CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.3 TAXATION

DATE: FRIDAY, 02 DECEMBER 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

QUESTION	ANSWER
1	D
2	B
3	B
4	B
5	A
6	B
7	B
8	A
9	C
10	A

Section A – Marks allocation	**marks**
2 marks for each correct answer	2
Total marks for this section	**20**

Model answers

QUESTION ONE

The correct answer is D

	FRW
Basic salary	3,000,000
Education allowance	300,000
House rent	350,000
Taxable income	***3,650,000***

Option A, deducted private pension relief which is not correct, B considers house rent as benefit in kind (20% of Gross) and option C is wrong because it misleads student by adding private pension amount instead of deducting it.

QUESTION TWO

The correct answer is B

Reimbursement personal expenses incurred on behalf of the business is exempt from income tax. The rest of options are taxable; payment from a second job, compensation for redundancy and leave days pay-out are all taxable incomes.

QUESTION THREE

The correct answer is B

Option (ii) is a distractor because the reverse is true, ie. The second employer applies 30% flat, option (iv) puts the choice to choose who is first and second employer in hands of employee but the law specifies it correctly in option (i).

QUESTION FOUR

The correct answer is B

Option B was deliberately mentioned in a quite confusing way to distract the student but simply agricultural income in excess of FRW 12 million is taxable. The rest of the options; Income from registered collective investment schemes, capital gains from listed securities, and pension payments from Rwanda Social Security Board are all exempt from income tax.

QUESTION FIVE

The correct answer is A

Particulars	**Workings**	**Amount (FRW)**	**Amount (FRW)**
Gross rent	1,200,000x12		14,400,000
Less: Allowable expenses	14,400,000*50%	(7,200,000)	
Less: Interest expenses	20,000,000*16.5%	(3,300,000)	(10,500,000)
Taxable income			**3,900,000**
Tax Liability		**Tax rate**	**Tax**
0-180,000		0%	-
180,000-1,000,000		20%	164,000
1,000,000-3,900,000)		30%	870,000
Total tax payable			***1,034,000***

Option B distracts students with 30% in allowable expenses instead of 50%, Option C applies 30% flat tax on the rightly computed taxable income while Option D Omits allowable expenses, this was a trap for a student who never revised the rental income law.

QUESTION SIX

The correct answer is B

Options (iii) and (iv) are not on the list of exempt institutions specified in the income tax law. Having an investment certificate does not make the investor exempt from taxes.

QUESTION SEVEN

The correct answer is B

Option A is a provision and general provisions are disallowable for income tax, Option C is near to a correct answer but the company is yet to be ‘officially declared bankrupt’ which makes this option incorrect with the available information. Finally, Option D is s good accounting practice but not particularly allowable under income tax.

QUESTION EIGHT

The correct answer is A

Particulars	**(FRW)**
TWDV b/f	2,000,000
Additions	13,200,000
Disposals	(5,900,000)
Balance	**9,300,000**
Tax depreciation rate	25%
Tax depreciation	**2,325,000**

Option B wrongly applies 10% depreciation rate yet the right one should be 25%, option C distracts students by considering the 5.9Million x2, this is an easy mismatch to notice for a smart student. Option D is another distractor by applying 50% accelerated depreciation rate, easy for a student to find correct due to capital deductions applications of the tax law.

QUESTION NINE

The correct answer is C

Options (iii) and (iv) seem closely similar but the differentiator is that tax law exempts churches and schools only up to a level where their income does not exceed their expenses, which makes option (iii) incorrect. Option (ii) is categorically incorrect, manufacturing companies in Special economic zones may have a number of preferential tax treatments but they are not entirely exempt from income tax.

QUESTION 10

The correct answer is A

Particulars	**FRW**
Accounting profit	135,000,000
Add back: Disallowable expenses:	
Accounting depreciation	4,200,000
Entertainment expenses	1,000,000
Private use of overheads (20%)	590,000
Dividends paid	3,250,000
Donations in excess of 1% of Turnover	-
Adjusted tax profit before tax depreciation	**144,040,000**

Option B disallows market research into a new product as if it was capital expenditure in nature, but this is a valid business expense that should be allowed.

Option C in addition to disallowing research costs in B, it disallows the donation to Agaciro, yet the tax law provides for only what is in excess of 1% of Turnover, in this case the entire amount does not exceed 1% of Turnover so it should all be allowed. Option D does not consider accounting depreciation disallowable and this is incorrect.

SECTION B

QUESTION 11

Marking guide

		Marks
a.	1 mark for each line item in calculation of total cash emoluments, maximum 3 marks	3.0
	Vehicle benefit in kind	1.5
	Furnished house benefit in kind	1.5
	Loan benefit in kind	2.0
	Sub-total for this section	*8.0*
b	01 mark for correct calculation of tax liability and 01 mark for adjustment of PAYE	2.0
	Total marks for Question 11	**10.0**

Model answers

(a)

CPA Valentine Umulisa's taxable employment income calculation

For the month of November 2020

Particulars	**Workings**	**Amount (FRW)**
Basic Salary		3,500,000
Communication allowance		80,000
Overtime allowance		120,000
Total cash emoluments		**3,700,000**
Add Benefits:		**3,900,000**
Vehicle benefit in kind	(10%x3,700,000)-35,000	335,000
Furnished house benefit in kind	20%x3,700,000	740,000
Loan benefit in kind	(10%-5%)*9,500,000/12	39,583
Monthly taxable employment income		**5,014,583**

(b)

CPA Valentine Umulisa's Income tax liability calculation

For the month of November 2020

Monthly tax Liability		
Tax Band	**Tax rate**	**Amount**
0-30,000	0%	-
30,000-100,000	20%	14,000
100,000 - 5,014,583	30%	1,474,375
Tax Liability		**1,488,375**
Less PAYE		(52,000)
Tax Payable		***1,436,375***

QUESTION 12

Marking guide

		Marks
i	**Interest income:**	
	01 mark for calculation of taxable income, 01 mark for calculation of WHT	2.0
ii	**Capital gains tax:**	
	Proceeds from sale of shares	1.0
	Cost of the shares	1.0
	Capital Gains & capital gains tax	1.0
iii	**Loyalty income:**	
	02 marks for correct calculation	2.0
iv	**WHT on gaming activities:**	
	02 marks for correct calculation of taxable income	2.0
	01 mark for correct calculation of tax amount	1.0
	Total marks for Question 12	**10.0**

Model answers

Jean Paul Mudenge's withholding tax calculation on different sources of Income

	Income	**Workings**	**WHT (FRW)**
i	Interest Income	(28,000,000*7.5%)/12x7 1,225,000x15%	183,750
ii	Capital gains tax	Proceeds from sale of shares (7,500*310) =2,325,000 Cost of the shares (7,500*200) = 1,500,000 Capital Gains (2,325,000-1,500,000) = 825,000 Capital gains tax (825,000*5%)	41,250
iii	Royalty Income (Copyright)	15,500,000*15%	2,325,000
iv	WHT on Gaming activities	Wagered amount: 1,000,000 Amount won: 6.500,000 Taxable amount (6,500,000-1,000,000) = 5,500,000 Withholding (5,500,000-30,000) *15%	820,500

SECTION C

QUESTION 13

Marking guide

		Marks
a.	01 mark for each valid definition, 03 marks in total	3.0
b.	01 mark for each valid point, maximum 07 marks	7.0
c.	**Taxable income and Income tax liability:**	
	02 marks for each of the following added disallowable items; Rent prepayment, Overheads	4.0
	01 mark for each of other valid line items, maximum 04 marks	4.0
	02 marks for correct calculation of tax liability	2.0
	Total marks for Question 13	**20.0**

Model answers

(a)

(1)**Partnership Agreement**: A written contract between partners as to their rights and duties, to other working relationships and to the affairs of the partnership.
(2)**Limited liability partnership**: A partnership which has one or more partners in which the liability of the partners for the debts of the partnership is limited to their capital contribution.
(3)**Tax treatment of non-resident partners**: Dividends received by non-resident partner who is part of a resident partnership business in Rwanda are subject to 15% withholding tax. The dividend is supposed to be retained by the resident partnership business and paid to Rwanda Revenue Authority not later than 15th of the subsequent month.

(b) The taxable income of an individual derives from the following;
- Employment;
- Business activities;
- Investment;
- Capital gain; use, sale, lease or free transfer of an immovable property allocated to the business;
- Use, sale, lease or free transfer of an immovable property allocated to the business;
- Use, sale, lease or free transfer of movable property allocated to the business.

(c)

Items	**Workings**	**FRW '000**	**FRW '000**
Operating profit reported			11,630
Add: Disallowable expenses			
Bonus	(5,200*50%)	2,600	
Rent prepayment	(12,000*3)	6,000	

Bad debts		9,910	
Legal fees for personal disputes		3,500	
VAT paid		6,000	
Donation to for profit entities		67,600	
Overheads	(3,200*20%)	640	96,250
Net taxable income			***107,880***
Tax Liability computation:			
Tax bracket	**Rate (%)**	**Tax amount FRW '000**	
0-360,000	0%	-	
360,000-1,200,000	20%	168	
1,200,001-107,880,000	30%	32,004	
Total Tax liability		***32,172***	

QUESTION 14

Marking guide

		Marks
A	01 mark for each valid point, 06 marks in total	6
B	Disallowable expenses;	
	Furniture and fittings	1
	Legal fees provision	1
	Less: Tax depreciation & other income	
	Tax depreciation	2
	Non-taxable income (Dividends)	1
	Loyalty income	0.5
	Interest income	0.5
	Rent income	0.5
	Add: Taxable trading income	
	Loyalty income	1
	Interest income	0.5
	Rental income (Net of wear and tear expense of 10% and depreciation expense of 5%)	2
	Adjusted taxable profit before prior year’s loss adjustments	1
	Correct adjustment of prior years’ losses	2
	01 mark for correct layout of the calculation	1
	Total marks	20

Model answers

(a)

Article 53 of Law 16/2018 defines corporate restructuring as follows:

(a) A merger of two or more resident companies into a separate company;
(b) The acquisition or a takeover of fifty percent (50%) or more of shares or voting rights, by number or value in a resident company in exchange for shares of the purchasing company;
(c) The acquisition of fifty percent (50%) or more of the assets and liabilities of a resident company by another resident company solely in exchange of shares in the purchasing company;
(d) The acquisition of the entire company's assets so that its existence is replaced by the purchasing company;
(e) Splitting of a resident company into two or more resident companies.

The transfer of assets by a company during restructuring is exempt from income tax. The company receiving the assets and liabilities acquires them at their book values and is also liable to claim tax depreciation according to tax guidelines that would have been followed if the transfer had not occurred.

(b)

1. MDF Ltd taxable profit calculation
For the year ended 30 September 2020

	Working	**FRW '000**	**FRW '000**
Accounting profit reported			305,610
Add: Disallowable expenses			
Furniture and fittings		20,000	
Legal fees provision		10,000	
			30,000
Less non-taxable income			
Dividends		(30,500)	
Loyalty income		(25,000)	
Interest income		(30,000)	
Rental income		(4,000)	
			(89,500)
Add: Taxable trading income			
Loyalty income	(25,000,000*100/85)	29,412	
Interest income	No WHT required	30,000	
Rental income (Net of wear and tear expense of 10% and depreciation expense of 25%)	4,000,000-(10%*4,000,000) + (25%*25,000,000))	(2,650)	
			56,762
Less: Tax depreciation			

Tax depreciation	Furniture and fittings: (25%*20,000,000)		**(5,000)**
Adjusted taxable profit before prior years' loss adjustments			***297,872***

2. MDF Ltd Calculation of Losses Utilization

	Year ended 30 Sep 2018	Year ended 30 Sep 2019	Year ended 30 Sep 2020
	FRW	**FRW**	**FRW**
Business profit	150,000	200,000	297,872
Loss b/f Year ended 30 Sep 2016	(150,000)	(170,000)	-
Loss b/f Year ended 30 Sep 2017		(30,000)	(80,000)
Taxable business profit	**-**	**-**	***217,872***

QUESTION 15

Marking guide

		Marks
A	02 marks for correct definition of permanent establishment	3.0
	Maximum 03 marks for valid activities not considered as permanent establishment	2.0
B	01 mark for each valid point, maximum 03 marks	3.0
C	**Calculation of tax depreciation:**	
	Tax depreciation claim on Building	1
	Less: Assumed private use on tax depreciation claim	2
	Less: Investment allowance claimed	0.5
	Net tax depreciation claim	0.5
D	**Award marks as follows;**	
	Cost / TWDV b/f	1.0
	Additions	0.5
	Disposals	0.5
	Accelerated depreciation rate	0.5
	Accelerated depreciation amount	0.5
	Depreciable value (After accelerated depreciation)	1.0
	Tax depreciation rate	1.0
	Tax depreciation amount	1.0
	TWDV C/f	2.0
	Total marks for Question 15	**20.0**

Model answers

(a) Permanent establishment is a fixed place of business through which the business of an enterprise is wholly or partially carried on. The following are considered permanent establishments according to Rwandan law;

(1)A place of Management
(2)A branch
(3)A factory workshops
(4)A mine, quarry or other place of natural resources exploitation
(5)A construction sites
(6)A place for provision of services.

The following activities are not considered as permanent establishments;

(1)Use of a facility sorely for purposes of storage, display or delivery of goods
(2)Maintenance of Inventory of goods belonging to the enterprise solely for the purpose of storage.
(3)Maintenance of a fixed place of business solely for purchasing stock of goods or for gathering information for the company.

(b) Article 30 of Law 16/2018 allows tax relief for training and research expenditure as a business expense, provided the expense;

(a)Promotes business activities and relates to the trade of the business
(b)Has been declared and planned in the business activity plan of the tax period
(c)Does not consist / comprise of purchase, repair or reconstruction of land and buildings or of assets exploration (such as drilling for oil).

(c)Lindex Ltd Calculation of Tax Depreciation

Particulars	**Workings**	**Amount**
		FRW
Tax depreciation claim on Building	(5%*85,000,000)	4,250,000
Less: Assumed private use on tax depreciation claim	(20%*4,250,000)	(850,000)
Less: Investment allowance claimed	N/A (No Investment certificate)	-
Net tax depreciation claim		***3,400,000***

(d) M&N Ltd Tax Depreciation Calculation

	Business premises RWF	**Heavy machinery RWF**	**Computer and accessories RWF**	**Other business assets RWF**	**Total RWF**
Cost / TWDV b/f	145,600,000	9,341,600	4,150,000	11,125,000	
Additions	-	-	-	7,890,000	7,890,000
Disposals			(3,750,000)		(3,750,000)
Depreciable value	**145,600,000**	**9,341,600**	**400,000**	**19,015,000**	
Accelerated depreciation rate	0%	0%	0%	0%	
Accelerated depreciation amount	-	-	-	-	
Depreciable value (After accelerated depreciation)	145,600,000	9,341,600	Expense entire balance under 500,000	19,015,000	
Tax depreciation rate	5%	10%	N/A	25%	
Tax depreciation	**7,280,000**	**934,160**	**400,000**	**4,753,750**	**13,367,910**
TWDV c/f	***50,960,000***	***1,868,320***	***-***	***14,261,250***	

END OF MARKING GUIDE AND MODEL ANSWERS