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**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3 ADVANCED TAXATION

DATE: MONDAY 26, MAY 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

a) ABC Ltd, a newly listed company on the Rwanda stock exchange, which sells 35% of its shares to the public, has recently been allowed by the Minister to apply the special tax period. The company has a valid investment certificate. The following is the statement of profit or loss for the year ended 31st August 2022.

| Particulars | FRW "000" | FRW "000" |
|---|----------------|------------------|
| Sales | | 825,321 |
| Cost of Sales | | (489,671) |
| Gross Profit | | 335,650 |
| Other income | | |
| Dividends | | 23,752 |
| Expenses | | |
| Salaries and Wages | 78,542 | |
| Office Rent | 20,000 | |
| Utilities for Administrative Facilities | 1,752 | |
| Office Supplies | 900 | |
| Insurance Premiums for Administrative Needs | 1,785 | |
| Legal and Accounting Fees | 120,546 | |
| Office Maintenance and Repairs | 95,000 | |
| Dividends | 6,000 | |
| Office Communication Costs | 12,000 | |
| Office Security and Surveillance Expenses | 1,500 | |
| Entertainment expenses | 4,500 | |
| Taxes | 12,560 | |
| Depreciation | 45,000 | |
| Interest expense | 75,000 | |
| | 475,085 | (475,085) |
| Profit/(loss) before taxation | | (115,683) |

Additional information:

1. The total salaries amounting to FRW 6,200,000 for August 2022 are not included in the Salaries and Wages' expense for the fiscal year ending on 31 August 2022, because they were disbursed on 10 September 2022. The accountant's reasoning for this omission is based on the belief that expenses should be recognized in the year they are actually paid.
2. Included within the 'Legal and Accounting Fees' are expenses totaling FRW 8,500,000, which were imposed as penalties by the Intermediate Court of Nyarugenge due to the wrongful dismissal of Mr. Ntabana, a former employee of the company.

Additionally, this account encompasses the outcomes of a comprehensive audit conducted by the Rwanda Revenue Authority (RRA) for the years 2018 and 2019. These comprise the principal tax amounting to FRW 13,600,000, corresponding penalties totaling FRW 4,890,000, and late payment interests totaling FRW 1,278,000.

3. Within the 'Office Maintenance and Repairs' account, FRW 60,000,000 was allocated for the construction of the new Chief Finance Officer's office.
4. The 'Taxes' comprise a trading license tax of FRW 250,000, with the remainder consisting of recoverable VAT.
5. Within the 'Communication Costs', FRW 4,000,000 was for airtime loaded onto the mobile phones of the staff in the marketing department. The remainder was purely for business use.
6. Within the 'Entertainment Expenses', FRW 800,000 is attributed to expenses associated with birthday parties for employees, while the remainder covers gym fees. It is company policy to cover these fees for general sporting activities for staff.
7. One of the activities of ABC Ltd is the construction of buildings and roads. The company was awarded a contract of FRW 120,000,000 to construct a conference hall for Kicukiro District on 20th May 2022. The company estimated a cost of FRW 100,000,000 to complete the Job in the next 3 years. By 31st August 2022, the company had started and incurred the following costs:
 - Salaries and wages FRW 18,800,000
 - Hire of machineries FRW 15,000,000
 - Utilities FRW 10,500,000
 - Communication FRW 500,000
 - Fuel FRW 1,000,000
 - Stationaries FRW 1,300,000

The Chief Finance Officer (CFO) holds the perspective that since the invoice will only be issued upon the completion of the contract, all these expenses were recognized in the books of accounts under the “Legal and accounting fees”, but no revenue was recognized for this contract in the fiscal year ending on 31 August 2022.

The company has other construction projects worth two million United States dollars (USD 2,000,000) that have not yet started.

8. Other Income includes FRW 14,960,000 derived from an investment in Uganda, net of a 15% withholding tax (WHT). The remaining income was received from the subsidiary located in Rwanda.
9. The company obtained a loan from a shareholder at an interest rate of 12%. The loan amount totals FRW 600,000,000, and the company's equity which does not include provisions or reserves according to the balance sheet is FRW 90,000,000.
10. The office rent covers the period from 1 January 2021 to 31 August 2022.

11. Information on the fixed asset register as of 1 September 2021 is as follows:

- Building FRW 160,000,000 (acquired 3 years ago)
- Plant and Machineries FRW 230,000,000 (Acquired 2 years ago)
- Computers and accessories FRW 450,000 (written down value)
- Furniture FRW 15,000,000 (written down value)

As the company plans to acquire brand new furniture in the upcoming year, it decided to sell the existing furniture during the fiscal year ending on 31 August 2022, realizing proceeds of FRW 20,000,000 from the sale.

12. Included in salary and wages is the amount worth FRW 4,000,000 that was expensed on the vacation to Dubai by the majority shareholder's wife.

13. The Corporate Income Tax (CIT) for the income earned from January to August 2021 amounted to FRW 8,000,000.

Required:

Compute the taxable income and the resulting income tax liability for the year ended 31 August 2022 and provide guidance to the company regarding the deadline for tax declaration. (32 Marks)

b) The company received the letter granting the special tax calendar on 16 February 2021, with information that the Minister's decision would take immediate effect.

Required:

Provide advice on how the Corporate Income Tax for the fiscal year ending in December 2020 and the subsequent 8 months from January to August 2021 should have been handled. (4 Marks)

c) The company has entered into a takeover deal in which one of its clients intends to purchase all of its assets, resulting in an estimated gain of one billion Rwandan francs. The company is contemplating whether to proceed with the deal, given that the company is in 30% Corporate Income Tax bracket.

Required:

Analyze the implications of this deal in light of the relevant tax law and provide advice to the company accordingly. (4 Marks)

(Total: 40 marks)

SECTION B

QUESTION TWO

a) Mr. Rowe, an England resident has recently visited Rwanda and was very excited on how Rwanda is growing rapidly; he decided to bring his money and invest in Rwanda. The following are options available.

Option 1: He wants to build the commercial building which will be used for to different people including commercial companies.

Option 2: He wants to buy the livestock machinery whereby he will rent it out to the different users in the country.

Required:

For each Option, elaborate one available tax implication that Mr. Rowe should be aware of before making an investment. (1 Mark)

b) Mr. KARAKE is a potential investor who is looking for advice on how he should finance his business. The investment requires an initial capital of FRW 100,000,000. The investor has two options.

Option one: KARAKE should finance a business using equity which is through issuing of shares to the public whereby he will be required to issue 100,000 shares of 1,000 FRW each. The dividend per share is FRW 100.

Option two: The investor can as well raise the required amount by borrowing the money from the bank. The interest rate on the loan is 10% and the loan must be paid within a period of 3 years making equal payment at the end of each year. The investor forecasted the following profit before interest for the next 3 years:

Year1= FRW 12,000,000; Year2= FRW 18,000,000; Year3= FRW 20,000,000.

Required:

Advise Mr. KARAKE the best option which will minimize the tax and maximize the profits. (11 Marks)

c) Mirror Transport Company is a registered investor and received RDB certificate to operate as a transport company. The company is considering two alternatives regarding the need for the moto vehicle to use in transport of commodities in the Kigali City.

The following options were identified by the company, but it needs advice about the best option which minimizes the taxes.

Option 1: The company may lease the motor vehicle from Rwanda Motor and it will pay FRW 17,000,000 at the end of each year for a period of 3 years. The moto vehicle has a useful life of 3 years after which the scrap value will be zero. The interest rate on the lease is 11%.

Option 2: The company will purchase a moto vehicle at the cost of FRW 65,000,000. The company has made the following forecasts of the Earnings Before Interest, Depreciation and Amortization (EBDA) for the next 3 years. Year1= FRW 22,000,000; Year2= FRW 27,000,000; Year3= FRW 32,000,000.

Required:

Advise the company best option which will minimize the tax liability. (8 Marks)
(Total: 20 Marks)

QUESTION THREE

Ganza Shoe Ltd (GS) is a successful company incorporated in Rwanda since 2015. In 2022, the turnover of GS Ltd increased at unexpected rate. During the peak period, the company registered for VAT in compliance with Rwandan law. In 2019, the company proposed to establish new operations aimed at processing shoes for men. For this purpose, on 2/12/2022 GS Ltd imported materials worth USD 20,000 from Japan. The transport and insurance incurred by GS Ltd to the point of entry in respect of this import were USD 8,000 and USD 6,000 respectively. The total weight of materials was 6,000 Kg. The company paid USD 1000 port charges per ton. The prevailing exchange rate on 2/12/2022 was FRW 1,050/1USD. Import duty and excise duty are 25% and 10% respectively.

The following information were extracted from the books of account of GS Ltd for the Month of December 2022.

| Date | Description | Amount FRW “000” |
|------------|--|---------------------|
| 02/12/2022 | Sale of shoes to KMB Ltd inclusive of VAT | 20,000 |
| 03/12/2022 | Purchase of shoes from RMC Ltd exclusive of VAT | 15,000 |
| 03/12/2022 | Sale of shoes to government institution inclusive of VAT | 50,000 |
| 03/12/2022 | Electricity costs inclusive of VAT | 3,000 |
| 04/12/2022 | Export made to Kenya | 40,000 |
| 05/12/2022 | Purchase of shoes from BMB company VAT exclusive | 25,000 |
| 15/12/2022 | Bad debt written off in 2017 was recovered | 5,000 |
| 28/12/2022 | Sales returned by KMB due to defects on some items | 8,000 |
| 03/12/2022 | Shoes returned to RMC due the defect VAT exclusive | 4,000 |
| 03/12/2022 | Staff telephone costs | 3,000 |
| 07/12/2022 | sales from transport | 12,000 |
| 13/12/2022 | Repair and maintenance costs of the cars used in the transport | 9,000 |
| 20/12/2022 | Office rent VAT inclusive | 5,000 |
| 16/12/2022 | Fuel for the cars used in transport | 2,000 |
| 03/12/2022 | office computers | 3,500 |
| 31/12/2022 | Security guard | 2,500 |

Additional information:

1. In December 2022, a bad debt of FRW 6,000,000 was written off. GS Ltd complied with all conditions as set out in article 20 of 09/11/2012 establishing VAT law for post-sale adjustment for unrecoverable debts.
2. On 10/12/2022, GS Ltd hired a private consultant from Kenya to conduct a market survey for new product which is likely to be launched in January 2023. Similar consultants who can provide similar services are available in Rwanda. The amount paid by GS Ltd to the consultant was FRW 10,000,000.
3. On 02/12/2022, GS Ltd signed a contract with a foreign consultant from Canada to install the new machinery that was bought in the same country at a contract price of FRW 15,000,000. GS Ltd was informed and assured that the service is not available in Rwanda. On 28/12/2022 GS Ltd paid FRW 15,000,000 to the consultant.
4. Included in the security guard is the amount paid to the security guard of the managing director, amounting to FRW 500,000.
5. Assume the transaction is VAT exclusive where not indicated.

Required:

- a) **Compute the VAT payable or refundable for the month of December 2022, clearly showing all your workings** (17.5 Marks)
- b) Paul is a famous agriculturist and farmer in Nyagatare district. He used to supply fresh milk to different milk industries in Kigali and other agricultural products to different markets in Kigali. Recently, he has been looking to expand his business through the exportation of the processed milk derived product including yoghurt and cheese.

Required:

As a tax advisor, write a memo to Paul elaborating two VAT implications on the existing and planned business.

(2.5 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) XYZ Ltd is a medium sized Rwandan registered company that deals with the spare parts around Kigali city, during the period of 2018, the company's finance manager did not submit its corporate income tax returns for the same period, later in May 2022, the company received the tax administration audit notice for the period of 2018. After the audit completion, the tax administration assessed the corporate income tax not paid of FRW 6,354,800 and realized that the company's turnover was FRW 756,345,250. XYZ Ltd accountants were not satisfied with the assessment made by the tax administration because they felt auditors should have considered their explanations.

Required:

- i) As XYZ Ltd tax advisor, explain to the XYZ accountants the tax audit procedures as per the tax law. (3 Marks)
- ii) Clearly explain the unique audit principle and give scenario where the principle should not be applicable. (2 Marks)
- iii) Explain the obligation of XYZ Ltd during the tax audit. (2 Marks)
- iv) Advise the next process when the taxpayer is not satisfied with audit results and give notes about the limitation of the tax administration powers to the audit. (2 Marks)
- v) Compute all the fines and penalties that XYZ Ltd will pay to the tax administration, assuming that the company did not submit the certified financial statements and interest will count until December 2022. (7 Marks)

b) BM importer Ltd is the wholesaler in Kigali city whose primary business is to sell the liquors and wines. During the period of 2021, the company imported some liquors from France worth FRW 2,980,600,000. The tax administration through its department called tax investigation, realized that the amount reported by BM was understated compared to the amount paid to the supplier. The tax administration is planning to conduct a tax investigation to obtain sufficient evidence on the suspected fraud.

Required:

- i) Critically identify four criminal activities that may lead to the tax investigation. (2 Marks)
 - ii) Elaborate two requirements for application of search warrant. (2 Marks)
- (Total: 20 Marks)**

QUESTION FIVE

a) Kayibanda Paul owns a portfolio of rental properties located in Kigali and Musanze. During the 2024 tax year, he earned gross rental income of FRW 400,000,000 derived from both residential and commercial properties, of this amount FRW 250,000,000 was from commercial properties, while FRW 150,000,000 came from residential rentals. Paul had a rental loss of FRW 5,000,000 carried forward from 2023.

To finance the development of his properties, he took multiple bank loans, leading to the following interest expenses incurred in 2024:

1. FRW 32,000,000 related to the construction of residential and commercial properties (apportioned 60% to commercial and 40% to residential).
2. An additional FRW 6,400,000 in interest from a separate bank loan taken specifically for a major extension of one commercial property located in Musanze, with construction costs of FRW 80,000,000.

In addition, Paul incurred FRW 16,000,000 in one of residential properties' maintenance and upkeep.

Required:

Compute the taxable rental income and rental income tax payable by Paul for the tax year 2024 (6 Marks)

b) Cyuzuzo is a resident taxpayer in Rwanda who owns immovable properties in Kayanza District as of the valuation date of 1st January 2020. These properties include both residential and commercial buildings, each with different usage and occupancy statuses. The breakdown of these properties and their respective market values is as follows:

1. A residential house currently occupied free of charge by Karemera and his family, with a market value of FRW 150,000,000. Karemera is not a co-owner but a brother of Cyuzuzo.
2. An apartment consisting of three residential units, all of which are rented out for income, with a total market value of FRW 300,000,000.
3. An apartment complex, consisting of eight units, three of which are vacant, and the rest are leased for residential purposes, with a total market value of FRW 540,000,000.
4. A commercial building leased to a local supermarket chain, generating rental income, with a market value of FRW 420,000,000.

Required:

Compute the total annual immovable property tax liability that Cyuzuzo is required to pay on these properties for the year 2020. (4 Marks)

c) Tuyambaze, a tax resident of Rwanda, derived various sources of income during the fiscal year ending 31st December 2024. His income profile is as follows:

1. Consultancy income earned in the United Arab Emirates (UAE) amounting to FRW 28,884,000, net of foreign income tax withheld in UAE of 17%.
2. Consultancy fees earned within Rwanda totaling FRW 15,300,000, net of withholding tax.
3. Employment income earned in Rwanda amounting to FRW 7,800,000, which is net of Pay-As-You-Earn (PAYE) tax of FRW 1,908,000.

It is to be assumed for purposes of this computation that Rwanda has an operative Double Taxation Agreement (DTA) with the UAE.

Required:

Determine the amount of foreign tax credit that Tuyambaze is eligible to claim under the Double Taxation Agreement (DTA) framework and calculate the total net income tax liability in Rwanda for the year 2024.

(10 Marks)
(Total: 20 Marks)

End of question paper

