



CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS

S3.3: TAXATION

DATE: FRIDAY 01, MARCH 2024

INSTRUCTIONS:

1. **Time allowed: 3 hours.**
2. This examination has **three** sections: **A, B and C.**
3. Section **A** has **10 multiple choice questions** equal to 2 marks each.
4. Section **B** has **2 questions** equal to 10 marks each.
5. Section **C** has **3 questions** equal to 20 marks each.
6. All questions are compulsory.
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 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.

SECTION A

QUESTION ONE

Which two of these Rwandan taxes would be considered as indirect taxes?

- i. Value Added Tax paid when acquiring a car in Rwanda, for own use.
- ii. Capital gains tax on the sale of shares in a company.
- iii. Excise tax on beverage.
- iv. Corporate Income Tax.

- A (i) and (iii)
- B (ii) and (iii)
- C (ii) and (iv)
- D (iii) and (iv)

(2 Marks)

QUESTION TWO

Murenzi Donald has a business in Rwanda with annual turnover of FRW 12,000,000. **Which of the following records is he not required to keep for tax purposes?**

- (i) A record of assets and liabilities.
- (ii) Records of daily income and expenses related to the business activity.
- (iii) Records of purchases and sales of goods and services related to his business.
- (iv) Records of stock inventory at the end of the accounting period.

- A (i) and (iv)
- B (i) and (ii)
- C (ii) and (iii)
- D All of the above

(2 Marks)

QUESTION THREE

An individual who carries out taxable income generating activities prepares an annual tax declaration in accordance with procedures specified by the Tax Administration and he/she presents the declaration to the Tax Administration not later than 31st March of the following tax period. **Which two of the following taxpayers, are not required to file an annual tax declaration?**

- (i) Mugiraneza who receives only employment income from his only employer.
- (ii) Bwiza who receives business income generated from Farming, fishing and forestry.
- (iii) Rugero who receives only income on investment that is subject to withholding tax.
- (iv) Mugisha who receives income from gaming business activities.

- A (i) and (ii)
- B (ii) and (iii)
- C (iii) and (i)
- D (iv) and (ii)

(2 Marks)

QUESTION FOUR

Murinzi Emile, is Rwandan business dealing in farming and cropping activities. He has business turnover of FRW15,000,000 for the tax period ended 2020. **Which of the following statements is true?**

- (i) The Personal Income Tax will be calculated based on business profits unless the taxpayer chooses for the flat tax regime to apply.
- (ii) If the flat tax regime is used, the income tax will be FRW 60,000.

- A (i) is true, (ii) is false.
- B (ii) is true, (i) is false.
- C Both statements are true.
- D Both statements are false.

(2 Marks)

QUESTION FIVE

The income tax law provides three tax regimes available to taxpayers of different amounts according to their annual turnover. **Which one of the following tax regimes can be applied to a taxpayer with an annual turnover of below FRW 2,000,000?**

- A Real regime
- B Lump sum
- C Flat tax
- D None of the above

(2 Marks)

QUESTION SIX

State whether the following statements are true or false in relation to the rates of corporate income tax?

- (i) Benk Ltd, is an insurance company listed on the Rwanda Stock Exchange, last year sold 38% of its shares publicly. It will pay corporate income tax at a rate of 25%.
 - (ii) SKY Ltd, a four-year old Rwandan micro-finance institution, pays corporate income tax at a rate of 30%.
- A Statement (i) is true and statement (ii) is false.
 - B Statement (ii) is true and statement (i) is false.
 - C Both statements are true.
 - D Both statements are false.

(2 Marks)

QUESTION SEVEN

Which of the following activities are considered permanent establishments according to the Rwandan tax law?

- 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 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.

(2 Marks)

QUESTION EIGHT

Mugabo Remi is a Rwandan resident who works as the Managing Director of a Rwandan company. His Pay As You Earn (PAYE) is always deducted from his employment income in Rwanda. He has investments in bank deposits and shares, both in Rwanda and overseas, resulting in dividend and interest income. **Which of the following items would be deducted from Mugabo Remi's personal income tax liability on his PIT return in accordance to the Rwandan income tax law?**

- (i) Withholding tax on interest
- (ii) Withholding tax on imports
- (iii) PAYE
- (iv) Foreign tax credits

- A (i), (ii) and (iii)
- B (ii) and (iii)
- C (i) and (iv)
- D (ii), (iii) and (iv)

(2 Marks)

QUESTION NINE

When the period for declaration of domestic taxes arrives as provided for by law, the taxpayer must make a declaration in Tax administration. **State whether the statement is true or false regarding the request for extension of tax declaration deadline.**

- (i) The taxpayer applies in writing to the Commissioner General at least five days before the last filing date of the declaration.
- (ii) Extension of tax declaration will suspend the accrual of interest of the principal tax, if the taxpayer provides valid reasons for not declaring tax on time.

- A (i) is true and (ii) is false
- B (ii) is true and (i) is false
- C Both statements are true
- D Both statements are false

(2 Marks)

QUESTION 10

Which of the following items is deductible from corporate income tax quarterly prepayment installment?

- A The loss incurred by the business during the quarter being declared.
- B The tax withheld in that quarter, unless the taxable income is not included in the total taxable income.
- C The bad debts if the taxpayer has taken all possible steps in pursuing payment and has shown a court decision declaring the insolvency of his/her debtor.
- D All of the above.

(2 Marks)

SECTION B

QUESTION 11

Adam Sano is a Rwandan resident. He has an investment in business building which he rents to Rwandan commercial companies. During the year ended 31/12/2019, he received a gross rental income of FRW 400,000,000 VAT inclusive. The buildings were purchased through a loan obtained from a Rwandan bank at a cost of FRW 1,000,000,000. Adam Sano pays a bank at an interest rate of 8% annually. During the year, Adam Sano paid a quarterly rental income tax instalment of FRW 6,000,000

Required:

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

(10 Marks)

(Total: 10 Marks)

QUESTION 12

Good News Investment Limited is registered under the Rwanda's commercial law and received an RDB investment certificate worth FRW 1,000,000,000. The company is located in the free economic zone in Gasabo district and intends to deal in the mining sector. The company has approached you as a tax consultant to guide the company on the advantages the company will derive from the investment made in Rwanda.

Required:

(a) List the goods and services imported by persons with investment certificate that are exempted from Value Added Tax.

(6 Marks)

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

(4 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

Manganese Solutions Ltd is a company incorporated in Rwanda. It started its operations on 01st January 2016. The following trial balance was extracted from the books of the company for the period ended 31st December 2019.

	FRW “000”	FRW “000”
Share capital		4,500,000
Share Premium		2,000,000
Long term loan		3,000,000
<u>Fixed asset at cost</u>		
Factory building	4,500,000	
Machinery and equipment	3,600,000	
Lorries	2,500,000	
Furniture and fittings	1,400,000	
Computers	1,200,000	
<u>Provision for depreciation</u>		
Factory building		400,000
Machinery and equipment		500,000
Lorries		300,000
Furniture and fittings		400,000
Computers		200,000
Computer software cost	240,000	
Computer software amortization		120,000
Good will net	840,000	
Sales		17,000,000
Discount allowed	110,000	
Discount received		100,000
Bank account	500,000	
Purchases	9,000,000	
Trade receivables	700,000	
Trade payables		1,200,000
Provision for debts		670,000
Bad debts	450,000	
Depreciation	580,000	
Selling and distribution expenses	540,000	
Salaries and wages	1,150,000	
Good will amortization	700,000	
Administrative expenses	430,000	
Research and development expenditure	580,000	
Finance cost	700,000	
Directors’ remuneration	800,000	
Installment tax paid	600,000	
Retained profit		2,530,000
Opening Stock at 1/01/2019	1,800,000	-
	32,920,000	32,920,000

Additional Information:

1. Unpaid expenses for the year ended 31st December 2019 includes casual salaries amounting to FRW 10,000,000. The record was not traceable in the books of account for the company.
2. Closing stock at the end of the year 2019, was valued at FRW 1,240,000,000.
3. Capital allowance and Depreciation charge for the year ended 2019 was agreed with the Rwanda Revenue Authority to be FRW 1,260,000,000.
4. The tax installment included fines and penalties for delaying in the PAYE declaration of FRW 6,000,000.
5. The bad debts relate to a client who was declared bankruptcy by the court of Rwanda.

Required:

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

(20 Marks)

(Total: 20 Marks)

QUESTION 14

Himbaza Stephanie and Juru Gaju are both employed by the National Bureau of Research and Development (NBRD) as Chief Executive Officer (CEO) and Secretary respectively. The information in the table below shows their monthly salary and allowances following their contractual terms. In addition, Himbaza stephanie is entitled to a company car and company house.

Name	Basic Salary (FRW)	Transport allowance (FRW)	Communication allowance (FRW)
Himbaza Stephanie	2,500,000	300,000	200,000
Juru Gaju	30,000	-	-

Required:

- (a) **Compute the taxable monthly employment income and the tax liability of each employee.** (8 Marks)
- (b) **Compute the RSSB pension contribution, medical scheme (RAMA) and maternity schemes of each employee.** (12 Marks)

(Total: 20 Marks)

QUESTION 15

(a) Mr Andrew Jacob, a citizen and a resident of Israel, recently visited Rwanda on his vacation. During his visit, he explored various investment opportunities available and concluded that it would be viable to open a business in the tourism sector in Rwanda. He has now written to you as a tax consultant to advise on the various tax consideration in the tourism industry in Rwanda.

Required:

Advise the investor on tax treatment of the Loss carried forward from the previous period in the computation of business profit. (5 Marks)

(b) The following information relates to the statement of profit or loss of Mugenzi Louis, a trader, for the tax period ended 31st December 2020.

	FRW "000"	FRW "000"
Gross profit		400,000
Other income		
Profit on sale of a fixed asset		7,800
		407,800
Expenses		
Wages and salaries	98,000	
Electricity and fuel	12,000	
Accounting depreciation	22,000	
Bad debts	9,000	
Entertainment expenses not relating to general sporting activities for employees.	6,400	
Patent royalties paid to third parties	42,000	
Legal expenses on acquisition of new office premises	6,000	
Finance costs		
Bank interest	31,000	
Total expenses		(226,400)
Net profit		181,400

Additional Information:

1. Salaries include FRW 50,000,000 paid to Mugenzi to cover his personal expenses.
2. Electricity costs include the cost of lighting and heating of Mugenzi Louis's home.
3. The bad debt cost was written off due to the insolvency of a customer during the year. The customer was declared bankruptcy by the Rwandan courts. This income was recorded in the accounts immediately in the preceding tax period, and Mugenzi Louis spent considerable effort attempting to recover the debt prior to the insolvency.
4. The Loan was taken by Mugenzi Louis, for the business purpose.
5. The depreciation was recomputed and agreed by the tax administration as FRW 20,000,000.

Required:

Compute the adjusted taxable trade profit, the tax liability for Mugenzi Louis for the year ended 31/12/2020.

(15 Marks)

(Total: 20 Marks)

End of Question Paper

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