

# CERTIFIED PUBLIC ACCOUNTANT ADVANCED LEVEL 2 EXAMINATIONS <u>A2.3: ADVANCED TAXATION</u> DATE: MONDAY 26, FEBRUARY 2024 MARKING GUIDE AND MODEL ANSWERS

#### **Marking Guide** Description Marks Net Profit / Loss after tax 1 2 Rent Repair and maintenance 18 Income tax 1 Bad debt written off 1 1 Withholding tax (WHT) 1 Depreciation Donation 1 ľ Communication 2,5 Interests Other fees 1 Taxable income not recognised (long term contract) 3 19 Dividends received 18 Interest income Agriculture income 1 communication 1 Insurance cost P Dividends received 1 Interest income 1 1 Agriculture income Loss Carried forward 2 Less tax depreciation: Accelerated depreciation 18 P Wear and tear basis Wear and tear rates 1 h Wear and tear 1.5 **CORRESPONDING TAX** 2 Foreign tax credit WHT 3% 1 WHT5% 10 Difference between PIT and CIT 4 **Total marks** 40

### **SECTION A**

**QUESTION ONE** 

### **Model Answers**

a) Computation of the taxable income, tax liability, and tax payable for the year ended 30/09/2021.

Description	Workings	FRW "000"	FRW "000"
Net Profit / Loss after tax	BROFEBARFEBROUMERY20 AFFERE	CPAREEB 20242024	(7 500)
Add back:	Photo All Alberter BBR AULOALOPAO	ICPAUARUAR BROU	RAR CPARCPAR
Rent	W1 CRAREN REARING REARING	60 000	202 242 02 ALBRUT
Repair and maintenance	RY2024BREEBREEBREEBREAUCC	70 000	RUNARTARIORACI
Income tax	UNCEARED AND A CEAREN 20 ARY 2018	150 000	8302412024202024
Bad debt written off	25,000,000 *60/100	15 000	RUARCUAUARPART
Withholding tax (WHT)	FEBRUAR PARTOPATIOPARY204	60 000	PEREED 2410 240
Depreciation	FB20221202ARV202BROBERERE	80 000	PUARUAR RUAR
Donation	BRUPEBRUNE PAROPALACEPAR	60 000	REFERENCE AND ARE AND
Communication	18,000,000*20/100	3 600	241CPA ARUARI
interests	W2	60 000	201 FEBREEBARFED
other fees	PARTOPAL BED 241 02420	12 000	241CPO241CHERIAR
Taxable income not recognised (long term contract)	W3	29 000	UARCALOUEBLEED
PART OF REAL OF	OPATO AND OPATIAN BRUNK BUNK	599 600	599 600
Less:	RUARARY REEPARTURABED 241	PART NOPARUABR	FEBRERUNCPALCPA
Dividends received	TEBLAICE 0241002ATOLAR UNERUNTER	125 000	ART 202 RY 20 ARY
Interest income	V2UARRUALAR REEDARE CPARAR	30 000	ABRUTEBBRUTCP
Agriculture income	ARTER EBRACPH AND OF ARTAR	32 000	ALCPPART202 RV20
communication	6,000,000*80%	4 800	22 RUAR BRUKEBR
Insurance cost	20,000,000 *9/12	15 000	FEBARICPAREDO
12 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	2024 REERAL VAR UAR VAR REER	206 800	(206 800)
Add back:	A TOPBROFFBIARE DEBRATOPHATOP	2410PARYRUAR BRU	JAR REFERENCEAR CPAR
Dividends received	125,000,000 *100/80	156 250	1020241202410U
Interest income	30,000,000 *100/85	35 294	BRUNAR REEPAR
Agriculture income	32,000,000-12,000,000	20 000	FEB14102414202
24 120 AN OTHER UNBEN 20 ART PARTY OF ART	024 202 ARY 2024 BRUE BREEFED	211 544	211 544
Loss Carried forward	W4	REQUAREY 201 BROW	(80 000)
Less tax depreciation	W5 2 2 R DO BENER	EBRUCEAL OPAL	(447 250)
Adjusted Business Profit	UAR BRUEBBRUAR ARTOPALOPA	24202 RY20 AR RY20	69 594
Corresponding Tax	W6 W6	EBRUEEBRUCPAR	20 686
Less: Contraction of the second second	2410 CLARERUNE BRUAR ARACEAS	A OPART202 ARY20 AF	RY20EBROFEBART
Foreign tax credit	W7 00 00 00 00 00 00 00	2 BRUALBROEBBRU	36 544
wht 3%	2412024 OCHARIEUM BROUARDAR	CPARALOPPARE 2024	60 000
wht 5%	ARTARE BARTOPARE ER 0241002	S202ARUATEBROTE	150 000
Net Tax Credit	ALCENZALCOZA ALCELARZAUAT BRUI	ARARTO PARTOPART	(225 858)

#### Workings:

#### W1: Adjusted rental expense

Industry Average Rent = FRW 180,000,000 / (1 + 0.50) = FRW 180,000,000 / 1.50 = FRW 120,000,000. 80,000,000 - FRW 120,000,000 = FRW 60,000,000.

#### W2: Interest not allowed

Loan=2,000,000,000; interests @10%=200,000,000 4 times of the equity: 150,000,000 \* 4=600,000,000 interests allowed=600,000,000\*10%=60,000,000 Non allowed interests=200,000,000-60,000,000=140,000,000

#### W3: Long term contract

Particulars	Working	Amount
Contract price	10261024020242002420181820018880108801081001	50 000 000
Estimated cost	JAP 2UABP2UAPAPED REC PAPER 202 2420 831	45 000 000
Cost Incurred:	Eng B2 EFE 024 202 200 02 20 B32 603 22 60	PARCPATCHEBIEY
Salaries	6 000 000	ARTA OPHBROEBR
materials	17 000 000	RY20PAROPAROPA
administrative and general expenses	1 500 000	24 420 Rt 2002 8B
Miscellaneous expenses	1 400 000	UNBRO UNAR AROTAK
Total	25 900 000	ARF8024020248420
Percentage of completion	25,900,000/45,000,000*100	58%
Revenue accruing to the period	50,000,000 * 58%	29 000 000

#### W4: loss from previous periods

Year	RUAR BRUEBRUAR ARTOP	Profit / lo	oss "000"	loss	usage "000"
PARY 2UAR UAR ARY 2 FE	2015	ICPARUAL BRU	600 000	12 BRARUS	600 000
REFERENCE BERALCENALC	2016	RHOPARIOPAR	300 000	31 REFERENCE	300 000
241 11CPARY 2UAR UAR	2017	2212024 RUP	40 000	CIP 21201A	340 000
PAREBR REFERENCE	2018	UAR ARTER PART	80 000	R FEBRER	260 000
A OPANOPALOPARY20AR	2019	141002 R 1201	15 000	2 ALOPAR	275 000
ARY202 EBR REED REPUT	2020	AR BRUAR AR	25 000	102 BROF	300 000
Loss for 2015 expir million +15 millior	res in 2020. The loss n+25million	to carry for	ward in 2021 is 40	ALCPATAL OF RY20241	80 000

#### W2: Capital allowance

Assets	land "000"	Buildin g "000"	plant and machiner y "000"	computers and accessories "000"	other assets "000"	Total
COST/WDV	ED ALCE 2020 REVIE 2024 REVERENCE REVERENCE REVERENCE	400 000	250 000	190 000	70 000	BRUARY20 BRUARY20 BRUARY20 BRUARY20
Additional assets	80 000	70 000	400 000	0	70 000	2241CEPAT
Investment allowance	BRUAUBRUEEB BRUEEBRUEEB CPAREEB	35 000	200 000		35000	270 00 0
Depreciable value	21202410PhBH	470 000	650 000	190 000	105 000	RUARCARI RUARCARI 02410740
Depreciation rate	RY201 PEDAREN	5%	5%	50%	25%	UARUAR
Wear and Tear	ALC: 4C 2024 Re12024 Re12024 RE12024 RE12024 RE138 LARY2024	23 500	32 500	95 000	26 250	177 25 0
Total capital allowance	EEBROADORALO EEBRUARDAUAR EBRUARDAUAR EBRUARDAUAR	202410-048 2202410-048 2866582678 2402024100 2402024100 240202410	AUBRUNALAR HEBRUNALAR HERBRUNALONAN HERDRANARUAR JARYANARUAR	2014 2024 2024 2020 2020 2020 2020 2020	UARCE 200 FBB UARCE AREA 3RUARE 200 ACOPA 224UCPACOPA 224UCPACOPACOPA 224UCPACOPACOPACOPACOPACOPACOPACOPACOPACOPAC	447 25 0

#### **W6: PIT computation**

From	TO AN OPANY ARY	Tax rate	Tax
DARGERAR LOPARTO 020	360 000	0%	PARTOPAREDO 4202ARY
360,001	1 200 000	20%	168 000
1 200 001	69 594 000	30%	20 518 200
Total PIT	OF BRUNAR ARTOPARTOPA	22 BERRUAR 24 FBB REFERRED BEFERRED	20 686 200

#### W7: Foreign tax credit

In Egypt =156,250,000*20/100=	31 250
In Mozambique = 35,294*15/100=	5 294
Total	36 544

**b)** The distinction between PIT (personal income tax) and CIT (corporate income tax) lies in their respective acronyms: PIT stands for personal income tax, while CIT stands for corporate income tax. Differentiating between personal income tax (PIT) and corporate income tax (CIT), one of the notable advantages of registering a company is that it offers limited liability. This means that personal assets are protected from the company's debts, which is essential financial protection. In addition, individuals are subject to a progressive rate of personal income tax, whereas companies often benefit from a flat rate of corporation tax.

#### **QUESTION TWO**

#### **Marking Guide**

$\mathbf{a} = \left( \frac{1}{2} + \frac{1}$	Marks
Understanding of relevant factors	024 BBR FBR FBBREBBR2
Weighing the consequences and ethical considerations	PARCER CEAR 222
Application of ethical principles	2 BY20 ABRIEBE 2
Practical examples and case studies	2UMPAP CPATCPPA2
Consultation and collaboration	202202212020243801
Clarity and structure	ARBRUN RPARTICPAC
Total Constance Beauth and Constant and Cons	BEE 202 202 120 10
<b>b</b> ) 22 A C B C C C A C B C A C C B C C C B C C C C	UARUAL RUAR BUAR ARI
Identification of ethical challenges (1 mark)	2FEARER EPOLATOPAL
Application of the principle of integrity (1.5 marks)	ALCEUN RUNBRU 1,5
Evaluation of the provision of information (1.5 marks)	REFERRED ARTREED 0241
Corrective action and communication (1 mark)	ALCO 2AL CPUARUAR
Consideration of legal and professional implications (0.5 mark)	0,5
Total 201 AC AC OUR CURE WHERE WAS RECORDED AND REPORT OF A CONTRACT OF	UTCP241C 024 ARTPUAS
C) C 2 2 1 1 2 2 2 2 1 2 2 2 2 2 2 2 2 2 2	RYQUAR AICEEBBBBB
Application of the principles of professional competence (1.5 marks)	MAR 11 ALC 241,5
Role of continuing professional development (1.5 marks)	20 RY ( AR 212 1,5
Emphasis on due diligence in tax advisory work (1 mark)	EBRETER BRUTCPALCE
Training and supervision of subordinates ((1 mark)	CPARTO RY 20 AR T
Total	BRUBBR REEBBRUTS
Total marks	20

#### **Model Answers**

(a) In the Rwandan tax landscape, a professional accountant may be faced with a difficult ethical conflict regarding a client's questionable tax reporting practices. The relevant facts include discrepancies in financial documentation, raising concerns about potential tax evasion. The parties involved encompass the client, the accounting firm (or the professional) and the regulatory authorities. The ethical issues revolve around the conflicting responsibilities of maintaining client confidentiality while adhering to the fundamental principle of integrity. Fundamental principles related to this issue include professional competence and due care, professional behavior and confidentiality.

To navigate this ethical dilemma, the accountant must weigh the alternative course of action. He may choose to engage in open communication with the client, encouraging transparency and compliance in reporting. Alternatively, the accountant may consider consulting the regulatory authorities (anonymously) to ensure compliance with ethical standards. Established internal procedures, such as carrying out thorough audits and tax health checks, discussing the results with the client and the impact thereon, and seeking advice from more experienced colleagues, are

essential steps in resolving this conflict.

Consultation with those charged with governance, such as the Rwanda Revenue Authority (anonymously if needed) or the client's board of directors, is essential. The accountant should also consider seeking professional advice from local organisations such as the Institute of Chartered Accountants of Rwanda (ICPAR) to ensure that he or she complies with ethical standards specific to the Rwandan context.

(b) In the field of tax advisory services in Rwanda, the discovery of potential inaccuracies in a client's tax returns poses a significant ethical challenge, invoking the principle of integrity. As a professional tax advisor, adherence to this principle is fundamental and carries with it specific obligations.

Firstly, the tax adviser must carry out a thorough examination to determine the nature and extent of any inaccuracies in the tax returns. If these inaccuracies are found to contain materially false or misleading statements, the principle of integrity requires corrective action to be taken. In the context of Rwandan tax advice, this may involve revising tax returns to reflect accurate information and rectifying any inaccuracies.

In addition, the tax advisor must assess whether the information has been provided carelessly or with due care. Consequently, a detailed examination of the circumstances surrounding inaccuracies is essential to determine the appropriate corrective measures.

In the interests of integrity, the tax adviser must communicate all necessary corrections transparently to the client. This involves explaining the discrepancies identified, the corrections made and the potential implications. Open and honest communication is integral to maintaining the trust and integrity of the tax advisory relationship.

Failure to address inaccuracies not only jeopardizes the integrity of tax advisory services, but also exposes the advisor to legal and professional consequences. In Rwanda, where tax compliance is essential to economic stability, the tax adviser's commitment to integrity is becoming a cornerstone of the profession. Compliance with the principle of integrity in tax advisory services is not only a professional obligation; it is a crucial element in fostering transparency and confidence in the tax landscape.

c) In the dynamic landscape of Rwandan tax advisory services, the principle of professional competence and care is paramount to ensure the provision of reliable and high-quality services. The practical application of this principle can be illustrated by a scenario in which, as a tax advisor, I am faced with various challenges.

#### Achieving professional competence:

When I take on a new client with unique tax considerations, the first phase is to achieve professional competence. This requires extensive research and understanding of the client's industry, current tax laws and any recent regulatory changes in Rwanda. This initial phase requires the exercise of sound judgement to apply professional knowledge and skills effectively.

#### Maintaining professional competence:

In view of changes in tax legislation and the business environment, maintaining professional competence is an ongoing process. Ongoing professional development is essential. In the context of Rwandan tax advice, it is essential to regularly attend workshops, keep abreast of regulatory updates and engage in relevant training programmes. This does not only ensure compliance with technical and professional standards, but also equips me with the necessary skills to navigate the intricacies of the professional environment.

#### Diligence in tax advisory services:

Diligence is the cornerstone of the execution of tax advisory assignments. In a scenario where tax laws undergo sudden changes, it is imperative to act quickly and comprehensively. This involves in-depth analysis, timely communication with clients on the implications of the changes, and meticulous adjustment of strategies to align with the new regulations. Diligence also means allocating sufficient time and resources to each assignment, ensuring that the services provided meet the highest standards of accuracy and completeness.

#### Ensure training and supervision of subordinates:

Recognizing the collaborative nature of tax advisory services, I would take reasonable steps to ensure that my team is well trained and supervised. This involves organizing internal training sessions, delegating tasks according to individual skills and providing ongoing feedback to improve the team's skills. By encouraging a culture of continuous learning and ensuring adequate supervision, I am complying with the due diligence principle and contributing to the overall competence of the tax advisory team.

In this practical scenario, the commitment to professional competence and diligence ensures the provision of reliable and diligent tax advisory services in accordance with the ethical standards expected in the tax advisory profession.

### **QUESTION THREE**

#### Marking Guide

a) 200,40,200,200,600,200,000,000,000,000,000,00	Marks
Identification of taxable income	21 FT BE 2UA CEAUCE DAILOR DAILOR DE 222 DE 13
Application of tax rates	2 <sup>2</sup>
Calculation of total tax	2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2
Total, AC DA DO A C AR 20 DE AR 20 A R 20	128 CPA25 EP 202 202 122 20 15 B 25 EB 26
b)i) (1) 21 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	20 AC RUARUAUBREU ACRAY CRATCP AR
Residential building (exempted)	22 B2 B2 B2 CP B2 B2 B2 D2 A202 B2 CO 26 BP C
Apartment with three floors	OPAC 202 ALCOLOGICAL BEUR BEUR CONTORNAL
Apartments with four floors	320 (APC) 128 (BEE) CP APC (EEE) 202 (202 (200 ))
Commercial building	3B AUTO ATO ORANO UNE UN RUN RUNNER AR
Total A CARE AND AN BURGER CONTO AND CONTOUR	A BELANDER BEER BEER BARE ED 2024202 4
ii) AC 2010 AC COARTER BEINE ARE ARE ALCOART 20, 200 AC 20, 00 FE FE	REPEBBAULORAL ORACIONAL RUNDRUMAR
immovable property tax Year 1	2 BEQUARUAR BY REFERENCE ARTER OCAL
immovable property tax Year 2	20 FEBREFEBREUCO AND DAN COUNTEUNE
immovable property tax Year 3	ACTOR REPORT AND REPORT ART REPORT
immovable property tax Year 4	$2^{0}$ $3^{2}$ $8^{0}$ $8^{1}$ $8^{1}$ $8^{1}$ $8^{2}$ $1^{1}$ $2^{1}$ $2^{1}$ $2^{1}$ $8^{1}$ $1^{1}$ $2^{1}$ $1^{1$
Total Berry and an of the stand and a service and a servic	PACE ALCOPACIO ALCOVAL PERSONAL
C) REPORT BROWCON CONTROL OF	LAST 202 BPO PBARE UAR UT 24 OC 244 OC
Determination of trading license tax	RUPAR OF MADREE ARE CAR BURGET
<b>d)</b> * 0.8 3 6 6 8 7 8 6 8 8 4 0 9 4 0 0 4 0 1 8 2 1 8 2 0 1 4 8 2 6 8 4 0 1 8 2 6 1 1 4 1 1 4 1 1 4 1 1 4 1 1 1 1 1 1 1	24120182424CP13201718251923201CP1CP1
1 mark for a well stated fee	1 1 1 2 1 2 1 2 1 2 1 CP ALC CP 1 2 1 2 1 2 2 2 3 1 1 2 2 4
Total Marks	32 02 20 20 20 38 25 38 20 32 20

#### Model answers

(a) Gross rental income: FRW 250,000,000

Maintenance costs (50% of gross income): FRW 125,000,000 Bank interest payments on the loan to build the property: FRW 20,000,000 Bank interest payments on the extension loan: FRW 4,000,000

Taxable rental income = gross rental income - deemed expenses - bank interest payments Taxable rental income = 250,000,000 - 125,000,000 - (20,000,000 + 4,000,000) Taxable rental income = FRW 101,000,000

Tax on the first FRW 180,000 (0% rate) = FRW 180,000 \* 0% = FRW 0 Tax on the next FRW 820,000 (20% rate) = FRW 820,000 \* 20% = FRW 164,000 Tax on the remaining FRW 100,000,000 (30% rate) = 100,000,000 \* 30% = 30,000,000 Total Tax = FRW 0 + FRW 164,000 + FRW 30,000,000 = FRW 30,164,000

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ν	,	4	4	P

Particular	Market Value (RWF)	Working	Tax (RWF)
Residential building (occupied by owner and family)	250,000,000	Exempted	ALC P2PAR 200 AR ALC P2UAR DRUAR BEE AREER AREER C ALC PAREER
Apartment with three floors	500,000,000	0.25% x 500,000,000	1,250,000
Apartments with four floors	900,000,000	0.25% x 50% x 900,000,000	1,125,000
Commercial building	700,000,000	0.2% x 700,000,000	1,400,000
Total Tax	24 CPA REP 202 202 AR 20	28 BE BEER BERDER OUCPAIC PALOPA	3,775,000

Year	Market Value (RWF)	Tax Rate	Tax Calculation	Tax Payable (RWF)
ARY AV	120,000,000	0.2%	120,000,000 * 0.2%	240 000
REP 82	120,000,000	0.3%	120,000,000 * 0.3%	360 000
PreB3	120,000,000	0.4%	120,000,000 * 0.4%	480 000
1 A 2	120,000,000	0.5%	120,000,000 * 0.5%	600 000

c) The trading license tax is calculated on the basis of the following table:

Turnover 2018 2018 2018 2018 2018 2018 2018 2018	Tax due
From 1 to FRW 40,000,000	FRW 60,000
From 40,000,001 to FRW 60,000,000	FRW 90,000
From 60,000,001 to FRW 150,000,000	FRW 150,000
Above FRW 150,000,000	FRW 250,000

**d)** According to the article 3 of the Presidential Order N°25/01 of 09/07/2012 establishing the list of fees and other charges levied by decentralized entities and determining their thresholds, the fees and other charges collected by a decentralized entity shall be the following:

#### 1. Fees for occupation of public domain

- a. Market fees;
- b. Fees charged on public cemeteries;
- c. Fees charged on parkings;
- d. Fees on public parkings;
- e. Parking fees on Boats;
- f. Fees on lease of land ;

g. Fees on lease of land to be collected annually on land used for agriculture and livestock activities;

h. Fees charged annually on land reserved for quarries exploitation.

#### 2. The following fees are based on services rendered to citizens:

- a. Fees charged on public cleaning services;
- b. Fee charged on civil marriage done outside the official business days;
- c. Fees charged on provision of land and plot related services;
- d. Fees charged on official documents and documents notified by the public Notary;
- e. Fees charged on authorizations to burn firewood, clay bricks and roof tiles.

#### **3.** Other following charges

- a. Fees charged on advertising billboard or banners;
- b. Fees charged on boat number plate;
- c. Fees charged on bicycle number plates;
- d. Fees charged on communication towers;
- e. Fees charged on transport of materials from quarries and forests

#### **QUESTION FOUR**

#### Marking Guide

<b>a)</b> 25 <sup>12</sup> 20 <sup>2</sup> 4 <sup>12</sup> 2 <sup>1</sup> 4 <sup>2</sup> 2 <sup>0</sup> 4 <sup>2</sup> 2 <sup>1</sup> 4 <sup>2</sup>	Marks
Breakdown of income components	UAB RUADB 2420 PAR CPARTO2
Calculation of gross tax	ARTOR ABROOM 02 2002 20
Tax liability on Rwandan income	PARTAR RUABE UMPARA
Tax liability on foreign income	REED REED ARE REED 240,02 RY 2
Calculation of double taxation relief (DTR)	241002 ALCUARD ARBRUAR2
Total City Rai Chi City On a 20 Chart Bar Bar City Contained and Contain	JAKARY OFEBRERE PREEDAU 10
$\mathbf{b}_{\mathcal{M}} \overset{\mathcal{O}\mathcal{M}}{\mathcal{$	RUCPATOLO 2024 OLAR RUAR RU
Discussion of where CGT is applicable and the rate	ARY RUARY OFFICE ARTEN AREFE
Identification of who declares it	2FEBRAOP 24 20 ALCE ARE 21
Identification of who is exempted from CGT	ALEVO ARTRUART REBERED AT
Good discussion of the WHT on gaming activities	EBBEREFEBERICEP ALCOLATOP
Good discussion of the WHT on accrued expenses	ALCOPARY 20 BY 20 AR 24 20 FEBR 21
Total	THBRUCHBREAKERERE LOPALALOPOS
C) CO 24 CO ACT ON BE RUADANCE BERNARE BOAL OF A RUADA RUADE BERNARE AR	CPANOPAR201 RY2UAR220
1 mark for a transaction well identified (maximum 4)	RY 202 BRUTEBRE EBRUCEM 4
Explanation of the rationale	JALARTOPALOPARTOLARY201
Total Constant States and States	VOLEY OF BEU BREEFEBBES
Total Marks	EBREUARABET CPARACEPART

#### Model answers

#### a) Breakdown of taxable income:

Basic salary: FRW 1,400,000 Housing allowance added:  $70,000 \times 12 = 840,000$  FRW Taxable employment income: FRW 2,240,000 Consultancy fees: FRW 2,000,000 Rwandan income: FRW 4,240,000 Foreign income (income from Angola): FRW 4,200,000 Total taxable income: FRW 8,440,000

#### **Calculation of gross tax:**

First bracket of FRW 168,000 Excess [8,440,000 - 1,200,000] × 30% = FRW 2,172,000 Gross tax: FRW 2,340,000

#### Tax payable on Rwandan income:

First tranche of FRW 168,000 Excess [4,240,000 - 1,200,000] × 30% = FRW 921,000 Tax payable on Rwandan income: FRW 1,080,000

#### Tax payable on foreign income:

Gross tax:	FRW 2,340,000
Tax payable on Rwandan income:	(FRW 1,080,000)
Tax payable on foreign income:	FRW 1,260,000

#### **Double taxation relief (DTR):**

Lower tax on foreign inco	ome: FRW 1,260,000
Tax actually paid:	FRW 550,000
DTR:	FRW 550,000

**b)** Capital gains tax in Rwanda is imposed at a rate of five per cent (5%) on the gain derived from the sale or transfer of shares. The taxable amount is determined by the difference between the acquisition value of the shares and their sale or transfer price. The company in which the transaction took place, is responsible for withholding the capital gains tax, and must declare and pay the tax to the tax authorities within fifteen (15) days of the month in which the shares were sold or transferred. In particular, capital gains arising from the sale or transfer of shares on the capital market and units in collective investment undertakings are exempt from capital gains tax.

In Rwanda, gambling activities are subject to a withholding tax of fifteen per cent (15%) on players' winnings. This tax is calculated on the basis of the difference between the player's total winnings and the amount of money invested throughout the game. In particular, for income not exceeding thirty thousand (30,000) Rwandan francs, a withholding tax rate of zero per cent (0%) is applied at the time of calculation.

On accrued expenses, the legal provision is that money which is recorded in the books of account as a liability of a taxpayer to creditors and which reduces the taxable income is deemed a payment if it has exceeded six (6) months following the tax period.

c) Rwandan transfer pricing rules apply to controlled transactions or deemed controlled transactions in the following circumstances:

1) when one of the persons involved in the transactions is located in Rwanda and subject to tax in Rwanda while the other is a related person located in or outside Rwanda;

2) when a non-resident in Rwanda engages directly or indirectly in a transaction with a related person not resident in Rwanda if the transaction is in relation to a permanent establishment in Rwanda of one of the two related persons;

3) when a person resident in Rwanda engages in a transaction with a person located in a country or a place where the tax administration considers to provide a beneficial tax regime, whether such persons are related or not;

4) when a person resides in a country or a place where the tax administration considers to provide a beneficial tax regime, engages in a transaction that relates to a permanent establishment of a nonresident in Rwanda whether such persons are related or not.

The rationale for including local transactions within the scope of transfer pricing regulations is the recognition that not only multinational companies but also local groups have the ability to manipulate profits between affiliated entities for different reasons. Some companies exploit investment incentives such as tax exemptions, reduced corporate tax (CIT) rates or full CIT exemptions. In addition, some companies may end up with substantial losses, etc. These and other considerations have prompted legislator to include local transactions within the scope of transfer pricing regulations.

## **QUESTION FIVE**

## Marking Guide

(a)i)	Marks
Sales of kitchen materials	UACPATOPA ACPATER 20 ARYUR
Exports	02202 ARY 2024 EBR TER 2FEB BRI
Installation services	FBRUAR CPARTOPA COPARE 2018
Electricity	JEEP 202 202 ARY 20 EBR EEBKER
Rental of warehouse	UARUATBRRUAT PAROPATOPATE
Purchase of office furniture	10PARTE 20242024 2002418PU 15
Purchase of computers	2410 ALUARUAR BRUIL REARTORNEL
Imported consultancy services	2F & REFORMEREE 202 202 2020 202
Settlement of debt with warehouse transfer	202 ALCEUARUA RUA RUARAR AR O
Donation of kitchen equipment	ARTARFE ARTE ARTE ED 024202 10
Advance payment received	UIO2AIO2AIORUARUARUARBRUNA
Rent from employee	2 UNE ARY REFERENCE ARE REFERENCE TO
Total BOOM CONTRUNED AND ACTION BOOM CONTRUCT AND A	EBRUIC 24 0244 CRUARUNI3
bill bar war and a construction of the constru	Y20 ARRUAR ARY 2 BE ARE CRARTEN
Excise duties on imported products	BIRTER BRUICPAIL O2A REPUARU
Excise duties on locally manufactured products	CPARY20 ARYRUAR ALCERED REP R
Total NE BEAC AND 2024 TO BE RUN BE WAS BEER ON CRASHED OF BURGES OF DE COMPANY OF THE REAL OF BEER OF BEE	3PUFEBLEFEUARUI 241024142
DA OPALETONE RUNARY REPRESENTAR REPORT OF A CONTROL AND A RUNAR REPRESENTATION OF A RUNAR REPRESENTATION AND A RUNAR REPRESENTATION AND A RUNAR RUNAR REPRESENTATION AND A RUNAR	PAAL REEBY OLARY UAR RIVER REEBY
Retail value	ALCENBRUTEBRETER JRUICPACED
Excise tax	2 ARICPAACPOPARY ARIZUAR 20
Total	20 BEY 20 CABRUE BB REFERBENING
Total Marks	RUNAR CALL AC ME 20 20

#### Model answers

a)i)

Details	Amount FRW "000"	Input VAT FRW "000"	Output VAT FRW "000"
Sales of kitchen materials	600 000	ACTALCTO2ALCTAR	108 000
Exports	200 000	ARUNAR REEDARTO	REE 24102422
Installation services	200 000	EBRAICP12410202241	36 000
Electricity	REE BRUCPARCEPT ALCEPT	18 000	ARECPARTED 2410202
Rental of warehouse	15 000	2 288	0241CPARY RUAR BROM
Purchase of office furniture	25 000	3 814	2 EBARFED PARTER
Purchase of computers	15 000	3ROFEBRARE REPART	2 1202 ALCYARTRUA
Imported consultancy services	35 000	6 300	6 300
Settlement of debt with warehouse transfer	180 000	COPARTIES CONTRACTOR	32 400
Donation of kitchen equipment	25 000	202 RY2024 BRUNEBRY	4 500
Advance payment received	80 000	PRUAR ARECTALLOPA	14 400
Rent from employee	500	0241202 RE1202 3RU	90

Total	1 375 500	30 402	201 690	b
	1 AV BY AV AV AV AV		A AN AN AN AN AN AN	5

**a)ii)** VAT exemptions can have both positive and negative effects on Rwanda's tax revenues and economic dynamics. On the positive side, some exemptions can stimulate specific industries or support essential goods and services, thereby promoting economic growth. For example, exemptions on basic necessities such as unprocessed agriculture products and healthcare can help reduce poverty. However, the downside is the potential loss of revenue as the tax base shrinks. To develop an effective policy, it is essential to strike a balance between granting exemptions for essential goods and maintaining a broad tax base. The government must assess the socio-economic implications of each exemption, ensuring that the overall impact is aligned with national development objectives.

**b)i)** Excise duties in Rwanda are applicable to both imported and locally manufactured products. Excise rates are determined according to the product, with specific rates assigned to them. For imported products, excise duties are generally imposed at the point of entry into the country, ensuring that these products contribute to national income. On the other hand, locally manufactured products are subject to excise duty after production. This dual approach ensures that both locally produced and imported products contribute to the government's revenue stream, promoting fairness and equity in taxation.

ii)

Excise duty on cigarettes is calculated on the retail price. Retail value =  $2,800,000 \ge 1,800 = 5,040,000,000$ Excise duty =  $5,040,000,000 \ge 36\% + (2,800,000 \ge 1,814,400,000 + 420,000,000 = 2,234,400,000$ 

#### END OF MARKING GUIDE AND MODEL ANSWERS