



ICPAR
Unlimited possibilities

**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS
A2.3 ADVANCED TAXATION**

DATE: MONDAY, 28 NOVEMBER 2022

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**
- 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 (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 Rate: (VAT)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 N° 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

SECTION A

QUESTION ONE

(a) Nzagerakure Bonheur (NB) is an individual enterprise registered in Rwanda Development Board and who obtained an investment certificate to invest in imports and exports of commodities in Rwanda since December 2019. The enterprise owns stores in Masoro and has multiple branches in Kigali and in the second cities of Rwanda. The enterprise submitted the following information to RRA for the income tax assessment purpose for the year ended 31/12/2020.

Items	Amount FRW "000"	Amount FRW "000"
Sales		555,264,262
Cost of sales		488,740,000
Gross profit		66,524,262
Operating expenses		
Salaries and wages	172,000	
Rent and rates	220,000	
Electricity	13,000	
Bad debt written off	45,000	
Depreciation	136,000	
Withholding tax (WHT)	95,000	
Income tax	198,000	
Transfers to reserves	679,500	
Audit fees	5,600	
Legal fees	6,000	
Advertising costs	82,000	
Repair and maintenance	689,000	
Donation	8,328,964	
Communication	12,000	
Total operating expenses		(10,682,064)
Operating Profit		55,842,198

Additional information:

1. The cost of sales was overstated by 10%.
2. A salary advance amounting to FRW 10,000,000 paid to the company accountant was not recognized in the books of accounts.
3. 60% of the rent and rates was prepaid for the next four years.
4. The Bad debts related to customers who were declared bankrupt at the end of the year. The enterprise had no support documents.
5. Legal fees related to settling the divorce case

6. FRW 53,000,000 of the repair and maintenance was used to partition the boardroom. This expense was not capitalized.
7. WHT was paid on importations.
8. The donation was made to the charity organization.
9. Communication is the money loaded on the mobile phone of the staff. It is difficult to separate private and business transactions.
10. Income tax related to 2020 quarterly prepayment.
11. In addition to the business income, Nzagerakure invested in Bank shares, in Rwanda. During the year ended 31 December 2020, he received a net dividend income amounting to FRW 84,000,000. Nzagerakure also has a fixed deposit account in the same bank with a maturity period of 10 months. During the year ended 31/12/2020, he received a net interest income equivalent to FRW 36,200,000.
12. Nzagerakure Bonheur invested in a foreign company having its permanent establishment in South Africa. At the end of the year, He received a dividend equivalent to FRW 63,000,000. The dividends were received net of 20% withholding taxes.
13. Depreciation relates to the following assets:

	Land	Building	Computer & Accessories	Furniture and fittings	Motor vehicle
	FRW	FRW	FRW	FRW	FRW
Cost 31/12/2019	150,000,000	220,500,000	55,800,000	10,700,000	25,960,000
Wear & Tear		11,025,000	27,900,000	2,675,000	6,490,000
Written down value (WDV) 31/12/2020	150,000,000	209,475,000	27,900,000	8,025,000	19,470,000

Required:

Advise Nzagerakure Bonheur on the taxable income, tax liability and tax payable for the year ended 31/12/2020. (32 Marks)

(b) Nzagumakumwami Victor is a retired civil servant who invested in different assets since his retirement period in December 2018. During the year ended 31/12/2020, Nzagumakumwami received income from the following assets:

1. Purchased 100,000 shares in Mambo Ltd, a new listed company at Rwanda Stock Exchange market. At the end of the year, Nzagumakumwami Victor received a dividend of FRW 300 per share.
2. Purchased 5,000,000 shares of FRW 200 each in Virunga LTD, a private company whose shares are not listed at Rwanda stock exchange. During the year ended, Nzagumakumwami sold 4,000,000 shares at FRW 500 each.
3. He also invested in government Securities with a maturity period of 5 years. He received a net interest income amounting to FRW 10,000,000.
4. Nzagumakumwami also owns a fixed deposit account in BCM bank with a maturity of two years, at the end of the year he received an interest income of FRW 5,000,000.

Required:

Compute the relevant withholding taxes charged to Nzagumakumwami Victor for the year ended 31 December 2020. (8 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

Mwizerwa Ltd is a company deals in imports and exports trades. The following was extracted from the books of accounts for Mwizerwa Ltd for the month of May 2020.

Date	Description	Amount FRW "000"
02/05/2020	Exports of cement	1,587,456
03/05/2020	Imports of raw materials	258,900
05/05/2020	Standard cash sales	397,260
07/05/2020	Standard Credit sales	123,000
09/05/2020	Legal fees	25,000
11/05/2020	Purchases of fuel	64,300
12/05/2020	Electricity bills	37,200
15/05/2020	Telephone charges	18,000
19/05/2020	Standard rated purchases	459,000
23/05/2020	Provision of bad and doubtful debt	52,000
24/05/2020	Imported services	367,000
25/05/2020	Purchases of company stationery	41,000
27/05/2020	Legal fees	48,000
28/05/2021	Salary for permanent staff	159,300

Additional information:

1. On Credit sales of 07/05/2020, the customer was offered a 5% discount on total sales for prompt payment.
2. Imported services related to outsourced service from a foreign consultant firm. The price paid was value added tax (VAT)-exclusive. Similar services can also be provided by Rwandan consultants.
3. On 26/05/2020, the company issued a debit note and a credit note amounting to FRW 12,000,000 and FRW 27,000,000 taxable supplies respectively.
4. 29/05/2020 The Company imported other goods worth FRW 256,000,000 cost, insurance and freight (CIF) Kigali. This figure was omitted from the books of accounts. Port charges were fixed at FRW 2,500,000. Import rates were as follows:

Tax	Rate
Excise tax	10%
Import duty	25%
VAT	18%

5. On 30/05/2020, the company returned goods invoiced at FRW 34,000,000 to the supplier because they were found to be defective. A credit note was received with immediate effect.

6. From the provision of bad and doubtful debts, the company wrote off irrecoverable debts amounting to FRW 40,000,000 in respect of invoices due for payment on 10/05/2018.

7. Unless where indicated, all the figures were VAT-inclusive.

Required:

Determine the amount of VAT payable/ refundable to/from the Rwanda Revenue Authority for the month ended 31/05/2020. (20 Marks)

(Total: 20 Marks)

QUESTION THREE

(a) According to the Rwanda income tax law n°16/2018 of 16/04/2018, If during a tax period, a resident in Rwanda generates income derived from taxable activities performed abroad, the income tax payable by that resident in Rwanda is reduced by the amount of foreign tax paid on such income.

Required:

(i) **Explain the conditions that a Rwandan resident taxpayer should fulfil to be able to claim or deduct the taxes he/she paid abroad.** (3 Marks)

(ii) Ms. Munyamugisha Marceline is a businesswoman who deals in imports and exports of various commodities in different countries and resides in Rwanda. During the fiscal year ended 31/12/2020, she reported the following income to the Rwanda Revenue Authority:

Items	Amount "000" FRW
Sales	280,000
Cost of sales	(120,000)
Gross profit	160,000
Expenses	(52,000)
Operating Profit	108,000
Other income:	
Income from Dubai (net of FRW 3,400,000 tax)	44,000
Total Income before tax	152,000

Required:

Compute the double taxation relief allowed to Ms. Munyamugisha Marceline during the year ended 31/12/2020. (4 Marks)

(iii) Advise Ms. Munyamugisha Marceline on whether or not she is qualified to submit the certified financial statements. (1 Mark)

(b) The government of Rwanda gazetted a new law on investment promotion and facilitation. The new investment law, number 006/2021 repealed law number 06/3015 dated 28 March 2015 which has been governing investment promotion and facilitation in Rwanda over the past six years.

Required:

(i) Discuss the investment registration process and investment certificate validity. (4 Marks)

(ii) Explain the obligations of a registered investor. (4 Marks)

(c) There are several professional ethics of personal and business behaviour, values and guiding principles established by professional organizations to help guide members in performing their functions according to ethical principles. However, the circumstances in which professional tax practitioners operate may create specific threats to compliance with the fundamental principles. In this regard, compliance with fundamental principles of ethics may be potentially threatened by a broad range of circumstances whereby these may inappropriately influence a tax practitioner's judgement and behaviour.

Required:

Discuss any 4 threats that could inappropriately influence a tax practitioner's judgement and behaviour. (4 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) Tax planning has become an essential topic in international taxation. Tax evasion is defined under different tax jurisdictions as the use of illegal methods of concealing income or information from tax authority and is perceived as a tax fraud in Rwandan which can result in fines, penalties and/or imprisonment upon conviction. On the other hand, tax avoidance is perceived as acceptable means to minimize the tax liability. Both tax evasion and tax avoidance objectives are to arrange financial and tax matters with the purpose of minimizing the tax burden.

Required:

Discuss the moral and/ or ethical issues against tax avoidance with specific reference to international companies. (8 Marks)

(b) Discuss the provisions of the income tax law that provides for Rwandan tax anti-avoidance measures. (8 Marks)

(c) Discuss with clear examples four tax planning opportunities available to invest as a partnership in Rwanda. (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

(a) In its efforts to improve taxpayer voluntary tax compliance, and curtail possible incidents of tax evasion, Rwanda Revenue Authority periodically undertakes various measures that combat and minimize tax evasion. Those measures include comprehensive and issues-oriented tax audits, desk audits, tax investigations, and other tax checks.

Required:

- (i) Under what circumstances the Tax Administration may conduct a tax investigation? (2.5 Marks)
- (ii) State the information that the Tax Administration has to provide in applying for search warrant. (2.5 Marks)

(b) Semururumba Investment Co is registered as a medium taxpayer in Rwanda Revenue Authority since 2015. The tax administration has been suspecting that the company was not filing monthly VAT returns for 2020 from October 2020 to December 2020. The tax compliance officers successfully conducted an investigation for the undeclared 3 months on 31/12/2021.

The following information was obtained from the Electronic Billing Machine back office and through other various channels now available to tax officials:

1. During October, the company imported taxable goods equivalent to FRW 128,000,000. Information was available from Customs records.
2. Purchases amounting to FRW 72,000,000 were also made during October 2020, and credit sales amounting to FRW 298,000,000.
3. The supplier issued a debit note and credit note equivalent to FRW 35,000,000 and FRW 17,000,000 respectively in October 2020
4. No sales were realized in November 2020, because of COVID -19. Public and private offices were closed all people were under lockdown.
5. In December 2020, the company successfully secured and executed a public supply contract equivalent to FRW 389,278,000 to supply office materials. Also, cash sales equivalent to FRW 153,000,000 was found recorded under the EBM system.
6. All figures are VAT inclusive.

Required:

Compute the amount of tax payable if any, and compute any penalty and interests for the undeclared monthly VAT returns. (15 Marks)

(Total: 20 Marks)

End of question paper