CERTIFIED PUBLIC ACCOUNTANTS

ADVANCED LEVEL 2 EXAMINATIONS

A2.3: ADVANCED TAXATION

DATE: TUESDAY 25, AUGUST 2026

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 and assumptions if any.
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 Rate: (VAT)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 Nº 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

SECTION A

QUESTION ONE

a) Akagera Fruits Processing Ltd (AFPL) is a Rwandan company engaged in the processing and export of fresh fruits and dried fruit products. The company is resident in Rwanda and is headquartered in Kayonza District. On 1 October 2025, AFPL appointed Mr. David Mensah, a Ghanaian national, as its Managing Director (MD), and Mr. Daniel Kubana, a Rwandan national, as its Chief Finance Officer (CFO), under open-ended employment contracts. Mr. David worked until December 2025. During that period, he stayed in a hotel located near the company and on weekends, he flew back to Ghana. At the beginning of January 2026, he returned to his home country, Ghana to attend to his personal business and spent his annual leave there until the end of January 2026.

From 1 February 2026 to the present, Mr. David has permanently relocated to Rwanda with his wife and two children.

For the month of December 2025, Mr. David Mensah received the following income from his employment in Rwanda as well as from his home country, Ghana:

- He earned a basic salary of FRW 10,000,000 from AFPL and received a performance bonus of FRW 5,000,000. AFPL also paid school fees of FRW 3,000,000 for his children and a mission allowance of FRW 2,500,000 to enable him to attend a meeting with key stakeholders at the Marriott Hotel.
- In addition, Mr. David received consultancy income equivalent to FRW 5,000,000 from the Bank of Ghana for consultancy services rendered.
- AFPL made a pension contribution of FRW 400,000 to the Rwanda Social Security Board (RSSB) on his behalf.
- The company provided a medical allowance of FRW 1,000,000. Under the company policy applicable to all employees, AFPL pays Rwanda Medical Insurance (RAMA). Furthermore, as provided in his employment contract, AFPL contributed an additional FRW 500,000 per month towards the medical expenses of Mr. David's family.
- AFPL also provided him with a company car valued at FRW 120,000,000, which he used for both official and private purposes, together with a company driver whose monthly salary was FRW 250,000.
- Beginning in December 2025, before Mr. David returned to Ghana, AFPL ceased paying for his hotel accommodation and instead provided him with a fully furnished house located in Rwamagana, valued at FRW 250,000,000.
- On 15 December 2025, Mr. David also received a performance-related payment equivalent of FRW 6,500,000 for work performed in Ghana, gross dividends of FRW 3,500,000 from Ghana Telecommunication Company, and gross management fees of FRW 4,000,000 from Accra Bank.

For the month of December 2025, Mr. Daniel Kubana received the following Income:

- A basic salary of FRW 4,500,000, a performance bonus equivalent to half of his monthly basic salary, a housing allowance of FRW 800,000, a transport allowance equivalent to a quarter of his monthly basic salary, and a medical allowance of FRW 337,500. The same medical allowance policy described above also applied to Mr. Daniel.
- On 15 October 2025, AFPL granted him a 15-year mortgage loan of FRW 80,000,000 at an annual interest rate of 5%, while the published National Bank of Rwanda annual lending rate was 8.5%.
- On 1 December 2025, Mr. Daniel also received an interest-free salary advance of FRW 10,000,000 to finance a personal emergency.
- On 20 December 2025, Mr. Daniel's wife gave birth to a baby boy, and AFPL reimbursed him FRW 1,800,000, representing the additional hospital charges for the executive room used by his wife. Under the company's medical allowance policy, where an employee incurs medical expenses exceeding FRW 100,000 for medical services received by the employee or eligible dependents (limited to a spouse and children), AFPL reimburses the full amount paid.
- On 25 December 2025, Mr. Daniel travelled to Dubai to meet investors and negotiate a collaboration agreement. AFPL deposited FRW 10,000,000 into Mr. Daniel's account to cover mission expenses, subject to the submission of supporting documents upon his return. Upon his return, Mr. Daniel supported for three-quarters of the amount advanced, and AFPL neither requested him to refund the unsupported balance nor treated it as recoverable.

Required:

i) Evaluate the tax residency status of Mr. David Mensah for the year ended 31 December 2025. (2 Marks)

ii) Compute the total taxable employment income and the Pay As You Earn (PAYE) payable to the Rwanda Revenue Authority (RRA) for Mr. David Mensah and Mr. Daniel Kubana for the month of December 2025. (13 Marks)

b) Kimo Bank Rwanda (KBR) is a subsidiary of Kimo Group Bank Uganda. The subsidiary commenced operations in Rwanda in 2024. All activities relating to the management and control of KBR are carried out in Rwanda, and its Managing Director is a resident of Rwanda. Additionally, since June 2025, KBR has been listed on the Rwanda Stock Exchange.

For the year ended 31 December 2025, KBR prepared the following statement of profit or loss for accounting purposes:

Description	Note	FRW (Million)
Operational Income		
Interest income		450,000
Account maintenance fees		30,000
Commission fees		15,000

Description	Note	FRW (Million)
Miscellaneous income		3,500
Foreign exchange gain	1	8,000
Other Income		
Rental income		2,500
Dividend income	2	6,500
Total Income		**515,500**
Expenses		
Interest expense		150,000
Provision for bad debts		62,000
Provision for litigation		28,000
Staff expenses		15,000
IT consultancy fees		45,000
Management fees	3	30,000
Donations	4	17,000
Sitting allowance of Board of directors		15,000
Depreciation	5	7,800
Fines and penalties	6	100
New building construction cost		85,000
Performance bonus	7	12,000
Other expenses		20,000
Total Expenses		**(486,900)**
Profit before tax		**28,600**
Income tax (30%)		**(8,580)**
Profit after tax		**20,020**
Dividend paid to shareholders (10% of profit after tax)		**(2,002)**
Net profit		**18,018**

Additional Information:

1. The foreign exchange gain was realized during the reporting period.
2. The dividend income was received from shares that KBR holds in BRALI, a Rwandan company listed on the Rwanda Stock Exchange.
3. Management fees relate to payments made to local consultants who provided performance management consulting services to various departments.
4. Donations were made to a youth club that promotes gaming activities for persons with disabilities in Kigali City. The organization is registered as a non-profit organization with the Rwanda Governance Board.
5. Depreciation was calculated on the following assets, all of which were acquired in 2024 after KBR was incorporated in Rwanda:
   - Head office building (cost): FRW 150,000,000,000
   - IT equipment (useful life of 6 years) (cost): FRW 500,000,000
   - Vehicles (cost): FRW 350,000,000
   - Furniture and fittings (cost): FRW 250,000,000

- Other assets (cost): FRW 1,000,000,000

6. Fines and penalties were paid to the Rwanda Revenue Authority (RRA) following a tax audit conducted in May 2025 on VAT and withholding tax declared and paid by KBR for the 2024/2025 tax period.
7. The performance bonus was approved by KBR's Board of Directors at its meeting held on 30 December 2025. However, payment was made on 5 January 2026.

Required:

i) **Compute the adjusted taxable profit and the Corporate Income Tax (CIT) payable by KBR for the year ended 31 December 2025.** (13 Marks)

ii) Included in KBR's statement of profit or loss are IT consultancy fees paid to BIM IT Consultancy Ltd, a company established in Rwanda in 2023. Since its establishment, the company has consistently filed and paid its Corporate Income Tax obligations to the Rwanda Revenue Authority (RRA). The management fees, as disclosed in the additional information, were paid to individual local consultants. The sitting allowances were paid to members of the Board of Directors, some of whom are Rwandan residents while others are non-residents and sitting allowance paid to them are equal to FRW 10 billion. Additionally, the dividend declared by KBR was paid to its shareholders on 30 December 2025. The IT consultancy fees was paid in May 2025, management fees in July 2025 while the sitting allowance was paid in November 2025.

Included in the interest income is FRW 750,000,000 (gross) received from the National Bank of Rwanda (NBR) as interest on Government bonds purchased by KBR at the beginning of 2025, with a maturity date in 2031.

During the year ended 31 December 2025, KBR was awarded a public tender by the Ministry of Finance and Economic Planning (MINECOFIN) to provide financial literacy training to cooperative presidents with the objective of enhancing their management skills and improving the governance of cooperatives. The total contract price was FRW 230,000,000 (VAT inclusive). During the year, KBR issued an invoice amounting to FRW 130,000,000 (VAT inclusive), which was paid by MINECOFIN on 15 October 2025.

Required:

For each transaction, **identify; the person responsible for withholding the tax, the amount of withholding tax (where applicable); and the statutory deadline for declaring and remitting the withheld tax to the Rwanda Revenue Authority (RRA) by KBR.** (12 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

a) TeleLink Rwanda Ltd (TRL) is a telecommunications and ICT company incorporated and tax resident in Rwanda. According to its Certificate of Incorporation issued by the Rwanda Development Board (RDB), the company has a share capital of FRW 400,000,000 and is classified as a Large Taxpayer and RDB has been provided the investment certificate.

TRL provides internet connectivity, data hosting, and digital communication services throughout Rwanda. Due to increasing customer demand, the company plans to expand its network infrastructure by acquiring additional network equipment of 5 years' useful life through one of the following financing options:

Option 1: Purchase through Bank Loan

TRL intends to purchase network equipment at a cash price of FRW 200,000,000, financed entirely through a bank loan at an annual interest rate of 12% for a period of three (2) years.

Option 2: Finance Lease

Alternatively, TRL may acquire the same equipment through a finance lease at an interest rate of 10%. The lease requires annual payments of FRW 140,000,000, payable at the end of each year for three (2) years, with a present value of lease payments of FRW 242,975,207.

The Budget Officer estimates that the expansion will generate additional revenue of FRW 100,000,000 in the first year, with revenue expected to increase by 15% each subsequent year.

Required:

Advise TRL on which financing option would result in the lowest corporate income tax liability. (12 Marks)

b) As Rwanda continues to digitalize public and private sector services, TRL requires an additional FRW 2,000,000,000 to finance its expansion, as it expects to partner with the Government of Rwanda in this journey. To raise the required funds, the company is considering the following financing alternatives:

Alternative 1

Issue additional ordinary shares worth FRW 2,000,000,000.

Alternative 2

Obtain a loan of FRW 2,000,000,000 from its parent company located in Kenya at an annual interest rate of 10%.

Required:

Advise TRL on the tax implications of the two financing alternatives showing the deductible expenses on each alternative and recommend the most tax-efficient financing option, giving reasons for your recommendation. (5 Marks)

c) In May 2025, the Rwanda Revenue Authority (RRA) commenced a tax audit to verify whether TRL had properly declared all its taxable income.

During the audit, which was concluded in August 2025, RRA discovered that TRL had made sales amounting to FRW 180,000,000 (VAT inclusive) in December 2024. Although an invoice had been issued to the customer in December 2024, payment had not yet been received by the date of the audit. Consequently, the company's accountant did not recognize the sales in the accounting records nor in VAT account, believing that revenue should only be recognized upon receipt of payment.

Following the audit, RRA concluded that the sales should have been recognized when the invoice was issued and recommended that TRL compute and pay all outstanding taxes, together with the applicable interest and administrative penalties, by 30 August 2025.

Required:

As a tax expert, **compute the total amount of tax payable to the Rwanda Revenue Authority (RRA) in respect of the unrecognized sales.** (3 Marks)

(Total: 20 Marks)

QUESTION THREE

a) Kigali Horizon Hotel Ltd (KHH) is a VAT-registered hotel located in Kigali. The hotel operates the following business activities; accommodation services, restaurant and bar services, conference and meeting facilities, catering services and a small brewery that manufactures bottled soft drinks and beer supplied to the hotel's bars and sold to external customers.

During June 2026, KHH recorded the following transactions.

Sales

Description	FRW	VAT Status
Accommodation services provided to local customers	100,000,000	VAT exclusive
Restaurant and bar sales	94,400,000	VAT inclusive
Conference services supplied to local companies	30,000,000	VAT exclusive
Conference services supplied to an accredited diplomatic mission	48,000,000	VAT exclusive
Catering services provided during an international conference held in Rwanda for a foreign organization.	25,000,000	VAT exclusive
Total	**297,400,000**	

Purchases

Purchase	FRW	VAT Status
Food and beverages purchased for the restaurant	47,200,000	VAT inclusive
Cleaning materials used in hotel rooms	11,800,000	VAT exclusive
Furniture used exclusively in guest rooms	23,600,000	VAT inclusive
Electricity for the entire hotel complex	17,700,000	VAT exclusive
Marketing and advertising services used to promote accommodation, conference facilities and diplomatic services	11,800,000	VAT inclusive
Monthly office and commercial premises rent	23,600,000	VAT inclusive
Telecommunication and internet services provided to management and employees	5,900,000	VAT exclusive
Total	**141,600,000**	

Additional Information:

1. Electricity, marketing services and rent are used jointly in making taxable, zero-rated and exempt supplies.
2. The telecommunication and internet services are provided to employees for both business and personal use. Since the business and private use cannot be reliably separated.

Required:

Compute the VAT payable or refundable by KHH for the month of June 2026. (10 Marks)

b) In December 2025, the Rwanda Revenue Authority (RRA) conducted a tax assessment of Kigali Horizon Hotel Ltd (KHH). During the assessment, RRA concluded that the hotel's small brewery, which manufactures bottled soft drinks and beer supplied to the hotel's bars and sold to external customers, should be treated as a separate business. This conclusion was based on the fact that the brewery has a different management structure and operates under a separate registration certificate from that of KHH.

The assessment further revealed that the brewery commenced operations in September 2025, and its sales for the four months were as follows:

Month	Sales (FRW)
September	7,000,000
October	5,500,000
November	6,000,000
December	8,700,000

During the assessment, RRA also established that sales amounting to FRW 12,000,000, made between October and December 2025, were supported by manual invoices.

In addition, the brewery paid FRW 60,000,000 to a consultancy firm based in Kenya for professional consultancy services after failing to reach an agreement on the service fee with a local Rwandan consulting firm.

Required:

i) RRA concluded that the brewery should have registered for VAT under the quarterly VAT registration rule. **Evaluate when the small brewery met the VAT registration threshold and determine the deadline by which it was required to register for VAT.** (2 Marks)

ii) Explain the brewery's obligations regarding the issuance of tax invoices under the Rwanda VAT Law and the penalties applicable for non-compliance. (2 Marks)

iii) With appropriate illustrations, **explain the VAT treatment of consultancy services imported from Kenya.** (2 Marks)

c) On 25th May 2026, the small brewery manufactured and supplied the following products to Kigali Horizon Hotel Ltd (KHH):

1. Lemon Soda, a newly introduced soft drink brand, with a selling price of FRW 13,000,000 VAT inclusive.
2. Bwiza Wine, with a selling price of FRW 30,000,000 (VAT exclusive). The wine was produced using three main ingredients, of which three-quarters (¾) were sourced locally from Musanze District, Rwanda, while the remaining one-quarter (¼) was imported from Uganda.

Required:

Advise the small brewery on consumption Tax payable and the deadline for filing the Consumption Tax return and remitting the tax to the Rwanda Revenue Authority (RRA). (4 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) Prime Estates Rwanda Ltd (PERL) is a real estate and property development company incorporated and tax resident in Rwanda. The company develops residential estates, commercial buildings, and industrial parks and also owns investment properties located in different districts across Rwanda.

For the year ended 31 December 2025, PERL owned the following immovable properties.

Property	Location	Description	Plot Size (m²)	Market Value (FRW)	Current Use
Property A	Gasabo District	10 floors-Residential apartments	2,500	2,500,000,000	Rental residential apartments
Property B	Nyarugenge District	Commercial office building	1,200	3,800,000,000	Offices rented to businesses
Property C	Gicumbi District	Undeveloped plot	5,000	650,000,000	Held for future development
Property D	Musanze District	Residential house occupied by the	900	420,000,000	Owner-occupied residence

Property	Location	Description	Plot Size (m²)	Market Value (FRW)	Current Use
		Managing Director			
Property E	Huye District	Warehouse	3,000	950,000,000	Storage facility rented to third parties
Property F	Nyagatare District	Farm	52,000	500,000,000	Reserve for agriculture activities

The following are the standard size and rate approved by the districts council:

District	Standard size in m2	Standard rate per m2
Gasabo	300	FRW 80
Nyarugenge	300	FRW 80
Gicumbi	300	FRW 30
Musanze	300	FRW 60
Huye	300	FRW 60
Nyagatare	300	FRW 50

Additionally, for the agricultural land, a property tax of FRW 4,000 per hectare was agreed upon.

Required:

Compute the property tax payable on the above properties owned by PERL for the year ended 31 December 2025, and state the deadlines for filing the property tax declaration and payment. (10 Marks)

b) PERL has also expanded the business and opened different branches with Kigali city and out Kigali as well, for the period ended 31st December 2024, the following branches generated the following revenue:

Branch Name	Revenue (FRW)
Kicukiro	80,000,000
Gasabo	55,000,000
Musanze	61,000,000
Rubavu	1,500,000
Rusizi	35,000,000

Additionally, Rusizi Branch was discovered to be unpotential and PERL seized the operation in the end of July 2025.

Mr. George Matabaro, one of the director of PERL has constructed his own apartment in Kinyanya sector at the cost of FRW 270,000,000 in January 2024, 50% was financed by the loan given by PERL at the interest rate of 5% while the remaining was financed by the

commercial loan from ABD Bank Rwanda at the interest rate of 15% and included in the contract the bank provided him the grace period of 2 years ending by 31st December 2025.

Starting January 2025, the apartment was occupied by different tenants where on average FRW 7,500,000 were earned as monthly rental income and Mr.George employed 2 permanent staff for caring the apartment at FRW 200,000 each per month and from the recorded key expenses was water and electricity bills of FRW 2,650,000.

Required:

i) Calculate the trading license paid by PERL for the year of 2025. (3 Marks)

ii) Calculate the rental income tax paid by Mr. George Matabaro for the year ended 31st December 2025. (4 Marks)

c) PERL appoints Alpha Tax Consultants Ltd to review its previous tax returns. During the review, the tax consultant discovers that PERL materially understated taxable income in prior years, resulting in underpayment of taxes. The Managing Director of PERL privately requests the consultant not to disclose the understatement to the Rwanda Revenue Authority (RRA) and offers the consultant a success fee if the issue is ignored. At the same time, Alpha Tax Consultants Ltd has recently accepted an engagement to advise Skyline Developers Ltd, one of PERL's major competitors on a similar property development project.

Required:

Identify 3 key fundamental ethical principles affected by the above circumstances and explain the safeguards that could be implemented to reduce or eliminate the threats. (3 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) EastLink Logistics Rwanda Ltd (ELR) is a company incorporated and tax resident in Rwanda. The company is engaged in importation, exportation, customs clearing, freight forwarding, and logistics services within the East African Community (EAC).

During the year ended 31 December 2025, ELR expanded its operations by opening a branch in Kenya, from which it carries out logistics and warehousing services. The branch constitutes a Permanent Establishment (PE) under the Double Taxation Agreement (DTA) between Rwanda and Kenya.

For the year ended 31 December 2025, ELR reported the following income:

Description	Amount (FRW)
Taxable profit from Rwanda operations	1,350,000,000
Profit from Kenya branch (after payment of Kenyan CIT)	315,000,000
Net of 35% dividend Income received from Kenya Investment company	45,000,000
Gross interest income received from Kenya commercial bank on the deposit of 5 years	60,000,000

Additional information:

- The Kenyan branch paid Corporate Income Tax of FRW 135,000,000 in Kenya.
- Rwanda and Kenya have concluded a Double Taxation Agreement (DTA) that provides for the foreign tax credit method.
- The withholding tax applicable in Kenya Revenue authority on interest is 18%, however due to treaty, the applicable rate has agreed to be 10%.

Required:

i) Distinguish between trading with a country and trading in a country. (2 Marks)

ii) Compute the Corporate Income Tax payable in Rwanda. (4 Marks)

b) During November 2025, ELR imported logistics equipment from Germany with the following costs:

Description	Amount (FRW)
Invoice price	180,000,000
Freight to Kigali	12,000,000
Marine insurance	6,000,000
Buying commission	2,500,000
Packing charges	3,000,000
Inland transportation after importation	4,000,000
Installation costs after importation	5,500,000

Additional information:

- Import duty rate: 25%
- Excise tax rate: 15%

Required:

Using the transaction value method, **compute the customs taxes and duties ERL is supposed to pay at customs.** (4 Marks)

c) ELR purchases specialised tracking devices from its parent company in the United Arab Emirates. During 2025, ELR purchased 8,000 units from its related party at FRW 125,000 per unit and independent customers purchasing similar devices from the same supplier paid FRW 100,000 per unit. Assume the Comparable Uncontrolled Price (CUP) method provides the most reliable measure of the arm's length price.

Required:

i) Explain the arm's length principle. (1 Mark)

ii) Identify the transfer pricing risk arising from the above transaction. (1 Mark)

iii) Explain why the Comparable Uncontrolled Price (CUP) method is the most appropriate transfer pricing method. (2 Marks)

iv) Compute the transfer pricing adjustment to ELR's taxable income. (1 Mark)

d) During 2025, ELR made the following payments to non-residents:

Payment	Amount (FRW)	Recipient
Management fees	180,000,000	Parent company (UAE)
Interest on shareholder loan	120,000,000	Parent company (Kenya)
Dividends	300,000,000	Shareholder (Qatar)
Royalty	200,000,000	Foreign company (South Africa)

Assume that a Double Taxation Agreement (DTA) exists between Rwanda and Kenya.

Required:

i) State the applicable withholding tax rates under the Rwanda Income Tax Law and explain how the applicable DTA may affect the tax payable. (2 Marks)

ii) Briefly explain the Most Favoured Nation (MFN) principle in international taxation. (1 Mark)

iii) Briefly explain the tax implications of EAC and COMESA membership, particularly with respect to the Common External Tariff (CET) and the Duty Remission Scheme. (2 Marks)

(Total: 20 Marks)

End of question paper

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