CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.3: ADVANCED TAXATION

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

(a)

Marking guide

(i)

Award 2 marks, 1 mark for permanent rule and 1 mark for 183 days

(ii)

Mr David Manseh

Total Taxable Employment Income and PAYE for the month of December 2025	**Marks**
Cash benefit	
Basic Salary	0.5
Performance Bonus	0.5
School fees	0.5
Mission allowance	0.5
Consultancy Income from Bank of Ghana	0.5
Pension Contribution	0.5
Medical allowance (W1)	0.5
Family medical expenses	0.5
Driver's salary	0.5
Performance Related payment	0.5
Dividend from Ghana Telecom Company	0.5
Management fees from Accra Bank	0.5
Benefit in kind	
Car benefit@10%	0.5
House benefit@20%	0.5
PAYE	
0-30,000@ 0%	
30,001-100,000 @ 20%	
Above 100,001 @ 30%	
PAYE	0.5
Sub Total	**7.5**

Mr Daniel Kubana	
Total Taxable Employment Income and PAYE for the month of December 2025	**Marks**
Cash benefit	
Basic Salary	0.5
Performance Bonus	0.5
Housing allowance	0.5
Transport Allowance	0.5
Medical allowance (Equal to 7.5% of basic salary)	0.5
Reimbursement of medical charges	0.5
Unsupported balance on mission allowance- Dubai	0.5
Benefit in kind	
Mortgage loan -80M*(8.5%-5%)/12	1
Salary advance	0.5
PAYE	
0-30,000@ 0%	
30,001-100,000 @ 20%	
Above 100,001 @ 30%	

PAYE	0.5
Sub-total	**5.5**

(b)(i)

Description	Marks
Profit before Tax	0.5
Add non allowance expenses	
Provision for bad debt	1
Provision for litigation	1
Management fees (The whole amount is allowed as it was provided to Local consultant)	0.5
Donation (Allowed but should not exceed 1% of operational Income) -W1	0.5
Depreciation	0.5
Fines and penalties	0.5
New building construction cost	0.5
Performance bonus (Allowed, related with the reporting period)	0.5
Less omitted expenses	
Tax depreciation (Wear and Tear)-W2	0.5
Less Non-Taxable Income	
Dividend Income	0.5
Adjusted Taxable Profit	
Tax@30%- CIT	0.5
Working 1-Donation	
Actual paid	
Total Operation Income	0.5
1% of operational income (Allowed)	0.5
Not allowed Donation (Excess)	

Working 2-Depreciation

Description	**Building/Premise**	**IT equipment**	**Vehicles**	**Furniture and Fittings**	**Other assets**
2024	**FRW (Million)**	**FRW (Million)**	**FRW (Million)**	**FRW (Million)**	**FRW (Million)**
Cost					
Depreciation rate					
Tax depreciation/ Wear and Tear					
Tax written down value (TWDV)	0.5	0.5	0.5	0.5	0.5
2025					
Cost/TWDV					
Additional		-	-	-	-
Depreciation base					
Depreciation rate					
Tax depreciation/ Wear and Tear	0.5	0.5	0.5	0.5	0.5
Tax written down value (TWDV)					

Description	Building/Premise	IT equipment	Vehicles	Furniture and Fittings	Other assets
Subtotal (b)(i)					**13**

(b)(ii)

Transaction	Amount (FRW million)	Applicable WHT	Who withholds?	WHT Amount (FRW million)	Deadline for paying WHT	Total
IT consultancy fees paid to BIM IT Consultancy Ltd (Rwandan company regularly declaring CIT)		0.5	0.5	0.5	0.5	2
Management fees paid to individual local consultants		0.5	0.5	0.5	0.5	2
Sitting allowances paid to resident Board members		0.5	0.5	0.5	0.5	2
Dividend paid to shareholders on 30 December 2025		0.5	0.5	0.5	0.5	2
Interest received from National Bank of Rwanda on Government Bonds		0.5	0.5	0.5	0.5	2
Payment received from MINECOFIN under a public tender		0.5	0.5	0.5	0.5	2
Subtotal (b)(ii)						**12**

Model answers

(a) (i)

According to **Article 4 of Law No. 016/2018 Establishing Taxes on Income**, an individual is considered a tax resident of Rwanda if he or she has a **permanent residence** in Rwanda, has a **habitual abode** in Rwanda, is a **Rwandan representing Rwanda abroad**, or stays in Rwanda for **more than 183 days within a twelve-month period**, whether continuously or intermittently. An individual who satisfies the 183-day rule becomes a resident for the tax period in which the twelve-month period ends.

In this case, Mr. David Mensah arrived in Rwanda on **1 October 2025** and worked until **31 December 2025**. During this period, he stayed in a hotel and returned to Ghana every weekend. He did not establish a permanent residence in Rwanda until **1 February 2026**, when he relocated with his wife and children. By **31 December 2025**, he had neither acquired a permanent residence nor met the 183-day rule.

Therefore, Mr. David Mensah is treated as a non-resident individual for the tax year ended 31 December 2025.

(a) (ii)

Mr. David Manasseh Taxable Income and PAYE for the year ended 31st December 2025	
Employment Income	
Description	**Amount (FRW)**
Basic Salary	10,000,000
Bonus	5,000,000
Mission allowance	Not Taxed
School fees	3,000,000
Contribution to RSSB	Exempted
Medical Allowance (W1)	250,000
Family Medical expenses	500,000
Driver	250,000
Total employment Income	**19,000,000**
Car benefit @10%	1,900,000
House Benefit @20%	3,800,000
Total Taxable employment Income	**24,700,000**
Other Income	
Consultancy Income from Ghana	Not taxed- He is not resident
Performance related payment	Not taxed- He is not resident
Dividend	Not taxed- He is not resident
Management fees	Not taxed- He is not resident
PAYE	
0-30,000 @0%	0
30,001-100,000 @20%	14,000
Above 100,001 @30%	7,380,000
Total	**7,394,000**
Mr. Daniel Kubana Taxable Income and PAYE for the year ended 31st December 2025	
Employment Income	
Description	**Amount (FRW)**
Basic Salary	4,500,000
Bonus	2,250,000
Housing allowance	800,000
Transport allowance	1,125,000
Medical allowance (W2)	-
Loan benefit -Mortgage loan	233,333
Loan benefit- Salary advance)	Less than 3 months basic salary
Reimbursed medical expenses	Not taxed
Unsupported mission	2,500,000
Total taxable employment Income	**11,408,333**

PAYE	
0-30,000 @0%	0
30,001-100,000 @20%	14,000
Above 100,001 @30%	3,392,500
Total	**3,406,500**

Working 1- Medical allowance- David Manasseh	**FRW**
Actual contributed	1,000,000
Supposed To have been paid RAMA (7.5% of basic salary- FRW 10,000,000)	750,000
Excess (Benefit)	**250,000**

Working 2- Medical allowance- Daniel Kubana	**FRW**
Actual contributed	337,500
Supposed To have been paid RAMA (7.5% of basic salary- 4,500,000)	337,500
Excess (Benefit)	**0**

(b)(i)

KBR		
Adjusted Taxable Income and CIT Payable for the year ended 31 December 2025		
Description	**FRW (Million)**	**FRW (Million)**
Profit before Tax		28,600
Add non allowance expenses		
Management fees (The whole amount is allowed as it was provided to Local consultant)	Allowed	
Donation (Allowed but should not exceed 1% of operational Income) -W1	11,935	
Depreciation	7,800	
Fines and penalties	100	
New building construction cost	85,000	
Performance bonus (Allowed, related with the reporting period)	Allowed	104,835
Less omitted expenses		
Tax depreciation (Wear and Tear)-W2	12,175	(12,175)
Less Non-Taxable Income		
Dividend Income	6,500	(6,500)
Adjusted Taxable Profit		**114,760**
Tax@30%- CIT		34,428

Working 1-Donation	**FRW (Million)**
Actual paid	17,000
Total Operation Income	506,500
1% of operational income (Allowed)	5,065
Not allowed Donation (Excess)	11,935

Working 2- Wear & Tear Computation						
Description	**Building/Premise**	**IT Equipment**	**Vehicles**	**Furniture and Fittings**	**Other assets**	**Total**
2024	**FRW (Million)**	**FRW (Million)**	**FRW (Million)**	**FRW (Million)**	**FRW (Million)**	

Cost	150,000	500	350	250	1,000	**152,100**
Depreciation rate	5%	50%	25%	25%	25%	
Tax depreciation/ Wear and Tear	7,500.0	250.0	87.5	62.5	250.0	**8,150**
Tax written down value (TWDV)	142,500.0	250.0	262.5	187.5	750.0	**143,950**
2025						
Cost/TWDV	150,000.0	250.0	262.5	187.5	750.0	**151,450**
Additional	85,000.0	-	-	-	-	
Depreciation base	235,000.0	250.0	262.5	187.5	750.0	**236,450**
Depreciation rate	5%	50%	25%	25%	25%	
Tax depreciation/ Wear and Tear	11,750.0	125.0	65.6	46.9	187.5	**12,175**
Tax written down value(TWDV)	215,750.0	125.0	196.9	140.6	562.5	**216,775**

(b) (ii)

Transaction	**Amount (FRW million)**	**Applicable WHT**	**Who withholds?**	**WHT Amount (FRW million)**	**Deadline for paying WHT**	**Explanation**
IT consultancy fees paid to BIM IT Consultancy Ltd (Rwandan company regularly declaring CIT)	45,000	No withholding as the company is regularly declaring CIT	NA	NA	NA	Payments for services to a registered taxpayer with recent tax declaration, no withholding tax applicable
Management fees paid to individual local consultants	30,000	15%	KBR	4,500	15th August 2025	Professional service fees paid to individuals are subject to 15% withholding tax.
Sitting allowances paid to resident Board members	15,000	30%	KBR	4500	15th December 2025	Sitting allowances paid to resident individuals as well as foreigners are subject to 30%

Transaction	Amount (FRW million)	Applicable WHT	Who withholds?	WHT Amount (FRW million)	Deadline for paying WHT	Explanation
						withholding tax under the Income Tax Law.
Dividend paid to shareholders on 30 December 2025	2,002	5%	KBR	100	15th January 2025	Dividends distributed to shareholders are subject to 5% withholding tax as KBR is listed under Rwanda Stock Exchange
Interest received from National Bank of Rwanda on Government Bonds	750	5%	NBR	38	NA	Interest on Government securities is generally subject to withholding tax at source of 15% however, if the offer has more than 3 years of maturity, the rate reduced to 5%.
Payment received from MINECOFIN under a public tender	130	**3%**	MINECOFIN	3.3	NA	Government institutions withhold 3% from payments made under public tenders and VAT should excluded before applying WHT rate.
Total				**9,141**		

SECTION B

QUESTION TWO

Marking guide

(a)

Option 1- Purchase			
Description	**Year 1**	**Year 2**	**Total Marks**
Revenue	0.5	0.5	1
Expenses			
Interest on Loan	0.5	0.5	1
Accelerated depreciation	0.5		0.5
Tax depreciation	0.5	0.5	1
Total Expenses			
Taxable Income	0.5	0.5	1
Loss carried forward		0.5	0.5
CIT@30%	0.5	0.5	1
Option 2- Finance Lease			
Description	**Year 1**	**Year 2**	
Revenue	0.5	0.5	1
Expenses			
Interest on Loan	0.5	0.5	1
Accelerated depreciation	0.5		0.5
Tax depreciation	0.5	0.5	1
Total Expenses			
Taxable Income	0.5	0.5	
Loss carried forward		0.5	0.5
CIT@30%	0.5	0.5	1
The best option is finance lease			1
Subtotal			**12**

(b)

Requirement	**Marks**
Explain that dividends paid under equity financing are **not deductible** for Corporate Income Tax purposes and therefore do not provide a tax shield.	**1**
Explain that interest on related-party loans is generally deductible but is subject to Rwanda's **interest limitation (thin-capitalization) rules**, under which interest on debt exceeding four times the company's equity is not deductible.	**1**
Compute the maximum allowable related-party debt (4 × equity) and the corresponding allowable interest deduction.	**2**
Conclude that only **FRW 160,000,000** is deductible and recommend the most tax-efficient financing option, with reasons.	**1**
Subtotal	**5**

(c)

Total tax due of TRL	
Additional tax	Marks
CIT	0.5
Output VAT	0.5
Fixed administration fine (Large Taxpayer)	
Non fixed penalties due to failure to declare and paid within the timeline on CIT- 60% of tax due	0.5
Non fixed penalties due to failure to declare and paid within the timeline on VAT- 60% of tax due	0.5
Interest (1.5% per month) 5 months on CIT	0.5
Interest (1.5% per month) 8 months on VAT	0.5
Subtotal	**3**
Grand Total	**20**

Model answers

(a)

Option 1-Purchase			
Description	**Year 1**	**Year 2**	**Total**
Revenue	100,000,000	115,000,000	215,000,000
Allowable Expenses			
Capital allowance	100,000,000	-	100,000,000
Tax depreciation@ 50% on NBV	50,000,000	25,000,000	75,000,000
Interest on loan	24,000,000	24,000,000	48,000,000
Total allowable expenses	**174,000,000**	**49,000,000**	**223,000,000**
Taxable Income	- 74,000,000	66,000,000	- 8,000,000
Tax@30%	-	Profit was absorbed by the previous loss	-
Option 2-Finance Lease			
Description	**Year 1**	**Year 2**	**Total**
Revenue	100,000,000	115,000,000	215,000,000
Allowable Expenses			
Capital allowance	121,487,604	-	121,487,604
Tax depreciation@ 50% on NBV	60,743,802	30,371,901	91,115,703
Finance Charge-Interest	24,297,521	12,727,273	37,024,793
Total allowable expenses	**206,528,926**	**43,099,174**	**249,628,100**
Taxable Income	- 106,528,926	71,900,826	- 34,628,100
Tax@30%	-	Profit was absorbed by the previous loss	-
The best option is finance lease based on the total allowable expenses to be deducted.			

Working on the interest under finance lease					
Years	**Beginning Balance**	**Interest**	**Constant**	**Principal**	**Ending Balance**
0					242,975,207
1	242,975,207	24,297,521	140,000,000	115,702,479	127,272,728
2	127,272,728	12,727,273	140,000,000	127,272,727	0

(b)

Alternative Financing Option 1 – Issue Ordinary Shares of FRW 2 billion

Under this option, TRL raises additional capital by issuing ordinary shares amounting to **FRW 2 billion**.

The cost of equity financing is the payment of **dividends** to shareholders. However, **dividends are not deductible** in computing taxable income for Corporate Income Tax purposes. Consequently, this financing option does not provide any tax shield.

Alternative Financing Option 2 – Obtain a Loan of FRW 2 billion from the Parent Company

Under this option, TRL obtains a **FRW 2 billion** shareholder loan from its parent company.

The cost of debt financing is **interest**, which is generally deductible for Corporate Income Tax purposes. However, under Rwanda's **interest limitation (thin-capitalization) rules**, interest incurred on loans obtained from related parties is deductible only to the extent permitted by the Income Tax Law. Interest attributable to the portion of the related-party loan that exceeds **four times the company's equity** is not deductible.

Computation

Description	**FRW**
Shareholder loan	2,000,000,000
Share capital (equity)	400,000,000
Maximum allowable related-party debt (4 × equity)	1,600,000,000
Annual interest rate	10%
Allowable interest deduction (10% × FRW 1,600,000,000)	**160,000,000**

Therefore, only **FRW 160,000,000** qualifies as a deductible expense for Corporate Income Tax purposes. Interest relating to the excess loan balance is **not deductible** under the interest limitation rules.

Recommendation

Although the deductible interest is limited by the interest limitation (thin-capitalization) rules, **debt financing remains the more tax-efficient option** because it provides a deductible interest expense of **FRW 160,000,000**. In contrast, dividends paid under the equity financing option are **not deductible** for tax purposes and therefore provide no tax benefit.

(c)

Total tax due of TRL			
Additional tax	Amount (VAT Exclusive)	Rate	Tax
CIT	152,542,373	30%	45,762,712
Output VAT	152,542,373	18%	27,457,627
Fixed administration fine (Large Taxpayer)		NA	500,000
Non fixed penalties due to failure to declare and paid within the timeline on CIT- 60% of tax due		60%	27,457,627
Non fixed penalties due to failure to declare and paid within the timeline on VAT- 60% of tax due		60%	16,474,576
Interest (1.5% per month) 5 months on CIT		1.5%	3,432,203
Interest (1.5% per month) 8 months on VAT		1.5%	3,294,915
Total tax due of TRL			**124,379,661**

QUESTION THREE

Marking guide

(a)

Description	**Marks**
Award 0.5 marks for each input VAT computed excluding telecommunication, Maximum 3 marks and 1 mark for telecommunication input VAT	4
Award 1 mark for each output VAT computed Maximum 2.5 marks	5
VAT Payable	1
Subtotal	**10**
(b)(i)	
• **Award 1 mark** for correctly identifying the period in which the brewery met the VAT registration threshold (i.e., the relevant calendar quarter). • **Award 1 mark** for correctly stating the statutory deadline for VAT registration (**7 October 2025**).	2
(b)(ii)	
• **Award 1 mark** for clearly stating that every taxpayer required to issue tax invoices must issue them through an **Electronic Billing Machine (EBM)** or another electronic invoicing system approved by the Rwanda Revenue Authority (RRA). • **Award 1 mark** for correctly stating the applicable penalty for non-compliance and computing the penalty amount (**FRW 24,000,000**).	2
(b)(iii)	
• **Award 1 mark** for correctly explaining that the imported consultancy services are subject to the **VAT reverse charge mechanism** and for correctly computing the reverse charge VAT of **FRW 10,800,000** (FRW 60,000,000 × 18%). • **Award 1 mark** for correctly explaining that, since an equivalent consultancy service was available from a local supplier in Rwanda, the brewery is **not entitled to claim the reverse charge VAT as input VAT**. Consequently, the brewery must	2

Description	Marks
account for the **output VAT of FRW 10,800,000**, with no corresponding input VAT deduction.	

(c)

Requirement	Marks
Correctly compute the Consumption Tax payable on **Lemon Soda**.	1
Correctly compute the Consumption Tax payable on **Bwiza Wine**.	1
Correctly state the applicable **tax period** for the Consumption Tax return (i.e., **21 May 2026 to 31 May 2026**).	1
Correctly state the statutory **deadline** for filing the Consumption Tax return and paying the tax (**5 June 2026**).	1

Model answer

(a)

Input VAT				**Output VAT**			
Description	**Amount**	**VAT Rate**	**VAT Amount**	**Description**	**Amount**	**VAT Rate**	**VAT Amount**
Food and beverages purchased for the restaurant	47,200,000	18/118	7,200,000	Accommodation services provided to local customers	100,000,000	18%	18,000,000
Cleaning materials used in hotel rooms	11,800,000	18%	2,124,000	Restaurant and bar sales	94,400,000	18/118	14,400,000
Furniture used exclusively in guest rooms	23,600,000	18/118	3,600,000	Conference services supplied to local companies	30,000,000	18%	5,400,000
Electricity for the entire hotel complex (To be apportioned from Taxable sales-249.4M to Total sales-297.4M	17,700,000	18%	2,671,783	Conference services supplied to an accredited diplomatic mission	48,000,000	Exempted	Exempted
Marketing and advertising (To be	11,800,000	18/118	1,509,482	Catering services provided during an internation	25,000,000	18%	4,500,000

Input VAT				Output VAT			
Description	**Amount**	**VAT Rate**	**VAT Amount**	**Description**	**Amount**	**VAT Rate**	**VAT Amount**
apportioned as above)				al conference held in Rwanda for a foreign organization			
Rent (to be apportioned as well)	23,600,000	18/118	3,018,964				
Telecommunication and Interest services (60% to be considered as private and business use can not be separated)	5,900,000	18%	637,200				
Total	**141,600,000**		**20,761,430**	**Total**	**297,400,000**		**42,300,000**
VAT Payable (42,300,000-20,761,430) = 21,538,570							

(b)(i)

Under the VAT registration requirements, a taxpayer is required to register for VAT if the turnover reaches **FRW 5,000,000 in a calendar quarter** or **FRW 20,000,000 in a calendar year**.

Since the small brewery and the Rwanda Revenue Authority (RRA) agreed that the brewery should be assessed under the **quarterly VAT registration rule**, the relevant threshold is **FRW 5,000,000 per calendar quarter**.

By the end of **September 2025**, which marks the end of the **third calendar quarter**, the brewery had recorded taxable sales of **FRW 7,000,000**, exceeding the quarterly registration threshold of **FRW 5,000,000**. Accordingly, the brewery became liable to register for VAT and was required to submit its VAT registration application to the Rwanda Revenue Authority (RRA) **no later than 7 October 2025**.

(b)(ii)

Under the Rwanda VAT Law, every taxpayer required to issue tax invoices must issue them through an **Electronic Billing Machine (EBM)** or any other electronic invoicing system approved by the Rwanda Revenue Authority (RRA).

Accordingly, the small brewery should have issued **EBM invoices** for sales amounting to **FRW 12,000,000** instead of issuing manual invoices.

Under the Rwanda tax laws, failure to issue an EBM invoice attracts an administrative penalty of **two (2) times the value of the transaction**. Therefore, the penalty payable by the small brewery is computed as follows:

Penalty = 2 × FRW 12,000,000 = FRW 24,000,000

Accordingly, the small brewery is liable to an administrative penalty of **FRW 24,000,000** for failing to issue EBM invoices.

(b)(iii)

Under the **VAT reverse charge mechanism**, when a Rwandan taxpayer imports services from a non-resident supplier who is not registered for VAT in Rwanda, the recipient of the services is required to account for **output VAT** on the value of the imported services.

In this case, the small brewery imported consultancy services from a Kenyan supplier for **FRW 60,000,000**. Accordingly, the brewery is required to account for reverse charge VAT as follows:

Output VAT = FRW 60,000,000 × 18% = FRW 10,800,000

Under the Rwanda VAT Law, a taxpayer may claim the same amount as **input VAT** under the reverse charge mechanism where the imported services qualify for input VAT deduction (when that service is not available in Rwanda or no available service providers in Rwanda). However, where **equivalent services are available from a local supplier in Rwanda**, the input VAT deduction is not allowed.

In this case, it was established that a local Rwandan consultancy firm was available to provide the consultancy services, although the parties failed to agree on the service fee. Since the services were available locally, the small brewery is **not entitled to claim the reverse charge VAT as input VAT**. Consequently, the brewery must account for the **output VAT of FRW 10,800,000**, and no corresponding input VAT credit is allowable.

(c)

Consumption Tax payable			
Product Name	**Selling price (VAT Exclusive)**	**Applicable Rate**	**Consumption Tax payable**
Lemon Soda	11,016,949	39%	4,296,610
Bwiza wine	30,000,000	30%	9,000,000
Total			**13,296,610**

Deadline

Since the sales were made on **25 May 2026**, they fall within the period **from the 21st day to the end of the month**. Accordingly, the Consumption Tax return must be filed, and the tax paid, **on or before 5 June 2026**.

QUESTION FOUR

Marking guide

(a)

Property	**Tax on land**	**Tax on building**	**Total**
	Marks	**Marks**	
Property A	1	1	2
Property B	1	1	2
Property C	1	-	1
Property D	1	1	2
Property E	1	1	2
Property F	1	-	1

(b)(i)

Trading license of	**Marks**
Kicukiro	0.5
Gasabo	0.5
Musanze	0.5
Rubavu	0.5
Rusizi	1
Total	**3**

(b)(ii)

Taxable Rental Income of Mr George	Marks
Gross Rental Income	0.5
Less allowable expenses	0.5
Deemed expenses @50%	0.5
Interest on loan from Employer	0.5
Interest on loan from ABD Bank	0.5
Taxable Rental Income of Mr George	
Tax payable	
1-180,000	0.5
180,001-1,000,000	0.5
Above 1,000,000	0.5
Total	**4**

(c)

Description	**Marks**
Award 0.5 marks for ethical principles stated and 0.5 marks for safeguard (Maximum 3 marks	3
Grand Total	**20**

Model answers

(a)

Tax on Land					
Description	**Location**	**Size**	**Rate on standard size**	**Rate on Excess (Above 300 m2) or Undeveloped (Double)**	**Tax amount**
Property A	Gasabo	2500	80	120	288,000
Property B	Nyarugenge	1200	80	120	132,000
Property C	Gicumbi	5000	30	60	300,000
Property D	Musanze	900	60	90	72,000
Property E	Huye	3000	60	90	261,000
Property F	Nyagatare	52000	4000 (applied on excess of 2ha or 20,000 m2)	NA	16,000
Total Tax on Land					**1,069,000**

Tax on building				
Description	**Location**	**Value**	**Rate**	**Tax amount**
Property A- 10 Floor residential	Gasabo	2,500,000,000	0.10%	2,500,000
Property B- Commercial	Nyarugenge	3,800,000,000	0.30%	11,400,000
Property C-Undeveloped Plot	Gicumbi	650,000,000	NA	NA
Property D-Residential	Musanze	420,000,000	0.50%	2,100,000
Property E-Warehouse	Huye	950,000,000	0.30%	2,850,000
Property F-Farm	Nyagatare	500,000,000	NA	NA
Total Tax on building				**18,850,000**

(b)(i)

Under the Rwandan Trading License regime, a separate trading license is payable for each branch based on the previous year's annual turnover.			
Branch	**2024 Revenue (FRW)**	**Trading License Category**	**Trading License (FRW)**
Kicukiro	80,000,000	From FRW 60,000,001 to FRW 150M	150,000
Gasabo	55,000,000	From FRW 40,000,001 to FRW 60M	90,000
Musanze	61,000,000	From FRW 60,000,001 to FRW 150M	150,000
Rubavu	1,500,000	From FRW 1 to FRW 40M	60,000
Rusizi	35,000,000	To be apportioned for 7 months	35,000
Total			**485,000**

(b)(ii)

Taxable Rental Income of Mr George		
Gross Rental Income	90,000,000	
Less allowable expenses		
Deemed expenses @50%	45,000,000	
Interest on loan from Employer	6,750,000	
Interest on loan from ABD Bank	None still in grace period	
Taxable Rental Income of Mr George	**38,250,000**	
Tax payable	**Rate**	**Tax**
1-180,000	0%	0
180,001-1,000,000	20%	164,000
Above 1,000,000	30%	11,175,000
Total		**11,339,000**

(c)

Fundamental Ethical Principle	**Threat**	**Safeguard**
Integrity	Concealing tax understatement and accepting inducements	Refuse the request, recommend voluntary disclosure, withdraw if necessary
Objectivity	Success fee creates self-interest bias	Decline contingent fee, independent review, follow firm quality controls
Confidentiality	Acting for competing clients creates risk of disclosure	Information barriers, confidentiality procedures, obtain consent or decline engagement

QUESTION FIVE

Model answer

(a)(i)	**Marks**
1 mark for well-defined Trade with a country and 1 mark for well-defined trade in country	2
(a)(ii)	
Rwanda Taxable profit	0.5
Profit from Kenya (Before Tax)	0.5
Dividend (Gross)	0.5
Interest Income	0.5
Total	
CIT @30%	0.5
Less foreign tax credit	
Kenya Profit	0.5
Dividend	0.5
Interest	0.5

(b)

Customs Taxes	Marks
Import duty @25%	0.5
Excise duty @15%	0.5
VAT @18%	0.5
WHT@5%	0.5
IDL@1.5%	0.5
AUL@0.2%	0.5
QIF@0.2%	0.5
Computer processing fees	0.5

(c)

Description	**Marks**
(i) 1 mark for well-defined arm's length principle	1
(ii) 1 mark for identified risk	1
(iii) 0.5 marks for each point explaining appropriateness of using CUP, Maximum 2 marks	2
(iv) 1 mark for well computed transfer pricing adjustment	1

(d)

Description	**Marks**
(i) 0.5 marks for each WHT well computed, Maximum 2 marks	2
(ii) 1 mark for well explained Most Favoured Nation (MFN) principle	1
(iii) 0.5 marks for each point explaining the tax implication of Common External Tariff (CET) and the Duty Remission Scheme, Maximum 2 marks	2
Grand Total	**20**

Model answers

(i)

Trading with a country	**Trading in a country**
Refers to exporting goods or services to customers in another country without having a fixed place of business there.	Refers to carrying on business through a **Permanent Establishment (PE)**, such as a branch, office, warehouse or factory, in another country.
The profits are generally taxable only in the country of residence unless otherwise provided by a DTA.	The profits attributable to the PE are taxable in the country where the PE is located and may also be taxed in the country of residence, subject to double taxation relief.

(ii)

Corporate Income Tax payable In Rwanda by ERL	
Rwanda Taxable profit	1,350,000,000
Profit from Kenya (Before Tax)	450,000,000
Dividend (Gross)	69,230,769
Interest Income	60,000,000
Total	**1,929,230,769**
CIT @30%	578,769,231
Less foreign tax credit	
Kenya Profit	135,000,000
Dividend	20,769,231
Interest	6,000,000
CIT Payable	**417,000,000**
Working on Foreign Tax Credit (FTC)	
Profit from Kenya	
Tax in Kenya	135,000,000
Tax in Rwanda @30%)	135,000,000
FTC	**135,000,000**
Dividend Income	
Tax in Kenya	24,230,769
Tax in Rwanda @30%	20,769,231
FTC	**20,769,231**
Interest Income	
Tax in Kenya @10%	6,000,000
Tax in Rwanda @30%	18,000,000
FTC	**6,000,000**

(b)

CIF computation	
Description	**FRW**
Invoice price	180,000,000
Freight	12,000,000
Insurance	6,000,000
Buying commission	Excluded
Packing charges	Excluded
Inland transport after importation	Excluded
Installation after importation	Excluded
Customs Value (CIF)	**198,000,000**
Customs Taxes	
Import duty @25%	49,500,000
Excise duty @15%	37,125,000
VAT @18%	51,232,500
WHT@5%	9,900,000
IDL@1.5%	2,970,000
AUL@0.2%	396,000
QIF@0.2%	396,000
Computer processing fees	3,000

(c) (i) Explain the arm's length principle

The **arm's length principle** requires that transactions between related parties be conducted under the same terms and conditions that would have applied between independent parties dealing with each other in comparable circumstances. It ensures that taxable profits are not shifted artificially between jurisdictions.

(c) (ii) Transfer pricing risk

ELR purchased the tracking devices from its related party at **FRW 125,000** per unit, while independent customers paid **FRW 100,000** per unit.

The company has therefore **overpaid** its related party by FRW 25,000 per unit, increasing deductible expenses and reducing taxable profits in Rwanda. This creates a transfer pricing risk through **profit shifting** to the UAE.

(c) (iii) Why CUP is the most appropriate method

The CUP method is appropriate because:

- The same products are sold to independent customers.
- Reliable comparable prices exist.
- Few or no adjustments are required.
- It provides the most direct and reliable measure of an arm's length price.

(c) (iv) Transfer Pricing Adjustment

Related-party price = FRW 125,000
Arm's length price = FRW 100,000
Excess price = FRW 25,000 per unit
Adjustment = 25,000 × 8,000 = **FRW 200,000,000**
Transfer pricing adjustment:
ELR's taxable income should be **increased by FRW 200,000,00**

(d)
(i) Applicable withholding tax rates and effect of the DTA

Payment	**Domestic WHT Rate**	**DTA Effect**	**Tax to Withhold**
Management fees to UAE parent	15%	Reduced to **10%** under the Rwanda–UAE DTA	180,000,000 × 10% = **FRW 18,000,000**
Interest to Kenya parent	15%	Reduced to **10%** under the Rwanda–Kenya DTA	120,000,000 × 10% = **FRW 12,000,000**
Dividends to foreign shareholders	15%	Reduced to **10%** under the Rwanda–QatarDTA	300,000,000 × 10% = **FRW 30,000,000**
Royalty	15%	Reduced to **10%** under the Rwanda–South Africa DTA	200,000,000 × 10% = **FRW 20,000,000**

The DTA overrides the domestic law where it provides a lower withholding tax rate, provided the recipient qualifies for treaty benefits.

(ii) Most Favoured Nation (MFN) principle

The **Most Favoured Nation (MFN)** principle provides that if a country grants more favourable tax treaty treatment (such as a lower withholding tax rate) to another country under a subsequent treaty, countries benefiting from an MFN clause in an existing treaty may also claim that more favourable treatment, subject to the terms of the relevant treaties.

(iii) Tax implications of EAC and COMESA membership

(a) Common External Tariff (CET)

- The EAC applies a **Common External Tariff (CET)** on goods imported from outside the EAC.
- Goods imported from EAC Partner States that satisfy the Rules of Origin generally enjoy **duty-free** treatment within the Community.
- The CET promotes regional integration, facilitates intra-EAC trade, and provides uniform customs treatment for imports from non-EAC countries.

(b) Duty Remission Scheme (DRS)

- The Duty Remission Scheme allows approved manufacturers and eligible businesses to import specified raw materials and industrial inputs at reduced or zero import duty where the imports are used to produce goods that meet the scheme's conditions.
- The scheme lowers production costs, improves competitiveness, promotes exports, and encourages industrial development within the EAC.

These regional arrangements reduce trade barriers, harmonize customs procedures, and support economic integration among EAC and COMESA member states

END MARKING GUIDE AND MODEL ANSWERS