CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.3 TAXATION

DATE: FRIDAY 31, MAY 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

QUESTIONS	ANSWER	MARKS
1	A	2
2	A	2
3	D	2
4	B	2
5	D	2
6	D	2
7	D	2
8	D	2
9	A	2
10	A	2
Total marks		20

Model Answer

QUESTION ONE.

The correct answer is A.

A = FRW 2,100,000

- A taxpayer who is awarded a public tender in Government institutions is withheld both 18% VAT retained by public institutions and a WHT 3% which is an advance income tax when the taxpayer does not have a Quitus fiscal.
- As Maxime is registered and has recent tax declarations, the computation is as follows: (10,000,000*18%)+(10,000,000*3%) = FRW 2,100,000

B is not correct as it only considered 18% VAT

C is not correct as it only considered 3% WHT on public tenders

D is not correct as it based on 15% WHT which is not the case in our Question

QUESTION TWO.

The correct answer is A

As the company is newly listed and issued above 20% of its shares to the public then, it is taxed at 28% on Corporate Income Tax.

Tax computation is as follows:

Sales	200,000,000
Less expenses	(160,000,000)
Taxable profit	40,000,000
Tax	(40,000,000*28%)
	= 11,200,000

B is not correct as it is calculated at 30% CIT rate

C is not correct because tax was computed

D is not correct as it was computed at 25% CIT rate

QUESTION THREE

The correct answer D

- According to article no 32 of the income tax law, during a tax period, a foreign sourced losses cannot be deducted from either present or future domestic sourced business profits.
- While, if during a tax period, the direct and indirect ownership of the share capital or the voting rights of a company, whose shares are not traded on a recognized stock exchange changes more than twenty-five per cent (25%) by value or by number, the losses incurred by that company cannot be offset against future business profits.
- Here the change in shareholding value is below 25%. So it can offsets its losses against future business profits.

QUESTION FOUR.

The correct answer is B

The taxation of small businesses is based on thear annual turnover. Micro businesses are taxed a flat tax as follows:

- Up to 2,000,000 Nil
- 2,000,000 – 4,000,000 = 60,000
- 4,000,001 – 7,000,000 = 120,000
- 7,000,001 – 10,000,000 = 210,000
- 10,000,001 – 12,000,000 = 300,000
- A small business with a turnover of between FRW12,000,001 and FRW 20,000,000 per tax period is taxed at lump sum regime at a rate of 3%.
- Based on Volcano Ltd 's annual turnover the lump sum regime will apply. Corporate Income Tax will be due at 3% of turnover.

  Corporate income tax due = 3%*17,500,000

  = 525,000

QUESTION FIVE

The correct answer is D

DETAILS	**FRW**	**FRW**	**FRW**	**FRW**
Basic Salary	400,000	400,000	400,000	400,000
Car	40,000	-	-	-
House Allowance	80,000	80,000	80,000	80,000
	520,000	**480,000**	**480,000**	**480,000**
Tax Band				
0-30,000 @0%	-	-		-
30,001-100,000@20%	14,000			14,000
Above 100,000@30%	126,000			114,000
Tax liability	**140,000**	**480,000**	**72,000**	**128,000**
Options	**A**	**B**	**C**	**D**

The correct option is D as the car availability doesn't constitute the taxable benefit as it only used solely for business purposes.

Option A takes car as a taxable benefit yet it was used solely for business.

Option B indicates basic salary which the taxable income. A taxable income should be levied employment income tax, not tax liability

Option C indicates FRW 72,000 which is 15% of FRW 480,000. Jiju is expert but He a plant engineer, employment income tax should be levied not WHT of 15%.

QUESTION SIX

The correct answer is D

In determining profits on business activities, a deduction for all expenses shall fulfil the following:

- (i) They are incurred for the direct purpose or normal course of business
- (ii) They correspond to a real expense and can be substantiated with proper documents
- (iii) They lead to a decrease in the net asset of the business
- (iv) They are used for activities related to the tax period in which they are incurred.

QUESTION SEVEN

The correct answer is D

Details	Workings	Correct Answer	FRW	FRW	FRW
Interest Income-1 year	168,000,000*7%	11,760,000	168,000,000*7%/6= 1960000	1,960,000	1,960,000
Tax at 5%		**588,000**	**98,000**	**294,000**	**0**
Options		**D**	**A**	**B**	**C**

The option D is correct, Article 60 of law No 16/2018 interest income is subjected to a withholding tax at 15% on the value exclusive VAT. However, the interest income derived from treasury bonds with maturity period of three years and above, the withholding tax is 5%.

The option A considered the 7% as interest rate after the maturity period of 6 years and taxed at 5%

The option B considered the 7% as interest rate after the maturity period of 6 years and taxed at 15%.

The option C considered the 7% as interest rate after the maturity period of 6 years and taxed at 0%.

QUESTION EIGHT

The correct answer is D

Description	**Amount FRW**	**Amount FRW**
Revenue		70,000,000
Expense 10% of total revenue	7,000,000	
Interest 10% of loan	10,000,000	
Depreciation 25% on cost	25,000,000	
Total expenses		42,000,000
Taxable income		28,000,000
Tax payable		**8,208,000**

QUESTION NINE

The correct answer is A

Descriptions	Amount FRW
Dividend per share	200
Number of shares	30,000
Total dividends	6,000,000
WHT @ 5%	300,000

B is not correct because it considered 15% WHT rate
C is not correct because it did not consider the WHT on dividend paid.
D is not correct because it considered 10% WHT rate.

QUESTION 10
The correct answer is A

Period	**Loss for the period Million FRW**	**Accumulated Loss Million FRW**
2016	(100)	(100)
2017	(200)	(100+200)= (300)
2018	50	(100-50+50+200)= (250)
2019	(130)	(250+130)= (380)
2020	(250)	(380+250)= (630)
2021	(200)	(630+200)= (830)
2022	(300)	(830-50+300)= (1080)
2023		(1080-200)= (880)

B is not correct because it did not consider 200 million losses forfeited in 2022
C is not correct because it considered 100 and 200 million losses forfeited in 2021 and 2022
D is not correct because it considered on the loss of 2022.

SECTION B

QUESTION 11

Marking Guide

DETAILS	**MARKS**
Basic Salary	0.5
Add:	
Communication Allowances	0.5
House benefits	0.5
Domestic staff	0.5
Education fees	0.5
Reimbursement	0.5
Medical Insurance	1
Pension payment Statutory	0.5
Pension payment Private	0.5
Benefits in Kind (Car)	1
Consultancy Income	0.5
Agriculture Income	0.5
Total Other taxable Income	
Total taxable Income	0.5
Tax band	
0-360,000@0%	0.5
360,001-1,200,000 @20%	0.5
Above 1,200,001 @30%	0.5
Tax liability	1
Total Marks	**10**

Model Answer

DETAILS	WORKINGS	FRW"000"
	Monthly	**Annual**
Basic Salary	900*12	10,800
Communication Allowances	300*12	3,600
House benefits	400*12	4,800
Domestic staff	60*12	720
Education fees	150*12	1,800
Reimbursement		Exempted
Medical Insurance	(70,000-60,000)*12	120
Pension payment Statutory		Exempted
Pension payment -Private	120*12	1,440
		23,280
Add: Benefits in Kind	23280*10%	2,328
Total Employments Income		**25,608**
Add: Other taxable Income		
Business income	600,000*100/118	508
Agriculture Income	24000000-12000000	12,000
Total Other taxable Income		**12,508**
Total taxable Income		**38,116**
Tax band		**FRW"000"**
0-360,000@0%		-
360,001-1200,000 @20%		168
Above 1,200,000 @30%		11,075
Tax liability		11,243

QUESTION 12

Marking Guide

QUESTION 12	DETAILS	MARKS
	Sales	1
	Less: Allowable Expenses	
	Communication	1
	Marketing expenses	0.5
	Other costs	0.5
	Donation-1% of turnover	1
	Bad debt	0.5
	Salesmen commission	0.5
	Tax depreciation	0.5
	Net salaries and wages	0.5
	Administration expenses	0.5
	Selling and Distribution	0.5
	Finance cost	0.5
	Electricity	1
	Allowable Expenses	0.5
	Taxable Income/Profit	0.5
	No tax payable	0.5
Total Marks		**10**

Model Answer

Computation of Kamana's taxable income and the Personal Income Tax payable for the year ended 31/12/2021

DETAILS		FRW'"000"	FRW'"000"
Sales	3,478,248*100/118		2,947,668
Less: Allowable Expenses			
Communication	45,000*80%	36,000	
Marketing expenses		300,000	
Other costs		100,000	
Donation-1% of turnover		29,477	
Bad debt		-	
Salesmen commission		540,000	
Tax depreciation		200,000	

Salaries and wages		480,000	
Administration expenses		576,000	
Selling and Distribution		691,200	
Finance cost		123,000	
Omitted electricity	4,000,000*100/118	3,390	
Wear and tear-computers	(50%*147,600)	73,800	
Allowable Expenses			3,152,867
Taxable Income/Profit or Loss			-205,199
Tax			No tax payable

SECTION C

QUESTION 13

Marking guide

	Marks
Explanation of arm's length principle	2.5
Transfer pricing adjustment, award each working 1 mark	4
Definition of thin capitalization	2.5
Computation of allowable expense	2
Computation of non-allowable expense	2
Workings of Loan allowed	1
Workings of loan not allowed	1
Award 1 mark for each Journal entry recorded	4
Award 1 for showing deductible and taxable expense	1
Total	10

Model answers

a) Arm' length principle is a principle according to which the conditions of a controlled transaction do not differ from the conditions that would have been applied to comparable uncontrolled transactions carried out under comparable circumstances which means that transfer prices between related companies are established on a market value basis and should be the same as they would have been to the independent parties of the same transaction not related to each other.

b. Management fees paid 60,000,000 which is 16% of turnover

Turnover =60,000,000*100/16= **FRW 375,000,000**

Management fees that were allowed= 10%*375,000,000= **FRW 37,500,000**

Transfer price adjustment =60,000,000-37,500,000= **FRW 22,500,000**

c.

i. Thin capitalization refers to the situation in which a company is financed through a relatively high level of debt compared to equity, in Rwanda taxation the loan from related parties is limited to 4 times of the company's equity excluding reserves and retained earnings. If the loan is exceeding four times equity, the corresponding interest will not be allowed for tax purpose.

ii. Loan Cap 7,500,000*4= 30,000,000

Loan received= 40,000,000

Excess Loan (not allowed) = 10,000,000

Interest not allowed= (5,600,000*10,000,000/40,000,000) = 1,400,000

Interest Allowed= 5,600,000-1,400,000= 4,200,000

d. The following are journal entries

01/01/2022

Dr Purchase (1010*189,523)	191,418,230	
Cr Account payable		191,418,230

08/01/2022

Dr Account receivable (1015*102,000)	103,530,000	
Cr Sales		103,530,000

15/02/2022

Dr Account Payable	191,418,230	
Dr Exchange Loss	14,214,225	
Cr Bank		205,632,455

20/02/2022

Dr Bank	112,710,000	
Cr Exchange gain		9,180,000
Cr Account receivable		103,530,000

Taxable difference =9,180,000

Deductible difference = 14,214,225

Net deductible difference= **5,034,225**

QUESTION 14

Marking guide

	Marks
Dividend declared for each partner 1 Mark each	2
Tax payable on each partner 1 Mark each	2
Sub Total	4
b)	
Computation of taxable income	1
Computation of the tax payable	2
Computation of withholding tax at source	2
Deadline for PIT filing	1
IQP Computation	1
Deadline for IQP filing	1
Sub Total	**8**
C	
Computation of Accelerated depreciation 0.5 Mark excluding Land	2
Computation of taxable base 0.5 Mark excluding Land	2
Award 1 Mark for each depreciation well computed Land excluded	4
Sub Total	**8**
TOTAL	**20**

Model answers

a. Taxable profit for a partnership= FRW 5,000,000

Tax payable by partnership= 5,000,000*30%=1,500,000

Profit after tax= 5,000,000-1,500,000=3,500,000

Dividend for Marc (50%*3,500,000) = 1,750,000

Dividend for Jane (50%*3,500,000) = 1,750,000

Withholding tax payable for each partner

Marc

Tax payable for Marc =15%*1750,000= 262,500

Jane

Tax payable for Jane=15%*1,750,000= 262,500

b. Computation of taxable income

Taxable profit	55,000,000
Interest received grossed up (8000,000 *100/85)=	9,411,765
Total Taxable income	64,411,765

Tax payable

0-360,000	0%=	0
360,000-1,200,000	20%=	168,000
1,200,000- Above	30%=	18,963,530
Tax payable		19,131,530
Less Tax paid at source		
15% WHT= 9,411,765*15%=		(1,411,765)
Net payable		**17,719,765**

ii. The deadline for filing the above tax will be not later 31 March 2023

iii. Income Quarterly Prepayment is 25% of 19,131,530= 4,782,882

Deadline for IQP is:

30/06/ 2023

30/09/2023

31/12/2023

c) Computation of the total capital allowance for the period of 2023

Asset description	**Land (FRW 000)**	**Building (FRW 000)**	**3 Motor vehicle @ 40 Million each(FRW 000)**	**Furniture and fittings (FRW 000)**	**Computer & accessories (FRW 000)**
COST/NBV	85,000	960,000	120,000	47,000	45,000
Accelerated depreciation rate	0	50%	50%	50%	50%

Accelerated depreciation	0	480,000	-	-	-
Depreciation base	0	960,000	120,000	47,000	45,000
Depreciation rate	0	5%	25%	25%	50%
Depreciation	0	48,000	30,000	11,750	22,500
Closing Balance	0	432,000	90,000	35,250	22,500

Total Capital Allowance =480,000+48,000+30,000+11,750+22500= 592,250

QUESTION 15

Marking guide

Computation of taxable income	
Profit before tax	0.5
Closing stock Overstated W1	1
Bonus provision	1
Repair and maintenance	1
Depreciation	1
Communication	1
Donation	1
Bad debt	1
Fuel	1
Management fees	1.5
Thin Capitalization	2
Entertainment costs	1.5
Fines and Penalties	0.5
Purchase of furniture	1
Capital Allowance	1
Income from Agriculture products	1.5
Dividend from local company (exempted from tax)	1.5
Tax payable	1

Model answers

Computation of taxable income for MCE Rwanda Ltd

Particulars	**FRW (000)**
Computation of taxable income	
Profit before tax	**661,130**
Add back non allowable expenses	
Closing stock understated W1	5,556
Bonus provision	12,000
Repair and maintenance	4,000
Depreciation	23,600
Communication (20%*8000)	1,600
Donation	18,670
Bad debt	Allowed
Fuel (20%*11200)	2,240
Management fees=50,000-(2%*2050,000)	9,000
Thin Capitalization	4,320
Entertainment costs (50%*10,000)	5,000
Fines and Penalties	12,300
Purchase of furniture	18,000
Total Additions	116,286
Less:	
Capital Allowance	(16,000)
Non-taxable income	
Income from Agriculture products	(12,000)
Dividend from local company (exempted from tax)	(30,000)
Total deduction	**(58,000)**
Taxable income	719,416
Tax payable @ 30%	**215,825**

Workings

1. Closing stock Declared	50,000,000
Closing stock computed	55,555,556
Understated stock	5,555,556

2. Loan limit (4 times Equity (4*19m))	76,000,000
Related party loan received	100,000,000
Non Allowed Loan	24,000,000
Non Allowed Interest= (18m*24m/100m)	4,320,000

END OF MARKING GUIDE AND MODEL ANSWERS