



**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3: ADVANCED TAXATION

DATE: MONDAY 26, FEBRUARY 2024

INSTRUCTIONS:

1. **Time allowed: 3 hours and 45 minutes** (15 minutes reading and 3 hours 30 minutes writing)
2. This examination has **two** sections; **A&B**
3. Section **A** has **one compulsory question** while section **B** has **four optional questions** to choose **any three**
4. In summary attempt **four questions**.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings
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

Mukarage Prosper (MP) operates as a sole trader, duly registered under the Tax Identification Number (TIN) 199998990. In 2020, MP secured an investment certificate. He holds investments in Mozambique and Egypt, from which he received income during the fiscal year ending 30/09/2021.

In addition, MP's wife, Uwimana Aline, is a successful in investment property, some of which are used by Mukarage Prosper in return for rent.

The following information relates to MP's income statement for the year ended 30/09/2021:

Items	Notes	FRW "000"
Sales		2,100,000
Cost of sales		900,000
Gross profit		1,200,000
Other income	1	187,000
Total income		1,387,000
Fixed costs and other administrative expenses	2	1,394,500
Income tax		-
Net Profit / Loss after tax		(7,500)

Notes:

1. Other income

1 Other income	Notes	FRW "000"
Dividends received	i	125,000
Interest income	ii	30,000
Agriculture income	iii	32,000
Total		187,000

- (i) Dividends were received from investment in Egypt. The withholding of 20% was applied;
- (ii) Interest income originates from investments in Mozambique, net of a 15% withholding tax;
- (iii) Agriculture income is derived from agricultural activities conducted on a farm situated in Nyagatare District;

2. Fixed costs and other administrative expenses

Items	Notes	FRW "000"
Rent	i	180,000
Repair and maintenance	ii	150,000
Miscellaneous expenses		500,000
Income tax	iii	150,000
Bad debt written off	iv	25,000
Salaries and wages		120,000
Withholding tax (WHT)	v	60,000
Depreciation	vi	80,000
Electricity		15,000

Training fees		3,500
Advertising costs		25,000
Audit fees		8,000
Donation	vii	60,000
Communication	viii	18,000
Interests	ix	200,000
Other fees	x	12,000
Total expenses		1,606,500

- (i) The rent constitutes payment made to his wife for the portions of her investment property leased by the business. The transfer pricing document indicates that this amount is 50% higher than the industry average;
- (ii) Of the repair and maintenance expense, FRW 70,000,000 was allocated to the construction of a new outlet in Remera;
- (iii) Income tax paid represents the WHT paid on importations;
- (iv) Of the bad debt, only 40% fulfils the conditions as per article 31 of the law no 016/2018 of 13/04/2018 establishing taxes on income;
- (v) The withholding tax (WHT) represents the amount withheld from a supply to the Gasabo district;
- (vi) Depreciation pertains to the following information:

Asset register as at 01/10/2020:

Asset	Cost / WDV "FRW 000"
Land	-
Building	400,000
Plant and machinery	250,000
Computers and accessories	190,000
Other assets	70,000
Total	910,000

Assets acquired during the year:

Date	Asset	Cost "FRW 000"
05/10/2020	Land	80,000
01/01/2021	Motor vehicle	70,000
18/05/2021	New plant	400,000
Total		550,000

- (vii) The donation pertains to funds utilized by MP to assist street boys and girls in Kigali in celebrating Christmas.
- (viii) This communication pertains to the funds loaded onto staff mobile phones for the advertising campaign organized by MP.
- (ix) Interest was paid to the loan from the owner's wife. The amount borrowed is FRW 2,000,000,000. At the interest rate of 10%. The business equity excluding provisions and reserves according to the balance sheet was FRW 150,000,000.
- (x) Other fees refer to the funds imposed by the regulator as a consequence of regulatory breaches.

Additional information:

1. Communication expenses amounting to FRW 6,000,000 loaded on the mobile phone of the business owner, was omitted from the books of account;
2. An invoice amounting to FRW 20,000,000 from the insurer, covering the period from 1st January 2021 to 31st December 2021, was not included in the books of accounts;
3. The following is the information on the prior year's profits / losses:

Year	2015	2016	2017	2018	2019	2020
Profit / loss "000"	(600 000)	300 000	(40 000)	80 000	(15 000)	(25 000)

4. On 1/10/2022, Mukarage Prosper began a long-term construction project to build Nyabarongo III bridge. The agreed contract price for the project was FRW 50,000,000. Mukarage Prosper Construction estimated the total cost of completing the housing complex to FRW be 45,000,000. As of 30/09/2023, the bridge was only partially completed, reaching the stage of foundation laying. Costs incurred up to that date include salaries and wages amounting to FRW 6,000,000, materials costing FRW 17,000,000, administrative and general expenses of FRW 1,500,000, and other miscellaneous expenses totalling FRW 1,400,000. Expenses have been recorded, yet no corresponding income has been included in other income. Mukarage Prosper's rationale is that the income will be recognized upon project completion and issuance of the invoice.

Required:

- (a) Advise Mukarage Prosper on the taxable income, tax liability, and tax payable for the year ended 30/09/2021. (36 Marks)
 - (b) Distinguish between Personal Income Tax (PIT) and Corporate Income Tax (CIT) and explore the advantages of opting for company registration instead of operating as an individual business. (4 Marks)
- (Total: 40 Marks)**

SECTION B

QUESTION TWO

(a) You are an experienced professional accountant working in Rwanda and are tasked with resolving a complex tax-related ethical conflict. Discuss the factors influencing your decision-making process, and the ethical principles guiding your resolution efforts. **Illustrate your response with practical examples to demonstrate the application of ethical conflict resolution.** (10 Marks)

(b) As tax advisor in Rwanda, you are responsible for providing tax advice to a reputable company. During the review of financial information and returns submitted to the Rwanda Revenue Authority, you discover potential discrepancies in tax returns that suggest inaccurate reporting. Critically analyse the application of the integrity principle in this tax advisory context. Discuss the specific obligations imposed on you as a professional tax advisor in Rwanda and describe the steps you would take to maintain integrity while preserving professional and business relationships in the Rwandan tax landscape.

Required:

Discuss the obligations set out in the Code of Ethics in relation to integrity, focusing on the steps you would take to rectify any inaccuracies and maintain the trust and integrity of tax advisory services. (5 Marks)

(c) You are responsible for providing comprehensive tax advisory services to a diverse portfolio of clients. **Critically analyse how the principles of professional competence and due care come into play in a real-life scenario. Discuss the specific obligations imposed on you as a professional tax advisor, focusing on both obtaining and maintaining professional competence. Explain the role of continuing professional development in the Rwandan tax advisory context and how it contributes to your ability to work competently. In addition, discuss the importance of diligence in carrying out tax advisory assignments and the steps you would take to ensure that your team, working under your authority, has the necessary training and supervision.**

In your response, consider the practical challenges facing Rwandan tax advisory services, such as changes in tax laws and regulations, client diversity and the changing business landscape. Emphasise your commitment to maintaining professional competence and due care, and explain how you meet your responsibilities. (5 Marks)

(Total: 20 Marks)

QUESTION THREE

(a) Mrs Uwase, a Rwandan resident, owns several properties in Nyarugenge district which she rents out for residential and commercial purposes. During the 2022 tax year, she received gross rental income totalling FRW 250,000,000. Mrs Uwase took out loans for the construction and improvement of her rental properties, which cost her a bank interest of FRW 20,000,000 during the same period. In addition, it incurred maintenance and upkeep costs of FRW 10,000,000.

One of Ms Uwase's commercial properties underwent major extension work during the tax year, which resulted in additional construction costs of FRW 50,000,000. These costs were financed by a separate loan with a bank interest of FRW 4,000,000.

Required:

Compute Mrs Uwase's taxable rental income and the rental income tax for the year 2022. (6 Marks)

(b) Referring to Law No. 75/2018 of 07/09/2018 determining the sources of revenue and property of decentralized entities, you are tasked to address the following scenario:

(i) Karemera owns various properties in Kigali valued at 1/1/2019. They include the following residential and commercial buildings:

1. A residential building occupied by Karemera and his family, with a market value of FRW 250,000,000.
2. A three-storey flat with a market value of FRW 500,000,000.
3. Four-storey flats with a market value of FRW 900,000,000.
4. A commercial building with a market value of FRW 700,000,000.

Taking into account the property tax rates for residential and commercial properties and the exemption criteria, **calculate the total amount of immovable property tax that Karemera is required to pay on these properties.** (4 Marks)

(ii) Phionah owns a commercial building in the city of Musanze with a market value of FRW 120,000,000. **Compute the annual immovable property tax payable for the first four years of his ownership.** (4 Marks)

(c) Using the tax period of 1 January to 31 December 2022, **determine the trading licence tax payable by ABC Ltd, a company with a turnover of FRW 450,000,000.** The company was registered in 2012. Refer to Law No. 75/2018 of 07/09/2018 determining the sources of income and assets of decentralised entities. (2 Marks)

(d) Reference made to 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, **discuss the fees and other charges collected by a decentralized entity.** (4 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) Mr Habimana Andrew works both in Rwanda and Angola. His family is mainly based in Rwanda. During the year ended 31st December 2020, Mr Habimana earned the equivalent of FRW 4,200,000 from his employment in Angola. He paid the equivalent of 550,000 Rwandan francs in tax on this foreign income.

In addition to his employment income, Mr Habimana earned 2,000,000 Rwandan francs as a consultant in Rwanda. His employment income in Rwanda was 1,400,000 Rwandan francs (500,000 Rwandan francs for income tax purposes). His employer in Rwanda provided accommodation for his family. The monthly rent for the accommodation amounted to 70,000 Rwandan francs and was paid by the employer. Assume that Rwanda has a double taxation agreement with Angola.

Required:

Determine the double taxation relief due to Mr Habimana Andrew for the year ended 31 December 2020. (10 Marks)

(b) **Discuss capital gains tax, withholding tax on gambling and withholding tax on accrued expenses.** (5 Marks)

(c) **Discuss the transactions to which Rwandan transfer pricing rules apply and give the reasons for extending these rules to local transactions.** (5 Marks)

(Total: 20 Marks)

QUESTION FIVE

(a) Amahoro Ltd, established in Rwanda in 2012 and registered for VAT in the same year, specialises in the manufacture of kitchen materials and the provision of installation services. The following information relates to transactions in September 2022.

1. In September 2022, the company achieved sales from the production of kitchen materials and services amounting to FRW 800,000,000. Notably, 25% of these sales were attributed to the export of kitchen materials. In addition, Amahoro Ltd is offered installation services in Rwanda for FRW 200,000,000 in September 2022.
2. During this period, the company incurred electricity costs, resulting in input VAT of FRW 18,000,000.
3. Amahoro Ltd rented a new warehouse to provide additional storage space, which resulted in monthly rental costs of FRW 15,000,000 including VAT. In addition, Amahoro Ltd purchased office furniture locally for its expanding team at a cost of FRW 25,000,000 including VAT, and ten computers at a cost of FRW 15,000,000.
4. Amahoro Ltd also imported project planning consultancy services worth FRW 35,000,000 from a consultancy firm in Uganda. The same service was available in Rwanda.
5. The company owed a Rwandan supplier FRW 180,000,000 and both parties agreed to settle the debt by transferring ownership of a warehouse in Rwamagana, Eastern Province.
6. The company donated FRW 25,000,000 worth of kitchen equipment for the wedding of a well-known local singer.

7. In September 2022, Amahoro received an advance payment of FRW 80,000,000. No electronic billing machine (EBM) invoice was issued at that time, as it would be generated in October 2022, when the materials are expected to be delivered to the customer.
8. One employee is staying in the company's houses located in Kinyinya in the city of Kigali, and this employee paid a rent to Amahoro Ltd totalling FRW 500,000 in September 2022.

Note: Unless otherwise specified, the above figures are VAT exclusive

Required:

- (i) **Compute Amahoro Ltd's VAT payable / claimable, by indicating the amount of inputs VAT or output VAT for the month of September 2022.** (13 Marks)
- (ii) **Discuss the impact of VAT exemptions on overall tax revenues and economic dynamics in Rwanda. Provide examples to illustrate your points.** (2 Marks)

(b) (i) Discuss the implementation of excise duties on imported and domestically produced products, highlighting the key considerations. (2 Marks)

(ii) Premium Smokes Ltd produced 2,800,000 packets of cigarettes. The factory price is FRW 1,200 per pack and the retail price is FRW 1,800 per pack. Calculate excise duty. (3 Marks)
(Total: 20 Marks)

End of question paper