CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.3: ADVANCED TAXATION

DATE: MONDAY 26, FEBRUARY 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

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

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			**(7 500)**
Add back:			
Rent	W1	60 000	
Repair and maintenance		70 000	
Income tax		150 000	
Bad debt written off	25,000,000 *60/100	15 000	
Withholding tax (WHT)		60 000	
Depreciation		80 000	
Donation		60 000	
Communication	18,000,000*20/100	3 600	
interests	W2	60 000	
other fees		12 000	
Taxable income not recognised (long term contract)	W3	29 000	
		599 600	**599 600**
Less:			
Dividends received		125 000	
Interest income		30 000	
Agriculture income		32 000	
communication	6,000,000*80%	4 800	
Insurance cost	20,000,000 *9/12	15 000	
		206 800	**(206 800)**
Add back:			
Dividends received	125,000,000 *100/80	156 250	
Interest income	30,000,000 *100/85	35 294	
Agriculture income	32,000,000-12,000,000	20 000	
		211 544	**211 544**
Loss Carried forward	W4		(80 000)
Less tax depreciation	W5		(447 250)
Adjusted Business Profit			**69 594**
Corresponding Tax	W6		**20 686**
Less:			
Foreign tax credit	W7		36 544
wht 3%			60 000
wht 5%			150 000
Net Tax Credit			**(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		50 000 000
Estimated cost		45 000 000
Cost Incurred:		
Salaries	6 000 000	
materials	17 000 000	
administrative and general expenses	1 500 000	
Miscellaneous expenses	1 400 000	
Total	**25 900 000**	
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	**Profit / loss "000"**	**loss usage "000"**
2015	- 600 000	- 600 000
2016	300 000	- 300 000
2017	- 40 000	- 340 000
2018	80 000	- 260 000
2019	- 15 000	- 275 000
2020	- 25 000	- 300 000
Loss for 2015 expires in 2020. The loss to carry forward in 2021 is 40 million +15 million+25million		- 80 000

W2: Capital allowance

Assets	land "000"	Building "000"	plant and machinery "000"	computers and accessories "000"	other assets "000"	Total
COST/WDV	-	400 000	250 000	190 000	70 000	
Additional assets	80 000	70 000	400 000	0	70 000	
Investment allowance	-	35 000	200 000	0	35000	270 000
Depreciable value	-	470 000	650 000	190 000	105 000	
Depreciation rate	-	5%	5%	50%	25%	
Wear and Tear	-	23 500	32 500	95 000	26 250	177 250
Total capital allowance						**447 250**

W6: PIT computation

From	To	Tax rate	Tax
0	360 000	0%	-
360,001	1 200 000	20%	168 000
1 200 001	69 594 000	30%	20 518 200
Total PIT			**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

a)	**Marks**
Understanding of relevant factors	2
Weighing the consequences and ethical considerations	2
Application of ethical principles	2
Practical examples and case studies	2
Consultation and collaboration	1
Clarity and structure	1
Total	**10**
b)	
Identification of ethical challenges (1 mark)	1
Application of the principle of integrity (1.5 marks)	1,5
Evaluation of the provision of information (1.5 marks)	1
Corrective action and communication (1 mark)	1
Consideration of legal and professional implications (0.5 mark)	0,5
Total	**5**
c)	
Application of the principles of professional competence (1.5 marks)	1,5
Role of continuing professional development (1.5 marks)	1,5
Emphasis on due diligence in tax advisory work (1 mark)	1
Training and supervision of subordinates ((1 mark)	1
Total	**5**
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)	**Marks**
Identification of taxable income	3
Application of tax rates	1
Calculation of total tax	2
Total	**6**
b)i)	
Residential building (exempted)	1
Apartment with three floors	1
Apartments with four floors	1
Commercial building	1
Total	**4**
ii)	
immovable property tax Year 1	1
immovable property tax Year 2	1
immovable property tax Year 3	1
immovable property tax Year 4	1
Total	**4**
c)	
Determination of trading license tax	2
d)	
1 mark for a well stated fee	4
Total Marks	**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

b)i)

Particular	**Market Value (RWF)**	**Working**	**Tax (RWF)**
Residential building (occupied by owner and family)	250,000,000	Exempted	-
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			**3,775,000**

ii)

Year	**Market Value (RWF)**	**Tax Rate**	**Tax Calculation**	**Tax Payable (RWF)**
1	120,000,000	0.2%	120,000,000 * 0.2%	240 000
2	120,000,000	0.3%	120,000,000 * 0.3%	360 000
3	120,000,000	0.4%	120,000,000 * 0.4%	480 000
4	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	**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 Nº25/01 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

a)	**Marks**
Breakdown of income components	2
Calculation of gross tax	2
Tax liability on Rwandan income	2
Tax liability on foreign income	2
Calculation of double taxation relief (DTR)	2
Total	**10**
b)	
Discussion of where CGT is applicable and the rate	1
Identification of who declares it	1
Identification of who is exempted from CGT	1
Good discussion of the WHT on gaming activities	1
Good discussion of the WHT on accrued expenses	1
Total	**5**
c)	
1 mark for a transaction well identified (maximum 4)	4
Explanation of the rationale	1
Total	**5**
Total Marks	**20**

Model answers

a)
Breakdown of taxable income:

Basic salary: FRW 1,400,000
Housing allowance added: 70,000 × 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 income:	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 non-resident 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	1
Exports	1
Installation services	1
Electricity	1
Rental of warehouse	1
Purchase of office furniture	1
Purchase of computers	1
Imported consultancy services	2
Settlement of debt with warehouse transfer	1
Donation of kitchen equipment	1
Advance payment received	1
Rent from employee	1
Total	**13**
ii)	
Excise duties on imported products	1
Excise duties on locally manufactured products	1
Total	2
b)	
Retail value	1
Excise tax	2
Total	**3**
Total Marks	**20**

Model answers

a)i)

Details	**Amount FRW "000"**	**Input VAT FRW "000"**	**Output VAT FRW "000"**
Sales of kitchen materials	600 000		108 000
Exports	200 000		-
Installation services	200 000		36 000
Electricity	-	18 000	
Rental of warehouse	15 000	2 288	
Purchase of office furniture	25 000	3 814	
Purchase of computers	15 000	-	
Imported consultancy services	35 000	6 300	6 300
Settlement of debt with warehouse transfer	180 000		32 400
Donation of kitchen equipment	25 000		4 500
Advance payment received	80 000		14 400
Rent from employee	500		90

Total	**1 375 500**	**30 402**	**201 690**

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 x 1,800 = 5,040,000,000

Excise duty = 5,040,000,000 x 36% + (2,800,000 x 150) = 1,814,400,000 + 420,000,000 = 2,234,400,000

END OF MARKING GUIDE AND MODEL ANSWERS