concerned you have to look to the option which minimize tax liability. For this purpose, the tax payer or client may consider fixed deposit which has a period exceeding one year. The law states that the tax on interest income derived from fixed deposit of more than 1 year is exempted from withholding tax, while if deposit is for period of less than one year, a withholding tax of 15% is applied. The option to consider is maturity of the deposit.

QUESTION THREE

Marking guide

(a)

	Marks
Award marks as below	
Sales	0.5
Opening stock	0.5
Purchase	0.5
Closing stock	0.5
Salary	1
Rent	1
Capital allowance	1
Electricity	0.5
Marketing cost	1
Mission allowance cost	0.5
Profit before tax	1
Tax @ 30%	1
Working 1	
Accelerated depreciation @50%	1.5 (0.5 marks on each correct figure)
For Furniture and fitting, bill board has no accelerated depreciation. However, if a student managed to discover that no Accelerated depreciation applicable-Award marks also	
Wear and Tear Base	
Wear and Tear	1.5 (0.5 marks on each correct figure)

(b)

i)	Marks
Total amount wedged	0.5
Total amount of winnings awarded	0.5
Well computed difference	0.5
Tax liability @13%	0.5
ii) Withholding tax	
Well mentioned amount invested	0.5
Showing amount won by payer	0.5
Computed difference	0.5
Withholding tax @15%	0.5

(c)

Description	Marks
Direct taxes vs indirect taxes attract 2 marks	4
Award 1 mark for disadvantage of direct tax and 1 mark for indirect tax	
Note: consider marking any other valid point not stated in the model answers	

Model answers

(a)

Item description	FRW'000'	FRW'000'
Sales		800,000
Less cost of sales		
Opening stock	200,000	
Purchase	500,000	
Closing stock	(300,000)	
Cost of sales		(400,000)
Gross Profit		400,000
Less expenses		
Salaries and wages	50,000	
Rent (rent for succeeding year is not allowed) i.e. 15,000,000	15,000	
Capital allowance (W1)	41,750	
Electricity	5,000	
Marketing cost (cost of billboard is not allowed, it is capital expenditure) 3,000-2,000	1,000	
Mission allowance cost	12,000	
Total expenses		124,750
Profit before tax		275,250
Tax @ 30%		82,575

Working 1				
Capital expenditure				
Description	Motor Vehicle	Furniture and Fittings	Other asset (Billboard)	Total
	FRW	FRW	FRW	FRW
Cost/NBV	60,000,000	15,000,000	2,000,000	77,000,000
Accelerated depreciation @50%	30,000,000	-	-	30,000,000
Wear and Tear Base	30,000,000	15,000,000	2,000,000	77,000,000
Wear and Tear Rate	25%	25%	25%	
Wear and Tear	7,500,000	3,750,000	500,000	11,750,000
Capital Allowance, wear and tear	37,500,000	3,750,000	500,000	41,750,000
NBV	22,500,000	11,250,000	1,500,000	35,250,000

(b)

i) Tax expense to be paid and deducted from the taxable income in determining corporate income tax due of Tunga betting company	
The income tax law of 2022 state companies carrying out gaming activities pay the tax of thirteen percent (13%) on gaming activities calculated based on the difference between the total amount placed for betting and the winnings awarded.	
For this case:	FRW
Total amount wedged is	7,000,000
Total amount of winnings awarded is	2,500,000
Difference	4,500,000
Tax liability @13%	585,000
ii) Withholding tax	
The withholding tax is applied to the difference between winnings of a player and the amount of money, thus for this case the client A is the one only subjected to be withheld 15% on the total amount invested by the player from the start until the end of the game.	
	FRW
Amount Invested	2,000,000
Winnings	2,500,000
Difference	500,000
Exempted amount	30,000
Withholding base	470,000
Withholding tax @15%	70,500

(c)

Direct taxes are taxes where the taxpayer cannot shift the burden thereof, these taxes are paid directly to the government without intermediaries for example income tax. Whereas indirect taxes shift the responsibilities of collecting, declaring and paying taxes to the intermediaries.

Disadvantages of direct taxes

1. It has a multiple collection point
2. Possible of evasion due to false declaration of income or outright non declaration
3. Possibility of inconvenient to taxpayer due to the requirement to be paid in lumpsum or even in advance.

Disadvantages of indirect taxes

1. It is regressive in nature, which may exploit low-income earners because poor and rich pay taxes at the same rates.
2. Can lead to the increase of price of commodity, since it is included in the price of products or services.

QUESTION FOUR

Marking guide

(a)

Description	Marks
Well indicated cost of item (1 mark each)	2
Insurance (1 mark each)	2
Freight (1 mark each)	2
CIF	
Import duty@ 25% (0.5 marks each)	1
Handling fee @FRW 10/kg	2
Excise duty on sport shoes	
Excise duty on Tusker beer @60%	1
VAT Base (CIF+ Import duty + Handling fee+ Excise duty)	
VAT @18% (1 mark each)	2
Sub Total	12

Description	Marks
(b) Award 1 mark for each point, the maximum marks should be 3	3
(c) Award 1 mark for each exemption listed on both capital gain and interest income, the maximum marks should be 5	5

Model answers

(a)

VAT is equal to 18% (CIF+ Import duty+ Excise duty+ Handling fees)		
Description	Sport shoes	Tusker Beer
	FRW	FRW
Cost	12,000,000	6,000,000
Insurance	1,000,000	1,200,000
Freight	1,500,000	700,000
CIF	14,500,000	7,900,000
Import duty@ 25%	3,625,000	1,975,000
Handling fee @FRW 10/kg	15,000	14,000
Excise duty base (CIF+ Import duty + Handling fee)	18,140,000	9,889,000
Excise duty on sport shoes	-	
Excise duty on Tusker beer @60%		5,933,400
VAT Base (CIF+ Import duty + Handling fee+ Excise duty)	18,140,000	15,822,400
VAT @18%	3,265,200	2,848,032
Total VAT	3,265,200+2,848,032	=6,113,232

(b)

The process of VAT deregistration is:

1. First you have to submit each and every tax return that is due and not submitted up to the time of requesting the deregistration.
2. Second you have to fill the deregistration form available on Rwanda Revenue Authority (RRA) website within a period of 7 days of the time when you ceased to have the taxable supplies
3. Third, you have to wait until when the commissioner general is satisfied that they ceased to make taxable supplies or is not a person to whom the conditions of registration apply in order to be de-registered from VAT.

Note: A business is strictly considered as de-registered by a written confirmation by RRA

(c)

The capital gain exempted from the withholding tax is:

Capital gain from the sale or transfer of shares on the capital market and capital gain from the sale or transfer of units of the collective investment schemes, is exempted from capital gain tax

The interest income exempted from the withholding tax are:

1. Interests on deposits in financial institutions for at least a period of one year.
2. Interests on loans granted by a foreign development financial institution exempted from income tax under applicable law in the country of origin.
3. Interests paid by banks operating in Rwanda to banks or other foreign financial institutions.
4. Interest income paid by the government investment trust like Rwanda National Investment Trust (RNIT)

QUESTION FIVE

Marking guide

(a)	
Tax liability on Rental income for NCL for the year ended 31st December 2023	
	Marks
Gross rental income	0.5
Less allowable expenses (10% of gross rental income)	1
Less depreciation @25%	1
Less Interest Expenses (10% of 80% of FRW 20,000,000)	1
Taxable rental income	
Tax payable/ refundable	
Tax band	
0-360,000	0.5
360,001-1,200,000	0.5
1,200,001 and above	
Total Tax liability	
Less Quarterly prepayment (3/4 of FRW 1,200,0000)	0.5
Tax refundable	
(b)	Marks
Total income	1
Less exempted agriculture income	1
Taxable income	1
Tax payable	
Because Muhire is situated under Micro-enterprise, his tax payable will be:	1
The deadline for paying tax was 31 st March 2014	1
(c) (i) Item Description	
Award marks as below	
Reported Taxable profit	0.5
Non allowable expenses added to profit before tax attract marks as below	
School fees for his children	0.5
Wage to Housemaid	0.5
Pocket money of his wife	0.5
Gifts to friends to relatives	0.5
Motorcycle	0.5
Shopping	0.5
Rent	1
Electricity	1
Water	1
Less omitted expenses from other income	0.5
Less Wear and Tear of Motor cycle (25% of 2,500,000)	1
Adjusted Taxable profit	
(c) (ii) Award 2 marks on the advice regarding tax rates	2

Model answers

(a)

Tax liability on Rental income for NCL for the year ended 31st December 2023		
		FRW
Gross rental income		8,000,000
Less allowable expenses (10% of gross rental income)		800,000
Less depreciation @25%		5,000,000
Less Interest Expenses (10% of 80% of FRW 20,000,000)		1,600,000
Taxable rental income		600,000
Tax payable/ refundable		
Tax band	Rate	Tax amount
0-360,000	0%	-
360,001-1,200,000	20%	48,000
1,200,001 and above	30%	-
Total Tax liability		48,000
Less Quarterly prepayment (3/4 of FRW 1,200,0000)		900,000
Tax refundable		852,000

(b) Tax Payable for Muhire

	FRW
Total income	14,500,000
Less exempted agriculture income	(12,000,000)
Taxable income	2,500,000
Tax payable	
Because Muhire is situated under small business, his tax payable will be 3% of turnover 2,500,000*3%	75,000
The deadline for paying tax was 31 st March 2024	

(c) (i)

Item Description	FRW
Reported Taxable profit	24,240
Add non allowable expenses	
School fees for his children	2,400
Wage to Housemaid	360
Pocket money of his wife	1,000
Gifts to friends to relatives	600
Motorcycle	2,500
Shopping	3,000
Rent	2,400
Electricity	160

Water	100
	36,760
Less omitted expenses from other income	2500
Less Wear and Tear of Motorcycle (25% of 2,500,000)	625
Adjusted Taxable profit	33,635

(c) (ii)

Personal Income Tax (PIT) rate is shown below and Yuhi is not supposed to pay CIT Corporate Income Tax (CIT) of 30%

PIT rate uses the tax band as follows:

Tax band	Rate of tax
0-360,000	0%
360,001-1,200,000	20%
1,200,001 and above	30%

QUESTION SIX

Marking guide

Question No	Description	Marks
(a)	Award 1 mark for each condition stated, the maximum marks should be 6	6
(b) (i)	Award 1 mark for each non-government owned entity listed, the maximum marks should be 2	2
(b) (ii)	2 marks for stating that exempted entities submit financial statements to Tax authority	2

(c)

Ward marks as below	Marks
Proceed from liquidation	1
Less	
Capital deducted from proceed	1
Liabilities	
Tax payable deducted from proceed	1
Unpaid salaries deducted from proceed	1
Loan deducted from proceed	1
Interests due deducted from proceed	1
Penalties due deducted from proceed	1
Tax on liquidation award 0.5 for rate and 0.5 for the correct figure	
Working 1- Interest	1
Working 2- Penalty	1

Model answers

(a) The appeal has to fulfil the following conditions:

1. Be in writing;
2. Identify the taxpayer and the taxpayer's identification number;
3. Identify the tax period;
4. Mention the assessment and the object and the grounds for the appeal;
5. Be signed by the taxpayer, the taxpayer's legal representative or the representative holding a mandate;
6. Contain all the proofs, and legal arguments against the assessment

(b) (i)

The non-government owned entities that are exempted from CIT are:

1. Entities that carry out only activities of a religious, humanitarian, charitable, scientific or educational character, unless the revenue received exceeds the corresponding expenses or if those entities conduct a business.
2. International organizations, agencies of technical cooperation and their representatives, if such exemption is provided for by international agreements.

(b) (ii)

The requirement for the entities exempted from CIT is to submit to the Tax Administration their financial statements not later than 31st March following the tax period.

(c) The law state that in the event of liquidation of a Business entity, after payment of liabilities and distribution of shares, the remainder, shall be considered as dividends on shares in the last tax period of the Business entity's existence. Therefore, taxes shall be 15% on net balance

Net proceed is equal to Proceeds minus the liabilities and capital as well		
Item description	FRW	FRW
Proceed		80,000,000
Less		
Liabilities		
Tax payable	8,000,000	
Unpaid salaries	10,000,000	
Loan-Principal amount	20,000,000	
Interests (W1)	4,000,000	
Penalties (W2)	3,000,000	
Total liabilities		(45,000,000)
Less Capital		(15,000,000)
Net proceeds		20,000,000
Tax on liquidation @15%		3,000,000
Working 1- Interest		
Loan	20,000,000	
Interest rate	10%	

Loan period	2	
Total interest at maturity period	4,000,000	
Working 2- Penalty		
Loan	20,000,000	
Penalty Rate	5%	
Maturity period (Years)	2	
Period elapsed (Years)	5	
Arrear period (Years)	3	
Total penalties at liquidation date	3,000,000	

QUESTION SEVEN

Marking guide

Question No	Description	Marks
(a) (i)	Award 1 mark for each condition stated, the maximum marks should be 6	6
(a) (ii)	Award 1 mark for each non-government owned entity listed, the maximum marks should be 2	2
(b)	2 marks for well stated requirement for the entities exempted from CIT	2
(c)	Award 1 mark for each ground stated and 1 mark for mitigation measure, the maximum marks should be 10	10

Model answers

(a) (i)

Tax incidence is a measure of who ultimately pays a tax, either directly or through tax burden and this burden can be split between buyers and consumers or different groups in the economy.

(a) (ii)

The effect of price elasticity of demand and supply on incidence of tax

When the supply is more elastic than demand, the tax burden falls on the buyers while if the demand is more elastic than supply, the producers will bear the cost of the demand.

The example of tax when the burden of tax can be shifted is:

1. Valued added tax
2. Excise duty
3. Customs duty

(b)

Content of the Notice of Assessment The notice of assessment mentions:

1. The taxpayer's name, taxpayer identification number and address;
2. The modalities of calculation of the tax and the amount of tax to be paid;
3. The tax declaration or its rectification note, the assessment notice on which the declaration is based;
4. The date of issuance of the notice of assessment;
5. The address of the Commissioner General to which an appeal has to be sent;
6. The conditions to be fulfilled in order to lodge an appeal

(c)

Desk audit is conducted by an auditor in his/her office on any of the following grounds:

1. Turnover of Value Added Tax is not corresponding to the turnover of income tax without justification;
2. Tax declarations are not corresponding to paid taxes;
3. The taxpayer deducted from tax base non-deductible expenses;
4. One or more invoices were not declared;
5. Any other situations where the tax administration has sufficient documents that can be used to assess taxes.

The mitigation measures by the taxpayer includes:

1. Revenue recorded in the book of account should be equal to the sales as per the VAT account
2. Tax declared should be equal to the tax paid
3. Taxpayer should avoid to deduct the expenses not allowed as per the provision of tax laws
4. The taxpayer must ensure that all invoices related to the period he/she is filling for are included in the books of account.
5. The taxpayer in case he/she is not expert in tax to engage the licensed tax expert to do so.

End of Marking Guide and Model Answers