CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.3 ADVANCED TAXATION

DATE: MONDAY 24, FEBRUARY 2025

MARKING GUIDES AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

Description	**Marks**
Profit before tax	0.5
Understatement of closing stock	1
Bonus provision	1
MD Electricity	1
20% of electricity	1
Bad debts	1
Fuel	1
20% of remaining fuel	1
Management fees	1
Donation	1
Thin capitalization	1
Entertainment	1
Prepaid rent	1
Prepaid Insurance	1
Accounting Depreciation	0.5
Increase in provision	0.5
Telecommunication fees	1
Fines and penalties	0.5
VAT on sales	1
Release of provision	1
Less Bank interest net	0.5
Add Bank interest gross	0.5
Less foreign Interest net	0.5
Add Foreign interest gross	0.5
Local dividend	1
Loss carry forward	1
Capital Allowance	0.5
Total Deductions	
Taxable income	
Tax Payable	1
WHT on Bank interest	0.5
WHT on Foreign interest	0.5
Accelerated dep for building	0.5
Determination of cost of building	0.5
Depreciation charge for operating lease vehicles	0.5
Depreciation charge for finance lease vehicles	0.5
Depreciation charge for workshop equipment	0.5

Depreciation charge for Computer equipment	0.5
Depreciation charge for furniture and fittings	0.5
b) Award 3 Marks for well explanation of special calendar requirement	3
c) Award 1 Mark for each point on Loss carry forward	2
Award 2 Marks for a well explanation of capital gain tax	2
d) Award 1 Mark for each point that may trigger tax investigation max 5	5
Total	**40**

Model Answer

a) Computation of the taxable income, tax liability and tax payable for the year ended 31 December 2020.

Description		**Amount FRW "000"**
Profit before tax		417,545
Add back non allowable expenses		
Understatement of closing stock		43,989
Bonus provision		54,500
MD Electricity		500
20% of electricity	900	900
Bad debts		50,500
Fuel	10% of 35,000	3,500
20% of remaining fuel	31,500	6,300
Management fees	W2	43,492
Donation	W3	24,200
Thin capitalization	W4	13,800
Entertainment		68,496
Prepaid rent		22,415
Prepaid Insurance		66,390
Accounting Depreciation		1,020,199
Increase in provision		12,000
Telecommunication fees		2,405
Fines and penalties		16,395
Total Additions		**1,450,680**
Deduction		
VAT on sales	W1	- 358,613
Release of provision		- 49,345
Less Bank interest net		- 61,553
Add Bank interest gross		72,415
Less foreign Interest net		- 68,737

Description		Amount FRW "000"
Add Foreign interest gross		105,749
Local dividend		- 41,553
Loss Carry forward	W5	- 162,290
Capital Allowance	W6	- 586,797
Total Deductions		**- 1,150,724**
Taxable income		717,501
Tax Payable	7 years holiday	N/A
Less tax paid at source		
WHT on Bank interest		- 10,862
WHT on Foreign interest		- 31,725
Tax credit		**- 42,587**

Workings:

1 WORKING ON VAT on sales

Descriptions	Amount
Total Sales	2,938,636
Local sales @ 80%	2,350,909
VAT	358,613
Net Local sales	1,992,296
Export	587,727
Adjusted Sales	2,580,023

2 Management fees

Description	Amount FRW "000"
Business Income/Sales (Adjusted)	2,580,023
Management fees	95,092
2% Management fees allowed	51,600
Excess Management fees	43,492

3 Donation

Amount	Descriptions
Donation Allowed (1%*2,580,023)	25,800
Donation paid	50,000
Excess	24,200

4 Thin capitalizations

Descriptions	Amount
Allowed Loan	260,000
Loan received	375,000
Excess Loan	115,000
Non-allowed Interest	13,800

5 Loss carry forward

Period	Amount FRW "000"	Cumulative loss 000
2014	-161,553	- 161,553
2015	-68,737	- 230,290
2016	-41,553	- 271,843
2017	95,200	- 176,643
2018	-52,000	- 228,643
2019	32,500	- 196,143

W6: Capital allowance

Descriptions	TWDV	Additions	Accelerated Dep	Dep base	Depreciation	Total Capital Allowance
Buildings	290,936	281,596	140,798	604,858	30,243	171,041
Workshop equipment	2,500	1,393		3,893	973	973
Computer equipment	1,201	7,395		8,596	4,298	4,298
Leased vehicles under finance lease	344,383	1,186,580	0	Not depreciated	Not depreciated	Not depreciated
Leased vehicle under Operating Lease	1,033,149	593,290	0	1,626,439	406,610	406,610
Furniture and Fittings	5,500	10,000		15,500	3,875	3,875
						586,797

Building costs Determination	
Descriptions	**Amount**
Tax Written Down Value	290,936
Year of Purchase	2018
Cost of Building (290,936*100/90)	323,262
Depreciation base (323,262+281,596)	604,858

b) Requirements for special calendar

The tax is calculated for the calendar year, which starts on 1 January and ends on 31 December. Upon written request, the Minister may allow in writing a taxpayer to apply any other twelve (12) months period as a tax period, if the taxpayer fulfils the following conditions:

1° he/she is an entity subject to corporate income tax;

2° he/she is required to keep books of accounts according to generally accepted accounting principles;

3° he/she presents sound reasons to change his/her tax period.

Where a taxpayer's tax period changes, the period from the start of the usual tax period to the date of such a change is considered as a usual tax period and is separately subject to taxation.

c) Treatment of sell of 25% of the company shares.

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.

If during a tax period, the direct and indirect ownership of the share capital or the voting rights of a company, whose shares are not traded on a recognized stock exchange changes more than **twenty-five per cent (25%) by value or by number, the provisions of Paragraph one of this Article cease to apply to losses incurred by** that company in the tax period and previous tax periods.

Capital gain Tax.

The capital gain on sale or transfer of shares is the difference between the acquisition value of shares and their selling or transfer price.

If there is a gain, the gain will be subjected to the 5% Withholding tax.

d) **The following are the criminal activities that may trigger the tax investigation by the tax administration.**

• Deliberately underreporting or omitting income,

• Overstating the amount of deductions

• Keeping two sets of books

• Making false entries in books and records

• Claiming false deductions

• Hiding or transferring assets or income

SECTION B

QUESTION TWO

		Marks
A		
i)	01 Mark for Introduction / executive summary	1.0
	02 Marks for correct answer taxation of Rwandan companies earning income abroad	2.0
	03 Marks for correct answer on taxation of non-resident companies in Rwanda, answer should point out residence criteria / conditions	3.0
ii)	1.5 Marks for any 4 well explained points, maximum of 06 marks	6.0
ii)	01 Mark for each well explained point, maximum of 04 marks	4.0
B		
i)	2 Marks for the correct answer on rationale of tax treaties	2.0
ii)	2 Marks for spread evenly for any two valid points	2.0
	Total Marks for Question Two	***20.0***

MODEL ANSWER

a)

i)

The wording of the article is vague and the author did not point out key considerations, consequently this may mislead readers. In the paragraphs below, I add more context to the article to make it more relevant and helpful for understanding.

Rwandan residents are taxed on both local and foreign sourced income. However, the tax liability is reduced by the amount of tax paid outside. Where a tax treaty exists between the country where income is sourced and Rwanda, a foreign tax credit must be granted to the maximum of what would have been the tax payable if that similar income was sourced in Rwanda. Absence of tax treaty, foreign tax credit may be granted on a unilateral basis.

Rwanda incorporated companies or associations are treated as Rwanda resident entities. However, companies incorporated overseas are also treated as Rwandan resident companies if they have a place of effective management in Rwanda at any time during the tax period. The entity is deemed to have its place of effective management in Rwanda in one of the following circumstances:

1. Its day-to-day control and management are done in Rwanda.
2. Its shareholders' meetings are held in Rwanda.
3. Its books of accounts are prepared and kept in Rwanda.

4. Its main shareholders or directors are residents of Rwanda.

ii)

The article points out real concerns but falls short on showing how the Rwanda tax law mitigates such concerns from materializing, I illustrate them below;

1. **Transfer Pricing:** Rwanda transfer pricing rules set out clear requirements and control to ensure all controlled transactions between related parties are at arm's length. For example, Taxpayers with an annual turnover of more than FRW 600 million and/or substantial controlled transactions (more than FRW 10 million individually or an aggregate value greater than FRW 100 million), shall be required to prepare detailed transfer pricing documentation to evidence the arm's length nature of the controlled transactions. Also Companies must prepare and file transfer pricing documentations with Rwanda Revenue Authority periodically.
2. **Thin Capitalization:** Regarding Huge Loans, Thin capitalization comes in, the interest paid on loans and advances from related entities is not tax deductible to the extent that the total amount of loans/advances exceeds four times the amount of paid-up equity. What this helps with is to limit related entities from giving too much Loans and very little equity, which could have adverse effects, hence disallowing part of the Interest on excessive Loans mitigates this risk.
3. **Withholding tax:** A withholding tax of 15% is charged on payments to non-residents such as Interest, Royalty, Dividends and Management or professional fees. There are some specific provisions where such tax can be less, for countries which have tax treaties with Rwanda like Morocco, Qatar, South Africa, Turkey and others.
4. **Limitation on allowable expense:** Further to thin capitalization limitation on Interest, Management fees, technical support and other support services provided by foreign companies to Rwandan entities are limited to 2% of Turnover for Income tax purposes. That essentially means that if the cost is 4% of turnover, only the first 2% shall be allowed and the rest disallowed for Income tax purposes.

iii)

Guided by the Green Growth and Climate Resilience Strategy (GGCRS), the Government of Rwanda has put in place numerous initiatives to promote sustainable mobility and green economy at large.

That's why the Government of Rwanda has introduced numerous fiscal and non-fiscal incentives to fast-track the electric mobility transition and attract additional investments in the growing industry. These incentives include:

1. **Low Charging Costs:** Costs for charging stations will be priced at the lowest industrial tariff, which is significantly lower than the residential tariff. Electric vehicle owners will also benefit from reduced tariffs when charging during off peak hours - from 11pm to 8am.
2. **Tax Breaks:** Electric vehicles, spare parts, batteries and charging station equipment are now exempted from import and excise duties, zero rated for Value Added Tax and spare parts, batteries and other equipment will also be exempted from withholding tax.
3. **Provision of land:** Companies setting up charging stations across the country can now access government owned land on a rent-free basis.

4. **Promoting Local Production:** Companies manufacturing and assembling electric vehicles in Rwanda can now enjoy a 15 percent Corporate Income Tax rate and tax holiday.

These incentives will make it easier for Rwandans to be part of the country's efforts to reduce air pollution and greenhouse gas emissions.

b)

i) Tax treaties between countries helps to eliminate double taxation, promotes development and flow of international trade and investments.

ii) Negative Implications of double taxation

- Double taxation negatively affects movement of capital, exchange of technology and free movement of goods and services.
- Reduces the volume of cross border transactions between countries, eventually causing decline to the economies of countries.

QUESTION THREE

Marking Guide

Descriptions	
VAT reverse charge	1.0
VAT reverse charge Deductible	1.0
VAT on stock	1.0
Standard local purchases	0.5
Export	0.5
Standard sales	0.5
Standard credit sales	0.5
Electricity Bill	1.0
Telephone Charge	1.0
Rent	1.0
Security fees	1.0
VAT on Import	1.0
Unsupported Purchases	0.5
Personal consumptions	0.5
VAT Payable In December	0.5
Fines computations	
Fixed fines	0.5
Understatement fines 20%	0.5
Interest for late payment @ 1.5% for 5 months	0.5
Non declaration and payment fines @ 60%	0.5
Computation of CIF	0.5
Computation of Import duty	0.5
Computation of excise duty	0.5
b) Explanation of the importation of services	2.0
c) Award 0.5 Mark for each correct point of Denial	3.0
Total tax payable	**20.0**

Model answer

a) VAT computation

Descriptions		**Output VAT**	**Input VAT**
VAT reverse charge	15,000,000	2,700,000	
VAT reverse charge Deductible			2,700,000
VAT on stock	8,000,000		1,440,000
Standard local purchases	290,936,000		52,368,480
Export	5,000,000,000	Zero rated	
Standard sales	1,750,000,000	315,000,000	
Standard credit sales	920,456,000	165,682,080	
Electricity Bill	1,201,000		216,180
Telephone Charge	2,500,000		450,000
Rent	2,300,000		414,000
Security fees	550,000		99,000
VAT on Import			242,831,250
Unsupported Purchases			-4,622,040
Personal consumptions			-1,800,000
Total	**7,990,943,000**	**483,382,080**	**294,096,870**
VAT Payable in December	**189,285,210**		
Fines computations			
Fixed fines	300,000		
Understatement fines @ 20%	37,857,042		
Interest for late payment @ 1.5% for 5 months	14,196,391	From	To
Non-declaration and payment fines @ 60%	113,571,126	16/01/2020	31/05/2020
Total tax payable	**355,209,769**	Months Delayed	5

Workings on VAT on imports

Descriptions	**Amount**
CIF	952,000,000
Understatement of CIF	25,500,000
Total CIF	977,500,000
Import duty	244,375,000
Excise duty Assumed that goods are subject to Excise	122,187,500
Port charges	5,000,000
VAT on import	**242,831,250**

b) **The explanation of services imported from outside country:**

1. If a taxpayer gets services from a person who is outside Rwanda, the taxpayer is considered as if he/she has delivered taxable services and have received an output tax from that person residing outside Rwanda.
2. The service delivery is treated as it was made on the date on which the services were performed by the person residing outside Rwanda

3. The output tax is payable on the date of filing the value added tax declaration for the value added tax period in which those services were performed. The output tax must appear on the receipt that justified the payment to the foreign services provider, and that document is considered to be the value added tax invoice.

4. However, recipients of foreign services which are not available in Rwanda are allowed to deduct input tax on output tax.

5. Services are considered not to be available in Rwanda if there is no any person who can deliver identical or similar services on the local market.

c) Denial of Input VAT

No input tax is allowed on the following goods:

1° passenger vehicle, or spare parts or repair and maintenance services for such a vehicle, unless the taxpayer's business involves the re-sale or rent of such a vehicle and the vehicle was solely acquired for the purpose of such taxpayer's business;

2° goods acquired or imported for entertainment purposes unless the taxpayer's business involves providing entertainment and the entertainment is provided in the ordinary course of that business and was not entrusted to a partner or employee;

3° goods acquired for accommodation purposes, unless:

a) The taxpayer's business involves providing accommodation services and the accommodation is provided in the ordinary course of that business;
b) The accommodation was provided to the person who was away from his/her usual residential home for the interest of the business or employer's interests;

4° the acquired goods give right to membership or accession for any person to an association of sporting, social, recreational clubs.

5 Value added tax paid on such business overheads as in the case of telephones and electricity whose use cannot be practically separable from private and business use shall be equal to 40% of the input tax.

QUESTION FOUR

Marking Guide

Descriptions	**Marks**
a	
Award 1 Mark for explanation of dividend income treatment	1
Award 2 Marks for computation of WHT on dividend income	2
Award 1 Mark for explanation of rental income treatment	1
Award 2 Marks for computation rental income tax	2
Award 2 Marks for explanation of Bank interest treatment	2
Award 1 Mark for explanation of capital gain treatment	1
Award 2 Marks for computation capital gain tax	2
Award 1 Mark for explanation of Gov. Bond interest treatment	1
Sub total	**12**
b. Award 1 mark for exemption on capital gain, bank interest and rental income	3
c. Award 1 Mark for each conditions on Bad debts treatment explanation	3
d. Award 1 Mark for each Person exempted from withholding tax	2
Total Marks	**20**

Model Answers

a) The tax treatment for each investment

1.Dividend income	**Amount**
Number of shares	1,000,000
Price per share	1,000
Total investment	1,000,000,000
Gross Dividend declared by VLL (100*1,000,000)	100,000,000

Dividend will be subjected to 15% Withholding taxes before are being distributed to the recipient this means that Withholding tax= 100,000,000*15%=FRW 15,000,000

2. Rental income from movable assets.

During the tax period, all revenues derived from rent of machinery and other equipment including agriculture and livestock equipment in Rwanda, are included in taxable income, reduced by: 1° ten percent (10%) of gross revenue as deemed expense; 2° interest paid on loans; 3° depreciation expenses.

Descriptions	Monthly rent	Rented months	Annual rent
Rental Income	5,200,000	9	140,400,000
Less 10% expenses			- 14,040,000
Less Depreciation			- 112,500,000
Taxable income			13,860,000
Tax payable (13,860,000-1,200,000)*30%+168,000			**3,966,000**

3. Bank deposit Interest

The interest received from the bank are subject to the 15% Withholding if the deposit period is below One year.
There is no calculation because the interest income received by NYIRAMIRIMO will be exempted from tax as the period is for 3 years.

4. Capital gain tax

The capital gain on sale or transfer of shares is the difference between the acquisition value of shares and their selling or transfer price. The tax rate on capital gain is five percent (5%) applicable on the gain

Computation of the capital gain

Descriptions	**No of share**	**Price per share**	**Total price 'FRW'**
Share cost	500,000	1,000	500,000,000
Selling price	500,000	1,500	750,000,000
Capital gain			250,000,000
Capital gain tax @ 5%			12,500,000

5 Interest from Government treasury

Interests derived from treasury bonds with a maturity of at least three (3) years is taxed at 5% withholding tax, however if the period is below 3 years the withholding tax applicable is 15%.

b) The exemption available for each investment

Dividends income

Dividends income is not exempted however benefit from a reduced WHT tax rate from 15% to 5% if they are received from the company which is listed on the capital market

Rental income from movable assets
Rental income, which is not exceeding 360,000 is taxed at 0%

Interest income from Bank deposit
Bank interest from a deposit of 1 year and above is exempted from the Withholding taxes

Capital gain tax.
Capital gain from the company listed on the capital market is exempted from Withholding tax
Interest income from Bank deposit

Interest from government treasury bonds.

Interest from government treasury bonds is not exempted, however it benefits from a reduced tax rate of 5% if the period is equal or more than 3 years.

c) Bad debts treatment

In the determination of business profit, a deduction is allowed for bad debts if the following conditions are fulfilled:
1 º if an amount corresponding to the debt was previously included in the income of the taxpayer
2 º if the debt is written off in the books of accounts of the taxpayer.
3 º if the taxpayer has taken all possible steps in pursuing payment and has shown a court decision declaring the insolvency of his/her debtor.

However, for an individual whose debt is less than three million Rwandan francs (FRW 3,000,000) in addition to the conditions referred to in points 1° and 2° of Paragraph One of this Article, the taxpayer must provide proof that he has taken all reasonable steps over a period of three (3) years to recover the debt.

d) Persons exempted from withholding tax

Persons exempted from Withholding tax are:
a) Those who have tax clearance certificate
b) Those whose business profit is exempted from taxation

QUESTION FIVE

Marking Guide

Descriptions	**Annual-10 Months**
Basic pay	1
Transport allowances	1
Housing allowances	1
Uniform allowances	1
Bonus	1
2nd Bonus	1
Premium insurance	1
School fees	1
Cash reward	1
Trophy	0.5
Colleagues gifts	0.5
Meal	0.5
Retirement benefits	
Accrued leave	1
Gratuity	1
Pension	1
Royalty	1
Other Income	
Dividend from BDR Ltd	0.5
Interests form Treasury bond	0.5
Interests on Local Bank	0.5
Royalties	0.5
Total taxable income	

Less: Expenses incurred	
Professional body contributions	0.5
Travel expenses	0.5
Uniforms Costs	0.5
Adjusted taxable income	
Less Tax paid at source	
PAYE	0.5
WHT on Dividend	0.5
WHT on interest	0.5
WHT on Royalties	0.5
Total	20

Model Answers

Computation of Gakire's taxable income and tax payable for the year ended 31/12/2023

Descriptions	**Monthly**	**Annual-10 Months**
Basic pay	7,500,000	75,000,000
Transport allowances		7,500,000
Housing allowances		15,000,000
Uniform allownace		800,000
Bonus		1,200,000
2nd Bonus		700,000
Premium insurance		1,500,000
School fees		2,500,000
Cash reward		1,500,000
Trophy		120,000
Colleagues gifts		Exempted
Meal		Exempted
Retirement benefits		
Accrued leave		1,250,000
Gratuity		4,500,000
Pension		Exempted
Royalty		6,820,000
Other Income		
Dividend from BDR Ltd		2,941,176
Interests form Treasury bond		1,900,000
Interests on Local Bank		1,352,000
Royalties		882,353
Total taxable income		**125,465,529**
Less: Expenses incurred		
Professional body contributions		- 1,500,000
Travel expenses		- 850,000
Uniforms Costs		- 820,000
Adjusted taxable income		**128,635,529**

Tax payable (128635529-1200,000)*30%+168,000		38,398,659
Less Tax paid at source		
PAYE		28,000,000
WHT on Dividend		441,176
WHT on interest		95,000
WHT on Royalties		132,353
Net tax payable		**9,730,129**

End of Marking Guides and Model Answers