

**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 2 EXAMINATIONS**

**F2.4: TAXATION**

**DATE: MONDAY 27, MAY 2024**

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**INSTRUCTIONS:**

1. **Time allowed: 3 hours and 45 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.
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

Emugeco Road Construction Company (ERCC) is a limited company that deals in construction industry. The company won a contract of FRW 2,000,000,000 to repair the road Kigali-Karongi on 01/01/2019. The company estimated a cost of FRW 1,500,000,000 to complete the road as at 31/12/2021. The government withheld a withholding tax of 3% on all payments the company received as at the date of reporting. At the end of the year 2020, the company had incurred the costs in the table below:

N°	Description	Amount
1	Salaries and wages	82,400,000
2	Purchase of machineries	270,000,000
3	Hire of machineries	123,000,000
4	Utilities	12,500,000
5	Communication	6,700,000
6	Fuel	64,000,000
7	Materials	218,000,000
8	Stationaries	12,300,000
9	Repair and maintenance	39,200,000
10	Depreciation	46,525,000

#### Note.

1. The company accountant used the normal tax rates as provided by the income tax law to arrive at depreciation.
2. All expenses were incurred for business purpose.

#### Required:

- a) **Compute the taxable income for Emugeco Road Construction Company (ERCC) for the year ended 31/12/2020.** (15 Marks)
- b) **Apart from the investment certificate an investor may obtain from Rwanda Development Board (RDB), List and explain different tax certificates that are issued by Rwanda Revenue Authority.** (5 Marks)

**(Total: 20 marks)**

## QUESTION TWO

Umukunzi Rebecca is an individual entrepreneur having a residence Northern province in Musanze District. She is registered in Rwanda Revenue authority on Personal Income Tax, as a Medium Taxpayer. Before submitting her tax declaration to the Rwanda Revenue authority, she presented to her tax consultant the below financial information relating to the fiscal year ended 31/12/2021, for tax compliance purpose.

Items	Amount "000" FRW	Amount "000" FRW
Sales		152,000
Cost of sales		21,000
Gross profit		131,000
<u>Other income</u>		
Agricultural income		18,500
		149,500
<u>Expenses</u>		
Salaries and wages	46,237	
Interest expenses	3,000	
Water and Electricity	2,000	
Bad debts	11,000	
Depreciation	14,000	
WHT tax	5,600	
Tax paid	8,800	
Repair and maintenance	16,800	
Donation	5,000	
Communication	16,000	
		128,437
Operating Profit		<b>21,063</b>

### **Additional information:**

1. The loss brought forward from the year 2020 amounting to FRW 27,000,000 was omitted in the financial records for the year 2021.
2. The bad debts relate to a credit sale to a customer who is not traceable since 2020. This debt was included in the income for the year 2020.
3. Salary and wages included remuneration amounting to FRW 3,800,000 paid to office cleaners and gardeners.
4. Water and electricity relate to lighting and cleaning for office building.
5. Communication relates to money loaded to mobile phone for the business owner and the staff.
6. The repair and maintenance charge was used to purchase land for extension of the farming activities.
7. Withholding tax figure in the profit and loss account related to money paid on importations for the year 2021.
8. The donation was made to a neighbouring public schools.
9. Tax paid related to 2021 income tax quarterly prepayments.

10. Depreciation was calculated on the following assets:

Description	Cost as at 01/01/2019 "000" FRW	WDV as at 31/12/2020 "000" FRW
Land at cost	45,000	-
Building cost	56,000	-
Motor vehicle	-	14,000
Accounting Software	-	32,000
Computer & accessories	-	12,000

**REQUIRED:**

- a) A statement of adjusted taxable profit or loss for the year ended 31/12/2021 (17 Marks)
- b) Tax liability if any for the year ended 31/12/2021. (3 Marks)
- (Total: 20 marks)**

**QUESTION THREE**

- a) Three (3) High School Graduates were browsing on RRA website reading different classification of taxes. However, misunderstandings arise on classification of taxes. In fact, they didn't not manage to agree on tax classification.

**Required:**

- a) Using one (1) clear example, classify taxes according to nature and who bears the burden of the tax. (3 Marks)
- b) Discuss on the fact that Value Added Tax (VAT) is not burden to Manufacturers of tiles in Rwanda yet Corporate Income Tax (CIT) is burden to them. (2 Marks)
- b) Ximena Limited Company is a Medium Enterprise operating in Rwanda since 2018 producing non-alcoholic drinks as one of the profitable business products. The company is Value Added Tax registered taxpayer according to the article 11 of the law No 026/2019 of 18/09/2019 on tax procedures. During the month of November 2021, the company had the following transactions regarding the sales of non alcoholic beverage for VAT purpose.

Date	Descriptions	Amount FRW
5/11/2021	Credit sales to XYL Ltd	130,000
20/11/2021	Cash sales to Local customers	6,360,000
8/11/2021	Cash sales to Ndoli Super market	2,000,000
8/11/2021	Cash sales to LY ltd	405,000
11/11/2021	Cash sales to Amahoro Ltd	7,500,000
25/11/2021	Exported goods to USA	3,000,000
2/11/2021	Office stationeries	2,350,000
29/11/2021	Goods returned to supplier	2,400,000
30/11/2021	Airtime and internet	5,400,000

**Other Information:**

1. All amounts are VAT exclusive where applicable.
2. Ximena Limited Company realized that dealing with disabled persons is profitable business and made a contract for supplying wheel chairs on 30<sup>th</sup> November the same year. The Invoice made was worth FRW 2,400,000 for 200 chairs.
3. On 30<sup>th</sup>, Ximena Limited Company made a bulky purchase of drinks from BRALIRWA worth of FRW 12,000,000.
4. Airtime and internet were used for business purpose.

**Required:**

- a) **Compute VAT Payable/ Claimable for Ximena Limited Company for the month of November 2021.** (10 Marks)
  - b) **Clearly explain the VAT tax point or period as per the VAT law** (2 Marks)
  - c) **Explain 3 Scenario whereby the Input VAT is not allowed to be claimed back by the taxpayer** (3 Marks)
- (Total: 20 Marks)**

**QUESTION FOUR**

- a) **Define the pre-clearance and list 4 examples of goods which can be granted the facilities of pre-clearance.** (5 Marks)
- b) Using 3 examples each, **differentiate the quick release with deposit and quick release without deposit.** (8 Marks)
- c) ABC Ltd imported Toyota Hilux from Japan for Executive Director. The vehicle was imported at the Cost of FRW 32,000,000, insurance and freight from Japan to the port were of FRW 800,000 and FRW 1,800,000 respectively. ABC Ltd accountant has approached you as the tax expert to help him computing all the concerned taxes to be paid on the imported Vehicle.

Below is the list of taxes and its related rate used by the tax accountant during the assessment.

<b>Taxes</b>	<b>Rate</b>
Import duty	25%
Excise duty	10%
VAT	18%

**Required:**

As a Tax expert, **calculate the total cost of the vehicle and show how those costs will be recorded in the financial statement of ABC Ltd.** (7 Marks)

**(Total: 20 Marks)**

## QUESTION FIVE

1. Withholding taxes (WHT) are when tax is withheld from (or deducted from the income due to the recipient by the payer, and directly paid to the government. In most tax jurisdictions, withholding tax applies to employment income (think of PAYE) but some tax systems withhold tax on other forms of income, here in Rwanda we have other forms of Income rather than PAYE that are subject to withholding tax like interest income, dividend income, royalty income, services fees, gambling activity, etc. but in some circumstance, there is an exception of some income where tax withholding is not applicable.

### Required:

- a) **As tax expert, state 3 interest income that are not subject to withholding tax in Rwanda.** (3 Marks)
  - b) **Give a brief note on the taxation of the capital gain as per the income tax law.** (2 Marks)
2. Taxes on gaming activities include gaming tax and Withholding Tax, these taxes are applied on the proceeds of gambling activities.

### Required:

- a) **Differentiate between Tax on gaming activities from withholding tax on winnings on gaming activities and tax rate applicable for each** (5 Marks)
- b) XP Ltd is a betting company operating in Rwanda since 2018, during the month of May 2023 XP Ltd collected a total amount placed for betting of FRW 200,000,000 from players and from that amount, XP Ltd awarded FRW 80,000,000 to the winner, who had invested FRW 25,000,000.

### Required:

**Compute the tax on gaming activity and withholding tax on winnings on gaming activity to be paid by XP Ltd for the month of May 2023** (4 Marks)

3. After the taxation period, tax assessment is supposed to be done just to know the tax liability to be paid to Rwanda Revenue Authority (RRA) by the taxpayer, a tax assessment can be done by individual or company itself or by RRA. Under self-assessment, a taxpayer completes, files a tax return and pays the tax due. In case the taxpayer fails to submit the tax return or do it but fail to pay the due tax, RRA issues a notice for tax assessment to him/her.

### Required:

- a) **State 3 reasons for issuance of a notice of tax assessment** (3 Marks)
- b) **State 2 circumstances when the Tax Administration is entitled to the right of starting audit without notice.** (3 Marks)

**(Total: 20 Marks)**

## QUESTION SIX

Moses Engineering Business Group Ltd is registered in Rwanda and received an RDB investment certificate in 2020. The company is located in Masoro special Economic Zone, in Gasabo district. It deals in the road construction and real estate business sectors. The company started its operations in January 2020, with the following assets:

1. Land and office building equivalent to FRW 389,000,000 and 840,000,000 FRW respectively.
2. Office computers worth FRW 96,800,000.
3. Company Software of FRW 295,000,000.
4. Office Furniture FRW 74,000,000.
5. Two apartment buildings for sale in real estate investment worth FRW 18,000,000,000.
6. Three tractors of FRW 650,000,000
7. Heavy Excavators of FRW 2,100,000,000.
8. Motor vehicles of FRW 340,000,000.
9. In 2021, the company purchased additional tractors worth FRW 415,000,000.
10. During the year 2021, the company sold one real estate apartment and one computer of FRW 6,000,000,000 and FRW 1,700,000 respectively.

### Required

- a) **Compute the capital allowances of Moses Engineering Business Group for the years ended 2020 and 2021.** (10 Marks)
  - b) **Explain the treatment of the asset under pooling category whose depreciable value is equal or less than FRW 500,000** (1 Mark)
  - c) **Explain the treatment of the depreciation on the assets under lease.** (2 Marks)
  - d) **Give the 2 Conditions for asset to benefit from the accelerated depreciation** (2 Marks)
- (Total Marks: 20)**

## QUESTION SEVEN

Karenzi Benjamin is employed by COGEBANQUE Plc as a Finance Manager since 1<sup>st</sup> December 2022, on following contractual terms:

1. A monthly basic salary of FRW 7,200,000
2. Residential house where the company pays FRW 800,000 per month,
3. A company vehicle which he uses both private and business affairs.
4. Communication and cash allowances of Frw 250,000 and Frw 300,000 per month respectively.
5. Cogebanque provides a mortgage loan to its employee at an interest rate of 5.5%. Karenzi Benjamin obtained FRW 50,000,000 as a mortgage loan during the year. The BNR interbank interest rate was 10%.
6. The company contributes to the payment of Karenzi Children school fees of FRW 1,000,000 on monthly basis.
7. The company contributes for Karenzi Benjamin FRW 5% of the gross salary per month as statutory pension contribution to the public institution in charge of social security and 10% of the gross salary per month in a private recognized pension fund.



**Required:**

- a) **Determine the monthly employment income and tax liability of Karenzi Benjamin for the month of December 2022.** (11 marks)
- b) **Give the persons exempted from employment income tax.** (3 marks)
- c) **Elaborate three income that are exempted from employment income tax** (3 Marks)
- d) **Give and explain the treatment of the benefits in kind as per the income tax law.** (3 Marks)

**(Total Marks: 20)**

**End of Question Paper**

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