ICPAR
Unlimited possibilities

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.3 ADVANCED TAXATION

DATE: MONDAY 26, MAY 2025

MARKING GUIDES AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

Particulars	**Marks**
a)	
Operating Loss	1
Insurance Premiums for Administrative Needs	1
Court penalties	1
RRA audit	1
Office Supplies	1
Office Communication Costs	1
Legal and Accounting Fees	1
Dividends	1
Office Security and Surveillance Expenses	1
Thin capitalization	2
Vacation of shareholder's wife	1
Office rent prepaid	1
Income on the long-term contract	2
Less:	
Gross Profit	2
Salary expenses not recognized	1
Add back:	
Income from an investment in Uganda	1
Gain on disposal of furniture	2
Less tax depreciation (1 mark for additions, 1 mark for accelerated depreciation, 1 mark for W&T base, 1 mark for W&T rates, 1 mark for W&T computation)	**5**
CIT LIABILITY @25%	1
Less:	
Foreign tax credit	1
Quarterly prepayments	2
NET TAX DUE	1
Total Marks	**31**

Award 1 mark for advice on the deadline for declaration

b) Award 4 marks for a correct detailed answer i.e. 2 marks for handling CIT for the fiscal year ending in December 2020 and 2 marks for handling the CIT for the subsequent 8 months.

c) Award 4 marks for a correct detailed answer i.e. 2 marks for analysing the implications and 2 marks for an advice.

Total Marks for Question One	***40***

Model Answer

a) Computation of the taxable income and the corresponding tax liability

Particulars	**Working**	**FRW "000"**	**FRW "000"**
Operating Loss			-115,683
Add back:			
Dividends		6,000	
Court penalties		8,500	
RRA audit	13,600 +4,890 +1,278	19,768	
Office Maintenance and Repairs		60,000	
Taxes	12,560 -250	12,310	
Office Communication Costs	4,000*20/100	800	
Entertainment expenses		800	
Depreciation		45,000	
Thin capitalization	W1	28,800	
Vacation of shareholder's wife		4,000	
Office rent prepaid	20,000/20*8	8,000	
Income on the long-term contract	W3	56,520	
			250,498
Less:			
Dividends		23,752	
Salary expenses not recognized		6,200	
			29,952
Add back:			
Income from an investment in Uganda	14,960/85*100	17,600	
Gain on disposal of furniture	15,000 - 20,000	5,000	
			22,600
Less tax depreciation	W2		-52,950
ADJUSTED BUSINESS PROFIT			74,513
CIT LIABILITY 25%			18,628
Less:			
Foreign tax credit	17,600 *15/100		2,640
Quarterly prepayments	(8,000*25%) *3		6,000
NET TAX DUE			**9,988**

The deadline for declaration and payment of the CIT is 30th November 2022.

Workings:

W1: Thin capitalization	
Interests on loan from shareholder (600,000,000@12%) =	72 000 000
4 times of the equity and corresponding interests (90,000,000 * 4 = 360,000,000 @12%)	43 200 000
Interests expense to be added back (72,000 - 43,200)	28 800 000

W2: Tax depreciation					
Particulars	**Building (FRW 000)**	**P&M (FRW 000)**	**C & A (FRW 000)**	**Furniture (FRW 000)**	**Total**
cost / WDV	160 000	230 000	450	15 000	
Additions	60 000	-	-	-	
Accelerated depreciation	30 000	-	-	-	30 000
Disposals		-	-	20 000	
W&T Base	220 000	230 000	450	-	
W&T Rates	5%	5%	50%	0	
W&T	11 000	11 500	450	-	22 950
Total					**52 950**

W3: Income from the long-term contract	
Total expenses incurred (18,800+15,000+10,500+500+1,000+1,300)	47 100
Total estimated cost of the contract	100 000
percentage of completion (46,000/100,000) =46%	47%
income for the period (120,000 *46%) = 55,200	55 920

b) The Corporate Income Tax (CIT) for the fiscal year ending in December 2020, that is due not later that 31st March 2021, should be filed using the normal calendar that runs from 1st January to 31st December 2020. The subsequent 8 months from January to August 2021 should be filed as provided by article 8 of the law no 016/2018 of 13/04/2018 establishing taxes on income which stipulates that 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. This should have been considered as another tax period and declared not later that 30th November 2021.

c) The gain on disposal should not stop the company on progressing with the deal. This is defined as the capital restructuring as stipulated by article 53 which says that:

Companies are subject to restructuring as follows:

1° a merger of two or more resident companies into a separate company;

2° the acquisition or a takeover of fifty percent (50%) or more of shares or voting rights, by number or value in a resident company in exchange for shares of the purchasing company;

3° the acquisition of fifty percent (50%) or more of the assets and liabilities of a resident company by another resident company solely in exchange of shares in the purchasing company;

4° the acquisition of the entire company's assets so that its existence is replaced by the purchasing company;

5° splitting of a resident company

The gain on disposal resulting from the company restructuring is not taxable, as provided by article 54 on the same law.

SECTION B

QUESTION TWO

MARKING GUIDE

Descriptions	**Marks**
a)	
Award 1 Mark for tax implication on each option	1
b)	
Award 0.5 Mark for annuity and interest of each period	2
Award 0.5 Mark for a correct taxable income for each period	1.5
Award 0.5 Mark for a correct tax payable computed	1.5
Award 0.5 Mark for a correct Profit after Tax	1.5
Award 0.5 Mark for a correct tax payable computed on dividend	1.5
Award 0.5 Mark for the computed dividend for each period	1.5
Award 0.5 Mark for a retained profit for each period	1.5
Sub total	**11**
c)	
Award 0.5 Mark for annuity and interest of each period	2
Award 0.5 Mark for a depreciation computed on lease for each period	1.5
Award 0.5 Mark for a correct tax payable computed on lease option for each period	1.5
Award 0.5 Mark for a depreciation computed on Purchase for each period	1.5
Award 0.5 Mark for a correct tax payable computed on purchase option for each period	1.5
Sub total	**8**
Total Marks	**20**

MODEL ANSWER:

a)
Option 1: build the commercial building and rent it out.

The business of renting commercial buildings attracts rental income tax on immovable property as follows:

- 50% of the total income will be deemed expenses.
- Loan interest will be allowed if any.
- Tax bands are as follows:

From	To	Tax rate
0	180,000	0%
180,001	1,000,000	20%
1,000,000	Above	30%

Option 2: To Buy a livestock equipment and rent it out.

The business of renting commercial buildings attracts rental income tax on movable properties as follows:

- 10% of the total income will be deemed expenses.
- Loan interest will be allowed if any.
- Depreciation as per the tax laws
- Tax bands are as follows:

From	To	Tax rate
0	360,000	0%
360,001	1,200,000	20%
1,200,000	Above	30%

b)
Annuity Computation
A= P. [r/1-(1+r)-n]
A= 100,000,000. [0.1/1-(1.1)$^{-3}$]
A= 40,211,480

Period	Annuity	Interest	Principal	Balance
0				100,000,000
1	40,211,480	10,000,000	30,211,480	69,788,520
2	40,211,480	6,978,852	33,232,628	36,555,892
3	40,211,480	3,655,589	36,555,891	1

Option 1. Using Loan

Descriptions	Y1 FRW	Y2 FRW	Y3 FRW	Total
PBT	12,000,000	18,000,000	20,000,000	50,000,000
Less:				
Interest	10,000,000	6,978,852	3,655,589	20,634,441
Taxable income	2,000,000	11,021,148	16,344,411	29,365,559
Tax payable @ 30%	600,000	3,306,344	4,903,323	8,809,668
PAT	1,400,000	7,714,804	11,441,088	20,555,891

Option 2. Using Equity

Descriptions	Y1 FRW	Y2 FRW	Y3 FRW	Total
PBT	12,000,000	18,000,000	20,000,000	50,000,000
Tax payable @ 30%	3,600,000	5,400,000	6,000,000	15,000,000
PAT	8,400,000	12,600,000	14,000,000	35,000,000
Dividend	10,000,000	10,000,000	10,000,000	30,000,000
Retained profit	- 1,600,000	2,600,000	4,000,000	5,000,000

The best option is using the Bank loan because it gives Lower tax.

c)

PV= A. 1-(1+r)-n/r
PV= 17,000,000 .1-(1+0.11)$^{-3}$/0.11
PV= 41,543,150

Option 1 Lease
Lease amortization table

Period	**Beginning Balance**	**Constant Payment**	**Interest**	**Principle payment**	**Ending Balance**
0					41,543,150
1	41,543,150	17,000,000	4,569,747	12,430,254	29,112,897
2	29,112,897	17,000,000	3,202,419	13,797,581	15,315,315
3	15,315,315	17,000,000	1,684,685	15,315,315	- 0

Depreciation

Cost	41,543,150
Depreciation for 1st year	10,385,788
Depreciation for 2nd year	7,789,341
Depreciation for 3rd year	5,842,005

Descriptions	Y1 FRW	Y2 FRW	Y3 FRW	Total
PBT	22,000,000	27,000,000	32,000,000	81,000,000
Less:				
Interest	4,569,747	3,202,419	1,684,685	9,456,850
Depreciation	10,385,788	7,789,341	5,842,005	24,017,134
Taxable income	7,044,466	16,008,241	24,473,310	47,526,017
Tax payable @ 30%	2,113,340	4,802,472	7,341,993	14,257,805
PAT	4,931,126	11,205,769	17,131,317	33,268,212

Option 2 Purchase of motor vehicle

Period	**Cost**	**Investment allowance**	**Depreciation**	**Tax Written Value**
1	65,000,000	32,500,000	8,125,000	24,375,000
2	24,375,000	-	6,093,750	18,281,250
3	18,281,250	-	4,570,313	13,710,938

Descriptions	**Y1 FRW**	**Y2 FRW**	**Y3 FRW**	**Total**
PBDT	22,000,000	27,000,000	32,000,000	81,000,000
Investment allowance	32,500,000	-	-	32,500,000
Depreciation	8,125,000	6,093,750	4,570,313	18,789,063

Descriptions	Y1 FRW	Y2 FRW	Y3 FRW	Total
PBT	(18,625,000)	20,906,250	27,429,688	29,710,938
Loss allowed	-	(18,625,000)	-	(18,625,000)
Taxable income		2,281,250	27,429,688	29,710,938
Tax payable @ 30%	-	684,375	8,228,906	8,913,281
PAT	-	1,596,875	19,200,781	20,797,656

Best option will be purchase of the motor vehicle.

QUESTION THREE

MARKING GUIDE

Descriptions	**Marks**
a)	
Computation of output VAT on Sales	0.5
Computation of output VAT on Sales returned	0.5
Transport sales exempted	0.5
Export sales zero rated	0.5
Output VAT on Sales to the government	0.5
Computation of Input VAT on Purchases	0.5
Computation of input VAT on Purchases returns	0.5
VAT retained by public institution	0.5
Computation of Input VAT Electricity	0.5
Computation of Input VAT on Purchases from BMB	0.5
Computation Bad debt recovered	0.5
Computation of Input VAT on Telephone costs	1
Computation of Input VAT on Repair and maintenance	0.5
Computation of Input VAT on Office rent	0.5
Fuel (Exempted)	0.5
Office computers (Exempted)	0.5
Computation of Input VAT on Security guard to MD	0.5
Computation of Input VAT on Security guard to business	0.5
Bad debt written off	0.5
Computation of VAT reverse charge on consultant from Kenya	0.5
Computation of VAT reverse charge on consultant from Canada	0.5
Computation of VAT reverse charge deductible	0.5
Computation of VAT paid on Importation	1
Input VAT apportionment	1
VAT refundable	0.5
CIF in local currency computation	0.5
Import duty computation	0.5
Excise duty computation	0.5
VAT on import computation	1
Computation of Port charges in local currency	1
Sub total	**17.5**
b) Award 0.5 marks for writing a memo and 1 mark for each VAT implication	**2.5**
Total Marks	**20**

MODEL ANSWER

a)

Descriptions	**Workings**	**Input VAT**	**Output VAT**
Sales	20,000,000*18/118		3,050,847
Sales returned	8,000,000*18/118		-1,220,339
Transport sales	12,000,000*0/100		Exempted
Export sales	40,000,000*0/100		Zero rated
Sales to the government	50,000,000*18/100		9,000,000
Purchases	15,000,000*18/100	2,700,000	
Purchases returns	4,000,000*18/100	-720,000	
VAT retained by public institution	50,000,000*18/100	9,000,000	
Electricity	3,000,000*18/118	457,627	
Purchases from BMB	25,000,000*18/100	4,500,000	
Bad debt recovered	5,000,000*18/100		900,000
Telephone costs	(3,000,000*0.18)*60%	324,000	
Repair and maintenance	9,000,000*18/100	Not allowed	
Office rent	5000000*18/100	900,000	
Fuel		Exempted	
Office computers		Exempted	
Security guard to MD	500,000*18/1,000	Not Allowed Personal	
Security guard to business	2,000,000*18/100	360,000	
Bad debt written off	6,000,000*18/100	1,080,000	
VAT reverse charge on consultant from Kenya	10,000,000*18/100		1,800,000
VAT reverse charge on consultant from Canada	15,000,000*18/100		2,700,000
VAT reverse charge deductible	15,000,000*18/100	2,700,000	
VAT paid on Importation	W1	9,969,750	
Total (A)		**31,271,377**	**16,230,508**

Input VAT apportionment	**Taxable sales/Total sales* general input VAT**
General Input	5,821,627
Total sales	114,000,000
Taxable sales	102,000,000
Input VAT apportionment	**5,208,824**
Input VAT rejected **(B)**	612,803
Total input VAT allowed **(C=A-B)**	30,658,574

VAT refundable= OUTPUT VAT-INPUT VAT
= 16,230,508-30,658,574= **(14,428,066)**
Workings

1. VAT paid on Importation	USD
FOB	20,000
Freight	8,000
Insurance	6,000
CIF	34,000
Exchange rate	1,050
CIF in local currency	35,700,000
Import duty= CIF*Import duty rate	8,925,000
Excise duty= (CIF+import duty rate) *Excise duty rate	4,462,500
VAT= (CIF+Import duty+excise duty+other charges) *18%	9,969,750

2.Port charges Computation	Tons	
6,000kg	6	6
Port charges	(6*1,000) =	6,000
In local currency	(6,000*1,050) =	6,300,000

b)

MEMO.

From: Tax advisor

To: Mr. Paul

Subject: VAT implications on the Paul business

Reference is made to articles 5 and 6 of the VAT law no 37/2012 of 09/11/2012 on zero-rated and exempted goods and services, am hereby elaborating the VAT implication on Paul's existing planned business.

1. all agricultural and livestock products, except processed ones, which are exempted from value added tax and local processed milk are exempted from VAT.
2. Milk Derived products, including yoghurt and cheese, are not VAT exempted but however because Mr. Paul is planning to export these products, automatically, they will be taxed at Zero.

Yours sincerely.

QUESTION FOUR

MARKING GUIDE

Descriptions	**Marks**
a)	
i) Award 1 Mark for each well explained tax audit procedure	3
ii)Award 1 mark for the explanation of unique audit principle and 1 mark for scenario	2
iii)Award 1 mark for well explained obligation	2
iv)Award 1 Mark for the advice provided and 1 mark for the limitation of tax administration powers	2
v) Fixed administrative fines	1
Non-declaration and payment fines @60%	1
Interest for late payment @ 1.5%	1
understatement fines @ 20%	2
Non submission of the certified FS	2
Sub total	**16**
b)	
i)Award 0.5 Mark for each valid criminal activity identified	2
ii)Award 1 Mark for each valid requirement well elaborated	2
Sub total	**4**
Total Marks	**20**

MODEL ANSWER

a)

i)Tax audit is conducted in one of the following procedures:

- Contradictory Procedure.
- Issue-Oriented Audit.
- Desk Audit.
- Audit Without Notice.

Contradictory procedure

Where the Tax Administration discovers a miscalculation, an omission, an understatement, a misrepresentation of a tax or any other error in the tax declaration or assessment, the Tax Administration sends a draft note for rectification to the taxpayer containing all the elements taken into account for rectification to provide his or her opinion.

Issue-oriented audit procedure

The Tax administration may proceed to an issue-oriented audit when a comprehensive audit is not necessary. Disregarding the audit notice period referred to in Article 28 of this Law, in case of an issue-oriented audit, the Tax administration must inform the taxpayer in writing, at least three (3) working days before the audit is conducted.

Desk audit procedure

Desk audit is conducted by an auditor in his or her office on any of the following grounds:

- If the turnover of Value Added Tax does not correspond to the turnover of income tax without justification.
- If the tax declarations do not correspond to paid taxes.
- If the taxpayer deducted from taxable income non-deductible expenses.
- If one or more invoices were not declared.
- In any other situation where the Tax administration has sufficient documents that can be used to assess taxes.

In case of the desk audit, it is not necessary to inform in writing the taxpayer that he or she audited. However, the taxpayer is invited for explanations before the tax notice is issued to him or her.

Giving opinion on draft note rectifying the statement of contradictory procedure.

The taxpayer has the right to give his or her written opinion on the draft rectification note within thirty (30) days in case of contradictory procedure.

He or she may also submit to Tax Administration additional evidence or explanations to indicate that the rectification is incorrect. In responding to the draft note for rectification, the taxpayer may request to provide additional explanations orally.

Final note for rectification

The Tax Administration issues to the taxpayer the final note for rectification in the following cases:

- After a period of thirty (30) working days, in case of contradictory procedure, without any reaction of the taxpayer to the draft note for rectification.
- After a period of five (5) working days, in case of issue-oriented audit, without any reaction of the taxpayer to the draft note for rectification.
- After the Tax Administration has considered the explanations of the taxpayer on the draft note for rectification.
- The final note for rectification provides reasons of rejection of explanations provided by the taxpayer and how the new tax was calculated.

Audit without notice procedure.

Where there are serious indications of tax evasion, the Tax Administration may conduct an audit without notice.

ii)A unique audit principle means that the Tax administration audits a taxpayer only once on a type of tax and for a tax period. However, the Tax administration may conduct a new audit only once in case of one of the following circumstances:

- complicity of the taxpayer and the tax auditor to evade taxes or commit any other act intending to non-payment of required tax.
- if the first audit was based on forged documents.
- if the first audit was issue-oriented and the Tax administration wants to conduct a comprehensive audit.
- when the Commissioner General cancels the first audit based on appeal.

iii)Obligations of ABC Ltd during the tax audit are as follows:

- provide tax auditors with appropriate working environment.
- provide tax auditors with books and records prescribed by this Law and other related documents and provide them with their copies.

iv)

- A taxpayer who is not satisfied with the audit results or the contents of the tax assessment notice or notification of administrative fine is allowed to lodge appeal to the commissioner general within a period not exceeding thirty (30) days from the day of receipt of the tax assessment notice or notification of administrative fine.
- **The power to audit is limited to a period of five** (5) years, starting from 1st January following the concerned tax period. However, if it is established that the taxpayer has concealed information with intent to evade tax, the power to audit lapses after ten (10) years.

v)

Fines and penalties computations

Descriptions	**Amount**
Tax assessed	6,354,800
Due date	31/03/2019
Interest Start count date	01/04/2019
Payment date	31/12/2022
Months delayed	45
Fixed administrative fines	300,000
Non-declaration and payment fines @60% (6,354,800*60%)	3,812,880
Interest for late payment @ 1.5% (6,354,800*1.5%*45)	4,289,490
Understatement fines	
understatement rate	100%
understatement fines @ 20% (6,354,800*20%)	1,270,960
Non-submission of the certified FS (500,000*45)	22,500,000

b)

i)The following are some of criminal activities that may attract investigations.

• 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

ii)When applying for a search warrant, the Tax Administration provides to the Prosecutor the following:

- Names, residence, and profession of a person to be searched.
- Location of the residence the Tax Administration wants to search.
- Reasons on which the Tax Administration bases its request for the search warrant.

QUESTION FIVE

MARKING GUIDE

Descriptions	**Marks**
a)	
Award 0.5 marks for a correct apportionment of interest expenses (60% and 40%)	0.5
Award 05. Marks for the correct total interest expenses from commercial	0.5
Award 1 mark for net commercial income and 1 mark for net residential income	2
Award 0.5 marks for Net Rental Income Before Loss and 0.5 marks for Net Rental income after loss	1
Award 1 mark for appropriate application of tax band (Tax rates)	1
Award 1 mark for the correct rental income tax	1
Sub total	**6**
b)	
Award 1 mark for the correct tax base	1
Award 1 mark for the correct residential property tax and 1 mark for the correct commercial property tax	2
Award 1 mark for the Total Property Tax	1
Sub total	**4**
c)	
Award 1 mark for UAE Gross income, 1 mark for Gross consultancy fee in Rwanda, 1 mark for Gross PAYE	3
Award 1 mark for total Gross Income	1
Award 1 mark for the correct application of tax rates and 1 mark for the correct income tax liability	2
Award 2 marks for the computation of total tax on foreign income	2
Award 1 mark for the foreign tax credit	1
Award 1 mark for the net tax liability in Rwanda	1

Descriptions	Marks
Sub total	**10**
Total Marks	**20**

MODEL ANSWER

a) Computation of Taxable Rental Income and Tax Payable

Descriptions	Commercial	Residential	Total
Annual rental income	250,000,000	150,000,000	400,000,000
Less:			-
50% As expenses	- 125,000,000	- 75,000,000	- 200,000,000
Finance cost	- 19,200,000	- 12,800,000	- 32,000,000
Additional interests	- 6,400,000	-	- 6,400,000
Taxable income	99,400,000	62,200,000	161,600,000
Tax payable	**29,684,000**	**18,524,000**	**48,208,000**

b) Immovable Property Tax Computation for 2020

Tax Base (Market Value):

1. Residential house (occupied by brother): Taxable
   Value: FRW 150,000,000 → Taxed (not exempted as not occupied by owner)
2. Apartment (rented): Taxable
   Value: FRW 300,000,000
3. Apartment Complex (partially vacant, partially rented): Taxable
   Value: FRW 540,000,000
4. Commercial Building (rented): Taxable
   Value: FRW 420,000,000

Total Taxable Value = FRW 150,000,000 + FRW 300,000,000 + FRW 540,000,000 + FRW 420,000,000 = FRW 1,410,000,000

Property Tax:

S/N	Descriptions	Market Value	Tax (using 2020 rate)
1	Residential building	150,000,000	Exempted
2	Apartment with 3 residentials (0.5%*300m)	300,000,000	1,500,000
3	Apartment complex (0.5%*540)	540,000,000	2,700,000
4	Commercial building (0.3%*420m)	420,000,000	1,260,000
	Total immovable properties		**5,460,000**

Note: we applied rate for the second year after the publication of the law i.e 2020.

c) Foreign Tax Credit & Net Rwandan Income Tax

UAE Gross Income = FRW 28,884,000*100/85 = FRW 34,800,000
Gross Consultancy fees in Rwanda = FRW 15,300,000*100/85= FRW 18,000,000
Gross PAYE = FRW 7,800,000+ FRW 1,908,000 = FRW 9,708,000
Total Gross Income = FRW 34,800,000+FRW 18,000,000+FRW 9,708,000 = FRW 62,508,000

Tax Liability in Rwanda

- First 360,000: 0%
- Next 840,000: 20% = FRW 168,000
- Remaining: FRW 62,508,000 – FRW 1,200,000 = FRW 61,308,000 → 30% = FRW 18,392,400

Gross Rwandan Tax Liability: FRW 168,000+FRW 18,392,400 = FRW 18,560,400

Foreign Tax Credit (under DTA)

DT relief	
Whichever is lower between	
Tax paid in UAE	5,916,000
Tax that was paid in Rwanda on the same income ((34800000-1200000*0.3) +168000)	10,248,000
DT relief	**5,916,000**

Total taxable Income	
Descriptions	**Amount**
Consultancy income grossed (UAE)	34,800,000
Consultancy income grossed (Rwanda)	18,000,000
Employment income	9,708,000
Total	**62,508,000**
Tax payable	**18,560,400**
Less tax paid (UAE)	5,916,000
15% WHT paid in Rwanda	2,700,000
PAYE	1,908,000
Net tax payable	**8,036,400**

End of Marking Guide and Model Answers