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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 2 EXAMINATIONS**

**F2.4: TAXATION**

**DATE: MONDAY 26, FEBRUARY 2024**

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**INSTRUCTIONS:**

1. **Time allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven questions** and only **five questions** should be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings and assumption if any.
5. 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 (VAT) Rate:** 18%

### Withholding tax

|                       |     |
|-----------------------|-----|
| Standard              | 15% |
| Government securities | 5%  |
| Import                | 5%  |
| Public Tender         | 3%  |

**Gaming tax:** 13%

### Capital allowance

| Description  | Rate |
|--|------|
| Accelerated depreciation   | 50%  |
| <b>Wear &amp; Tear Allowance</b>   |      |
| Buildings, heavy industrial equipment and machinery  | 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.

## QUESTION ONE

(a) Rules of origin play an essential role in customs, trade preferences and trade agreements, helping to prevent the circumvention of policies and ensuring fair competition. These rules determine eligibility for preferential treatment and generally include criteria such as percentage of local content, substantial transformation, change of tariff classification and specific manufacturing processes.

### Required:

- (i) **Discuss the criteria that goods originating from a partner state must meet to be officially recognized as having their origin in that particular state.** (5 Marks)
- (ii) Reference made to the rules of origin, **discuss the Processes not Conferring Origin.** (5 Marks)

(b) Emmanuel, a business owner in Kigali, decided to import 22,000 kilograms of powdered milk from the Netherlands in the month of October 2022. The Free On Board (FOB) cost amounted to 28,000 USD, marine insurance cost totaled 5,200 USD, and transportation to Dar es Salam cost was 9,500 USD. The exchange rate during the period was 1 USD = FRW 1,100. Ignoring the handling fees.

The following information on tax rates is available to you.

| <b>Tax</b>  | <b>Rate</b> |
|-------------|-------------|
| Excise tax  | 10%         |
| Import duty | 25%         |

### Required:

**Compute the applicable excise duties.** (5 Marks)

(c) Luxury Taste Ltd manufactured 3,500,000 packets of cigarettes. The factory price is FRW 900, and the retail price is FRW 1,300 per packet.

### Required:

**Calculate the excise tax.** (5 Marks)

**(Total: 20 Marks)**

## QUESTION TWO

(a) Upon request, the taxpayer is obliged to furnish information to the authorized officer of the Rwanda Revenue Authority. **Discuss how information is provided by the taxpayer, and by the third party.** (6 Marks)

(b) **Discuss the inadmissibility of documents during the appeal process and the Time limit of the power to audit by the tax administration.** (4 Marks)

(c) A taxpayer who is dissatisfied with the notice of assessment or notification of administrative fine may opt to appeal against their contents. **Discuss the dispute settlement process in Rwanda.** (10 Marks)

**(Total: 20 Marks)**

## QUESTION THREE

(a) ABC Ltd, a company registered with the Rwanda Development Board (RDB) and registered for Value Added Tax (VAT) in accordance with the Rwandan Tax Procedures law, submits the following details extracted from its accounting records for the month of August 2022.

| Date       | Description                                      | FRW '000'   |
|------------|--|-------------|
| 02/08/2022 | Purchase of taxable products                     | 400,000,000 |
| 05/08/2022 | Standard cash sales                              | 350,000,000 |
| 09/08/2022 | Exports to Burundi                               | 20,000,000  |
| 11/08/2022 | Standard Credit sales                            | 50,000,000  |
| 14/08/2022 | Legal fees                                       | 2,000,000   |
| 18/08/2022 | Rent for August                                  | 1,500,000   |
| 20/08/2022 | Purchase of fuel                                 | 600,000     |
| 23/08/2022 | Purchase of electricity                          | 25,000      |
| 27/08/2022 | Communication expense                            | 500,000     |
| 29/08/2022 | Provision for bad debt                           | 35,000,000  |
| 30/08/2022 | Company stationaries                             | 15,000,000  |
| 31/08/2022 | Purchase of a computer                           | 3,000,000   |
| 31/08/2022 | Imported environmental impact assessment service | 18,000,000  |

### Additional Information:

1. Imported services on 31/08/2022 were related to an environmental impact assessment from a foreign environmental consultancy. The price paid was VAT-exclusive. Similar services are available locally from Rwandan environmental consultants.
2. On 28/08/2022, the company returned defective goods invoiced at FRW 5,000,000 to the supplier, and a credit note was received immediately.
3. The provision for bad debt meets the necessary conditions to qualify for a refund
4. The electricity and communication are wholly expensed for business purposes.
5. Unless otherwise indicated, all figures are VAT-inclusive.

**Required:**

**Determine the amount of VAT payable or refundable to/from the Rwanda Revenue Authority for the month ended 31/08/2022.** (15 Marks)

**(b) Discuss the post-sale adjustment for unrecoverable debts, making reference to the law n° 37/2012 of 09/11/2012 establishing the value added tax.** (5 Marks)

**(Total: 20 Marks)**

**QUESTION FOUR**

**(a) Uwimana is a property owner in Kigali with various assets valued on 01/01/2019. Among these, she owns the following residential and commercial buildings:**

1. A residential building occupied by Uwimana and her family, with a market value of FRW 220,000,000
2. An apartment with three floors, valued at FRW 550,000,000
3. Apartments with four floors, valued at FRW 1,000,000,000
4. A commercial building with a market value of FRW 600,000,000

**Required:**

Given the immovable property tax rates for residential and commercial buildings and the exemption criteria, **calculate the total immovable property tax that Uwimana is liable to pay on these properties.** (4 Marks)

**(b) Frank owns a commercial building in Gisenyi town with a market value of FRW 100,000,000.**

**Required:**

Making a reference to the law number law N° 75/2018 of 07/09/2018 determining the sources of revenue and property of decentralized entities, **calculate the annual immovable property tax payable during the first four years of his ownership.** (4 Marks)

**(c) Discuss the exemptions of the immovable property as provided by the tax law number law N° 75/2018 of 07/09/2018 determining the sources of revenue and property of decentralized entities.** (2 Marks)

**(d) Reference made to the law number law N° 75/2018 of 07/09/2018 determining the sources of revenue and property of decentralized entities, discuss the following provisions related to the trading license tax:**

**Required:**

- (i) Explain who is liable for the trading license tax and elaborate on the tax period.** (2 Marks)
- (ii) Analyze how the trading license tax is calculated based on the turnover and discuss the significance of the District Council's role in determining rural or urban areas and small-scale activities.** (2 Marks)
- (iii) Outline the timeline and contents of the trading license tax. Explain the consequences when a taxpayer fails to pay the trading license tax by the due date.** (2 Marks)

- (iv) Discuss the categories exempted from trading license tax and the conditions for refunding the tax in case of business termination or change. (2 Marks)
- (v) Considering the tax period starting from January 1st to December 31<sup>st</sup> 2022, calculate the trading license tax payable by XWZ ltd, a company with the turnover amounting to FRW 30,000,000. (2 Marks)
- (Total: 20 Marks)**

#### QUESTION FIVE

- (a) During the financial year ending on 31/12/2022, Sarah received income from various sources as detailed below:
1. She holds shares in STU Ltd, a private company listed at Rwanda Stock Exchange (RSE) and received a dividend income of FRW 3,000,000 during the year.
  2. Invested in government securities with a maturity period of 2 years, receiving an interest income of FRW 4,000,000.
  3. Owns a fixed deposit account in XYZ Bank with a maturity of three years and received an interest income of FRW 2,500,000 at the end of the year.
  4. Sarah placed a bet of FRW 500,000 on a football match. Upon the conclusion of the game, she won FRW 1,000,000 from the operator
  5. Sarah owns 80,000 shares of FRW 200 each in XYZ Ltd, a private company not listed on the Rwanda stock exchange. In the year, she sold 5,000 shares at FRW 300 each.
  6. Received FRW 6,000,000 from an investment in Government bonds with a maturity period of four years.
  7. Sarah has 70,000 shares in ZW Ltd, a listed company on the RSE market. At the year-end, the company declared a dividend of FRW 150 per share.
  8. Sold the copyright of her photography portfolio for FRW 10,000,000 during the year.
  9. Sarah owns 15,000 shares of FRW 250 each in PQR Ltd, a listed company on the Rwanda stock exchange market. During the year, she disposed of 8,000 shares at FRW 350 each.

#### Required:

Calculate the applicable withholding taxes for each income. (18 Marks)

- (b) Reference made to the law N° 016/2018 of 13/04/2018 establishing taxes on income, mention the persons exempted from the Withholding tax. (2 Marks)

**(Total: 20 Marks)**

## QUESTION SIX

Marcel Nzaramba is an individual enterprise registered in Rwanda Revenue Authority under the Tax Identification Number (TIN) 999,999,999. During the financial period of 2022, he has presented the net loss of FRW 158,676,540 and presented the following information related to his business for the income tax assessment.

1. Other income includes the agricultural income of FRW 38,543,000 related to the income generated from agricultural firms located in eastern province.
2. The reported sales of FRW 852,876,500 were found VAT inclusive.
3. Salary included remuneration amounting to FRW 322,000 paid to Marcel's house keepers and gardeners.
4. The bad and doubtful debts of FRW 5,800,000 relates to the provisions made for the year 2022.
5. Of the repair and maintenance, FRW 20,000,000 was used to repair his residential house.
6. Withholding tax of FRW 154,867,000 included in the profit and loss account related to money paid on importations.
7. Installation fees of FRW 6,890,000 related to payments made to the consultant hired to test the accounting software. These fees were part of the software acquisition cost of FRW 89,000,500.
8. Communication included FRW 5,200,000 loaded on the mobile phone of Marcel's kids for the purchase of internet at home.
9. Interest expenses of FRW 16,000,000 were payment of mortgage interests for Marcel's residential house.
10. The expenses include tax paid that relate to the WHT of FRW 10,552,000 declared and paid to RRA for payment made to non-registered suppliers. The amount was initially recorded with the invoice.
11. Other income includes dividends of FRW 25,678,000 that were received from an investment made in shares, in Rwandan based company and were received net of withholding tax and foreign dividend equivalent to FRW 12,400,000 net of 10% withholding taxes, from the investment she made in Kenya.
12. The donation of FRW 95,562,358 was made to a registered charitable organization.

### Required:

- (a) **Compute the adjusted taxable income and tax payable if any?** (15 Marks)
  - (b) **Compute the income quarterly prepayment that will be payable in 2023 and the corresponding payment deadline.** (2 Marks)
  - (c) **Explain the taxation of the long-term contract under the income tax law.** (2 Marks)
  - (d) **Give note about the taxation of the income from agriculture and livestock products.** (1 Mark)
- (Total: 20 Marks)**

## **QUESTION SEVEN**

- (a) Differentiate between the tax avoidance and evasion as the common terms used in the taxation. (2 Marks)
- (b) Taxable capacity should be defined as the maximum tax which might be collected from a particular taxpayer or a group of taxpayers.

### **Required:**

- (i) Clearly, explain the determinants of the taxable capacity that are applicable in the taxation system. (8 Marks)
- (ii) Give and explain 4 principles or canons of the taxation. (8 Marks)
- (iii) Briefly explain the term tax incidence (2 Marks)
- (Total: 20 Marks)**

**End of Question Paper**