



CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS
A2.3 ADVANCED TAXATION
DATE: MONDAY, 28 NOVEMBER 2022
MARKING GUIDE AND MODEL ANSWERS

SECTION ONE

QUESTION ONE

Marking Guide

Question	Details	Marks	Total Marks
(a)	Operating profit	1	
	Add: Non-deductible expenses		
	Add non-allowable deductions		
	Overstated cost of sales	1	
	Salary advance-Balance sheet item	0.5	
	Prepaid Rent	1	
	Bad debts without sup evidences	1	
	Depreciation	1	
	Income tax prepayments	1	
	Withholding tax	1	
	Transfer to reserves	1	
	Legal fees	1	
	Repair and maintenance	1	
	Donation	2	
	Communication	1	
	Add other income:		
	Dividends received from a local company	1	
	Interests' income	1	
	Dividends received from a foreign company	1	
	Total income		
	Less		
	Capital allowance-Award 0.5 marks on additions and each well calculated Capital allowance, wear and tear and total allowance on working one	8	
	Computation of tax to be paid		
	0 - 360,000	0.5	
	360,001 - 1,200,000	0.5	
	Above 1,200,000	0.5	
	Less		
	Quarterly prepayments	1	
	Less double taxation relief:		
	Withholding tax on imports	1	
	Withholding tax on interest	2	
	Withholding tax on foreign dividends	2	
	Total		32
(b)	Withholding tax on:		

Question	Details	Marks	Total Marks
	Dividend income	2	
	Capital gain computation	2	
	Interest income - government bonds	2	
	Interest income on long term-Fixed deposits	2	
	Total		8
	Total Marks		40

Model Answer

a) Computation of taxable income and tax liability of Nzagerakure Bonheur for the year ended 31 December 2020

Items	Workings	FRW "000"	FRW "000"
Operating profit			55,842,198
Add non-allowable deductions			
Overstated cost of sales	10/110*488,740,000	44,430,909	
Salary advance	Salary advance is a balance sheet entry does not have an impact of the Profit and loss account.		
Prepaid Rent	60%*220,000	132,000	
Bad debts without supporting evidences		45,000	
Depreciation		136,000	
Income tax		198,000	
Withholding tax on imports		95,000	
Transfer to reserves		679,500	
Legal fees		6,000	
Repair and maintenance		53,000	
Donation	8,328,964 - (1% * 555,264,262)	2,776,321	
Communication	20% *12,000	2,400	
Total non-allowable expense			48,554,130
			104,396,328
Add other income:			
Dividends received from a local company	Not taxable		
Interests' income	36,200* 100/85	42,588	
Dividends received from a foreign company	63,000*100/80	78,750	
			121,338

Items	Workings	FRW "000"	FRW "000"
Total income			104,517,666
<u>Less</u>			
Capital allowance	W 1		(54,024)
Adjusted taxable income			104,463,642
Computation of tax to be paid			
0 - 360,000	360,000*0%	0	
360,001 - 1,200,000	(1,200,000-360,000) *20%	168	
	(104,463,642-1,200,000) * 30%	31,338,733	
Tax for the year 2020			31,338,901
<u>Less</u>			
Quarterly prepayments			(198,000)
Tax liability			31,140,901
Less double taxation relief:			
Withholding tax on imports		95,000	
Withholding tax on interest	42,588* 15%	6,388	
Withholding tax on foreign dividends	78,750*20%	15,750	
			(113,201)
Tax to be paid			31,027,700

Working 1:

Assets	Land	Buildin g	Compute r & accessori es	Furnitu re and fittings	Moto r vehicl e	Capital allowan ce
	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"
Cost of acquisition as of December 2019	150,000	220,500	55,800	10,700	25,960	
Accelerated depreciation rate 2019		50%	50%	0%	0%	
Accelerated depreciation claimed in 2019		110,250	27,900	0	0	138,150
Depreciation basis for 2019		220,500	27,900	10,700	25,960	
Depreciation rate		5%	50%	25%	25%	
Depreciation charged in 2019		11,025	13,950	2,675	6,490	34,140

Assets	Land	Building	Computer & accessories	Furniture and fittings	Motor vehicle	Capital allowance
	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"
Total capital allowance 2019		121,275	41,850	2,675	6,490	172,290
WDV 01/01/2020	150,000	99,225	13,950	8,025	19,470	
Additions		53,000	0	0	0	
Accelerated depreciation 2020 computed on basis of new assets		26,500				26,500
Depreciation basis for 2020	150,000	273,500	13,950	8,025	19,470	
Depreciation rate 2020		5%	50%	25%	25%	
Depreciation 2020		13,675	6,975	2,006	4,868	27,524
Total capital allowance for 2020		40,175	6,975	2,006	4,868	54,024

b) Computation of Withholding taxes applicable to Nzagumakumwami Victor

	Type of income	Workings	Amount	WHT applicable
1	Dividend income	Dividend income from a listed company	300*100,000	30,000,000
			30,000,000*5%	1,500,000
2	Capital gain computation	Proceeds from the sales of shares	(500*4,000,000)	2,000,000,000
		Cost of shares	(200*4,000,000)	800,000,000
		Capital gain	2,000,000,000-800,000,000	1,200,000,000
	Capital gain tax	1,200,000,000*5%	60,000,000	
3	Interest income - government bonds	Interest income from long term government bonds	10000000*100/95	10,526,316
		WHT on interest income from long term government bonds	10,526,316*5%	526,315.79

4	Interest income on long term-Fixed deposits	Interest income	Maturity of deposit above 1 year	Is exempted	Exempted
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SECTION B

QUESTION TWO

Marking Guide

Details	Marks	Total Marks
Exports of cement	1	
Standard cash sales	1	
Standard Credit sales	1	
Imported services	1	
Debit notes issued	1	
Less Credit notes issued	1	
Less VAT on irrecoverable invoice	1	
Full Mark is awarded when workings are shown. Otherwise, award 0.5 Marks		
Imports of raw materials	1	
Legal fees	1	
Purchases of fuel (exempted)	1	
Electricity bills	1	
Telephone charges	1	
Standard rated purchases	1	
Purchases of company stationery	1	
Audit fees	1	
Imports of other goods	3	
Credit notes received	1	
VAT refundable	1	
Full Mark is awarded when workings are shown. Otherwise, award 0.5 Marks. Imports of other goods is awarded 3 Marks; each working is awarded 1 Mark		
Total Marks		20

Model Answer**Mwizerwa Ltd Computation of VAT payable to RRA for the month ended 31/05/2020**

Date	Description	Workings	Amount FRW "000"
Computation of Output VAT			
02/05/2020	Exports of cement	15,874,56*0%	0
05/05/2020	Standard cash sales	397,260*18/118	60,599
07/05/2020	Standard Credit sales	(95%*123,000)*18/118	17,825
24/05/2020	Imported services	367,000*18/100	66,060
26/05/2020	Debit notes issued	12,000*18/118	1,831
26/05/2020	Less Credit notes issued	27,000*18/118	(4,119)
31/05/2020	Less VAT on irrecoverable invoice	40,000*18/118	(6,102)
Total Output VAT			144,331

Date	Description	Workings	Amount FRW "000"
Computation of Input VAT			
03/05/2020	Imports of raw materials	258,900*18/118	39,493
09/05/2020	Legal fees	25,000*18/118	3,814
11/05/2020	Purchases of fuel (exempted)		
12/05/2020	Electricity bills	37,200*18/118	5,675
15/05/2020	Telephone charges	18,000*18/118	2,746
19/05/2020	Standard rated purchases	459,000*18/118	70,017
25/05/2020	Purchases of company stationery	41,000*18/118	6,254
27/05/2020	Audit fees	48,000*18/118	7,322
29/05/2020	Imports of other goods	W 1	63,810
30/05/2020	Credit notes received	34,000*18/118	(5,186)
Total input VAT			193,944

VAT refundable	144,331- 193,944	(49,613)
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W 1

Description	Workings	Amount FRW "000"
CIF		256,000
Import duty	CIF *rate	
	256,000,000*25%	64,000
Excise tax	(CIF + import duty) *rate	
	256,000,000+64,000,000*10%	32,000

VAT	(CIF +import duty + excise tax + port charges) 18%	
	256,000,000+64,000,000+32,000,000+2,500,000) *18%	63,810

QUESTION THREE

Marking Guide

Question	Details	Marks	Total Marks
a) i.	Award 1 Mark of a well explained condition that a Rwandan resident taxpayer should fulfil to be able to claim or deduct the taxes he/she paid abroad		
	Total		3
a) ii.	Gross tax liability on all Income	1	
	Tax liability on Rwanda income	1	
	Tax liability on Dubai income	1	
	Correct Double taxation relief	1	
	Total		4
a) iii.	1 Mark on explanation to submit the certified financial statements		
	Total		1
b) i.	2 Marks for a well explained investment registration process, and 2 Marks for a well explained investment certificate validity		
	Total		4
b) ii.	Award 1 Mark on a well explained obligations of a registered investor.		
	Total		4
c) i.	Award 1 Mark to a well explained threats that could inappropriately influence a professional tax practitioner's judgement and behaviour,		
	Total		4
	Total Marks		20

Model Answer

a)

i) Conditions that a Rwandan resident taxpayer should fulfil to be able to claim or deduct the taxes he/she paid abroad during a tax period:

1. The amount of foreign tax payable shall be proved by appropriate evidence such as tax declaration,
2. A withholding tax certificate or other similar acceptable document,
3. The reduction of the income tax provided shall not exceed the tax payable in Rwanda on income from abroad.

ii) Computation of double taxation relief allowed to Ms. Munyamugisha Marceline for the year ended 31/12/2020.

Total taxable Income	Workings	Amount '000' FRW
Rwanda income		108,000
Income from Dubai (Grossed Up)	(44,000 + 3,400)	47,400
Gross income		155,400
Tax computation		
0-36000	0%	-
360,001-1,200,000	20%	168
>1,200,000	30%	46,260
Gross tax liability		46,428
Tax on Rwandan income		
0-360,000	0%	-
360,001-1,200,000	20%	168
>1,200,000	30%	32,040
Tax liability on Rwanda income		32,208
Tax on Dubai income		
0-36000	0%	-
360,001-1,200,000	20%	168
>1,200,000	30%	13,860
Tax liability on Dubai income		14,028
Double taxation relief is the lower between: 14,028 & 3,400		3,400

iii) Ms. Munyamugisha Marceline is not qualified to submit the certified financial statements because her business turnover is below FRW 600,000,000 the threshold required by the law.

b) i. Investment registration process and investment certificate validity

1) Application for investment registration

The investor applies for investment certificate. If the application file for registration of the investment is complete, the Board registers investment, and issues an investment certificate to the registered investor within two (2) working days from the date of receipt of the application.

2) Validity of an investment certificate

An investment certificate is valid for a period of five (5) years from the date of its issuance.

However, an investment certificate can be renewed on request by a registered investor. The period of renewal is five (5) years renewable.

ii. Obligations of a registered investor

A. A registered investor has the following obligations:

1) To implement his or her proposal in accordance with the business plan submitted in the application file for registration of investment;

2) To keep financial and accounting records of the investment enterprise and submit a copy of a financial report to the Board within three (3) months following the preceding financial year;

3) To keep data relating to operations of the investment entity for a period of five (5) years;

4) To facilitate employees of the Board in the performance of their monitoring duties;

5) To respond in a period prescribed by written notice to query from the Board in connection with operations of the investment entity;

6) To register with the Tax Administration and file tax returns even in case of entitlement to tax exemptions.

c) Threats that could inappropriately influence a tax practitioner's judgement and behaviour.

1. Self-interest threat

The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour e.g.

a. Holding a senior position within a client's organization.

b. Holding a financial interest in, or receiving a loan or guarantee from the client.

c. Participating in incentive compensation arrangements offered by the client's organization.

d. Firm having undue dependence on total fees from a client.

e. A member of the professional accountant team entering into employment negotiations with the client.

f. Commercial pressure from outside the employing organization.

g. A firm being concerned about the possibility of losing a significant client.

h. A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm.

2. Self-review threat

The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service;

3. Advocacy threat

The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;

4. Familiarity threat

The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work e.g.

a. Being responsible for the employing organization's financial reporting

b. Long association with business contacts influencing business decisions

c. Accepting a gift or preferential treatment, unless otherwise trivial and inconsequential.

d. A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.

5. Intimidation threat

a. The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

b. Threat of dismissal or replacement of professional accountant

c. Dominant personality attempting to influence the decision-making process. A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with a client's inappropriate tax treatment.

d. A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

6. Threats to professional competence and due care.

A. Insufficient time for properly performing or completing the relevant duties.

b. Incomplete, restricted or inadequate information for performing duties properly.

c. Insufficient experience, training and/or education

d. Inadequate resources for the proper performance of the duties.

QUESTION FOUR

Marking Guide

Question four	Description	Marks	Total Marks
(a)	Tax is a social responsibility	2	8
	Transparency in taxation	2	
	Certainty during taxation	2	
	Equity/ Equality in taxation	2	
	Award 2 Marks on each well explained ethical issues against tax avoidance. Candidate can elaborate other than the shown above		
	Total		8
(b)	Loss carried forward of more than 5 years not deducted	2	8
	Foreign sourced loss not deducted	2	
	Management, technical services and royalty fees	2	
	Transfer pricing	2	
	Award 2 Marks on well explained anti-avoidance measures in the tax laws.		
	Total		8
(c)	Loss can be carried forward and be offset for the future benefits	1	4
	Discount on listed shares	1	
	Preferential CIT	1	
	Tax holidays	1	
	Award 1 Mark on each tax planning opportunities available to investing as a partnership in Rwanda. Candidate can elaborate other than the shown above		
		Total	
	Total Marks		20

Model Answer

(a) The moral and ethical issues against tax avoidance with specific reference to international companies

- **Tax is a social responsibility:**

- All the time, Government spending is used to finance public needs which have a positive impact on all people's lives, be it taxpayers or not, be it local companies or multinational companies.
- Avoiding tax, is avoiding social responsibility, or a social obligation.
- Paying the right share of tax, provides the country the funds to finance for public infrastructures, security, education and so on.

- **Transparency in taxation:**

The reason behind tax avoidance is to hide under the cover of tax avoidance to generate maximum profits and to repatriate them in home country. International companies most of the time will not disclose schemes they used in their tax avoidance, for the fear that in case it is known, government may address the loopholes. Which translates to the fact that aspect of transparency and full disclosure are undermined under tax avoidance.

- **Certainty during taxation:**

With tax avoidance using manipulation of the loopholes in tax laws and other tax regulations, the government will not be certain in terms of forecasting and planning of how much tax revenue will be collected.

- **Equity/ Equality in taxation:**

With the concept of double non-tax payment, multinational companies are able to avoid paying taxes both in the host country and in the parent country, yet they are profitable. The public expect that each and every taxpayer should pay the right share of tax, without leaving other taxpayers to pay alone their tax obligations.

(b) The provisions of the income tax law that provides for Rwandan tax anti-avoidance measures.

- **Loss carried forward of more than 5 years not deducted**

If the computation of business profit results in a loss in a tax period, the loss may be deducted from the business profit in the next five (5) tax periods, earlier losses being deducted before later losses.

However, the Tax Administration may authorize the taxpayer who so applied for, the loss carried forward of more than five (5) tax periods if s/he fulfils requirements determined by an Order of the Minister.

● **Foreign sourced loss not deducted**

During a tax period, foreign income can be taxed in Rwanda, however, foreign sourced losses cannot be deducted from either present or future domestic sourced business profits.

● **Management, technical services and royalty fees**

Management, technical services and royalty fees paid to a non-resident person exceeding two percent (2%) of the turnover of the taxpayer are not deducted to the taxable business income

● **Transfer pricing**

✓ Related persons involved in controlled transactions must have documents justifying that their prices are applied according to arm’s length principle. Failure to do so, the Tax Administration adjusts transactions prices in accordance with general rules on transfer pricing.

✓ the outstanding balance after the taxation of income from the correction made by the Tax Administration in the transfer pricing is considered as dividend income. Which is subject to withholding tax.

(c) **Tax planning opportunities available to investing as a partnership in Rwanda.**

✓ A partnership business is taxed as company in Rwanda,

✓ Loss can be carried forward and be offset for the future benefits

✓ Discount on listed shares: 40 =20%, 30=25%, 20=28%

✓ Preferential CIT 0% and 15%

✓ Tax holidays

✓ Investment allowance at 50%

QUESTION FIVE

Marking Guide

Question	Details	Marks	Total Marks
a) i.	Award 0.5 Marks per any valid circumstance that may trigger the tax administration to conduct a tax investigation.		
	Total		2.5
a) ii.	Award 0.5 Marks per each well explained and valid information provided in applying a search warrant		
	Total		2.5
Oct-20			
(b)	Output VAT on credit sales	0.5	
	Less: Credit notes	1	
	Inputs VAT on imports	0.5	
	Inputs VAT on local purchases	0.5	
	Less: Debit notes	1	
	Fixed Penalties for non-declaration	0.5	

Question	Details	Marks	Total Marks
	Penalties for non-declaration (3 months)	1	
	Interests for 3 months	1	
	Total tax to be paid October 2020	0.5	
	Nov-20		
	Output VAT	0.5	
	Inputs VAT	0.5	
	Fixed Penalties for non-declaration	0.5	
	Penalties for non-declaration (2 months)	0.5	
	interests for 2 months	0.5	
	Total tax to be paid November 2020	0.5	
	Dec-20		
	Output VAT on office materials supply	0.5	
	Output VAT on Cash sales	0.5	
	VAT retained by public institution	1	
	Fixed Penalties for non-declaration	0.5	
	Penalties for non-declaration (one month)	1	
	Interests for 1 months	1	
	Total tax to be paid December 2020	0.5	
	Total tax to be paid (Oct', Nov' and Dec'2020)	0.5	
	Total		15
	Total Marks		20

Model Answer

a)

i) Circumstances that may trigger the Tax Administration to conduct a tax investigation:

- 1) Deliberately underreporting or omitting income,
- 2) Overstating the amount of deductions,
- 3) Keeping two sets of books,
- 4) Making false entries in books and records,
- 5) Claiming false deductions,
- 6) Hiding or transferring assets or income,

ii) In applying for a search warrant, the Tax Administration provides:

1. The name, address and activity of tax payer;
2. The exact location of the premises or dwellings the Tax Administration wants to visit;
3. The serious indications of fraud the Tax Administration holds against the taxpayer;

4. The reasons why the tax administration wants a search warrant.

b)

Computation of VAT payable October 2020

Items	Workings	Amount in FRW
Output VAT on credit sales	298,000,000*18/118	45,457,627
Less: Credit notes	17,000,000*18/118	(2,593,220)
Total Output		42,864,407
Inputs VAT on imports	128,000,000 *18/118	19,525,424
Inputs VAT on local purchases	72,000,000*18/118	10,983,051
Less: Debit notes	35,000,000*18/118	(5,338,983)
Total input		25,169,492
VAT Payable		17,694,915
Fixed Penalties for non-declaration		300,000
Penalties for non-declaration (3 months)	17,694,915*60%	10,616,949
Interests for 3 months	17,694,915*1.5%*3	796,271
Total tax to be paid October 2020 (A)		29,408,135

Computation of VAT payable November 2020

Items	Workings	Amount in FRW
Output VAT		0
Inputs VAT		0
Tax liability		0
Fixed Penalties for non-declaration		300,000
Penalties for non-declaration (2 months)		0
interests for 2 months		0
Total tax to be paid November 2020 (B)		300,000

Computation of VAT payable December 2020

Items	Workings	Amount in FRW
Output VAT on office materials supply	389,278,000*18/118	59,381,390
Output VAT on Cash sales	153,000,000*18/118	23,338,983
Total output VAT		82,720,373
Inputs VAT		
VAT retained by public institution		59,381,390
Tax liability		23,338,983
Fixed Penalties for non-declaration		300,000

Penalties for non-declaration (one month)	23,338,983*20%	4,667,797
Interests for 1 months	23,338,983*1.5%*1	350,085
Total tax to be paid December 2020 (C)		28,656,864

Total VAT tax to be paid (D=A+B+C)		58,364,999
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END OF MARKING GUIDE AND MODEL ANSWERS