
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

MONDAY: 3 JUNE 2019

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 are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings

QUESTION ONE

Charles Kayibanda Company Limited (CKC) is registered in Rwanda and has its head office in Nyaruguru in Southern Province. The company started trading on 1 January, 2018 and deals in production and sale of gospel music albums as well as promoting/ managing musical concerts. Their income and expenditure statement for the period ended 31 December, 2018 was as below:

Particulars	Note	Frw '000'	Frw '000'
Income:			
Profits from sale of non-current assets			40,000
Income from sale of gospel albums			300,000
Income from concerts managed			<u>350,000</u>
			690,000
Expenses:			
Building expenses	2	40,000	
Depreciation		20,000	
Administrative costs	3	101,500	
Contribution to approved staff retirement fund		80,000	
Bad debts	4	90,000	
Operating lease	5	100,000	
Other business related expenses		<u>243,500</u>	<u>(675,000)</u>
Profit before tax			<u>15,000</u>

Additional information:

- CKC staged concerts in Malawi, Zambia and South Africa and received net incomes equivalent of Frw 80 million, Frw 50 million and Frw 90 million respectively. The Accounts Assistant omitted this income in the accounts for the period ended 31 December, 2018.
- The company constructed a commercial building in the Southern Province for Frw 280 million in the month of March, 2018. The company incurred an additional expense as a penalty of Frw 40 million for starting construction before approval of the building plan.
- Administrative costs include the following:

	Frw '000'
Entertainment expenses (general)	10,000
Entertainment expenses (sporting activities)	12,500
Fines for staging illegal concerts	15,000
Telephone, water and electricity for both business and private use	14,000
Management fees to Kindy, a congolese music expert	5,000
Salaries	12,000
Director's remuneration	13,000
Marketing expenses	<u>20,000</u>
	<u>101,500</u>

- The bad debts account includes a provision of Frw 50 million. The balance relates to money not yet paid by the customer and the Accountant is yet to write to him a second reminder.
- The company acquired an operating lease for a warehouse at Frw 100 million at 20% per annum. This was not accounted for in the books for the period ended 31 December, 2018.

6. The company's additions and disposal of plant and machinery for the year were as follows:

	Purchases	Frw '000'
(i)	Office furniture	50,000
(ii)	Computers	60,000
(iii)	Computer software	40,000
(iv)	Information and communication systems with a life of 15 years	15,000
(v)	Motor vehicles – saloon cars	20,000
(vi)	Training and research expenses	50,000
(vii)	Jewellery for use at concerts	10,000

7. The company did not make the quarterly payments of tax but has tax withheld from its supply of albums Frw 400,000 for the period under consideration.

REQUIRED:

- (a) Compute the corporation tax payable by CKC for the year ended 31 December, 2018. **(18 Marks)**
- (b) State the due dates for filing and making the final payment of the tax obligation in accordance with Law no.016/2019 of 14/04/2019 on Income Tax. **(2 Marks)**
- (Total 20 Marks)**

QUESTION TWO

Gatonya Trading Company Ltd (GTCL) is a company incorporated in Rwanda since 2015. The company was registered for VAT under the Rwanda Law No 37/2012 of 09/11/2012 establishing the Value Added Tax (VAT), with effect from 1 April, 2019. The general manager of the company, Mss Nkwihoreze, has requested you to assist her staff in completing the company's VAT return for the month of April, 2019. The company is in the business of making taxable supplies (standard-rated and zero-rated supplies), and exempt supplies. The company has the following information for the month:

- Standard rated taxable cash sales (VAT inclusive) were Frw 15,000,000.
- Standard rated taxable credit supplies made and invoiced (VAT exclusive) were Frw 3,000,000
- Received Frw 500,000 for supplies made in July 2018 on credit. No VAT was charged at the time of supply.
- Made some exports amounting to Frw 3,300,000.
- Exempt sales were Frw 4,000,000.
- Zero-rated sales were Frw 7,000,000.
- Paid Frw 120,000 (VAT inclusive) to Rwanda Energy Group (REG) in respect of electricity bills for the company for the month.
- Imported taxable goods worth Frw 8,500,000 (VAT inclusive) where they paid VAT at importation to the Rwanda Revenue Authority through customs.
- Paid Frw 4,000,000 (VAT inclusive) on local purchase of taxable goods for resale.
- Paid Frw 500,000 (VAT exclusive) office water bill for the month.

REQUIRED:

- (a) Determine the VAT payable/ claimable by GTCL for the month of April 2019. (10 Marks)
 - (b) Using **four** examples, explain the term “VAT exemption” (5 Marks)
 - (c) Explain **five** responsibilities of a VAT registered business in relation to Rwanda Law no 37/2012 of 09/11/2012 establishing the Value Added Tax (VAT) regulations in Rwanda. (5 Marks)
- (Total 20 Marks)**

QUESTION THREE

Bisengimana Observers Ltd (BOL) is a Rwandan private owned company set up in 2014. The company employs staff from various countries within the East African Community. Chris Mwashinga, a Tanzanian national was employed as the chief tax accountant effective 1 January, 2017. The following is a summary of Mwashinga’s remuneration for the year ended 31 December, 2018:

1. Received a bonus of Frw 80,000 for being the best employee of the year during the month of December.
2. BOL makes a monthly contribution of Frw 60,000 on his behalf while he makes a contribution of Frw 30,000 to the Rwanda Social Security Fund (RSSF).
3. Was paid a monthly salary of Frw 1,000,000 and a reimbursable monthly fuel allowance of Frw 50,000.
4. Was given a company car which he used for both personal and official work. The cost of the vehicle was Frw 12,500,000.
5. Received a salary advance of Frw 5,000,000 at the beginning of June 2018, payable in five equal monthly instalments, at 2% interest per month. The rate of interest offered to commercial banks by the National Bank of Rwanda in 2018 was 10%. The loan had been recovered by 31 December, 2018 together with the interest due.
6. BOL paid him an education allowance of Frw 500,000 for his wife’s tuition at the University of Rwanda College of Education.
7. During the year, he earned allowances for entertainment, leave pay, cost of living and medical allowance of Frw 40,000, Frw 600,000, Frw 500,000 and Frw 80,000 respectively.
8. BOL paid Frw 125,000 as subscription for his membership at the Rotary Club of Kigali Central.
9. During the year, he was provided with a company house whose monthly market rent was Frw 375,000.
10. He earned Frw 800,000 from his consultancy in Kenya during the year ended 2018 and no taxes were paid in Kenya.

REQUIRED:

- (a) Compute Mwashinga’s taxable income and tax liability for the year ended 31 December, 2018. (17 Marks)
 - (b) Explain whether the tax treatment would be different if the company rented a house for him and paid directly to the landlord. (2 Marks)
 - (c) State the period when BOL is supposed to file the pay as you earn return. (1 Mark)
- (Total 20 Marks)**

QUESTION FOUR

Taxes are the mandatory contribution from citizens to a government in order to fund public expenditures.

Since 1997, Rwanda Revenue Authority (RRA) has been legally mandated by the Government of Rwanda with the task of assessing, collecting and accounting for taxes, customs duties, local government taxes and fees and non-tax revenues. (RRA Tax Handbook 1st Edition, December 2017)

A good tax system meets defined principles and an efficient tax system raises revenue without negative distortions such as reducing work incentives for individuals and investment incentives for companies.

REQUIRED:

- (a) Explain any **five** roles of taxation in achieving budgetary objectives of Rwandan economy. **(10 Marks)**
 - (b) Explain any **five** canons of taxation. **(10 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) **The East African Community Customs Management Act (EACCMA) 2004** provides a list of items whose importation or exportation into or out of the partner states are considered prohibited or restricted for one reason or another. It is a common act under cross border transactions and international trade that many countries have restrictions on what items that can be brought into or out of that country and some items totally prohibited.

REQUIRED:

- (i) With the aid of **four** examples, explain the difference between prohibited and restricted goods in accordance with the EACCMA 2004. **(4 Marks)**
 - (ii) Explain any **six** reasons why a country restricts the importation or exportation of certain items into or out of a given state. **(6 Marks)**
 - (iii) With the aid of examples, explain the difference between customs transit and transshipment in relation to the World Customs Organisation (WCO). **(5 Marks)**
- (b) In accordance with the East African Community, explain the meaning of The EAC Rules of Origin and the purpose of the EAC Rules of Origin. **(5 Marks)**
- (Total 20 Marks)**

QUESTION SIX

Miss Kayitesi has been in general trade business for more than 10 years now and over this time, her business has grown so much to the extent that she now operates four other branches in addition to the main branch located in Kigali. Miss Kayitesi is now in the process of submitting her income tax returns for the year ended 31 December, 2018 and has provided you with the following information extract to determine her tax position.

Particulars	Note	Frw '000'	Frw '000'
Revenue:			1,750,000
Cost of sales	1		<u>(840,000)</u>
Gross profit			910,000
Other income	2		<u>105,000</u>
Total income			1,015,000
Less: operating expenses:			
Electricity		126,000	
Water		105,000	
Salaries	3	175,000	
Rent	4	70,000	
Sales promotion		42,000	
Value added tax		63,000	
Fines	5	52,500	
Telephone	6	35,000	
Bad debts	7	91,000	
Repairs	8	<u>80,500</u>	<u>(840,000)</u>
Profit before tax			<u>175,000</u>

Additional information:

1. Included in cost of sales is depreciation of property Frw 33,000,000.
2. Other income relates to interest on Miss Kayitesi's fixed deposit from the bank on which withholding tax had already been deducted.
3. Half of the salaries amount remained outstanding by year end.
4. 20% of the rent amount relates to rent expense for the year 2019 paid in advance.
5. The fines relate to fines charged against Miss Kayitesi for breaking the law.
6. Telephone expenses relate to Miss Kayitesi's private telephone expenses for her home telephone.
7. Bad debts relate to a provision for bad debts in anticipation that some debtors may default on clearing their obligations.
8. Repair costs relate to minor painting of one of the branches since the old paint had faded.
9. Tax depreciation for the year amounted to Frw 17,500,000.

REQUIRED:

- (a) Determine Miss Kayitesi's taxable income and tax payable for the year ended 31 December, 2018. **(10 Marks)**
- (b) Explain to Miss Kayitesi, the due date for tax payment and the fines for late tax payments that may be imposed on her if she does not settle her tax obligations by the due date. **(4 Marks)**

- (c) Explain **three** recovery avenues that the government of Rwanda and the decentralized entities may apply to recover the unpaid taxes from a defaulting taxpayer. **(6 Marks)**
(Total 20 marks)

QUESTION SEVEN

- (a) Mr. Ahimana Jimmy, a renowned football star, constructed a four-storeyed building in Burera district in Northern Province at a cost of Frw 750,000,000. Each of the four floors has 10 shops let out at the following monthly rental fees for each shop.

	Frw
First floor	500,000
Second floor	400,000
Third floor	300,000
Fourth floor	200,000

All the rooms were occupied for the whole year ended 31 December, 2018. The cost of the building was financed by a 10-year Rwandan commercial bank loan at an interest rate of 22% per annum. The monthly expense per room is Frw 100,000. A lift with a cost of Frw 17,500,000 was installed in the building to facilitate the movement of the tenants.

REQUIRED:

- (i) Compute the rental tax payable by Ahimana for the period ended 31 December, 2018. **(10 Marks)**
- (ii) Explain the meaning of capital gains tax and state the applicable rate when determining capital gains tax as per Article 37 of the Rwandan laws amendment of 2018. **(2 Marks)**
- (b) Miss Uwamahoro is a Rwandese national who is a shareholder in many local companies in Rwanda. During the year ended 31 December, 2018 Miss Uwamahoro decided to dispose of some of her shares in one company. She sold 2 million shares each at Frw 3,000. These shares were bought 10 years ago at a purchase price of Frw 1,500 each.

REQUIRED:

- (i) Determine the capital gains tax on share disposal of the above shares and the tax payable on the gain. **(2 Marks)**
- (ii) State when this tax is due for payment to the Rwanda Revenue Authority. **(1 Mark)**
- (iii) State the circumstances under which capital gains are exempt from tax according to the Rwandan tax laws. **(2 Marks)**
- (c) In accordance to the provisions of Article 32 of the Rwandan law on income, explain the tax treatment of carry forward losses with reference to the 2018 tax amendments. **(3 Marks)**
(Total 20 Marks)

