CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.4: TAXATION

DATE: MONDAY 24, FEBRUARY 2025

INSTRUCTIONS:

1. Time allowed: **3 hours and 15 minutes (**15 minutes reading and 3 hours writing)
2. This examination has **seven questions** and **only five questions** are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings.
5. 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 taxGains 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 machinery	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 Nº 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

QUESTION ONE

Alpha Ltd has received an investment certificate from RDB in the year 2018. The company is located in the Gasabo district and deals in agro processing. During the year 2019, the company purchased and built the following assets:

1. Plant and machinery FRW 350,000,000
2. Four trucks at FRW 100,000,000 each
3. Laptop computers FRW 30,000,000
4. Office furniture FRW 12,000,000
5. Factory building FRW 250,000,000

In the period of 2020, the company purchased additional assets, namely:

1. Machinery FRW 120,000,000
2. Three cars for managers at FRW 15,000,000 each
3. Extension to factory building at FRW 80,000,000
4. Two accounting software packages at FRW 4,000,000 each
5. In the period of 2021, three laptops were sold for FRW 4,000,000. Office furniture was sold for FRW 6,000,000.

Required:

Compute Alpha Ltd's capital allowances for the years ended 31 December 2019, 2020, and 2021. **(Total: 20 Marks)**

QUESTION TWO

a) ABC Ltd is a newly listed company on the Rwandan capital market, selling 15% of its shares to the public. The following table shows the income statement for the year ended 31 December 2021.

Particulars	**FRW "000"**	**FRW "000"**
Sales		950,624
Cost of Sales		(740,500)
Gross Profit		**210,124**
Other income		
Dividends	28,000	
Farming Income	22,000	
		50,000
Expenses		
Office Rent	20,000	
Salaries and Wages	28,000	
Bad Debt	2,300	
Donation	30,000	
Legal and Accounting Fees	15,000	
Repair and Maintenance	125,000	
Dividends	8,000	
Communication	15,000	
Security Expenses	2,000	

Entertainment Expenses	5,500	
Income Tax	14,000	
Depreciation	50,000	
Interest Expense	85,000	
Total expenses		399,800
Loss		**(139 676)**

Additional information:

1. The donation was used to help street children in Kigali to celebrate Christmas day.
2. Agricultural income is generated by farming activities in the Musanze district.
3. Bad debts relate to the outstanding amount for more than six months, in line with company policy.
4. Income tax paid corresponds to withholding tax on imports.
5. Communication expenses correspond to amounts charged to staff cell phones, with no clear distinction between business and personal use.
6. Dividends were received on investments in Kenya, after the deduction of a 10% withholding tax.
7. Of the repair and maintenance costs, FRW 25,000,000 was allocated to the construction of a new sales outlet in Kicukiro.
8. Depreciation was calculated in accordance with the Income Tax Law.

Required:

Compute ABC's taxable income and tax payable for the year ended 31 December 2021. (10 Marks)

b) An authorized officer from the Rwanda Revenue Authority (RRA) informed Mr. Kabera that his company would soon undergo a tax audit and that an official audit notice would be delivered to him shortly, Mr. Kabera reached out to a tax advisor for guidance a he was not familiar with the audit process and was not yet prepared for it.

After receiving the audit notice, Mr. Kabera signed a contract with a tax advisor to assist him during the tax audit.

Required:

As a tax expert, **explain to the tax advisor the entire tax audit procedure carried out by the RRA, from the issuance of the tax audit notice to the final resolution of the case in court. In addition, you must inform Mr Kabera about his rights and provide guidance on the steps to take if he is not prepared for the tax audit.** (10 Marks)

(Total: 20 Marks)

QUESTION THREE

a) Customs transit is an essential procedure in international trade, enabling goods to pass under customs control from one customs office to another without immediate payment of duties and taxes. This procedure guarantees the safe and efficient transport of goods across borders, thus promoting global trade. Within this context, **explain the following customs terminologies referring to Rwanda:**

i) Transit Documentation (3 Marks)
ii) Customs Operations on Transits (3 Marks)
iii) Transit Guarantees (Change of Destination and Re-routing of T1 (4 Marks)
iv) Trans-shipment (3 Marks)

b) **Explain the term "Bonded warehouse" and the "public bonded warehouses" as they are used in customs regulations.** (4 Marks)

c) **List goods which are not allowed to be stored in a public bonded warehouse.** (3 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) You are an experienced tax consultant providing advisory services to companies importing goods into Rwanda. Your client, ABC Ltd, is importing powder milk into the country and has called on your expertise to calculate the taxes payable in customs. The details of the imported goods are as follows:

1. Cost: USD 20,000
2. Insurance: USD 5,000
3. Freight (to Mombasa): USD 5 000
4. Handling charges: USD 1 000
5. Import duty rate: 25%.
6. Excise duty rate: 10%
7. The exchange rate is USD 1 = RWF 1,000.

Required:

Calculate the customs duties and taxes payable to the tax administration. (10 Marks)

b) A free trade zone is a designated area within a country where goods can be imported, handled, manufactured or re-exported with minimal intervention by customs authorities. The primary aim of these zones is to encourage economic activity by offering special customs regulations and tax incentives.

Required:

In the context of a free zone, **explain the following terms and discuss the control of goods entering free zones:**

i) Free port (2 Marks)
ii) Free port authority (2 Marks)
iii) Free zone (2 Marks)
iv) Control of goods entering free zones (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

Mukamana Erica is an employee of ABC Rwanda Limited as Finance Director, with the following contractual conditions:

1. A monthly basic salary of FRW 800,000.
2. Communication allowance of FRW 120,000 per month.
3. Overtime allowance: FRW 50,000 per month
4. A company car for personal and professional use
5. A company house for which Mukamana pays rent of FRW 250,000 per month.
6. A housekeeper paid by the company amounting to FRW 40,000 per month.
7. A medical insurance contribution of FRW 80,000 per month. The general policy for all employees is FRW 40,000 per month, paid to Sanlam.
8. In July, she has been sent to the official mission to Uganda, and the company reimbursed her expenses totalling FRW 5,000,000 for this mission.
9. In May, her child fell ill and the company contributed FRW 2,500,000 towards the child's treatment in Uganda.
10. In January 2023, she received a loan of FRW 12,000,000 from her employer. The company charged her an interest rate of 2% per annum. The interbank interest rate is 8.5%.
11. The employer deducts FRW 150,000 per month from Mukamana's salary as PAYE.
12. In addition to her employment income, she had a contract as a consultant with the Ministry of Health and has received an income of FRW 12,000,000 net of withholding tax. She is duly registered and declares her taxes as required.

Required:

Calculate the annual taxable income as well as the tax due to the tax administration.

(Total: 20 Marks)

QUESTION SIX

Eric, Emmanuel and Charles are in partnership sharing profits and losses in the ratio of 2:3:1 respectively. Their statement of comprehensive income for the year ended 31 December 2022 is as follows:

Particulars	**Amount 'FRW'**	**Amount 'FRW'**
Sales		150,000,000
Less cost of sales		(60,000,000)
Gross profits		90,000,000
Other Incomes		18,000,000
Total Income		108,000,000
Less expenses		
Salaries:		
Eric	6,000,000	
Emmanuel	9,000,000	
Charles	7,000,000	
Interest in Capital:		
Eric	3,000,000	
Emmanuel	1,500,000	

Charles	2,500,000	
Bad debt	2,000,000	
Electricity	4,000,000	
Audit fee	2,500,000	
Rent	5,000,000	
Legal fee	1,500,000	
Depreciation	3,500,000	
Repair and maintenance	1,800,000	
Total Expenses		**(49,300,000)**
Net profit		**58,700,000**

Additional information:

1. Repair and maintenance costs include FRW 600,000 for the purchase of office furniture.
2. The dividend was received from a foreign investment in a Nigerian company, net of 20%. withholding tax
3. The bad debt does not fulfil the conditions to be an allowable expense.
4. On 1 October 2022, the new profit and loss sharing ratio was adjusted to 3:2:1.
5. The allowed capital allowance is FRW 12,000,000.

Required:

Compute the taxable income, the tax liability, and distribute the profit among partners.
(Total: 20 Marks)

QUESTION SEVEN

You are a tax consultant and your client, ABC Ltd is seeking your expertise on various advanced aspects of Value Added Tax (VAT) in Rwanda. Below are the transactions for the month of June 2023:

Date	Description	Amount FRW "000"
02 Jun 2023	Standard rated purchase	15,000
04 Jun 2023	Exports to Uganda	2,000
06 Jun 2023	Standard rated sales	3,500
09 Jun 2023	Standard credit sales	11,000
12 Jun 2023	Accounting fee for June 2023	3,500
15 Jun 2023	Purchase of office supplies	850
18 Jun 2023	Internet bill	520
21 Jun 2023	Telephone expense	270
24 Jun 2023	Standard credit purchases	1,800
27 Jun 2023	Provision for bad and doubtful debt	4,500
29 Jun 2023	Purchased computers	4,230
30 Jun 2023	Rent for June 2023	700
30 Jun 2023	Legal fees	3,500
30 Jun 2023	Salaries for June 2023	2,500

Additional information:

1. Telephone costs relate to airtime charged to the Managing Director's cell phones.
2. The allowance for doubtful debts relates to standard credit sales made on 09 June 2023.

3. On 25 June 2023, the supplier provided the company with a debit note indicating that the amount of VAT payable exceeded the amount shown on the original invoice. The debit note indicated that VAT would be increased by FRW 600,000.
4. On 07 June 2023, the company received a consultancy service from a Kenyan expert. The service was not available in Rwanda. The amount of the transaction was FRW 5,000,000 VAT exclusive.
5. Unless otherwise indicated, all amounts quoted are inclusive of VAT.

Required:

Calculate the amount of VAT to be paid or refundable from the Rwandan Revenue Authority for the month ending 30 June 2023. (Total: 20 Marks)

End of Question Paper