
CERTIFIED PUBLIC ACCOUNTANT
STAGE 3 EXAMINATION
S3.3: TAXATION
DATE: MONDAY 01, FEBRUARY 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	A	2	
2	D	2	
3	C	2	
4	B	2	
5	D	2	
6	A	2	
7	D	2	
8	C	2	
9	D	2	
10	B	2	
	Total Marks		20

Model answers

QUESTION ONE

Direct and indirect taxes

The correct answer is A

- Excise duties and Value added taxes are both taxes on consumption and therefore indirect.
- 2 & 4 Corporate income tax is a tax on a company's profits, therefore direct tax, while capital gains tax is a tax levied on an individual or company when their wealth increases, it is therefore direct.

QUESTION TWO

The correct answer is D

A, B, C – these records are only required for businesses with turnover in excess of FRW 20,000,000.

Law no 026/2019, Article 13: Books of accounts and records

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.

QUESTION THREE

The correct answer is C

A taxpayer who is not required to file an annual tax declaration is one who only:

1. Receives only employment income.
2. Receives only income on investment that is subject to withholding tax.

(Article 13: Tax declaration)

QUESTION FOUR

The correct answer is B

(ii) is true, (i) is false. The default is for flat tax to apply, and the real regime is when the taxpayer chooses to be taxed in real regime. In addition, the taxpayer is in farming and cropping business activities. The first 12 million are exempted to be taxed, and the taxpayer will be taxed on the 3,000,000.

QUESTION FIVE

The correct answer is D

Annual Turnover	Tax regime
2,000,000 – 12,000,000	Flat tax
12,000,001 – 20,000,000	Lump sum
Above 20,000,00	Real regime

A taxpayer with an annual turnover of below 2,000,000 is not taxed.

QUESTION SIX

The rates of corporate income tax.

The correct answer is A

- SKY Ltd, is listed on the Rwanda Stock Exchange last year and sold 38% of its shares publicly. It will pay corporate income tax at a rate of 25%.

True:

- SKY Ltd, a four-year old micro-finance company, pays corporate income tax at a rate of 30%.

False:

- A micro-finance company is entitled to a 0% corporate income tax rate for the first five years.

QUESTION SEVEN

The correct answer is D:

- **The following are considered permanent establishments according to Rwandan law:**

- (a) A place of management
- (b) A branch
- (c) A factory or workshop
- (d) A mine, a quarry or any other place for an exploitation of natural resources
- (e) A site set for construction, construction site, or a place where supervision or assembly works are carried out
- (f) A place for the provision of services, including consulting services, carried on by a person, with the support of employees or other personnel, for more than 90 days in a 12 months period

- **Activities not considered permanent establishments**

The following shall **not** be deemed to be operations through permanent establishments:

- (a) The use of facilities solely for the purpose of **storage, display or delivery of goods** or merchandise belonging to the enterprise
- (b) The **maintenance of an inventory** (stock) of goods or merchandise belonging to the enterprise solely for the purpose of **storage**
- (c) The **maintenance of an inventory** (stock) of goods or merchandise belonging to the enterprise solely for the purpose of **processing** by another enterprise
- (d) The maintenance of a fixed place of business solely for the purpose of **purchasing inventory** (stock) of goods or merchandise or of collecting information, for the enterprise
- (e) The maintenance of a fixed place of business for the sole purpose of carrying on, on behalf of the enterprise, any other **activity of a preparatory or auxiliary** character
- (f) The maintenance of a fixed place of business solely for any combination of activities mentioned in subparagraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character

QUESTION EIGHT

The correct answer is C

Mugabo Remi would not declare his employment income on his PIT return as it was paid by a Rwandan company.

- Mugabo Remi has foreign income, and so foreign tax credits would be deducted,
- Withholding tax is always deducted from interest payments made by Rwandan financial institutions.
- Mugabo Remi is unlikely to be carrying out imports business, therefore, no Withholding tax on imports would be applied.

QUESTION NINE

The request for extension of tax declaration deadline.

The correct answer is D

According to the Article 20: Request for extension of tax declaration deadline

- A taxpayer may apply to the Commissioner General for an extension of the deadline for tax declaration if he or she provides valid reasons for not declaring tax on time.
- The taxpayer applies in writing to the Commissioner General at least fifteen (15) days before the last filing date of the declaration.
- The Commissioner General may, in writing, grant to the taxpayer an extension of tax declaration deadline within ten (10) days from the date the request was received.
- Extension of tax declaration does not suspend the accrual of interest of the principal tax.

QUESTION 10

The correct answer is B

Article 34: Quarterly prepayment

During the current tax period, the taxpayer pays to the account of the Tax Administration before and not later than 30 June, 30 September and 31 December of the year of taxable business activities, twenty-five (25%) per cent of the tax liability as calculated in the tax declaration of the previous tax period. This amount is reduced by the tax withheld in that quarter, unless the taxable income is not included in the total taxable income.

SECTION B

QUESTION 11

Marking Guide

Question 13	Details	Marks	Total Marks
	Award 1 Mark as follows, except where it is specified:		
	Gross income received VAT inclusive	1	
	Gross income received VAT exclusive	1	
	less allowable expenses	1	
	less depreciation	1	
	less interest expenses	1	
	Taxable Rental income	1	
	<u>Tax computation</u>		
	Tax liability	2	
	Installment prepaid	1	
	Tax payable	1	
	Total Marks		10

Model Answers

Computation of Adam Sano taxable rental income tax, tax liability and the tax payable for the year ended 31/12/2019.

Rental Income computation	Workings	"FRW"
Gross income received VAT inclusive		400,000,000
Gross income received VAT exclusive	$(400,000,000 \times 100/118)$	338,983,051
less allowable expenses	$(50\% \times 338,983,051)$	169,491,525
		169,491,525
less interest expenses	$(8\% \times 1,000,000,000)$	80,000,000
Taxable Rental income		89,491,525
<u>Tax computation</u>		
Total rental taxable income		89,491,525
Tax liability	Tax rate	Tax
0 – 180,000	0%	0
180,001 – 1,000,000	20%	164,000
1,000,001 and above	30%	26,547,458
Total liability		26,711,458
Less Installment prepayments		6,000,000
Tax payable		20,711,458

QUESTION 12

Marking Guide

Question 14	Details	Marks	Total Marks
(a)	Award 1 marks as follows: Award 1 mark on one correct item exempted from VAT when having an investment certificate (Maximum 6 marks)	6	
(b)	Award 1 marks as follows: Award 1 mark on one correct item exempted from Income tax (Maximum 4 marks)	4	
	Total Marks		10

Model Answers

(a) List the goods and services imported by persons with investment certificate that are exempted from value added tax.

The following goods and services imported by persons with investment certificate are exempted from value added tax:

1. Industrial machinery.
2. Raw materials for industries.
3. Building and finishing materials imported by an investor fulfilling the requirements determined by an Order of the Minister.
4. Refrigerating vehicles, tourist vehicles, ambulances, fire- extinguishing vehicles and hearses.
5. Vehicles and movable property and equipment for foreign investors and Rwandans living abroad and their expatriate staff.
6. Equipment for tourism and hotel industry and relaxation places appearing.
7. Goods and services meant for free economic zone.
8. Medical equipment, drugs, agricultural equipment input, livestock and fishing equipment and agricultural input; i) didactical equipment.
9. Special tourist aero planes.

(b) List the types of components of income that are exempt from income tax.

The following components of income are exempt:

1. Income accruing to registered collective investment schemes and employee share schemes.
2. Income derived from agricultural and livestock activities if the proceeds from these activities do not exceed FRW 12,000,000 in a tax period.
3. Pension payments from the state social security system; and
4. Capital gains from secondary market transactions in listed securities.

SECTION C

QUESTION 13

Marking Guide

Question 16	Details	Marks	Total Marks
	Award one mark as follows		
	Sales	1	
	Opening stock	1	
	Purchases	1	
	Closing stock	1	
	Cost of sales	1	
	Gross profit	1	
	Discount received	1	
	Less allowable expenses	1	
	Discount allowed	1	
	Selling and distribution expenses	1	
	Finance cost	1	
	Salaries and wages	1	
	Administrative expenses	1	
	Directors' remuneration	1	
	Bad debts	1	
	Depreciation allowed	1	
	Taxable income	1	
	<u>Computation of tax to be paid</u>		
	Tax for the year	1	
	Less		
	Quarterly prepayments	1	
	Tax liability/credit	1	
	Total Marks		20

Model Answers

Computation of the taxable income, the tax liability and tax payable for Manganese Solutions Ltd for the year ended 31/12/2019.

Sales		17,000,000
Opening stock	1,800,000	
Add Purchases	9,000,000	
Less Closing stock	(1,240,000)	
Cost of sales		(9,560,000)
Gross profit		7,440,000
Discount received		100,000
		7,540,000
Less allowable expenses		
Discount allowed	110,000	
Selling and distribution expenses	540,000	
Finance cost	700,000	
Salaries and wages (1,150,000+10,000)	1,160,000	
Administrative expenses	430,000	
Directors' remuneration	800,000	
Bad debts	450,000	
Depreciation allowed	1,260,000	
		(5,450,000)
Taxable income		2,090,000
Computation of tax to be paid		
Tax for the year	(2,090,000*30%)	627,000
Less		
Installment tax paid	(600,000-6,000)	(594,000)
Tax liability/credit		33,000

QUESTION 14

Marking Guide

Question 14	Details	Marks	Total Marks
(a)	Award Marks as follows:		
1.	<u>Computation of employment income tax for Himbaza Stephanie:</u>		
	Basic Salary	0.5	
	Transport allowance	0.5	
	Communication allowance	0.5	
	Employment income	0.5	
	<u>Add benefits in kind</u>		
	Company car	1	
	Company house	1	
	Taxable employment income	1	

Question 14	Details	Marks	Total Marks
	<u>Tax computation</u>		
	Tax p liability	1	
2.	<u>Computation of employment income tax for Juru</u>		
	Award 2 marks for explanation		
(b)	Computation the RSSB contribution		
(i)	<u>RSSB pension contribution computation</u>		
	Award 0.5 contribution for Himbaza and for Juru as follows:		
	Basis Total amount for pension (0.5 +0.5)	1	
	Employees' contribution 3% (0.5 +0.5)	1	
	Employer's contribution 5% (0.5 +0.5)	1	
	Total pension contribution (0.5 +0.5)	1	
(ii)	<u>RSSB RAMA contribution computation</u>		
	<u>Award 0.5 contribution for Himbaza and for Juru as follows:</u>		
	Total Basis amount for medical scheme	1	
	Employees' contribution 7.5%	1	
	Employer's contribution 7.5%	1	
	Total Rama contribution	1	
(iii)	<u>RSSB Maternity leave contribution computation</u>		
	<u>Award 0.5 contribution for Himbaza and for Juru as follows:</u>		
	Total Basis amount for maternity leave scheme	1	
	Employees' contribution 0.3%	1	
	Employer's contribution 0.3%	1	
	Total Maternity leave contribution	1	
	Total Marks		20

Model Answers

(a) Computation of the taxable monthly employment income and the tax liability of each employee

1. Himbaza Stephanie

Particulars	Workings	Amount (RWF)
Basic Salary		2,500,000
Transport allowance		300,000
Communication allowance		200,000
Employment income		3,000,000
<u>Add benefits in kind</u>		
Company car	(10% * 3,000,000)	300,000

Company house	(20% * 3,000,000)	600,000	
Taxable employment income			3,900,000
Tax computation	Rate	-	Tax
0 – 30,000	0%		0
30,001 – 100,000	20%		14,000
> 100,00	30%		1,140,000
Tax liability		306,500	1,154,000

2. Juru Gaju

Mutesi is income is equal to threshold of FRW 30,000 therefore it is exempted to employment income tax.

(b) Computation of the RSSB pension contribution, Medical and maternity schemes of each employee

1. RSSB pension contribution computation

Particulars	Himbaza Stephanie	Juru Gaju
	FRW	FRW
Basic salary	2,500,000	30,000
Transport allowance	0	0
Communication allowance	200,000	0
Total basis amount for pension	2,700,000	30,000
Employees' contribution 3%	81,000	900
Employer's contribution 5%	135,000	1,500
Total pension contribution	216,000	2,400

Note: The basis for computation of Pension is all employment income except transport allowances and car benefits.

2. RSSB Medical scheme (RAMA) contribution computation

Particulars	Himbaza Stephanie	Juru Gaju
	FRW	FRW
Basic salary	2,500,000	30,000
Transport allowance	0	0
Communication allowance	0	0
Total Basis amount for medical scheme	2,500,000	30,000
Employees' contribution 7.5%	187,500	2,250
Employer's contribution 7.5%	187,500	2,250
Total Rama contribution	375,000	4,500

Note: The basis for computation of RAMA, is the basic salary only

3. RSSB Maternity leave scheme contribution computation

Particulars	Himbaza Stephanie	Juru Gaju
	FRW	FRW
Basic salary	2,500,000	30,000
Transport allowance	0	0
Communication allowance	200,000	0
Total Basis amount for maternity leave scheme	2,700,000	30,000
Employees' contribution 0.3%	8,100	90
Employer's contribution 0.3%	8,100	90
Total Maternity contribution	16,200	180

Note: The basis for computation of maternity leave is all employment income except transport allowances and car benefits

QUESTION 15

Marking Guide

Question 15	Details	Marks	Total Marks
(a)	Award one mark as follows		
	Award 1 mark on explanation that the loss is carried forward in the next five years.	1	
	Award 1 mark on explanation that the taxpayer will apply if he wants to forward the loss in the period exceeding 5 years	1	
	Award 0.5 mark on each well stated requirement the taxpayer should fulfill in order to be authorized to carry forward the loss in the period exceeding five years.	3	
(b)	Award one mark as follows		
	Net profit	1	
	<u>Add backs</u>		
	Disallowed wages and salaries	1	
	Electricity	1	
	Depreciation	1	
	Bad debt	1	
	Entertainment expenses	1	
	Patent royalties	1	
	Legal expenses	1	
	Bank interest paid	1	
	Allowable depreciation	2	
	Adjusted Profit	1	
	<u>Tax computation</u>		
	Tax liability	2	

Question 15	Details	Marks	Total Marks
(a)	Award one mark as follows		
	Award 1 mark on explanation that the loss is carried forward in the next five years.	1	
	Total Marks		20

Model Answers

(a) Advice to the investor on tax treatment of the Loss carried forward from the previous period in the computation of business profit.

- If the computation of business profit results in a loss in a tax period, the loss may be deducted from the business profit in the next five (5) tax periods, earlier losses being deducted before later losses.
- However, the Tax Administration may authorize the taxpayer who so applied for, the loss carried forward of more than five (5) tax periods if s/he fulfils the following:

Article One: Requirements for authorization to a taxpayer to carry forward the loss for more than five (5) tax periods A taxpayer who applies for carrying forward the loss for more than five (5) tax periods must:

1. Submit a written application to the Commissioner General of Rwanda Revenue Authority for carrying forward the loss for more than five (5) tax periods.
2. Submit his or her application with the declaration of tax for the fifth tax period.
3. present sound reasons that caused the loss for which he or she is requesting to carry forward and reliable strategies to overcome such a loss.
4. Prove that the loss was derived from the investments carried out.
5. Submit the certified financial statements of the tax period corresponding to the loss.
6. Be a credible taxpayer who declares and promptly pays tax and not guilty of tax evasion in the previous five (5) years.
7. Not to have distributed any profits in the previous five (5) years.

(b) Computation of the adjusted taxable trade profit, the tax liability for Mugenzi Louis for the year ended 31/12/2020.

		FRW "000"	FRW "000"
Net profit			181,400
<u>Add back disallowed expenses</u>			
Wages and salaries	Sole trader personal expenses	50,000	
Electricity and fuel	20% deemed private proportion	2,400	
Depreciation		22,000	
Bad debt	Allowable expense	-	
Entertainment expenses		6,400	

Patent royalties	(no cap as not related party)	-	
Legal expenses	Capital expenditure	6,000	
Bank interest paid	allowable expenses	-	
Total expenses			(86,800)
			94,600
Allowable depreciation			20,000
Adjusted Profit			74,600
Tax computation:	0-360,000	0%	-
	360,000-1,200,000	20%	168
	>1.200,000	30%	22,020
Tax to be paid			22,188

END OF MARKING GUIDE AND MODEL ANSWERS