CERTIFIED PUBLIC ACCOUNTANT

OPERATIONAL LEVEL EXAMINATION

AT2.5 ADVANCED TAXATION

DATE: MONDAY 24, AUGUST 2026

SECTION A

Marking guide (15 x 2 Marks = 30 Marks)

Question	Correct Answer
1	**C**
2	**A**
3	**D**
4	**A**
5	**A**
6	**C**
7	**C**
8	**A**
9	**B**
10	C
11	**B**
12	**B**
13	**D**
14	**B**
15	**A**

Detailed model answers

QUESTION 1: Ms Aurelie's tax residency year - Correct Answer: C

Why correct: 2025 is the first year Ms. Aurelie is tax resident. Under the 'consistent presence' test (Article 4), a person present in Rwanda during the assessment year who has also averaged more than 122 days in Rwanda over the two immediately preceding tax years is resident. Calculation: average for 2023-2024 = (100+150)/2 = 125 days, which exceeds 122 days; and she was physically present in Rwanda during 2025 (95 days, i.e. present during the assessment year itself). Both limbs of the test are satisfied, so she becomes resident from 2025.

Why the other options are incorrect:

- A - Incorrect. Calculation check: 100 + 150 + 95 = 345 days, which is indeed more than 183 - but the 183-day physical-presence test is applied WITHIN a single tax period (one calendar year), not as a cumulative total added across several years. In no single year (2023: 100 days; 2024: 150 days; 2025: 95 days) does she reach 183 days, so the physical-presence test is never met on its own, and 2023 cannot be the residency year on this basis.
- B - Incorrect. Calculation check: 100<183, 150<183, 95<183, so it is correctly noted that no single year meets the 183-day threshold. However, this option wrongly stops there and ignores the separate 'consistent presence' test, which does not require 183 days in any one

year - it only requires presence in the assessment year plus a two-year average of more than 122 days, which is met for 2025 as shown above.

- D - Incorrect. Calculation check: the two years 'immediately preceding' 2024 are 2022 and 2023 - not 2023 and 2024 as this option uses. No data on her 2022 presence is given, so the average for the correct pair of years (2022 and 2023) cannot be computed, and residency in 2024 cannot be established on the consistent-presence test with the facts given. The (100+150)/2=125 calculation shown in this option is arithmetically correct but is applied to the wrong pair of years for testing 2024.

QUESTION 2: Tax regime for farming vs veterinary consultancy - Correct Answer: A

Why correct: Livestock/dairy farming turnover of FRW16,000,000 falls in the 'small business' turnover-tax band (FRW12,000,001-20,000,000). A special rule applies to agricultural and livestock activities: only turnover in excess of FRW12,000,000 is taxed. Calculation: excess turnover = 16,000,000 - 12,000,000 = FRW4,000,000; tax due = 3% x 4,000,000 = FRW120,000. The veterinary practice (turnover FRW8,000,000) is a liberal profession (independent application of specialised professional skill) and liberal professions are always taxed under the real regime (28% of adjusted taxable profit) regardless of their turnover level, even though FRW8,000,000 would otherwise fall within the flat-tax band.

Why the other options are incorrect:

- B - Incorrect. Calculation check: this option combines the turnovers (16,000,000 + 8,000,000 = 24,000,000) and taxes the total under turnover tax. Even ignoring the liberal-profession point, this combined figure of 24,000,000 exceeds the FRW20,000,000 ceiling of the turnover-tax band, so it could not be taxed under turnover tax on its own arithmetic; more fundamentally, the two activities are distinct businesses and are not aggregated, and a liberal profession can never use the turnover-tax regime.
- C - Incorrect. Calculation check: this option computes 3% x 16,000,000 (the FULL turnover) = FRW480,000, rather than 3% x 4,000,000 (excess only) = FRW120,000 - it ignores the special 'excess turnover only' rule for agricultural/livestock activities. It also wrongly allows the veterinary practice (turnover 8,000,000, within the FRW2,000,001-12,000,000 flat-tax turnover band) into the micro-enterprise flat-tax regime, when liberal professions are excluded from that regime regardless of turnover.
- D - Incorrect. Under the flat-tax table, a turnover of FRW8,000,000 would fall into the FRW7,000,001-10,000,000 band, attracting a flat tax of FRW210,000 - but this is irrelevant because liberal professions (the veterinary practice) are excluded from the flat-tax/micro-enterprise regime irrespective of turnover level, and in any case the farming activity's turnover of FRW16,000,000 is well above the FRW12,000,000 flat-tax ceiling, so it cannot use the flat-tax regime either.

QUESTION 3: CGT/WHT on share acquisition and liquidation - Correct Answer: D

Why correct: Transaction 1: the acquisition of 55% (i.e. 50% or more) of the shares of a resident company by an outside investor from the existing shareholders is a qualifying corporate re-organisation; the selling shareholders are exempt from capital gains tax, so CGT = FRW0 (the gain of FRW200,000,000 - FRW120,000,000 = FRW80,000,000 is not taxed because of the specific exemption, not because shares are 'always' exempt). Transaction 2: on liquidation, the amount distributed to the shareholder after settling liabilities, to the extent it exceeds paid-up capital, is treated as a dividend. Calculation: dividend = FRW90,000,000 - FRW10,000,000 (paid-up capital returned tax-free) = FRW80,000,000; WHT = 15% x 80,000,000 = FRW12,000,000.

Why the other options are incorrect:

- A - Incorrect. Calculation check: this option applies 15% to the FULL FRW90,000,000 distribution (15% x 90,000,000 = FRW13,500,000) instead of only to the FRW80,000,000 excess over the shareholder's paid-up capital of FRW10,000,000 (correct WHT = 15% x 80,000,000 = FRW12,000,000). It is also wrong to assert that share sales are 'always' exempt - only qualifying reorganizations (such as this 55% acquisition) are exempt; an ordinary share sale not meeting the 50%+ threshold would be taxed at 5% of the gain.
- B - Incorrect. Calculation check: applying the ordinary 5% share-CGT rate to the FRW80,000,000 gain (200,000,000-120,000,000) gives 5% x 80,000,000 = FRW4,000,000, not the FRW10,000,000 stated in this option - the figure does not correspond to any correctly applied rate or gain on these facts. It is also wrong to say liquidation distributions are 'always' exempt - only the return of paid-up capital (FRW10,000,000) is tax-free; the FRW80,000,000 excess is taxed as a dividend at 15% = FRW12,000,000, not FRW0.
- C - Incorrect. Calculation check: 5% x (200,000,000 - 120,000,000) = 5% x 80,000,000 = FRW4,000,000 is arithmetically correct AS A STAND-ALONE SHARE-GAIN CALCULATION, but it wrongly ignores that this specific transaction (acquisition of 50%+ of a resident entity's shares from existing shareholders) is a qualifying reorganization exempt from CGT, so the correct CGT on Transaction 1 is FRW0, not FRW4,000,000. The Transaction 2 figure of FRW12,000,000 (15% x 80,000,000) in this option is, in isolation, correctly calculated, but the option as a whole is wrong because of the Transaction 1 error.

QUESTION 4: Thin capitalization - interest disallowed - Correct Answer: A

Why correct: The thin capitalization rule restricts interest only on loans BETWEEN RELATED PERSONS where such loans exceed 4 times paid-up equity. Only the FRW150,000,000 loan from the non-resident parent is a related-party loan. Calculation: threshold = 4 x FRW80,000,000 (paid-up equity) = FRW320,000,000. Since the related-party loan of FRW150,000,000 is below this FRW320,000,000 threshold, none of its interest is disallowed. The FRW200,000,000 bank loan is from an unrelated party, so it falls outside the

thin capitalization rule entirely and its interest is fully deductible regardless of any ratio test. Disallowed interest = FRW0.

Why the other options are incorrect:

- B - Incorrect. Calculation check: FRW3,600,000 arises only if the two loans are wrongly aggregated to test the 4:1 ratio (total loans 150,000,000+200,000,000 = 350,000,000; excess over the 320,000,000 thresholds = 30,000,000) and the PARENT's 12% rate is then wrongly applied to that excess: 12% x 30,000,000 = FRW3,600,000. This is incorrect on two counts - the unrelated bank loan should never be included in the 4:1 test at all, and even if it were, the related-party loan (150,000,000) alone does not exceed the 320,000,000 thresholds.
- C - Incorrect. Calculation check: FRW4,200,000 arises from the same flawed aggregation (excess of 30,000,000) but applying the BANK's 14% rate instead: 14% x 30,000,000 = FRW4,200,000. This repeats the error in B (wrongly combining related and unrelated debt) and additionally applies the wrong party's interest rate to the notional excess.
- D - Incorrect. Calculation check: FRW18,000,000 = 12% x 150,000,000, i.e. this disallows the WHOLE of the related-party loan's interest, as if the entire loan were in excess of the threshold. This ignores the fact that FRW150,000,000 is below the FRW320,000,000 threshold (4 x 80,000,000), so no part of this loan's interest should be disallowed.

QUESTION 5: VAT compulsory registration threshold - Correct Answer: A

Why correct: The FRW20,000,000 compulsory VAT registration threshold is tested against turnover from TAXABLE supplies only. Calculation: taxable (pharmacy) turnover = FRW16,000,000, which is below the FRW20,000,000 threshold. The FRW10,000,000 of exempt medical consultation turnover is disregarded entirely for this test (16,000,000 + 10,000,000 is not the relevant comparison), so there is no compulsory registration obligation.

Why the other options are incorrect:

- B - Incorrect. Calculation check: this option adds the exempt turnover to the taxable turnover (16,000,000 + 10,000,000 = 26,000,000) and compares that combined figure to the FRW20,000,000 threshold. This is the wrong test - exempt turnover is never counted toward the compulsory VAT registration threshold, only taxable-supply turnover is (FRW16,000,000, which is below the threshold).
- C - Incorrect. Calculation check: FRW16,000,000 does indeed exceed the FRW12,000,000 figure quoted, but that FRW12,000,000 figure is the micro-enterprise INCOME TAX threshold (a completely different regime), not the FRW20,000,000 VAT registration threshold. Against the correct FRW20,000,000 VAT threshold, taxable turnover of FRW16,000,000 does not require registration.
- D - Incorrect. This is not a calculation error but a principle error: a business making both taxable and exempt supplies is not automatically excused from VAT registration - it must still register once its TAXABLE-supply turnover alone (not combined with exempt turnover) exceeds FRW20,000,000. On these facts it happens not to (16,000,000 < 20,000,000), but the blanket statement in this option is legally incorrect.

QUESTION 6: Free zone VAT on three supplies - Correct Answer: C

Why correct: Supplies by a free-zone taxpayer to a person outside Rwanda are treated as exports (0% VAT): 20,000,000 x 0% = FRW0. Supplies to another company within a free zone are also treated as exports (0% VAT): 15,000,000 x 0% = FRW0. Supplies to a person in Rwanda but outside the free zone are treated as imports, taxed at 18%: 25,000,000 x 18% = FRW4,500,000. Total output VAT = 0 + 0 + 4,500,000 = FRW4,500,000.

Why the other options are incorrect:

- A - Incorrect. Calculation check: FRW0 results only if all three supplies are (wrongly) zero-rated, including the FRW25,000,000 supply to the Kigali customer outside the free zone, which should instead be taxed at 18% as a deemed import (25,000,000 x 18% = FRW4,500,000 is due, not zero).
- B - Incorrect. Calculation check: FRW2,700,000 = 15,000,000 x 18%, i.e. this wrongly charges 18% VAT on the INTRA-FREE-ZONE supply (which should be zero-rated as an export) while presumably zero-rating the Kigali supply that should actually bear 18%. The VAT has effectively been applied to the wrong transaction.
- D - Incorrect. Calculation check: FRW8,100,000 = (20,000,000 + 25,000,000) x 18%, i.e. this wrongly charges 18% on the export to the customer OUTSIDE Rwanda (which should be zero-rated) in addition to the correctly-taxed Kigali supply, while apparently zero-rating the intra-free-zone supply. Only the Kigali (non-free-zone) supply should bear the 18% rate.

QUESTION 7: PAYE with two employers - Correct Answer: C

Why correct: Primary employer applies the normal progressive PAYE bands to FRW450,000: 0% on the first 60,000 (=0); 10% on the next 40,000 (=4,000); 20% on the next 100,000 (=20,000); 30% on the remaining 250,000 (=75,000); total primary PAYE = 0+4,000+20,000+75,000 = FRW99,000. The secondary employer must withhold a flat 30% on the FRW200,000 secondary earnings: 30% x 200,000 = FRW60,000. Combined PAYE = 99,000 + 60,000 = FRW159,000.

Why the other options are incorrect:

- A - Incorrect. Calculation check: FRW99,000 is exactly the correct PRIMARY-employer PAYE alone, but this option omits the secondary employer's mandatory flat 30% withholding of FRW60,000 on the FRW200,000 secondary earnings entirely.
- B - Incorrect. Calculation check: FRW123,000 = FRW99,000 (correct primary PAYE) + FRW24,000. The FRW24,000 arises from wrongly applying the NORMAL progressive bands to the secondary income instead of the mandatory flat 30% rate: 0% on 60,000 + 10% on 40,000 (=4,000) + 20% on the remaining 100,000 (=20,000) = FRW24,000, instead of the correct 30% x 200,000 = FRW60,000.
- D - Incorrect. Calculation check: FRW195,000 = (30% x 450,000 = 135,000) + (30% x 200,000 = 60,000). This wrongly applies the flat 30% secondary-employer rate to BOTH

employers' income, including the primary employer's FRW450,000, which should instead use the normal progressive bands (giving FRW99,000, not FRW135,000).

QUESTION 8: WHT on accrued but unpaid board allowance - Correct Answer: A

Why correct: Withholding tax is triggered when an amount is actually paid, credited to the beneficiary's account, or otherwise made available to them - not merely because it has been recorded as an accrued expense. As at 31 December 2025, the FRW2,000,000 allowance accrued on 30 June 2025 has not been paid or credited to Ms Mukamana, so no withholding tax obligation has yet arisen. Timing check on the specific 'deeming' rule: an accrued, unpaid liability that reduces taxable income is deemed paid once it has remained outstanding for more than six months AFTER THE END OF the tax period in which it was recorded. The tax period here is calendar year 2025 (ending 31 December 2025); six months after that is 30 June 2026. As at 31 December 2025 (the date in question), that deeming point has not yet been reached, so the answer remains that no WHT is yet due.

Why the other options are incorrect:

- B - Incorrect. Board member allowances are not exempt from withholding tax; the 30% rate on board allowances is a final tax that applies once the amount is actually paid or deemed paid - there is no blanket exemption simply because the amount was 'only accrued.'
- C - Incorrect. There is no rule deferring the related corporate income tax deduction to a later period merely because the withholding tax point has not yet been reached; the two issues (timing of WHT and timing of the CIT deduction) are not linked in the way this option suggests.
- D - Incorrect. Timing check: this option treats the allowance as 'deemed paid' because it has been outstanding for six months, counting from the 30 June 2025 accrual date to 31 December 2025. But the deeming rule actually runs six months from the END of the tax period in which the liability was recorded (i.e. from 31 December 2025), not from the date the expense was first accrued - so the correct deeming date is 30 June 2026, not 31 December 2025. On the facts given (as at 31 December 2025), the deeming point has not yet been reached, so this option's conclusion is premature.

QUESTION 9: Tourism tax on accommodation - Correct Answer: B

Why correct: The 3% tourism tax applies only to accommodation services, charged on the VAT-EXCLUSIVE amount, with the tax point being the date payment is received. Calculation: VAT-exclusive accommodation value = 2,000,000 / 1.18 = FRW1,694,915; tourism tax = 3% x 1,694,915 = FRW50,847 (rounded). The FRW500,000 restaurant/meals income is not accommodation income and is excluded from the tourism tax base entirely. The tax must be declared and paid within 15 days of month-end, i.e. by 15 September 2025.

Why the other options are incorrect:

- A - Incorrect. Calculation check: FRW60,000 = 3% x 2,000,000, i.e. this applies the 3% rate directly to the VAT-INCLUSIVE amount without first removing the 18% VAT component. The rate must be applied to the VAT-exclusive value (1,694,915), giving FRW50,847, not FRW60,000.
- C - Incorrect. Calculation check: FRW65,847 = (2,000,000/1.18 x 3%) + (500,000 x 3%) = 50,847 + 15,000. This correctly extracts VAT from the accommodation receipt but incorrectly also charges 3% tourism tax on the FRW500,000 restaurant/meals income, which is not an accommodation service and should not be in the tourism tax base at all.
- D - Incorrect. Calculation check: FRW63,559 = (2,000,000 + 500,000) / 1.18 x 3% = 2,500,000/1.18 x 3% = 2,118,644 x 3%. This wrongly combines the accommodation and meals income into a single VAT-exclusive base before applying 3%, when only the accommodation figure (2,000,000) should ever enter the tourism tax calculation.

QUESTION 10: RSSB and medical scheme contributions - Correct Answer: C

Why correct: Occupation hazard, and maternity leave contributions are based on employment income EXCLUDING transport allowances and car benefits while for pension, the transport allowance and car benefit are included, i.e. on basic salary (FRW1,200,000) only. CBHI is based on net salary (FRW 857,600) at 0.5%. The optional medical scheme is based on basic salary at a combined 15% employer/employee rate. Using the pension rate of 12% (matching the 'Employee's and employer's contribution' figure in the rate card) together with Occupation hazard (2%) maternity (0.6%), CBHI (0.5% on net salary) and the medical scheme (15% on basic salary): Pension 12% x 1,430,000 (Gross salary) = FRW 171,600; *Occupation hazard (1,200,000*2%)= FRW 24,000; Maternity 0.6% x 1,200,000 = FRW7,200; CBHI 0.5% x 857,600 = FRW4,288; Medical 15% x 1,200,000 = FRW180,000. Total = 171600 + 24,000+7,200 + 4,288 + 180,000 = FRW387,088.

Why the other options are incorrect:

- A - Incorrect. Calculation check: FRW103,200 = Pension (8% x 1,200,000 = 96,000) + Maternity (0.6% x 1,200,000 = 7,200) = FRW103,200. This omits BOTH the CBHI contribution (FRW5,250) which was also computed on wrong partial net (FRW 1,050,000) and the medical scheme contribution (FRW180,000) entirely, leaving the total materially understated.
- B - Incorrect. Calculation check: FRW108,450 = Pension (96,000) + Maternity (7,200) + CBHI (0.5% x 1,050,000 = 5,250) = FRW108,450. This adds CBHI to option A's figure but still omits the FRW180,000 optional medical scheme contribution, which the question specifically asks to include since the employer operates such a scheme.
- D - Incorrect / for markers' attention. Calculation check: applying the pension rate exactly as printed on the exam's own rate card (Employer 6% + Employee 8% = 14% combined) to the FRW1,200,000 base gives Pension = 14% x 1,200,000 = FRW168,000 (not FRW96,000). Adding Maternity (7,200) + CBHI (5,250) + Medical (180,000) gives a FULLY-RATE-CARD-CONSISTENT total of FRW360,450, which does not exactly equal any of the four printed options, including D (FRW322,950). D is closer to this rate-

card-consistent figure than A, B or C, but the gap (FRW37,500) does not reconcile to any single, clean substitution of bases or rates that we can independently verify.

QUESTION 11: Immovable property tax on two properties - Correct Answer: B

Why correct: Property 1 (residential buildings of exactly three floors) attracts the special reduced rate of 0.25% (rather than the general 0.5% residential rate): 150,000,000 x 0.25% = FRW375,000. Property 2 (industrial building/plot belonging to a small enterprise) attracts the special reduced rate of 0.1%: 40,000,000 x 0.1% = FRW40,000. Total = 375,000 + 40,000 = FRW415,000.

Why the other options are incorrect:

- A - Incorrect. Calculation check: FRW190,000 = (150,000,000 x 0.1%) + (40,000,000 x 0.1%) = 150,000 + 40,000 = FRW190,000. This wrongly applies the 0.1% rate reserved for residential buildings of MORE THAN three floors to Property 1, when it has exactly three floors and should attract the 0.25% rate (giving FRW375,000, not FRW150,000).
- C - Incorrect. Calculation check: FRW790,000 = (150,000,000 x 0.5%) + (40,000,000 x 0.1%) = 750,000 + 40,000 = FRW790,000. This wrongly applies the general 0.5% residential rate to Property 1 instead of the special 0.25% three-floor concession (correct: 150,000,000 x 0.25% = FRW375,000, not FRW750,000).
- D - Incorrect. Calculation check: FRW950,000 = (150,000,000 x 0.5%) + (40,000,000 x 0.5%) = 750,000 + 200,000 = FRW950,000. This makes two errors: applying the general 0.5% rate to Property 1 instead of the 0.25% three-floor rate, AND applying the general commercial/residential rate to Property 2 instead of the special 0.1% rate for industrial property belonging to a small enterprise (correct: 40,000,000 x 0.1% = FRW40,000, not FRW200,000).

QUESTION 12: CGT on disposal of listed and unlisted shares - Correct Answer: B

Why correct: Gains on shares in an UNLISTED private company are taxed at 5%: gain = 60,000,000 - 35,000,000 = FRW25,000,000; CGT = 5% x 25,000,000 = FRW1,250,000. Gains on shares LISTED on the Rwanda Stock Exchange are exempt from capital gains tax entirely, regardless of the size of the gain (40,000,000 - 22,000,000 = FRW18,000,000 gain, but FRW0 tax). Total CGT payable = FRW1,250,000 + FRW0 = FRW1,250,000.

Why the other options are incorrect:

- A - Incorrect. Calculation check: FRW900,000 = 5% x 18,000,000, i.e. this correctly computes 5% of the LISTED-share gain (which should actually be exempt, i.e. FRW0) while apparently treating the UNLISTED-share gain as exempt (which should actually be taxed at FRW1,250,000). The exemption has been applied to the wrong shareholding.
- C - Incorrect. Calculation check: FRW2,150,000 = (5% x 25,000,000 = 1,250,000) + (5% x 18,000,000 = 900,000) = FRW2,150,000. This correctly taxes the unlisted-share gain but incorrectly ALSO taxes the listed-share gain, which should be fully exempt.

- D - Incorrect. Calculation check: FRW5,000,000 = 5% x (60,000,000 + 40,000,000) = 5% x 100,000,000, i.e. this applies the 5% rate to the full SALE PROCEEDS of both share portfolios rather than to the GAIN (proceeds less cost) on each, and additionally fails to exempt the listed shares. The correct base for the unlisted shares is the FRW25,000,000 gain, not the FRW60,000,000 proceeds, and the listed shares should not be taxed at all.

QUESTION 13: Customs valuation - related-party import - Correct Answer: D

Why correct: Where the related-party transaction (invoice) value is rejected as unreliable and cannot be adjusted, the customs valuation hierarchy moves next to the value of IDENTICAL goods sold for export to Rwanda by an unrelated party, in preference to the value of merely SIMILAR goods. Calculation: customs value = USD11,500 (identical goods) x FRW1,300 = FRW14,950,000.

Why the other options are incorrect:
- A - Incorrect. Calculation check: FRW10,400,000 = USD8,000 x FRW1,300, i.e. this uses the REJECTED related-party invoice price directly, which the customs authorities have already determined does not reflect an arm's-length value and cannot be relied upon.
- B - Incorrect. Calculation check: FRW12,545,000 does not correspond to any single valid step in the customs valuation hierarchy (it is not the rejected invoice value, the identical-goods value, the similar-goods value, or a defensible average of these using the stated exchange rate). It appears to result from an unsupported blending of figures rather than the correct method, which requires using the identical-goods value in preference to similar goods, without averaging.
- C - Incorrect. Calculation check: FRW14,040,000 = USD10,800 (SIMILAR goods) x FRW1,300. This correctly moves past the rejected invoice price but incorrectly uses the similar-goods value instead of the identical-goods value; under the valuation hierarchy, identical goods (USD11,500) must be used in preference to similar goods (USD10,800) whenever a reliable identical-goods value is available, as it is here.

QUESTION 14: Foreign tax credit - two non-treaty countries - Correct Answer: B

Why correct: In the absence of a double taxation treaty, the foreign tax credit for each country is limited, separately, to the LOWER of the actual foreign tax paid and the notional Rwandan tax (28%) on that foreign income. Country X: Rwandan tax = 28% x 40,000,000 = FRW11,200,000; since foreign tax paid (13,000,000) exceeds this, the credit is capped at FRW11,200,000. Country Y: Rwandan tax = 28% x 20,000,000 = FRW5,600,000; since foreign tax paid (2,000,000) is lower, the full FRW2,000,000 is credited. Total FTC = 11,200,000 + 2,000,000 = FRW13,200,000.

Why the other options are incorrect:
- A - Incorrect. Calculation check: FRW11,200,000 is exactly the correctly-capped Country X credit alone, but this option omits the Country Y credit of FRW2,000,000 entirely, understating the total FTC.

- C - Incorrect. Calculation check: FRW15,000,000 = 13,000,000 (Country X) + 2,000,000 (Country Y), i.e. this credits the FULL foreign tax paid for Country X without capping it at the Rwandan-tax limit of FRW11,200,000. Because the actual foreign tax paid in Country X (13,000,000) exceeds the Rwandan tax on that income (11,200,000), the credit must be restricted to 11,200,000, not the full 13,000,000 paid.
- D - Incorrect. Calculation check: FRW16,800,000 = 28% x (40,000,000 + 20,000,000) = 28% x 60,000,000, i.e. this computes the notional Rwandan tax on the AGGREGATE foreign income under an aggregate-limitation approach, and then (incorrectly) uses that limit itself as the credit rather than the lower of foreign tax paid and the (per-country) limit. Even under an aggregate approach, the credit should be the lower of total foreign tax paid (15,000,000) and the aggregate limit (16,800,000), i.e. 15,000,000 - not the limit of 16,800,000 itself.

QUESTION 15: CIS preferential 3% rate - qualifying conditions - Correct Answer: A

Why correct: To access the 3% preferential rate, a Collective Investment Scheme must, among other things, incur a minimum annual Rwanda expenditure of USD50,000 and employ at least 30% Rwandan professional staff (as well as have its manager, custodian and operator based in Rwanda, and meet the fund-size condition). Numerical check: Rwanda expenditure of USD40,000 is below the USD50,000 minimum (40,000 < 50,000); Rwandan professional staff of 25% is below the 30% minimum (25% < 30%). The scheme fails on at least these two independently-sufficient grounds, so it does not currently qualify.

Why the other options are incorrect:
- B - Incorrect. It identifies only the expenditure shortfall (40,000<50,000) and calls it the 'sole' reason, when the staffing shortfall (25%<30%) is an equally valid, independent ground for disqualification (and the scheme's manager/custodian/operator being based in Tanzania, not Rwanda, is a further failing not mentioned in this option at all).
- C - Incorrect. It identifies only the management-location failure (Tanzania, not Rwanda) as the 'sole' reason, ignoring the expenditure shortfall (40,000<50,000) and the staffing shortfall (25%<30%), both of which independently disqualify the scheme.
- D - Incorrect. The scheme does not 'fully qualify.' While the fund-size condition is met (USD1,200,000 within 18 months comfortably exceeds the USD1,000,000-within-three-years minimum), the scheme still fails the local-expenditure condition (40,000<50,000), the Rwandan-staffing condition (25%<30%), and the management/custodian/operator-location condition (Tanzania, not Rwanda).

SECTION B

QUESTION 16

Marking Guide

Sub question	Details	Total Marks
(a)	● Award **0.5 marks** for each WHT computed.	**4**
(b)	● Identification and explanation of first wholly exempt circumstance/payment - **1 mark** ● Identification and explanation of second wholly exempt circumstance/payment - **1 mark**	**2**
(c)	● WHT credit: 15% x FRW120,000,000 (Clients A+B+C) = FRW18,000,000 - **1.5 marks** ● CIT liability before credit (given) = FRW40,000,000 - 0.5 marks ● Net CIT payable = FRW40,000,000 - FRW18,000,000 = FRW22,000,000 - **2 marks**	**4**
Total		**10**

Detailed Model Answer

(a) Withholding tax on payments made by Isoko Ltd

Payment	WHT Rate/Treatment	WHT Due (FRW)
Royalty to non-resident licensor (no DTT)	Standard 15% (royalties to non-residents; no treaty relief available)	1,200,000
Interest to Mr Kalisa (resident individual)	Standard 15% (financial interest paid to a resident, not a long-term bank deposit)	450,000
Payment to Kigali Office Supplies Ltd	Exempt - goods sold by a registered supplier with recent income tax declarations	Nil
Board sitting allowance to Ms Mukamana	30% flat on board member allowances (final tax)	300,000
Dividend to 40% resident-company shareholder	Exempt - dividends paid to a resident company are excluded from the 15% WHT	Nil

Payment	WHT Rate/Treatment	WHT Due (FRW)
Logistics/haulage fee to registered transport operator	Exempt- registered transport services are specifically excluded from the service-fee WHT	Nil
Reinsurance premium to non-resident reinsurer	Standard 15% - reinsurer has no agreement with the Government of Rwanda (e.g. ZEP-RE/Africa Re)	750,000
After-tax profit repatriated to non-resident parent	Standard 15% on profits repatriated from Rwanda; no DTA reduction available	1,050,000

Total withholding tax due on the payments listed = FRW1,200,000 + 450,000 + 0 + 300,000 + 0 + 0 + 750,000 + 1,050,000 = FRW3,750,000.

(b) Two circumstances wholly exempt from the 15% withholding tax

- Payments (goods sold in Rwanda, services, dividends, interest, etc.) made to persons who ARE registered with the tax administration and have made recent income tax declarations are exempt from the standard 15% WHT - the 15% only applies to unregistered or non-compliant recipients. (Illustrated above by the Kigali Office Supplies Ltd payment.)
- Dividends paid to a resident company by another resident company (as well as distributions to holders of units in a collective investment scheme) are exempt from the 15% dividend WHT, to avoid a cascade of tax up a corporate chain. (Illustrated above by the dividend paid to the 40% resident-company shareholder.)
- (Other acceptable answers: interest paid on long-term bank deposits of more than one year; registered transport services; reinsurance premiums paid to insurers with a Government of Rwanda agreement (e.g. ZEP-RE, Africa RE); interest on treasury bonds with maturity of three years or more, or on securities listed on the capital market held by EAC residents - taxed at 5%, not wholly exempt.)

(c) Withholding tax credit and net CIT payable

Item	Amount (FRW)
Consultancy fees invoiced (Client A 55m + B 40m + C 25m)	120,000,000
WHT suffered at source (15% x 120,000,000) - creditable WHT	18,000,000
CIT liability for 2025 before WHT credits (given)	40,000,000
Less: WHT credit	(18,000,000)
Net CIT payable for 2025	22,000,000

Each client's 15% deduction on the gross invoice value is an advance/creditable withholding tax (not a final tax), supported by the withholding certificates issued. It is set off against Isoko Ltd's CIT liability of FRW40,000,000, leaving a net CIT payable of FRW22,000,000 for the 2025 tax period.

QUESTION 17

Marking Guide

Sub-question	Details	Total Marks
(a)	● Family home: correctly not exempt from Immovable Property Tax (IPT) because the exemption for a single-family dwelling applies only where an individual (not a company) is the owner; KBD, a company, is the legal owner - **1 mark** ● Depot IPT: 0.3% (commercial use) x FRW320,000,000 = FRW960,000 - **1 mark** ● Due date: 31 March of the year following the tax declaration (i.e. 31 March 2026) - **1 mark**	**3**
(b)	● Correct contribution base identified on pension: basic salary plus transport allowance and car benefit (FRW900,000 +FRW100,000 + (10%*1M) =FRW 1,100,000)- **1 mark** ● Pension (Employee 6% + Employer 6% = 12%) x FRW1,100,000 = FRW132,000 **- 1 mark** ● Occupation hazard-Additional employer contribution is also based on gross salary minus transport allowance and car benefit- FRW 900,000*2%=FRW 18,000**- 0.5 Marks** ● Maternity leave is also based on gross salary minus transport allowance and car benefit (Employer 0.3% + Employee 0.3% = 0.6%) x FRW900,000 = FRW5,400 **- 1 mark** ● Recognition that transports allowance and car benefit are excluded from the base, with brief reasoning **- 1 mark** ● Total combined pension + maternity = FRW155,400 **- 0.5 marks**	**5**
(c)	● First administrative obligation correctly stated and explained (e.g. inventory/daily register of manufactured and sold excisable products) **- 1 mark** ● Second administrative obligation correctly stated and explained (e.g. mandatory tax-stamps register, or affixing tax stamps, or monthly reconciliation statement) **- 1 mark**	**2**
Total		**10**

Detailed Model Answer

(a) Family home, distribution depot and due date

Family home: the exemption from immovable property tax for 'the owner of one building intended to be occupied as his or her dwelling... for one family' applies only to an INDIVIDUAL who personally owns and occupies the home. Here, the legal owner of the Kicukiro family home is KBD, a company, not Mr Rugamba personally. Because the owner is a corporate person, the personal single-family-dwelling exemption does not apply, and the property remains subject to immovable property tax in KBD's hands at the residential rate applicable (no value is given for this property, so no liability is computed, but it is not exempt).

Kigali distribution depot: this is a commercial building and plot, taxed at 0.3% of its combined building-and-land market value: 0.3% x FRW320,000,000 = FRW960,000.

Due date: immovable property tax is payable by 31 March of the year following the year for which the tax was declared/assessed, i.e. by 31 March 2026 for the 2025 tax year.

(b) Pension and maternity leave benefit for Mr Habimana - March 2025

The maternity leave benefit and occupation hazard contributions are computed on 'all employment income except transport allowances and car benefits, while the pension is computed on gross salary. Mr Habimana's transport allowance (FRW100,000) and the use of the company pickup truck (a car benefit-in-kind of FRW 10%*(900K+100k)) are therefore excluded from the base in computing the maternity leave and occupation hazard; only his basic salary of FRW900,000 is used while for pension, the bases is 900K+100k+100k=1.1M. (The optional medical scheme enrolment is on a voluntary basis and is not part of this computation, which only asks for pension and maternity.)

Scheme	**Rate (Employer+Employee)**	**Base (FRW)**	**Amount (FRW)**
Pension (SSC)	6% + 6% = 12%	1,100,000	132,000
Occupation hazard (Employer only)	2%	900,000	18,000
Maternity leave benefit	0.3% + 0.3% = 0.6%	900,000	5,400
Total payable to RSSB (employer + employee combined)			155,400

(c) Two administrative obligations on manufacturers of excisable products

- Maintain an inventory/daily register of manufactured and sold excisable products (recording production, stock movements and sales of the beer and spirits produced), as required for manufacturers subject to excise duty.

- Maintain a mandatory register for tax stamps usage, recording stamps in stock at the end of the previous month, stamps received from the Rwanda Revenue Authority, and stamps applied to manufactured products, together with a monthly reconciliation statement; and correctly affix tax stamps to all taxable products in accordance with RRA instructions before they leave the factory.

QUESTION 18

Marking Guide

Sub-question	Details	Total Marks
(a)	● Import duty: (0% x USD10,000) + (10% x USD5,000) = USD500 -> FRW650,000 **- 1 mark** ● VAT: 18% x [(10,000+0)+(5,000+500)] = 18% x 15,500 = USD2,790 -> FRW3,627,000 **- 1 mark** ● WHT on imports: 5% x USD15,000 (total CIF) = USD750 -> FRW975,000 **- 1 mark** ● IDL: 1.5% x USD15,000 = USD225 -> FRW292,500 **- 1 mark**	**4**
(b)	● Kivu Traders must be VAT-registered in Rwanda **- 0.5 marks** ● Must show services are not available locally, evidenced by the unsuccessful public tender **- 1 mark** ● Must obtain regulatory/ministry endorsement confirming absence of local capacity (ICT Ministry letter) **- 1 mark** ● Must apply for and obtain authorisation from the Minister of Finance to apply the reverse charge and recover input VAT - **0.5 marks**	**3**
(c)	● Management fee to Mauritius: 12% x FRW40,000,000 = FRW4,800,000 (treaty rate applies - valid TRC held) **- 1 mark** ● Interest to Belgium: 10% x FRW20,000,000 = FRW2,000,000 (treaty rate applies - valid TRC held) **- 1 mark** ● Interest to Qatar: 15% x FRW10,000,000 = FRW1,500,000 (no valid TRC - treaty benefit denied, domestic rate applies) **- 1 mark**	**3**
Total		**10**

Detailed Model Answer

(a) Import duty, VAT, WHT on imports and IDL

The two categories of goods are invoiced together but attract different import duty rates, so each is computed separately before being combined for VAT, WHT and IDL (both are computed on total CIF, per the standard order of computation: duty on CIF; VAT on CIF+duty+excise; WHT and IDL on CIF).

Item	Component (i) Raw materials	Component (ii) Machinery	Total
CIF value (USD)	10,000	5,000	15,000
Import duty rate	0%	10%	-
Import duty (USD)	0	500	500
VAT base (CIF + duty) (USD)	10,000	5,500	15,500

Import duty = USD500 x FRW1,300 = FRW650,000.
VAT = 18% x USD15,500 = USD2,790 x FRW1,300 = FRW3,627,000.
WHT on imports = 5% x total CIF USD15,000 = USD750 x FRW1,300 = FRW975,000 (an advance/creditable tax against Kivu Traders' year-end CIT liability).
IDL = 1.5% x total CIF USD15,000 = USD225 x FRW1,300 = FRW292,500.

(b) Conditions for the VAT reverse charge on the imported cybersecurity services

To apply the reverse charge and recover the VAT input on the imported penetration-testing services, Kivu Traders Ltd must satisfy the following conditions:

- Be registered for VAT in Rwanda (only VAT-registered entities may use the mechanism; VAT-exempt bodies such as banks, NGOs and schools cannot recover the VAT and so cannot benefit from the reverse charge in the same way).
- Demonstrate that equivalent services are not available locally, which Kivu Traders has evidenced by running a public tender that attracted no qualified local bidders.
- Obtain regulatory/ministerial endorsement confirming the absence or inadequacy of local capacity - satisfied here by the letter from the Ministry of ICT.
- Apply to, and obtain authorization from, the Minister of Finance to use the reverse charge mechanism for this transaction; without this authorization the VAT self-assessed on the imported service cannot be reclaimed as input VAT and becomes an additional cost.
- Provided these conditions are met, Kivu Traders self-accounts for output VAT of 18% x USD50,000 (converted to FRW) on the imported service and simultaneously claims the same amount as input VAT, resulting in a net-nil cash effect for the month.

(c) Withholding tax on the three related-party payments

Payment	Recipient/Country	Treaty status	Rate applied	WHT (FRW)
Management fee FRW40,000,000	Mauritius (parent)	Valid tax residency certificate provided - treaty rate applies	12%	4,800,000
Interest FRW20,000,000	Belgium (financing entity)	Valid tax residency certificate provided - treaty rate applies	10%	2,000,000
Interest FRW10,000,000	Qatar (trade-finance lender)	No tax residency certificate provided despite being asked - treaty benefit denied	15% (domestic rate)	1,500,000

A double tax treaty's reduced rate can only be applied where the recipient substantiates its treaty entitlement, normally by producing a valid tax residency certificate. The Mauritian and Belgian recipients did so and are entitled to the 12% and 10% treaty rates respectively. The Qatar lender did not provide a certificate despite being asked, so Kivu Traders must apply the standard domestic withholding tax rate of 15% rather than the 10% treaty rate.

SECTION C

QUESTION 19

Marking Guide

Sub-question	Details	Total Marks
(a)	● Balancing charge on building = Proceed - TWDV = 180,000,000 - 60,000,000 = FRW120,000,000 (Taxable Income) **- 2 marks** ● Balancing allowance on vehicles = TWDV - Proceeds = 15,000,000 - 12,000,000 = FRW3,000,000 (allowable deduction) **- 2 marks**	**4**
(b)	● New machinery: registered investor, asset value >= USD50,000 threshold, qualifies for 50% accelerated depreciation: 50% x FRW91,000,000 = FRW45,500,000 – **1 mark** ● Tax depreciation: FRW 91,000,000*5%=FRW 4,550,000= **0.5 marks** ● General pool: 25% x FRW40,000,000 (other business assets) = FRW10,000,000 **- 1 mark** ● Total capital allowances for 2025 = FRW55,500,000 **- 0.5 mark**	**3**
(c)	● Cumulative % completion: 2025 = 2,250m/4,500m = 50%; 2024 = 900m/4,500m = 20% **- 1 mark** ● Cumulative revenue recognized: 2025 = 50% x 6,000m = FRW3,000,000,000; 2024 = 20% x 6,000m = FRW1,200,000,000 **- 1 mark** ● Revenue recognized in 2025 = 3,000m - 1,200m = FRW1,800,000,000 **- 1 mark** ● Profit for 2025 = Revenue 1,800m - Costs incurred in 2025 (2,250m-900m=1,350m) = FRW450,000,000 **- 1 mark**	**4**
(d)	● Correct statement of the rule: losses are forfeited where ownership changes by more than 25% (by value or number of shares) in an unlisted company, in the period of change and all preceding periods **- 1 mark** ● Correct application: the 40% shareholding change exceeds the 25% threshold, GCI is unlisted, and the change is a sale to a new external investor (not an internal reorganization preserving the shareholder base) - the FRW300,000,000 loss brought forward is therefore forfeited and NOT available for relief in 2025 **- 1 mark**	**2**
(e)	● Uganda: Rwandan tax on FRW80,000,000 at 28% = FRW22,400,000; foreign tax paid FRW18,000,000 is lower - credit = FRW18,000,000 **- 1.5 marks** ● Tanzania: Rwandan tax on FRW50,000,000 at 28% = FRW14,000,000; foreign tax paid FRW16,000,000 exceeds this - credit capped at FRW14,000,000 **- 1.5 marks**	**4**

Sub-question	Details	Total Marks
	● Total foreign tax credit = FRW32,000,000 (credit computed and capped separately, country by country) **- 1 mark**	
(f)	● Correct build-up of total taxable income from all adjustments (a)-(e) plus the enhanced market-entry deduction, arriving at FRW836,500,000 **- 1.5 marks** ● CIT at 28% = FRW234,220,000 **- 0.5 mark** ● Less foreign tax credit of FRW32,000,000; net CIT payable = FRW202,220,000 **- 1 mark**	**3**
Total		**20**

Detailed Model Answer

(a) Balancing charge on the building and balancing allowance on the vehicles

Where an asset is sold for more than its tax written down value (TWDV), the recapture of capital allowances previously granted (the 'balancing charge') is limited to the original cost of the asset; any amount received in excess of original cost is a capital gain, not a balancing charge (though both are ultimately taxed at the 28% company rate).

	Office building (FRW)	**Delivery vehicles (FRW)**
Original cost	90,000,000	n/a (only TWDV given)
TWDV at date of sale	60,000,000	15,000,000
Sale proceeds	180,000,000	12,000,000
Balancing charge allowance or deduction (TWDV - Proceeds)	120,000,000	-3,000,000

(b) Capital allowances for 2025

(b)- Capital Allowance

Description	New Heavy Machinery	Other Pool assets	Total
Cost/TWDV	91,000,000	40,000,000	131,000,000
Accelerated depreciation/Investment allowance @50%	45,500,000	0	45,500,000
Depreciation Base	91,000,000	40,000,000	131,000,000
Depreciation Rate	5%	25%	
Tax Depreciation	4,550,000	10,000,000	14,550,000

Capital Allowance (Investment Allowance + Tax Depreciation	60,050,000

As a registered investor purchasing a new asset worth at least USD50,000 (USD70,000 here), GCI qualifies for the flat 50% accelerated depreciation allowance in the year of purchase (GCI must notify the RRA if the machinery is disposed of within three years, or the allowance will be clawed back). The remaining general pool of other business assets (which excludes the new machinery and the assets already disposed of) attracts the standard 25% wear-and-tear rate applicable to 'other business assets'.

(c) Profit from the road construction contract recognised in 2025

	Cumulative to 2024	**Cumulative to 2025**	**2025 only**
Costs incurred (FRW)	900,000,000	2,250,000,000	1,350,000,000
% completion (costs / 4,500,000,000)	20%	50%	-
Revenue recognized (% x 6,000,000,000)	1,200,000,000	3,000,000,000	1,800,000,000
Taxable Income for the 2025 tax period (1.8 billion – 1.35 billion)= FRW 450,000,000			

(d) Availability of the FRW300,000,000 loss brought forward

Where there is a change of 25% or more in the direct or indirect ownership of a company's shares or voting rights (by value or number), and the company is not listed on a recognized stock exchange, any tax losses carried forward are forfeited - both for the period of change and for all preceding periods. An exception preserves the right to carry losses forward only where the change results from an internal reorganization that does not alter the composition of the shareholders (and existing shareholders have held their interests for at least three years).

Here, 40% of GCI's shares were sold to a new institutional investor - this exceeds the 25% threshold, GCI's shares are not listed on any stock exchange, and the change is an external sale (not an internal reorganization preserving the shareholder base). The FRW300,000,000 loss brought forward is therefore forfeited and is NOT available for relief against GCI's 2025 taxable income.

(e) Foreign tax credit on Ugandan and Tanzanian income

In the absence of a double taxation treaty with either country, the foreign tax credit is limited, country by country, to the lower of the foreign tax actually paid and the notional Rwandan tax (28%) on that foreign income.

	Uganda (FRW)	Tanzania (FRW)
Foreign source income	80,000,000	50,000,000
Foreign tax paid	18,000,000 (22.5%)	16,000,000 (32%)
Notional Rwandan tax (28%)	22,400,000	14,000,000
Foreign tax credit (lower of the two)	18,000,000	14,000,000

Total foreign tax credit for 2025 = FRW18,000,000 + FRW14,000,000 = FRW32,000,000.

(f) Total taxable income and net corporate income tax payable

(f)

Adjusted Taxable profit	200,000,000
Add other Income	
Balancing Charge	120,000,000
Uganda Income	80,000,000
Tanzania Income	50,000,000
Profit from construction	450,000,000
Total other Income	**700,000,000**
Less omitted expenses	
Capital Allowance	60,500,000
Balancing Charge (Loss)	3,000,000
Additional Start up expenses (10M*150%-10M)	5,000,000
Total Expenses	**68,500,000**
Adjusted Taxable Income	**831,500,000**
Tax liability @28%	232,820,000
Less Foreign tax credit	
Uganda	18,000,000
Tanzania	14,000,000
Net tax payable	**210,820,000**

Note: GCI's foreign-source income is included gross in taxable income (Rwanda taxes resident companies on worldwide income), with double taxation relieved through the foreign tax credit rather than by excluding the income. The market-entry expenditure of FRW10,000,000 is already included, at actual cost, within the FRW200,000,000 opening trading profit; only the additional 50 percentage points of the 150% enhanced deduction (i.e. a further FRW5,000,000) needs to be deducted separately.

QUESTION 20

Marking Guide

Sub question	Details	Total Marks
(a)	● Export tax point = 26 October (date goods removed/left the factory), the earliest of the relevant events - so the export falls into October, not November, VAT period **- 0.5 mark** ● Local retail sale tax point: both the 5 November deposit and the 20 November invoice/delivery fall within November, so the full sale is a November supply **- 0.5 mark** ● EBM compliance exposure correctly identifies the obligation to re-enter/upload the manual-receipt sales into the EBM and to include them in the November output VAT despite the system downtime, and flags the risk of penalties for non-issuance of EBM invoices if not corrected **- 1 mark**	**2**
(b)	● Correct zero-rated/exempt/standard classification of each of the nine revenue streams **- 3 marks** ● Correct treatment of the conference booking deposit (tax point on receipt of the deposit, in November, even though the event is in January 2025) **- 1 mark** ● Correct treatment of the returned textile goods (credit note reducing November output VAT, since the return occurs in a period after the original September sale) **- 1 mark** ● Correct computation of total output VAT for November (FRW24,156,000, before adjusting for bad debt relief in (d)) **- 3 marks**	**8**
(c)	● Correctly identifies the UK consultancy as an imported service triggering the VAT reverse charge **- 1 mark** ● Correctly identifies that Kivu Valley (the Rwandan recipient), not the UK supplier, is liable to self-account for the VAT **- 1 mark** ● Correctly explains the effect on the net VAT position: output VAT increases by 18% x 18,000,000 = FRW3,240,000, with a matching input VAT credit only available if Kivu Valley obtains Ministerial authorisation (on tender/local-unavailability evidence); absent that evidence, the reverse-charge VAT is a real cost **- 1 mark**	**3**
(d)	● Debt 1 (FRW9,440,000, July 2021 sale): correctly identifies that it fails the 3-year time limit for bad debt relief (written off after more than 3 years) - relief denied **- 1 mark**	**3**

Sub question	Details	Total Marks
	● Debt 2 (FRW2,360,000, March 2024 sale): correctly identifies it is within 3 years - relief allowed **- 1 mark** ● Correct computation of the relief on Debt 2: 2,360,000/1.18 x 18% = FRW360,000 **- 1 mark**	
(e)	● Correct identification of recoverable input VAT on the imported spare parts (FRW4,554,000) **- 1 mark** ● Correct identification of blocked input VAT (hospital scanner - exempt use; both vehicles - passenger-vehicle restriction; cocktail dinner - entertainment restriction) **- 1 mark** ● Correct apportionment of residual/mixed input VAT (head-office costs and guesthouse renovation) between taxable and exempt use **- 1 mark** ● Correct computation of net VAT payable/refundable for November 2024 (approximately FRW15,986,948 payable) **- 1 mark**	**4**
Total		**20**

Detailed Model Answer

(a) VAT tax point and EBM compliance exposure

The VAT tax point is the earliest of: the date the invoice is issued, the date payment (including part-payment) is received, or the date the goods are removed from the supplier's premises.

Kenya export: the goods physically left the factory on 26 October, which is earlier than both the 2 November invoice date and the 15 November payment date. The tax point is therefore 26 October 2024, meaning this export supply belongs to the OCTOBER 2024 VAT period, not November. It should not be included in the November return (it does not affect the amount of VAT due, since exports are zero-rated, but it does affect the period in which it must be reported).

Rwandan retail chain sale: the 30% deposit was received on 5 November (before the goods were ready), which establishes a tax point of 5 November for that portion; the balance was invoiced and delivered on 20 November. Both events fall within November, so the entire FRW36,000,000 sale is correctly treated as a November supply.

EBM compliance exposure: Rwandan law requires every taxable supply to be recorded through the Electronic Billing Machine (EBM) system in real time. The four-day system outage does not exempt Kivu Valley from VAT on the FRW6,500,000 of spare-parts sales made during that

period - the supplies still occurred, and output VAT is still due on them in November. However, using handwritten receipts instead of EBM invoices, and not yet re-entering these transactions into the EBM, exposes Kivu Valley to compliance risk (potential penalties for failure to issue EBM invoices and for incomplete/inaccurate EBM records). Kivu Valley should re-enter all the manual-receipt transactions into the EBM system without delay, retain the handwritten receipts and any evidence of the system fault as supporting documentation, and ensure the FRW6,500,000 is fully reflected in the November VAT return.

(b) Classification of revenues and output VAT for November 2024

Kivu Valley Enterprise Out put VAT for the month of November 2024			
Description	**Amount**	**VAT Rate**	**Output VAT**
Sales of textiles	36,000,000	18%	6,480,000
Sales of spare parts	47,500,000	18%	8,550,000
Commission from Insurance brokerage	12,300,000	18%	2,214,000
Patient Consultation	38,000,000	Exempted	Exempted
Sales from Pharmacy	6,400,000	Exempted	Exempted
Sales from accommodation	15,000,000	18%	2,700,000
Sales from conference hall	11,000,000	18%	1,980,000
Returned Textile	- 4,200,000	18%	- 756,000
Spare part sales made when the EBM was not working	6,500,000	18%	1,170,000
Total	**168,500,000**		**22,338,000**

Conference booking deposit: although the event itself takes place in January 2025, the FRW4,000,000 deposit was received in November 2024, which establishes the tax point for that amount in November (payment received is one of the tax-point triggers, and the exception for advance payments applies only to construction services, not venue hire). It is therefore taxed in November together with the remaining hire fees.

Returned textile goods: the original sale (and output VAT) was recognized in September 2024. Because the return occurs in a later VAT period (November), Kivu Valley adjusts its VAT account and return for the period in which the goods are returned (November) via a credit note, rather than amending the September return - reducing November's output VAT by FRW756,000 (18% x FRW4,200,000).

(c) VAT treatment of the UK design consultancy invoice

The UK consultancy has no fixed establishment in Rwanda and its pattern-design service was used entirely by the Rwanda factory - this is an imported service consumed in Rwanda and falls within the VAT reverse charge mechanism. No VAT was charged on the UK firm's invoice because the responsibility to account for VAT shifts from the non-resident supplier to the Rwandan recipient.

Kivu Valley Enterprises Ltd, as the VAT-registered recipient, is liable to self-account for output VAT of 18% x FRW18,000,000 = FRW3,240,000 on this service in its November return. Kivu Valley may treat the identical amount as input VAT (a net-nil cash effect) only if it can demonstrate - through a tender process and appropriate regulatory/ministerial authorization - that equivalent design services are not available locally. On the facts given, no such tender or authorization is mentioned for this transaction, so the FRW3,240,000 reverse-charge VAT increases Kivu Valley's net VAT payable for the month unless and until such authorization is obtained.

(d) VAT bad debt relief on the two written-off debts

Bad debt relief is available only where the debt is written off within three years of the date of the original supply.

Debt	Sale date	Write-off date	Age at write-off	Eligible?	Relief (FRW)
Textile customer - FRW9,440,000 (VAT-incl.)	July 2021	November 2024	> 3 years	No - time-barred	Nil
Spare-parts customer - FRW2,360,000 (VAT-incl.)	March 2024	November 2024	< 1 year	Yes	360,000

Debt 1: the original sale was made in July 2021, more than three years before the November 2024 write-off. Because the three-year time limit for claiming VAT bad debt relief has been exceeded, no relief is available, regardless of the genuine efforts made to recover the debt because the debtor has not declared bankruptcy. (No proof of court)

Debt 2: the original sale was made in March 2024, well within the three-year window, so relief is available because the debtor has been liquidated. VAT bad debt relief = FRW2,360,000 / 1.18 x 18% = FRW360,000. This reduces November's output VAT (and, correspondingly, the customer would need to adjust its VAT input if it had claimed any).

(e) Input VAT and net VAT payable/refundable for November 2024

Item	Amount (FRW)	VAT (18%) (FRW)	Recoverable?	Recoverable input VAT (FRW)
Imported spare parts: CIF 22,000,000 + duty 3,300,000	25,300,000	4,554,000	Yes - fully used in taxable spare-parts trade	4,554,000
Hospital diagnostic scanning equipment	16,000,000	2,880,000	No - wholly used for exempt hospital services	Nil
7-seater double-cabin vehicle (specimen transport)	13,500,000	2,430,000	No - blocked as a passenger vehicle, regardless of business use	Nil
Cocktail dinner for insurance underwriters	3,800,000	684,000	Yes - fully used in taxable business	684,000
Head-office costs (legal, audit, admin) - residual	21,000,000	3,780,000	Partly - apportioned by taxable/total turnover ratio (see below)	2,783,964
Guesthouse reception renovation	8,000,000	1,440,000	Partly - 65% guesthouse (taxable) / 35% hospital rest area (exempt)	936,000
Saloon car for Managing Director	19,000,000	3,420,000	No - blocked as a passenger vehicle, regardless of business use	Nil
Total deducted Input VAT				**8,957,964**

Passenger vehicles (the double-cabin vehicle and the Managing Director's saloon car) are specifically excluded from input VAT recovery, and goods/services acquired for entertainment (the underwriters' cocktail dinner) are similarly blocked - both restrictions apply regardless of the underlying business purpose. The hospital scanning equipment is used wholly for an exempt activity (patient care), so none of its input VAT is recoverable.

Apportionment of residual costs: since the head-office costs cannot be attributed to any single segment, and the guesthouse renovation partly serves an exempt hospital function, their input VAT must be apportioned between taxable and exempt use. Using November's turnover as the apportionment basis (excluding the October-period Kenya export): taxable turnover = 36,000,000 + 47,500,000 + 12,300,000+ 6,500,000 + 15,000,000 + 11,000,000 -4,200,000 = FRW124,100,000; exempt turnover = 6,400,000 + 38,000,000 = FRW44,400,000; total = FRW168,500,000. Taxable proportion = 124,100,000/168,500,000= approximately 73.6%. Head-office input VAT recoverable = 73.6% x FRW3,780,000 = approximately FRW2,783,964. The guesthouse renovation is directly identifiable (65%/35%), so its input VAT is apportioned 65% recoverable (FRW936,000) and 35% blocked (relating to the hospital's exempt rest area).

Description	**FRW**
Total output VAT (from (b) and (c), before bad debt relief) 22,338,000+3,240,000	25,578,000
Less: VAT bad debt relief on Debt 2 (see (d))	(360,000)
Net output VAT for November 2024	25,218,000
Total recoverable input VAT (see computation in (e) above)	8,957,964
Net VAT payable for November 2024	16,260,036

Because output VAT exceeds recoverable input VAT, Kivu Valley Enterprises Ltd has a net VAT PAYABLE of approximately FRW16,260,036 for November 2024 (not a refund position).

END OF MARKING GUIDE AND MODEL ANSWERS