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Unlimited possibilities

CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 2 EXAMINATIONS

F2.4 TAXATION

DATE: MONDAY 26, MAY 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			Annual Taxable Income		
From (FRW)	To (FRW)	Tax Rate	From (FRW)	To (FRW)	Tax Rate
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 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 N° 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

QUESTION ONE

a) ABC Ltd is a company incorporated in Rwanda since 2012 and due to mis-management that ended up going into loss several years, the shareholder decided to liquidate it in December 2023. Below are the details provided by the liquidator:

1. Proceed from sales of assets: FRW 120,000,000
2. Penalty on unpaid loan: FRW 500,000
3. Shareholder equity: FRW 30,000,000
4. Corporate Income Tax due to Rwanda Revenue Authority: FRW 3,500,000
5. Accrued salary: FRW 7,000,000
6. Accrued rent: FRW 2,000,000
7. Accrued water and electricity bill: FRW 6,500,000
8. Accumulated loss: FRW 25,000,000
9. Since January 2020, ABC Ltd has obtained a loan from AC Bank Rwanda amounting to FRW 50,000,000 to be repaid back within 50 months. According to the repayment schedule, it was indicated that ABC Ltd would pay equal monthly instalments of FRW 1,200,000 starting from February 2020, comprising a principal payment of FRW 1,000,000 and interest of FRW 200,000. Up until November 2023, all instalments were paid on time without any arrears.
10. The loan contract also clearly states that upon termination of the contract, all due principal and interest must be paid.

Required:

Compute the tax resulted on the above liquidation. (10 Marks)

b) B&S Ltd won a tender for the construction of a 250 km road from Kibuye to Gikongoro over a period of 3 years in 2023. The contract price was FRW 2,500,000,000, and the expected costs to incur were also FRW 1,800,000,000.

For the period ending 31st December 2024, the following expenses incurred:

Description	Amount in FRW
Materials	300,000,000
Salaries cost	165,000,000
Rent of materials space	30,000,000
Purchased Machinery	400,000,000
Miscellaneous	20,000,000
Engineers expenses	10,000,000
Electricity cost	50,000,000
Fuel	150,000,000
Total	1,125,000,000

Additional information:

1. The machinery purchased was included in the class of other assets and was new.
2. One-third (1/3) of the electricity used was by the people surrounding the site, as both the construction site and those people use the same meter number.
3. Engineers' expenses related to the money paid to their families, as stipulated in their employment contracts.
4. One-quarter (1/4) of the fuel used by the chief engineer's vehicle was for both business and private activities.

Required:

Compute the taxable income and tax liability to be paid by B&S Ltd for the year ended 31st December 2024.

(10 Marks)

(Total: 20 Marks)

QUESTION TWO

a) Globalization and international business have enhanced unity and trade between different worldwide nations. This has led to international exchange of information, products, jobs, and technology. As a result, many countries have been able to form customs unions. In this respect, the East African countries composed of Kenya, Tanzania, Uganda, Burundi, Rwanda, South Sudan and the DRC have not left behind. The EAC Partner States have agreed to establish the East African Community Customs Union.

Required:

- i) Describe the main features of the East African Community Customs Union. (7 marks)
 - ii) State FOUR documents that are required to prove that goods being imported or exported were produced in the EAC? (4 marks)
- b) Margret imported a consignment of vehicles with an engine capacity of between 1,500 and 2,500 cc from Dubai. The cost of the vehicles was USD 60,000. She paid an additional USD 15,000 for transport, and USD 3,000 for insurance of the goods. The handling fee was fixed at 1,000 USD and on the day of declaration, the exchange rate was USD 1: FRW 1,100. The tax rate at customs are as follows:

Tax	Rate
Excise tax	10%
Import duty	25%
VAT	18%
WHT	5%
IDL	1.5%
AUL	0.2%
Computer processing fee	3,000

Required:

Compute the seven types of customs duty and taxes to be paid at the customs border posts

(9 Marks)

(Total: 20 Marks)

QUESTION THREE

Mutoni is an employee of Air Co Ltd since 2020 as General Manager. During the year 2022, she earned the following income.

1. Her basic salary is FRW 2,100,000 per month and entitled to the following benefits:
2. Vocation allowance FRW 350,000 per month,
3. Risk allowance FRW 3,000 per hour she spends at the work (monthly average 160 hours), meals and entertainment allowance of FRW 20,000 and FRW 30,000 respectively per day (monthly average days are 21 days).
4. The transport allowance is FRW 120,000, payable monthly.
5. She received a performance-based bonus of FRW 2,500,000 because of her exceptional performance during the past year.
6. Her brother is a second-year student at SFB and the company paid fees for her brother for the whole year (fees per quarter is FRW 275,000.)
7. She is a member of an unregistered and registered retirement scheme to which she contributed 10% of her basic salary and the company contributed FRW 1,000,000 to the unregistered scheme.
8. The company provided a fully furnished house that she lives in.
9. A company car is provided to her for travel both business and private affairs.
10. The company has a loan scheme to which all employees are entitled to a loan at an interest rate of 8% per annum, on average during the year, she got a loan of FRW 12,000,000. The BNR interbank rate is 12%
11. The company paid her home maid's salary amounting to FRW 160,000 per year.
12. Her salary is processed through KCB and during the year she earned an interest of FRW 245,000.
13. Her other income includes dividends from the foreign company amounting to FRW 900,000. The amount was received net of withholding tax of 15% where applicable.
14. She has a large cattle farm at Nyagatare where she keeps over 300 cows, during the year she made a sale of milk and cows amounted to FRW 15,600,000.

Required:

- a) **Compute Mutoni's taxable income and the total tax payable for the year ended 31 December 2022.** (15 Marks)
- b) Air Co Ltd has been non-compliant with tax declaration deadlines. As Tax Advisor, please: **Discuss administrative fines for late tax declaration and payment, late payment interest, and explain the tax liability payment offset hierarchy.** (5 Marks)

(Total 20 Marks)

QUESTION FOUR

Uwantege Queen is a new VAT registered taxpayer in Rwanda. She deals in both taxable and exempt supply. During the tax period for the month of December 2021, the below transactions were recorded in the books of accounts. All transactions were recorded in Sage software.

No	Description of goods	Purchase price in FRW “000”	Sales price FRW “000”
1	Blue labels	68,095	89,000
2	Processed African tea	37,000	47,000
3	Milk	46,500	58,000
4	Mineral water	27,620	30,200
5	Rent	5,200	-
6	Computers	13,000	34,000
7	Gaz	2,400	890
8	Fresh Lemon	260	320
9	Fresh ginger	340	190

Additional information:

1. All purchase prices were recorded VAT inclusive where applicable.
2. All sales prices were recorded VAT exclusive where applicable.

Required:

- a) **Compute inputs VAT deductible and the VAT payable for the month of December 2021.** (12 Marks)
- b) Uwantege Queen as a new VAT registered taxpayer in Rwanda. She does not have adequate knowledge on Tax laws and Tax administration procedures. She approached you as a tax expert to give her clarifications on the VAT law.

Required:

Explain to her the VAT reverse charge, VAT retained by public institutions and VAT refund for privileged persons. (6 Marks)

- c) **Outlines FOUR characteristics of VAT.** (2 Marks)
- (Total: 20 Marks)**

QUESTION FIVE

A government agency, regulatory body, or tax office may conduct an assessment or investigation without prior notification to the subject. This approach is typically aimed at preventing the subject from altering, hiding, or removing evidence before the assessment is carried out. While an assessment procedure without notice can be a powerful tool for ensuring compliance and preventing wrongdoing, it must be conducted within a framework that respects legal and ethical boundaries to maintain fairness and transparency.

According to tax procedure law, the Rwanda Revenue Authority (RRA) may issue a notice of tax assessment under the following circumstances: if the tax declared on time has not been paid, if an audit by the Tax Administration indicates that additional taxes are due, or if there are strong indications that the taxpayer intends to evade tax. However, there are also situations where the Tax Administration may conduct a tax assessment without notice, depending on various factors.

Taxpayers may also choose to make a self-disclosure, which is advisable because it can help avoid penalties and interest. Additionally, it serves as a form of legal compliance, as the Rwanda Tax Administration requests this disclosure. It demonstrates transparency and reduces the risk of an audit by the tax authorities.

A government agency or tax administration is responsible for collecting taxes that are owed but not paid. These procedures are designed not only to ensure taxes are paid in a timely manner but also to establish a process for recovering unpaid taxes, along with any interest and penalties.

Required:

- a) **State the circumstances that can trigger the tax administration to conduct a tax assessment without notice.** (7 Marks)
- b) **Explain the benefit of making self-disclosure to the taxpayer and tax administration as well.** (6 Marks)
- c) **During the tax recovery procedures, the tax administration has the power to search for a taxpayer's assets and other means from which the tax can be recovered. This also includes recovery from third parties, such as the taxpayer's debtor. Enumerate the obligations of the tax administration and the debtor during the tax recovery process.** (7 Marks)

(Total: 20 Marks)

QUESTION SIX

Kigali Mount Limited is a registered company in Rwanda located in Kigali free trade zone area, Gasabo district. The company deals in general business and distribution of household materials within Rwanda. During the year ended 31/12/2020, the company submitted the following financial information for tax purpose to the Rwanda Revenue Authority.

Items	Amount FRW "000"	Amount FRW "000"
Sales		298,000
Cost of sales		102,000
Gross profit		196,000
Other income		
Net dividend received		<u>89,400</u>
		285,400
Operating expenses		
Salaries and wages	42,000	
Selling and distribution expenses	40,600	
Rent	24,000	
Bad debts	4,000	
Depreciation	5,200	
VAT paid	7,500	
WHT paid on imports	7,100	
Donation	2,890	
Legal fees	2,000	
Marketing costs	12,000	
Repair and maintenance	9,000	
Other expenses	3,980	
Income tax Quarterly prepayments	<u>42,100</u>	
		(202,370)
Profit / Loss for the period		<u>83,030</u>

Additional information:

1. The Bad debts correspond to amount written off in the books, after missing the supporting documents.
2. The legal fees related to the company car traffic fines.
3. Repair and maintenance related to building extension of upcountry offices.
4. Other expenses account related to communication money loaded on the mobile phone of the staff. It is difficult to separate the private and business transactions.
5. The dividend income related to the company's investment in shares in Gorilla Limited, a Rwandan private company that is listed at RSE.
6. The donation was made to charitable recognized organization.
7. Included in salary and wages are FRW 5,000,000 related to BOD member fees payment.
8. The depreciation expense was agreed with the tax administration to be FRW 20,000,000.

Required:

a) Advise Kigali Mount Limited on the corporate taxable income and tax liability for the year ended 31/12/2020. (12 Marks)

b) Explain FOUR circumstances under which a company pays Corporate Income Tax at a rate other than 30%, and state EIGHT entities exempted from Corporate Income Tax under LAW N° 016/2018 of 13/04/2018 establishing taxes on income. (8 Marks)

(Total Marks: 20)

QUESTION SEVEN

a) Mr. Sam Nkuranga is a retiree from the Rwanda Investment Authority. Before planning to retire, he made investments in different channels to secure his retirement period. Among the investments he made was the one in which he bought different machinery to rent out to farmers who were unable to buy their own machines, located in the Eastern Province, Kayanza District. Below is the detailed information relating to the aforementioned investment made by Mr. Sam Nkuranga:

1. He bought 4 combine harvesters at a cost of FRW 2,500,000 each on 01st May 2024 using his own savings of FRW 5,000,000 and a loan of FRW 5,000,000 acquired from a local bank at an annual base interest rate of 16%, plus an annual management fee of 2%. It was agreed in the loan contract that the management fees would be apportioned on a monthly basis.
2. On 1st July 2024, he rented out 2 combine harvesters at FRW 200,000 per month each, while the remaining harvesters were rented out from 1st October 2024 at FRW 250,000 per month each.
3. On 01st May 2024, he rented a house to store his assets at a monthly rent cost of FRW 200,000, and he secured a security guard, paying him FRW 50,000 per month.

Additional information:

1. The depreciated rate is 25%.
2. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

Required:

Compute the taxable income and tax liability to be paid by Mr. Sam Nkuranga for the year ending 31st December 2024. (10 Marks)

b) In addition to the above investment, Mr. Sam Nkuranga also owns a commercial building located in Remera, which cost him FRW 250,000,000 since 2022. The building covers an area of 450 m², and the City of Kigali Council approved a tax of FRW 200 per square meter. The standard plot size, as per the law, was established at 300 m².

Required:

i) Compute the total tax that Mr. Sam Nkuranga is obliged to pay to Rwanda Revenue authority resulted from his immovable property (3 Marks)

ii) As per law governing the immovable property tax, **state persons considered being the owner of property.** (4 Marks)

c) The trading license tax is paid by any person who commences a profit-oriented activity in Rwanda and the tax period depends on the time when the taxable activity started.

Required:

Explain how a person with taxable activities that start in January, after January, or seasonal pays the trading license. (3 Marks)

(Total: 20 Marks)

End of Question Paper