



**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3: ADVANCED TAXATION

DATE: MONDAY 27, MAY 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 where necessary.
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

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: 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 law N° 016/2018 of 13/04/2018 establishing taxes on income where applicable.

SECTION A

A.

Moise Munyarugendo, a Canada-based Rwandan Doctor has been saving for his homecoming in the past 20 years. Upon consultation of his business advisor friend Francis, he was given a range of business options in Rwanda that can make him good money, give him less stress and guarantee good passive income for his family even when he is sleeping his money can be making money.

However, one thing that Francis (the advisor) was not very familiar with was the tax system of Rwanda, for that Mr Munyarugendo was advised to get a comprehensive summary of tax implications *'the good ones and the red flags'* on each of the proposed investment options. After getting a good overview of tax implications in the respective investment options, then Francis may consider making some changes in his recommendation of the best investment options for his friend Moise.

You have been recommended by The Institute of Certified Public Accountants of Rwanda as one of the most reliable tax and business consultants in East Africa, you will write a Memo to Moise Munyarugendo addressing questions raised in each of the business options below:

i. INVESTMENT OPTION ONE:

Rwanda has been facing a problem of public transport, as recently highlighted by the Minister of Infrastructure and the head of Rwanda Utilities Regulatory Board. We can import new Buses, either Internal Combustion Engine Vehicles (ICEs) or Electric (EV) depending on which one gives us more advantage. Then get Transport Licence, be moving people between Kigali and all other provinces. If we use EVs, we shall need charging infrastructure, but guaranteed return as the city and country grows rapidly every year.

ii. INVESTMENT OPTION TWO:

Kigali Population is growing every year; we can bring in about \$3 Million, purchase land and construct state of the art condominiums with a mix of basic affordable apartments and luxurious ones and townhouses with good facilities. That way we shall get wealthy business people, executives and middle-income class. To start big however, we should work with one of local banks for Financing and use our properties as collateral. With the additional financing, we can have a few commercial properties down town for some good rental income.

iii. INVESTMENT OPTION THREE:

The Government is actively pushing for modern farming, Eastern province has great potential as there is even a new powder milk-processing plant by Inyange Industries. We can purchase about 15-20 Hectares of land in Nyagatare District, take advantage of the 'Nkunganire' Government subsidy and set up a mega dairy farm. We make our name to be most reliable in milk provision, but we have to buy feed supplements in addition to natural pasture. To avoid putting all eggs in one basket, we have to target both local and regional market. For export, we require a small processing and packing facility, while locally we supply to Inyange or someone else fresh milk to avoid additional unnecessary cost.

iv. INVESTMENT OPTION FOUR:

Option 4 is a carry on of the same career but this time at home. Build a descent hospital with modern technology, we would have to import a lot of medical equipment hopefully the taxman will not make us pay through the nose! Inside the Hospital we put in a pharmacy and make money from medical procedures and sell of medicine, something not common in Kigali private hospitals today. We shall need a number of medical experts at the start to train our Rwandan team, and when the business grows, we can open doors for other investors via Rwanda Stock exchange, I have heard that there are enormous benefits there, but we shall let our Rwanda tax guy give us more details.

v. INVESTMENT OPTION FIVE:

The last option is a lazy one I would say, use our savings to make clean passive income while enjoying the beautiful climate of Rwanda. The idea is to invest in shares, we want to have different alternatives; Buy shares in Rwandan top private companies, invest in some Government bonds with zero default risk, and buy shares in Kenyan Banks they are quite solid. If there's some remaining on accounts, we buy stocks in one of the leading banks in Ghana, it is a promising African star regardless of recent macro-economic challenges.

Required:

For each of the investment options, write a Memo to Moise Munyarugendo detailing the tax implications, the incentives and all the necessary considerations.

(25 Marks)

B.

Ms Yvette Mbabazi, a Certified Public Accountant was the Financial Controller of Kirehe Distillers, a Beer processing plant for over five years with an annual Basic salary of FRW 42 million per year. She was entitled to a fuelled company vehicle and a rented furnished house for FRW 850,000 per month, of which Kirehe Distillers contributes only up to FRW 450,000 monthly.

She was acting as the Head of Finance between March and July 2023, and was allowed a 10% increase in her Basic salary during that period. She was also entitled to the following monthly allowances:

1. Professional allowance of FRW 150,000
2. Responsibility allowance of FRW 185,000
3. Once-off relocation allowance of FRW 540,000

Mrs Yvette Mbabazi resigned from Kirehe Distillers on 31 July 2023, and received cash gifts from the management and colleagues of FRW 950,000 as appreciation.

On 01 September 2023, she accepted and started a new job as the Head of Finance at Cana Limited, a solar retailing company based in Kigali. She negotiated an annual salary of FRW 48 million, along with some other entitlements as follows:

1. Cost of Living allowance: FRW 120,000 per month
2. Overtime allowance: FRW 90,000 per month
3. Annual bonus: FRW 3,500,000 in December each year
4. Full refund for all out-of-pocket expenses incurred up to a maximum of FRW 180,000. In 2023, she was refunded for a total of FRW 300,000, 50% of which was schoolbooks for his Kindergarten son and the rest relates to business trips.
5. She negotiated up to FRW 60,000 contribution by the company to a private pension fund monthly.
6. A fully furnished company house. A similar house elsewhere would go for about FRW 1,000,000 monthly rent.

In addition to her salary from Cana Limited, Yvette runs a side Livestock farming in Gicumbi District. During the year, she received FRW 18 million from her Livestock business.

Required:

Compute MS Yvette Mbabazi's taxable income and the tax payable for the period of 2023
(15 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

You are a tax manager recently employed at Imali Limited, a Kigali based soft drinks processing plant. The company imports most of the raw materials and the cost is quite high but it is necessary to maintain good quality. In your first week at the new job, you realize that Mr Mwenyemali the Managing Director has been making side arrangements with foreign suppliers to indicate significantly low prices so that customs valuation ends up in low import taxes and duties paid by Imali Limited. In just 2023, you find the following transactions had happened:

- 1) Imali Limited contracted a Ghanaian technology company to train production team to instal, use and maintain the new packaging machine recently purchased. Imali believes this service cannot be found in Rwanda as the technology is new but is yet to align with Rwanda Revenue Authority. The Consultant was in the country for 10 days and the foreign company billed Imali USD 7,000 for the consultant's services. The invoice was paid in same day at the rate of FRW1,100/USD. This amount was net of any applicable taxes.
- 2) On 01 November 2023, the company paid FRW 950,000 to rent of a vehicle on behalf of the production manager. The Vehicle lease contract is between the vehicle lease company and the production manager.
- 3) Imali Limited purchased a heavy machinery for use in production process on 01 January 2023. The cost was FRW 75 million inclusive of VAT. The arrangement was upfront payment of FRW 20 million and a monthly FRW 10 million instalment for 8 months, this would cover the cost and some interest on hire purchase agreement.
- 4) The Company took a Loan of FRW 100 million from the parent company Imali Group ltd based in South Africa to finance working capital. The equity stood at FRW 20 million as at end of 2023. During the year, the company spent up to FRW 1 million in interest on the loan during the period of 2023.

Required:

- a) **Explain the difference between tax avoidance and tax evasion and discuss the issue of discovery of undervaluing imports in relation to Fundamental principles of the accounting profession and tax evasion?** (6 Marks)
- b) **Using appropriate computations where necessary, advice Imali Limited on tax Implications of the above transactions for the year ended 31 December 2023.** (14 Marks)

(Total: 20 Marks)

QUESTION THREE

- a) As a tax expert, provides an information note on the various methods for determining arm's length prices, described in Rwandan transfer pricing regulations. (6 Marks)
- b) The following scenarios pertain to the calculation of the transfer price. Please review each scenario and provide your response accordingly.

Scenario 1:

TECHLINK, a Rwandan technology company, manufactures a range of electronic components, including microprocessors. TECHLINK's microprocessors are sold to two separate entities that are TECHLINK Nyamabuye which is a subsidiary of TECHLINK located in Muhanga District, and an unrelated local company, ubumwe Ltd.

Under the terms of the agreements, TECHLINK ships the microprocessors to TECHLINK Nyamabuye on cost plus transport basis, while ubumwe Ltd takes possession of the microprocessors at TECHLINK's manufacturing facility.

The selling price of the microprocessors to ubumwe Ltd (per unit) is FRW 25,000, with an additional FRW 300 transport charge per unit. Assuming that TECHLINK's sales volume of microprocessors to both entities remain constant and that economic and market conditions are similar over a given period.

Required:

Calculate the Comparable Uncontrolled Price (CUP) for the microprocessors sold to TECHLINK Nyamabuye. (3 Marks)

Scenario 2:

TechCo, a Rwandan distributor, handles the distribution of tablet computers on behalf of its international parent company, TabletTech. Another local entity, Company D, which has no affiliation with TabletTech, has been contracted by TabletTech to manage the distribution of desktops in Rwanda. For this scenario, we assume that the tablet and desktop markets in Rwanda are reasonably comparable. The key distinction between these distribution arrangements is that TechCo conducts promotional and marketing activities for TabletTech, whereas Company D does not. A review of Company D's gross profit margin from the resale of desktops to consumers reveals a margin of 15%. Sales of tablets by TechCo to unrelated parties FRW 2,800 and arm's length price for promotion and marketing functions performed by TechCo for TabletTech based on transfer pricing analysis FRW 200.

Required:

Determine the arm's length price for the related party transaction using the resale price method. (3 Marks)

Scenario 3:

AUTOTECH, a Rwandan company manufactures specialised automotive components for its foreign affiliate AUTOPARTS Ltd. The MNE Group, comprising AUTOTECH and AUTOPARTS Ltd, holds the patents for these components and is the exclusive global producer.

As part of their agreement, AUTOPARTS Ltd provides the technical know-how for the manufacturing process and undertakes to purchase a fixed quantity of these components from AUTOTECH each month. The payment is structured to cover AUTOTECH's production costs and includes a profit margin for AUTOTECH. According to AUTOTECH's financial documents, the cost of producing one unit of these automotive components is FRW 75.

In this scenario, AUTOTECH essentially acts as a contract manufacturer. In the same sector, an unrelated manufacturing company in Rwanda, Automotive Company Ltd, produces various components for multiple independent companies and charges a typical profit margin of 18% for its contract manufacturing services.

Required:

Determine the transfer price for the related party transaction using the cost-plus method.

(4 Marks)

- c) The levels of Economic Integration include the customs union. The East African Community has reached this stage and the main features the Customs Union are embodied in the EAC Customs Union Protocol and its annexures, Common Customs Law (and regulations) and the Treaty.

Required:

As a tax expert, elaborate the main features of a Customs Union

(4 Marks)

(Total: 20 Marks)

QUESTION FOUR

- 1) RRA conducts tax audits and tax investigations whenever deemed necessary. Tax investigations are conducted primarily when there is a suspicion of tax evasion.

Required:

Explain the circumstances under which a person may be suspected of committing tax evasion.

(4 Marks)

- 2) Umurishyo Ltd is a company registered with RRA, and it has filed the CIT for the year 2019 as follows:

Line	Description	Amount
5	Sales/Annual sales	68,416,005
6	Opening Stock	-
7	Purchases supported by EBM/DMC/WOP	-
8	Closing Stock	-
10	Cost of Good/Services Sold	-
15	Gross Profit	68,416,005
16	Operating Expenses with EBM/DMC/WOP	5,545,890
17	Expenses related to the Salaries and Wages	24,198,698
18	Expenses supported by the Withholding	-
19	Expenses not requiring EBM or DMC as Supporting Document	1,846,959
20	Operating Expenses (Excluding Rental Expenses) (Line 16+17+18+19)	31,591,547
25	Depreciation	30,062,612
30	Total Expenses and Depreciation (Line 20+ Line 25)	61,654,159
35	Net Operating Income (Deduct line 30 from Line 15)	6,761,846
40	Investment Incomes	-
45	Non-Operating and Extra Ordinary Income	-

46	Revenue Surplus for Specified Entities Exempted from CIT	-
50	Rental Income	-
55	Total Income (Add Line 35 through 50)	6,761,846
60	Investment Expenses	-
65	Non-Operating and Extra Ordinary Expenses	-
70	Training and Research Expenses	-
75	Accelerated depreciation (Investment Allowance)	-
80	Bad Debts	-
85	Rental Expenses (<= 10% of Line 50)	-
88	Tax paid on Export of Minerals	-
90	Total Deductions (Sum of Line 60 through 88)	-
95	Net Income (Subtract Line 90 from Line 55)	6,761,846
100	Reintegration of Non-Deductible Expenses	-
101	Capital Gains realized on Restructuring	-
102	Capital Losses realized on Restructuring	-
105	Depreciation adjustments (+)	-
106	Depreciation adjustments (-)	-
110	Loss carried Forward from Previous periods	-
115	Non-Taxable Dividend Received	-
116	Agricultural and Livestock Activities Exempted Turnover (≤12,000,000)	-
117	Income Accrued from Saving and Employees Share Scheme	-
120	Taxable Income or Loss [(Line 95 and Line 100 and +/- Line105) Minus (Line 110+Line 115+Line116)]	6,762,000
125	Corporate Income Tax to Pay (Line 120*30%)	2,028,600
168	RDB domestic tax investment incentives (investment code) & RRA discount (Income tax law)	-
170	Foreign Tax Credit	-
175	Corporate Income Tax Payable [Line 125-(Line 168+Line 170)]	2,028,600
180	Quarterly Prepayments	-
185	Withholding on Imports	-
190	Withholding on Public Supplies	-
195	Withholding on Other Payments	-
200	Total Credits (Sum Line 180 through 195)	-
205	Over payment from Previous IQP	-
210	Net Tax Due/Credit (subtract Line 200 and line 205 from Line 175)	2,028,600
215	Credit Claimed	-
216	Credit Approved	-
217	Credit Used	-
218	Credit added back	-
220	Balance	2,028,600

The following are findings from the RRA audit conducted on the above return:

- 1) It was discovered by RRA audit team that annual sales were understated by FRW 15,350,000.
- 2) Expenses not requiring EBM or DMC as Supporting Document were overstated by FRW 1,500,000.
- 3) The depreciation was overstated by FRW 12,120,000.

- 4) During the start of the audit, Umurishyo Ltd had refused to cooperate with the tax audit team, and the statement of offence for that was established and submitted to the taxpayer.
- 5) Even though Umurishyo Ltd made sales that are significantly low in 2019, they were notified in 2016 by the Commissioner General of RRA that they are registered in the office of Large Taxpayers.
- 6) The company is registered for VAT.
- 7) The balance declared was duly paid.

Required:

As the tax specialist, compute the additional tax not paid and interest, fines and penalties if any, assuming that the assessed tax liability was paid on 15th November 2022 (12 Marks)

- 3) The understatement of sales was a result of sales subject to VAT, made to Mr. Kanyemera, and no EBM was issued to him.

Required:

Explain the consequences of that and compute corresponding taxes and the corresponding fines if any.

(4 Marks)

(Total: 20 Marks)

QUESTION FIVE

- 1) You are an experienced tax consultant providing advisory services to a multinational corporation operating in Rwanda. Your client, XYZ Ltd., is engaged in importing, manufacturing, and distributing different products. They have requested your expertise on several advanced aspects of Value Added Tax (VAT) in Rwanda. The Following are transactions for March 2022:

Date	Description	Amount FRW "000"
03/02/2022	Standard rated purchase	265 000
03/04/2022	Exports to DRC	1 620 000
03/06/2022	Standard rated sales	405 700
03/09/2022	Standard credit sales	128 500
03/12/2022	Accounting fee for March 2022	26 500
03/15/2022	Purchase of fuel	6 700
03/18/2022	Electricity bill	3 900
03/21/2022	Telephone expense	1 950
03/24/2022	Standard credit purchases	205 000
03/27/2022	Provision of bad and doubtful debt	54 400
03/29/2022	Purchased computers	38 200
03/31/2022	Rent for March 2022	5 000
03/31/2022	Legal fees	2 000
03/31/2022	Salaries for March 2022	20 000

Additional information

1. On the 7th of March 2022, among the items sold on the 6th of March 2022, goods valued at 100,000,000 were returned by the customer, and a corresponding credit note was issued. These same goods, originally purchased for 95,000,000 from our supplier, were subsequently returned to the supplier, who, in turn, issued a credit note accordingly.
2. On 15th March 2022 the company imported a service from a foreign supplier. The total expense was FRW 30,000,000 VAT exclusive. The service was not available in Rwanda.

3. On March 25, 2022, the supplier provided the company with the debit note, under pretext that the amount of VAT payable exceeds the amount shown on the original invoice. The debit note was showing that the VAT will be increased by FRW 550.
4. Telephone expense related to the airtime loaded onto the mobile phones of the Managing Director it is not easy to identify the personal or business usage.
5. The Provision of bad and doubtful debt was related to the standard credit sales made on 09/03/2022.
6. Unless otherwise specified, all amounts mentioned include VAT.

Required:

- a) Calculate the VAT amount payable to or refundable from the Rwanda Revenue Authority for the month ending on March 31, 2022. (12 Marks)
 - b) Elaborate the VAT tax period or point as per the Value Added Tax law (2 Marks)
 - c) Clearly explain the post-sale adjustment for unrecoverable debt as per the Value added tax law. (4 Marks)
- 2) The Managing Director believes that XYZ Ltd can operate within the Special Economic Zone, potentially relieving the company of VAT-related challenges.

Required:

Provide him with a concise explanation of how Special Economic Zones (SEZs) function in Rwanda. (2 Marks)

(Total: 20 Marks)

End of question paper

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