
**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3: ADVANCED TAXATION

DATE: MONDAY 24, FEBRUARY 2025

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 (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%
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

Quick Motors Rwanda Limited (QMRL) is a Rwandan company wholly owned by Quick Motors Limited, a South Africa-based entity. QMRL specializes in vehicle leasing, dealership, and after-sales services. The company's business model includes both finance leases, where the vehicle ownership is transferred to the client at the end of the lease, and operating leases where vehicles are returned to the company at lease termination.

Due to substantial investments and compliance with requirements, QMRL received incentives from the Rwanda Development Board including a seven-year corporate income tax holiday since 2018. The company's revenue is primarily derived from operating leases and short-term vehicle hire accounting for about 90% of total revenue with the remaining 10% coming from after-sales car servicing.

The company is located in Kigali City and has different clients around Kigali and up country.

During the period of 2020, the company expanded the operations of leasing vehicles to other countries including Uganda and Burundi.

The following financial information is provided about the company for the year ended 31 December 2020.

Description	Amount FRW "000"
Business Income/Sales	2,938,636
Opening stock	246,754
Purchases	777,344
Closing stock	(249,271)
Cost of goods/services sold	774,826
Gross profit	2,163,810
Other income	171,842
Total Income	2,335,653
Operating expenses	897,908
Accounting depreciation	1,020,199
Total expenses and depreciation	1,918,107
Net operating income	417,545

Additional Information.

1. Company auditors revealed that the reported closing stock was understated by 15%.

2. 20% of the business sales related to the exportation made during the year, the total sales were VAT inclusive.

3. The operating expenses are composed of the following items:

Description	Note	Amount FRW "000"
Wages and salaries	i	350,457
Electricity bill	ii	5,000
Telecommunication fees		12,023
Bad debt written off	iii	50,500
Increase in provision		12,000
Fines and penalties		16,395
Fuel	iv	35,000
Management fees	v	95,092
Donation	vi	50,000
Finance cost	vii	45,000
Entertainment	viii	85,620
Rent	ix	52,301
Insurance	x	88,520
Operating expenses		897,908

i) Wages and salaries include a bonus provision of FRW 54,500,000 that will be paid in March 2021 upon board approval, the bonus provision of FRW 49,345,000 for 2019 was actually paid in 2020 but was not recognized in the books of account.

ii) FRW 500,000 of the electricity bill was paid to cover the managing director's office electricity bill. The remaining amount was for business. Some of the employees live in company building located in the same area of the business.

iii) Bad debts refer to the major client who failed to pay his debt from the year 2018. This amount was included in the sales figure for that period.

iv) 10% of the fuel was related to the managing director's car. The remaining amount is related to the company's daily operations. There is no mechanism in place by the company to ensure that the fuel is used for business only.

v) Management fees were paid to the parent company based in South Africa.

vi) Donations were given to the recognized charitable organizations in Rwanda.

vii) Interest was paid to the related party. During the year 2020, QMRL received a loan from related party in South Africa amounting to FRW 375,000,000 bearing an annual interest rate of 12%. The issued and fully paid-up share capital of the QMRL is FRW 65,000,000.

- viii) 20% of the entertainment was paid to the general sporting activities, and the remaining was paid to entertain staff during the annual staff party.
- ix) Rent expense covers the period from September 2020 to March 2021.
- x) Insurance was paid for the period of one year and will expire on 30 September 2021.

4. Other income includes the following items:

Description	Amount FRW "000"
Bank interest net of withholding tax	61,553
Foreign interest net of 35% Withholding tax	68,737
Dividend from Rwandan based company	41,553
Total	171,842

5. The following information relates to the profit or loss incurred by the company since 2014.

Period	Amount FRW "000"
2014	(161,553)
2015	(68,737)
2016	(41,553)
2017	95,200
2018	(52,000)
2019	32,500

6. The following is the asset register of the company as of 01 January 2020

Item	Tax WDV FRW "000"	Additions FRW "000"	Total value "FRW" 000
Buildings	290,936	281,596	572,532
Workshop equipment	2,500	1,393	3,893
Computer equipment	1,201	7,395	8,596
Leased vehicles under finance lease	344,383	1,186,580	937,673
Leased vehicles under operating lease	1,033,149	593,290	2,219,729
Furniture and fittings	5,500	10,000	15,500
Total	1,677,670	2,080,254	3,757,924

- i) A building that had a net book value of FRW 290,935,978 was built and put under use two years ago starting from the year 2018.
- ii) During the period of 2020, the company purchased 15 and 18 vehicles under finance and operating lease respectively.

Required:

a) Compute the taxable income and tax payable for the year ended 31 December 2020

(28 Marks)

b) The company's board members have approved transitioning from a regular calendar year to a special calendar year ending on 30th June. However, they currently lack clarity on the implementation details for this change. As CPA Finalist, **clearly explain the requirements for the proposed transaction.**

(3 Marks)

c) The shareholders of QMRL Ltd have suggested to sell 25% of their shares to the other investors, as a tax expert, **explain all the tax implications that will affect the transaction.**

(4 Marks)

d) Tax investigation is a tool used by tax administrations to gather admissible evidence for the recovery of undercharged taxes, especially in cases where there is suspicion of tax avoidance or evasion. This process also supports the enforcement of criminal aspects of tax laws

Clearly, **explain the criminal activities that may trigger the tax investigations by the tax administration.**

(5 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

a) Different Journalists have been publishing articles about taxation. Your tax partner finds some articles too vague and in some cases misleading, he has asked you as the Senior Associate to analyze them;

i) Article one: “Rwandan resident organizations that conduct business abroad are liable for taxation in Rwanda yet foreign companies not resident in Rwanda can do their business in Rwanda and not be liable to pay tax in Rwanda”

Required:

Evaluate this statement in line with Rwanda's Income tax law. (6 Marks)

ii) Article two: “Greedy Multinationals could kill our economy, setting up subsidiaries in Rwanda and taking all the money back through overpriced goods to their Rwanda based subsidiary, support services and giving huge loans at ridiculously high interest rates”

Required:

Challenge the above article by highlighting specific tax applications that mitigate the above from happening. (6 Marks)

iii) Article three: “Rwanda green mobility going fast and strong, thanks to the unique enabling fiscal policy”

Required:

Explain the various fiscal and non-fiscal incentives that the Government of Rwanda has put in place to support Green Mobility. (4 Marks)

b) Mutually beneficial treaties are largely considered beneficial by many countries while other countries still drag feet for the fear of losing out.

Required:

i) Assess the rationale for tax treaties between countries that do trade with each other. (2 Marks)

ii) Highlight any two negative implications of double taxation. (2 Marks)

(Total: 20 Marks)

QUESTION THREE

Mr. James registered his business as an enterprise and then registered as a VAT taxpayer in Rwanda. He imports and exports a variety of commodities within and outside the East African Community. He got registered for VAT on 3rd December 2019. On the date of registration, he had a stock worth FRW 8,000,000 with the necessary invoice. However, after the registration, he did not file nor pay any VAT to the tax administration.

During the month of December 2019, he exported goods worth FRW 5,000,000,000. In the same month, he purchased new software to manage his import and export transactions and he received a foreign consultant to install it since there was no one in Rwanda who could install it and paid the consultant FRW 15,000,000.

The company is currently undergoing a VAT audit for the month of December 2019. The audit conducted in February 2020 reviewed the company's financial records for December 2019. From these records the following financial details were obtained:

Descriptions	Amount FRW "000"
Standard local purchases	290,936
Standard Sales	1,750,000
Standard credit sales	920,456
Electricity bill	1,201
Telephone	2,500
Rent	2,300
Import CIF Mombasa	952,000
Security fees	550
Total	3,919,943

Additional information:

1. Unless where otherwise indicated, all the figures were VAT exclusive.
2. Tax officers established that imports were understated by FRW 25,500,000 as per Cost Insurance and Freight obtained from Mombasa port. Port charges were FRW 5,000,000.
3. Import rates were 25% for Import duty and 10% Excise duty.
4. Purchases worth FRW 25,678,000 were not supported by accepted electronic invoices and hence rejected by the RRA officer.
5. The RRA officer found that the purchase includes the FRW 10,000,000 related to the personal consumptions.
6. Telephone charges related to the amount given to the staff for business purposes.
7. The taxpayer is categorized as a medium tax payer.

Required:

- a) **Compute the VAT payable or refundable, interests, and fines for the month of December 2019.** Assuming that all the assessed amount will be payable in May 2020. (15 Marks)
- b) **Explain the tax treatment on the services imported from outside Rwanda as per the VAT Law in Rwanda.** (2 Marks)
- c) **Explain the circumstances under which the input VAT should be denied.** (3 Marks)
- (Total: 20 Marks)**

QUESTION FOUR

On 30th January 2018, Mrs. Nyiramirimo decided to invest in Volcano Lodge Ltd (VLL), a private company heavily involved in tourism and operating hotels across various locations in the country. He purchased 1,000,000 shares at FRW 1,000 each.

Earlier, on 20th March 2018, Mrs. Nyiramirimo acquired three excavator machines for FRW 450,000,000. These machines have been leased out starting from 1st April 2018, generating income worth FRW 5,200,000 each per month.

Mrs. Nyiramirimo opened a savings account in a local commercial bank at Gisenyi where tenants are required to deposit their rent at the beginning of each month. The savings account earns interest at a rate of 12% per annum, compounded quarterly. She intends not to withdraw any funds from this account for three years. Quarterly interest earned is credited to her personal accounts.

Expected gross interest by the end of June, September and December 2018 is as below:

Descriptions	FRW '000'
June	405
September	810
December	1,050

On 30th September 2018, VLL distributed dividends of FRW 100 per share. However, the company announced that they might not pay dividends for the next two years due to their plans to construct another hotel in Akagera National Park as an expansion. This decision prompted Mrs. Nyiramirimo to divest from her investment in VLL.

On 30th October 2018, Mrs. Nyiramirimo sold 500,000 of her shares to Mr. John for FRW 750,000,000. On the same date, she opted to invest in government treasury bonds for a 5-years period, which will yield an 11% annual interest on her investment.

Required:

- a) As a tax expert, **explain the tax treatment for each investment from the above scenario and your explanation should be supported by the calculations where applicable.** (12 Marks)
- b) **Explain the exemption available for each investment in the above scenario.** (3 Marks)

c) Give a brief note on the tax treatment of Bad debts as per the income tax law.

(3 Marks)

d) Discuss 2 persons exempted from withholding tax.

(2 Marks)

(Total: 20 Marks)

QUESTION FIVE

Francis Gakire has been employed at RBG Ltd for the last 30 years rising from a technician to a Maintenance Manager until he retired on 31 October 2023. During the year 2023, his average basic pay per month amounted to FRW 7,500,000. In addition, he was entitled to 10% of basic pay as transport allowance and he was living in a fully furnished house that RBG Ltd rents at FRW 1,500,000 per month. At the end of Quarter one, he was given a Uniform allowance of FRW 800,000. This is done once every year.

In the year of 2023, he received two bonuses.

1. The first Bonus of FRW 1,200,000 was a 2022 target-based performance. This was declared in December 2022, but due to cash flow constraints, it was only paid out in February of the subsequent year.
2. The second bonus of FRW 700,000 was received in May 2023, being a general bonus for all managers across the board for a good performance in Quarter one of the year.

RBG Ltd negotiated a monthly premium model of health insurance for him and his family of FRW 150,000. This is a benefit available to all employees, but the premium paid in Favor of Mr Gakire is higher than the average for other employees due to his age.

In March 2023, the company paid a total of FRW 2,500,000 toward school fees for his children, This Benefit is accorded to all Managers at his level who have school children.

In January 2023 during a performance recognition ceremony, Mr Gakire emerged as the top performer for 2022. RBG gave him a cash reward of FRW 1,500,000 cheque, a glass grafted trophy with a value of FRW 120,000. His colleagues put together cash of FRW 80,000 for him as a social token of appreciation and custom-made artwork with his colleagues' names and signatures, which cost FRW 150,000.

He was provided a free meal at the company's canteen that would normally have cost him FRW 90,000. The company does this in light of the long hours spent in the plant by the technical team and also being situated isolated from Restaurants.

On retirement Day, he was given the following benefits in addition to his final salary;

Descriptions	FRW
Accrued leave days payout	1,250,000
Gratuity payout	4,500,000
Pension from RSSB	4,250,000
Loyalty rewards	6,820,000

During the year ended 31 December 2023, he made the following payments;

Descriptions	FRW
Donations to City mayor campaign	1,890,000
Donation to for Cana Challenge, a social impact campaign to provide solar lighting to 1 million Homes	2,000,000
Professional body contribution	1,500,000
Travel expenses to and from office	850,000
Purchase of work uniforms	820,000
Pay as you earn	28,000,000

During the year 2023, he received the following amounts from his side investments, all amounts were received net of any taxes thereon;

Descriptions	FRW
Dividends from BDR Ltd, a Kigali based Investment Bank	2,500,000
Dividends received from a 4-year maturity Treasury Bond	1,805,000
Interest on fixed deposits with local bank, with 14 months maturity	1,352,000
Royalties	750,000

Required:

- a) Calculate the amount of withholding tax payable by Francis Gakire on each of the investment Incomes and the total withholding tax payable. (5 Marks)
 - b) Compute the amount of personal income tax payable by Francis Gakire for the year 2023. (15 Marks)
- (Total: 20 Marks)**

End of question paper

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