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CPA
RWANDA

Operational Level

Advanced Taxation (AT2.5) Workbook

Institute of Certified Public Accountants of Rwanda
January 2026

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Acknowledgement.

We wish to formally acknowledge and appreciate all parties who contributed to the review and update of the revamped syllabus. Our sincere thanks go to the tutors and lecturers from various training institutions, our partners, and the Ministry of Finance and Economic Planning (MINECOFIN) for their valuable input, collaboration, and continued support.

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Overview of the Module

CPA level	Operational level
Title	Advanced Taxation
Guided learning hours	90
Exam length	3 hrs

Introduction to the Module

The aim of the syllabus is to build on the Taxation module from the CPA Technical level by focussing on the application of such knowledge and skills in more complex tax situations, including cross-border transactions. Students will be expected to understand and apply interactions between different taxes which may impact the same scenario.

The Advanced Taxation syllabus begins with advanced and complex tax computations and scenarios, for both direct and indirect taxes. It then moves into further application of withholding taxes for individuals and companies before covering other taxes, including those administered at a sub-national level such as property taxes. The syllabus then covers cross-border aspects of taxation including double tax treaties and customs membership.

Finally, the syllabus covers the application of various tax planning strategies and business decisions, including the provision of ethically sound advice on the minimisation and deferral of tax liabilities, and the alignment of tax planning recommendations with the overall strategy of an organisation.

This e-learn program is therefore crafted for students preparing for the CPA Operational level Advanced taxation exam. The program carefully follows the exam syllabus, which outlines the necessary knowledge to succeed in the exam. The e-learn is structured into 5 comprehensive Units, each reflecting a specific area of the syllabus.

Unit structure and features

- Unit competencies: Each Unit begins with a concise overview of the critical concepts and principles you need to grasp, known as the Unit competencies.
- Introduction to the Unit: This section presents the learning objectives, clarifying what you should be capable of after completing the Unit.
- Learning Content: The content is organized in alignment with the Unit competencies, ensuring a logical flow of information.
- Summary: A brief recapitulation is provided at the end of each Unit to reinforce the key points.
- Quiz Questions: To solidify your understanding, each Unit includes a set of self-assessment questions and practical exercises.

Purpose of the E-Learn

The e-learn is intended to be a supplementary tool that enhances your learning experience alongside lectures, tax laws and other study resources. It offers a well-rounded and systematic approach to mastering taxation. It is important to use this e-learn as a guiding resource and an instrument for learning, but it should not replace your own detailed research and analysis. Additionally, you are encouraged to review the learning outcomes and assessment criteria for the exam. It is also beneficial to acquaint yourself with the exam's structure and time constraints before commencing your study.

By engaging with this e-learn program, you will be well-equipped to tackle the CPA Operational level Advanced taxation exam with confidence and a deep understanding of the subject matter.

What skills are required?

- A thorough understanding of the Taxation module from the CPA Technical level.
- Be able to calculate tax charges in support of explanations or advice.
- Be able to explain the tax charges in a particular scenario: what taxes are applicable and why.
- Be able to analyse a set of facts to ascertain when tax charges arise and any options that may be available to the taxpayer to mitigate such charges.
- Be able to evaluate your results and recommend a course of action, justifying your recommendations and setting out any other factors which the taxpayer should consider when reaching his decision.

How to improve your chances of passing

- Master the full syllabus: To optimise your exam performance, it's essential to be well-versed in the entire syllabus. Since the exam requires you to answer all questions, the examiner can assess your knowledge across all key topics.
- Engage in timed practice: Frequent practice under timed conditions is crucial for honing your exam skills. The e-learning platform provides an excellent resource, offering a wealth of questions that mirror the standard of those found in actual exams, including quizzes, exercises, and a mock exam for you to attempt.
- Be thoughtful in your responses: Examiners look for your ability to discern and focus on the most pertinent and impactful information in your answers. Avoid the temptation to pad your responses with irrelevant details.
- Presentation: Present your answers in a professional manner – use subheadings and leave spaces between paragraphs, make sure that your numerical workings are clearly set out.
- Complete every question component: Addressing every part of the question is vital; missing a section worth five marks could mean the difference between passing and failing. Ensure you respond to each element to maximize your score potential.

The Examination Paper

The syllabus is assessed by a three-hour examination.

All questions are compulsory. The exam will contain both computational and discussion elements.

The paper will comprise a mix of multiple choice and scenario-based questions.

Section A

Section A of the exam comprises 15 objective-test questions worth two marks each for a total of 30 marks.

Section B

Section B of the exam comprises three scenario-based questions each worth 10 marks for a total of 30 marks

Section C

Section C of the exam comprises two scenario-based questions each worth 20 marks for a total of 40 marks

The section A and section B questions can cover any areas of the syllabus.

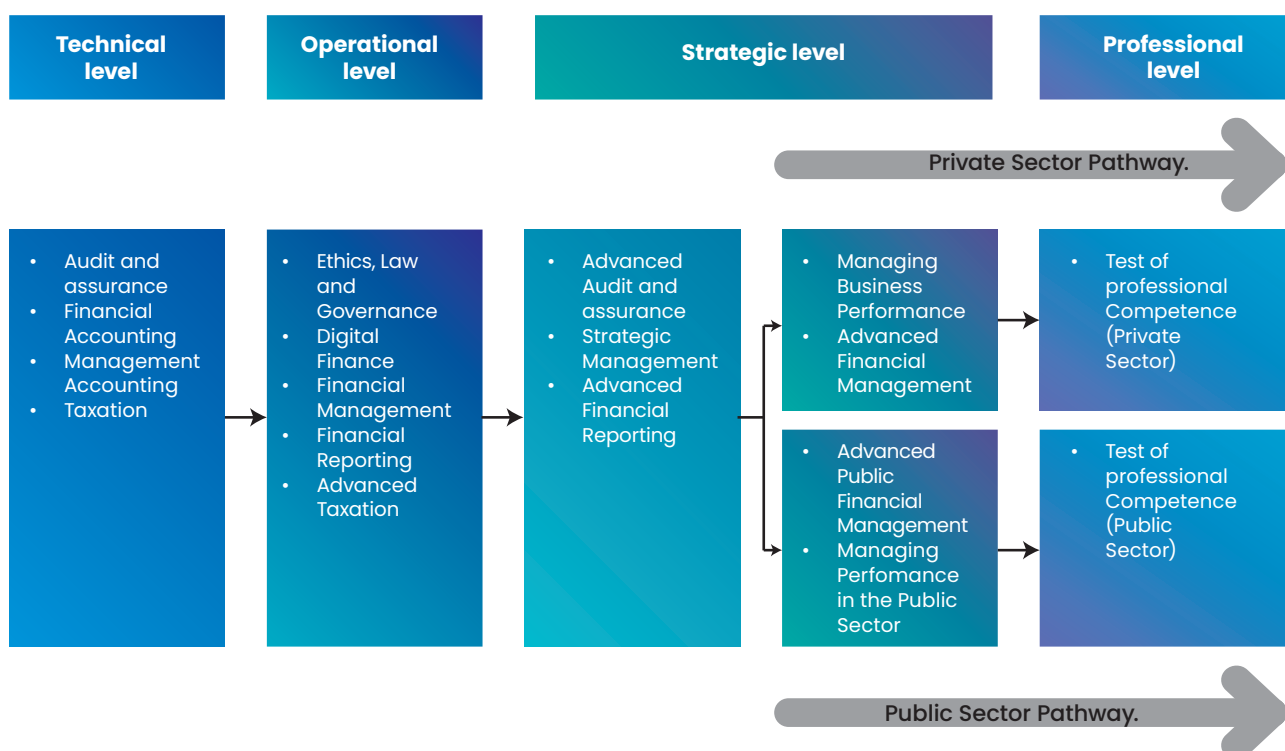
An individual question may often involve elements that relate to different subject areas of the syllabus. For example, a calculation of VAT for a client could include elements of withholding tax and some tax planning advice.

Questions may ask candidates to comment on the appropriateness or acceptability of a client's approach to their tax responsibilities or to the most beneficial business structure to adopt. An awareness of both tax consequences and non-tax consequences, such as cashflow impacts, of different decisions should be demonstrated by the student.

Questions on topic areas that are also included in CPA Technical Level Taxation will be examined at an appropriately greater depth in this paper.

Candidates will be expected to have an appreciation of how different taxes interact with each other in the same scenario and how choices can be made between the application of optional reliefs.

This module is one of five completed at the operational level of the CPA.



Key competencies

- A. Apply further understanding of more advanced and complex aspects of the taxation system to provide accurate direct and indirect tax computations.
- B. Explain the scope and operation of the system of withholding taxes.
- C. Demonstrate understanding of the main features of other taxes, including those levied by subnational government.
- D. Demonstrate understanding of the main features of cross-border taxation arrangements and the implications of customs union membership.
- E. Provide ethically sound tax planning advice on the minimisation and deferral of tax liabilities, by the application of standard and advanced tax planning measures which align with the overall business strategy.

Unit A: Advanced and Complex Direct and Indirect Tax Considerations

Learning outcomes

- A.1. Advanced income tax liabilities including international aspects.
- A.2. Advanced company tax liabilities including international aspects
- A.3. Scope, computation, and administration of value added tax.

Introduction to Unit A

Upon successful completion of this Unit, students will have mastered advanced tax computation skills, both direct and indirect, with a particular focus on complex income and corporate tax liabilities, including international and group dynamics. They will be able to advise on income tax liabilities, discerning the tax implications of various income sources, and understanding the nuances of special tax regimes. Students will confidently apply personal income tax to intricate financial scenarios and provide guidance on employment status and remuneration packages.

They will also be able to handle corporate tax matters, such as restructuring, VAT, and incentives for registered investors, and be able to navigate tax-avoidance provisions.

Furthermore, students will gain expertise in the scope, computation, and administration of value-added tax (VAT), including registration, determination, and obligations of VAT-registered taxpayers. They will analyse VAT treatment for different transactions and advise on VAT declaration and payment procedures, ensuring they are equipped to manage VAT invoicing effectively.

Unit list	Syllabus Reference
A1. Advanced Income Tax Liabilities	A1.a, b, c, d, e, f
A2. Advanced Company Tax Liabilities	A2.a, b, c, d, e, f, g
A3. Value Added Tax (VAT)	A3. a, b, c, d, e, f, g

A1: Advanced Income Tax Liabilities

A1.1 Determination of taxable income (source vs residence)

Taxable income represents a person's earnings that is subject to taxation within a tax year. Understanding how taxable income is determined is essential for complying with tax laws and for effective tax planning. Globally, tax regimes employ two main frameworks to establish taxable income: the Source Rules and Residence Rules.

A1.1.1 Source Rules

In Rwanda, the tax system primarily follows the source rules. This implies that any income perceived to originate from within the borders of Rwanda is subject to Rwandan tax, except where specific exemptions are provided by law. The source rules impose taxes on income at the location of its generation, irrespective of the taxpayer's domicile. According to income tax law (Article 6) income taxable in Rwanda includes the activities performed in Rwanda by any person and activities performed abroad by a resident of Rwanda. There are various classifications of income deemed to originate from Rwanda, including numerous economic activities. These classifications include:

- (a) **Services and Employment:** This includes all forms of remuneration received from employment such as salaries, wages, bonuses, and allowances.
- (b) **Professional activities:** Income derived from professional services provided by craftspeople, artists, and athletes falls under this category. These activities are taxed based on the income generated from such engagements.
- (c) **Business activities:** This broad category captures income from the use, sale, lease, and transfer of both movable and immovable business assets. It also includes income from agricultural, fishing, and forestry activities.
- (d) **Permanent establishments:** Non-residents operating in Rwanda through a permanent establishment are liable to tax on the income generated from such establishments.
- (e) **Investment income:** This includes income from investments in shares of companies, sale or transfer of shares or debentures, and profits converted into shares, except for financial institution with paid-up capital below the minimum requirement set by the National Bank of Rwanda.
- (f) **Intellectual property:** Income from the transfer, sale, and lease of intellectual property rights is subject to taxation.
- (g) **Digital services and gaming activities:** With the advent of the digital economy, income from digital services and gaming activities is also recognized as a taxable source.
- (h) **Other income-generating activities:** Any other activities that generate income, which are not explicitly mentioned, are also included in the tax base.

It is important to note that all payments made by a resident of Rwanda on services performed abroad, other than those consumed abroad, constitute a taxable income. This ensures that the tax base is not eroded by cross-border services and aligns with international taxation principles.

AI.1.2 Residence Rules

Rwanda also employs a residency-based taxation system that delineates the taxable income of persons within its jurisdiction. Residents of Rwanda are subject to taxation on their world – wide income, which includes income from both local and foreign sources. While non-residents are taxed only on the income that is sourced within the borders of Rwanda.

This framework extends to corporate entities as well. Resident companies in Rwanda are obligated to pay taxes on their worldwide income. While non-resident companies are taxed only on income that arise from their permanent establishments situated in Rwanda.

Criteria for Individual Residency

An individual is considered a resident for tax purposes in Rwanda if they meet any of the criteria outlined in Article 4 of income tax law:

- **Permanent Home:** An individual with a permanent dwelling in Rwanda, such as a house or apartment that is consistently occupied, is considered a resident.
- **Habitual Abode:** The term ‘habitual abode’ refers to the primary location where an individual spends a significant portion of their time, even though Rwandan law does not explicitly define this term.
- **National Service:** Individuals representing Rwanda abroad in official capacities, such as ambassadors, are deemed residents.
- **Physical Presence:** A cumulative stay of 183 days or more in Rwanda within a tax period qualifies an individual as a tax resident. This duration includes both continuous and intermittent periods of stay, with any day ending in Rwanda contributing to the 183-day total.
- **Consistent Presence:** An individual present in Rwanda during the tax assessment period, who has also spent an average of more than 122 days in the country for each of the preceding two tax years, is classified as a resident for taxation purposes.

Criteria for Entity Residency

An entity is recognised as a resident of Rwanda if it satisfies any of the following conditions:

- **Incorporation:** The entity is incorporated or formed under the laws of Rwanda.
- **Management Location:** The entity’s effective management is conducted within Rwanda at any time during the tax period.

Effective management is assessed by examining various factors, including:

- The location where daily control and management are exercised.
- The venue where shareholder meetings are convened.
- The place where accounting records are maintained.
- The residency status of key shareholders and directors.
- The operation of a business within Rwanda through technological means, such as an online trading platform.

A1.2 Special tax regimes

There are special tax regimes for certain categories of taxpayers, such as micro-enterprises, transport operators, and taxpayers under the real and presumptive tax regime.

A1.2.1 Micro-enterprises – ‘flat tax’ regime

Micro-enterprises are taxpayers whose annual turnover does not exceed Frw12,000,000, and they are subject to a flat amount of tax ranging from Frw60,000 to Frw300,000 depending on their turnover. The Turnover, rounded down to the nearest Frw1,000, is used to determine the flat tax due as below:

Annual turnover (Frw)	Annual flat tax due (Frw)
Up to 2,000,000	Nil
2,000,001–4,000,000	60,000
4,000,001–7,000,000	120,000
7,000,001–10,000,000	210,000
10,000,001–12,000,000	300,000

A1.2.2 Transport operators

Transport operators are taxpayers who carry out road transport of persons or goods, and they are subject to a flat amount of tax ranging from Frw60,000 to Frw2,340,000 depending on the type and capacity of their vehicles.

Rates of income tax for vehicles transporting persons

Type of vehicle	Annual Tax (Frw)
Minibus 8 places: Rwf 12,000 x 8	96,000
Minibus 14 places: Rwf 12,000 x 14	168,000
Minibus 15 places: Rwf 12,000 x 15	180,000
Minibus 16 places: Rwf 12,000 x 16	192,000
Minibus 17 places: Rwf 12,000 x 17	204,000
Minibus 18 places: Rwf 12,000 x 18	216,000
Coaster 24 places: Rwf 12,000 x 24	288,000
Coaster 26 places: Rwf 12,000 x 26	312,000
Coaster 27 places: Rwf 12,000 x 27	324,000

Type of vehicle	Annual Tax (Frw)
Coaster 28 places: Rwf 12,000 x 28	336,000
Coaster 29 places: Rwf 12,000 x 29	348,000
Bus/Coaster 30 places: Rwf 12,000 x 30	360,000
Bus 40 places: Rwf 12,000 x 40	546,000

Rates of income tax for vehicles transporting goods

Type of vehicle	Annual Tax (Frw)
Vehicle with loading capacity of 1 ton	60,000
Hilux: 1.5 tons	90,000
Dyna/Isuzu/Toyota Stout (Four-wheel): 2 tons	120,000
Vehicle with loading capacity of 2.5 tons	150,000
Vehicle with loading capacity of 3 tons	180,000
Vehicle with loading capacity of 3.5 tons	210,000
Daihatsu/Dyna/Fuso/Isuzu (Six-wheel): 4 tons	240,000
Vehicle with loading capacity of 4.5 tons	270,000
Vehicle with loading capacity of 5 tons	300,000
Vehicle with loading capacity of 5.5 tons	330,000
Vehicle with loading capacity of 6 tons	360,000
Vehicle with loading capacity of 6.5 tons	390,000
Fuso Long chassis (Six-wheel) : 7 tons	546,000
Vehicle with loading capacity of 7.5 tons	585,000
Vehicle with loading capacity of 8 tons	624,000
Vehicle with loading capacity of 8.5 tons	663,000
Vehicle with loading capacity of 9 tons	702,000

Type of vehicle	Annual Tax (Frw)
Vehicle with loading capacity of 9.5 tons	741,000
Trucks: Fuso/Benz/Isuzu/Fiat. (Six-wheel): 10 tons	780,000
Vehicle with loading capacity of 11 tons	858,000
Vehicle with loading capacity of 12 tons	936,000
Vehicle with loading capacity of 13 tons	1,014,000
Vehicle with loading capacity of 14 tons	1,092,000
Trucks: Fuso/Benz/Isuzu/Fiat/... (Ten-wheel): 15 tons	1,170,000
Vehicle with loading capacity of 16 tons	1,248,000
Vehicle with loading capacity of 17 tons	1,326,000
Vehicle with loading capacity of 18 tons	1,404,000
Vehicle with loading capacity of 19 tons	1,482,000
Vehicle with loading capacity of 20 tons	1,560,000
Vehicle with loading capacity of 21 tons	1,638,000
Vehicle with loading capacity of 22 tons	1,716,000
Vehicle with loading capacity of 23 tons	1,794,000
Vehicle with loading capacity of 24 tons	1,872,000
Vehicle with loading capacity of 25 tons	1,950,000
Vehicle with loading capacity of 26 tons	2,028,000
Vehicle with loading capacity of 27 tons	2,106,000
Vehicle with loading capacity of 28 tons	2,184,000
Vehicle with loading capacity of 29 tons	2,262,000
Vehicle with loading capacity of 30 tons	2,340,000

Rates of income tax for other vehicles

Type of vehicle	Annual Tax (Frw)
Car (Taxi)	88,200
Motorcycle	72,000
Moped	36,000
Hearse/Private ambulance	100,000
Jeep/Loader/Break-down vehicle	307,200
Bulldozer	780,000

A1.2.3 Small businesses – ‘turnover tax’ regime

A small business is one with a turnover of between Frw12,000,001 and Frw20,000,000 per tax period.

The default tax system for a small business is a turnover tax, also known as the ‘lump sum’ regime. The

income tax liability for the year is based on 3% of total turnover, with no deduction for expenses or

allowances for assets.

Any small business may decide to opt out of the turnover tax and into the ‘real regime’ (i.e., taxation of trading profits as adjusted for tax purposes, covered later in this unit); this requires preparation of accounts in accordance with Generally Accepted Accounting Principles (GAAP). They must notify the tax administration of the decision, which is then irrevocable for three years from the date of making this notification.

If a small business opts out of the turnover tax, they may submit a request to the Minister of Finance for a simplified method of accounting to derive profit chargeable to income tax as provided by Ministerial Order 5/19/10/TC of 29/4/19. Taxpayers are only required to keep records of daily cash and credit sales and purchases, and a record of all cash transactions. This removes the need for full GAAP accounting.

Important point to note: In the case of agricultural and livestock activities only the excess (taxable) turnover is considered when determining the tax due under either the flat tax or turnover tax regimes.

Illustration

Jaden owns a farm in Bugesera where he practices agriculture and livestock farming. During the year ended 31/12/202X he received the following income.

Agricultural produce	Frw
Sale of milk	8,120,000
Sale of beans	7,500,000
Sale of Irish potato	4,200,000
Total revenue	19,820,000

Required: Compute his taxable income and tax liability.

Taxable income: Jaden is in agricultural and livestock business, therefore only the excess turnover of Frw7,820,000 [Frw19,820,000 – Frw12,000,000] is considered as taxable income when determining the tax due.

Tax liability: $3\% \times \text{Frw}7,820,000 = \text{Frw}234,600$

A1.2.4 Liberal professions

The turnover tax and flat tax systems do not apply to businesses carrying on by liberal professions, they instead must be taxed under the “real regime”.

A liberal profession is defined in Article 3 (26) Law N° 027/2022 as a profession practiced based on special skills in an independent manner in offering services to the clients. Therefore a liberal profession is characterised by the autonomous application of specialised knowledge and skills to provide services to clients. Individuals in these professions, such as lawyers, doctors, and architects, operate with a high degree of independence and professional judgment.

A1.2.5 Real regime

The real regime is used for larger companies with annual turnover above Frw20,000,000. The corporate income tax will be based on 28% of the company's taxable income.

For companies with annual turnover above Frw20,000,001 the real regime is used, and financial statements should be prepared.

A1.3 Complex personal income tax scenarios

Personal income tax is levied on various sources of income, such as employment, business, investment, capital gain, and immovable property. Some sources of income may involve complex scenarios, such as financial income, dividend income, royalty income, and rental income. Refer to the income tax act to refresh yourself about the applicable tax rates for each of these incomes.

A1.3.1 Financial income

Financial income includes interest, dividends, and proceeds from the sale or transfer of shares, and it is subject to withholding tax at the source at different rates depending on the nature and maturity of the instrument (refer to Article 60 (2) of law No.027/2022 – the income tax act), the residence status of the recipient, and the existence of double taxation agreements.

A1.3.2 Dividend income

Dividend income is subject to withholding tax at the rate of 15%, except for dividends from a resident company to a resident company, which are exempt from tax, and dividends received from a listed company, which are subject to withholding tax at the rate of 5%. The dividend is received net of taxes.

A1.3.3 Royalty income

Royalty income includes all forms of payments received or to be received for, Copyright Usage, Trademark, and Intellectual Property, Industrial, Commercial, or Scientific equipment use, natural resource exploitation. Royalty income is subject to withholding tax at the rate of 15%.

A1.3.4 Rental Income

Rental income includes income from the rental of land and buildings as well as rent of machinery and other equipment, including agriculture and livestock equipment. Rental income is recognised as a taxable form of income for individuals. It is important to note that the method used to calculate rental income varies depending on the type of property being rented.

Specifically, there is a distinction between the rental of land and buildings and the rental of machinery and equipment. The tax on rental income is categorised as a decentralised tax and it is paid to local district authorities rather than being submitted to the central government.

Rental income from land and buildings

To promote the upkeep of properties by landlords to a high standard, a form of relief is available for expenses incurred. This relief is provided in the form of an assumed expense (deemed expense), which is calculated to be 50% of the rental income. When the taxpayer produces the proof of bank interest payments on a loan for the construction or purchase of a rented property, a tax deduction is also allowed for the actual bank interest paid from the beginning of the rental period within the tax period.

Consequently, when determining the taxable income for rental income tax, the following formula is applied:

$$\text{Taxable Income} = \text{Rental Income} - (\text{Rental Income} \times 50\%) - \text{interest on bank loan (if any)}$$

This means that half of the rental income is considered as an expense, thereby reducing the taxable income by the same amount. This relief serves as an incentive for landlords to invest in the maintenance of their properties, ensuring that the housing standards remain high.

Rental income from machinery and equipment

The calculation of taxable income from the rental of machinery and equipment is as follows: gross rental income is reduced by:

- (a) 10% x gross revenue (as a deemed expense)
- (b) Interest paid on loans.
- (c) Tax depreciation expenses

Illustration

Mr. John Doe, a resident individual, has had a diverse financial year. He received:

- Frw10,000,000 in interest from corporate bonds,
- Frw5,000,000 in dividends from a resident company,
- Frw3,000,000 in dividends from a listed company, and
- Frw2,000,000 in royalties from a patent he licensed to a local company.

Additionally, Mr. Doe owns a building from which he earned Frw20,000,000 in rental income and machinery that he rented out for Frw15,000,000. He paid Frw1,000,000 in interest on a loan for the machinery and claimed tax depreciation expenses of Frw2,500,000 for the year.

Required: Calculate Mr. John Doe's total taxable income for the year, considering the various sources of income and the applicable tax treatments, including withholding taxes and deductions for rental income.

Answer: To calculate Mr. John Doe's total taxable income, we need to consider each source of income separately:

1. Financial Income:

- Interest income: Frw10,000,000 (subject to withholding tax at the source, rate not specified).

2. Dividend Income:

- Dividends from a resident company: Frw5,000,000 (subject to a withholding tax at 15%, which is Frw750,000).
- Dividends from a listed company: Frw3,000,000 (subject to withholding tax at 5%, which is Frw150,000).

3. Royalty Income:

- Royalties from a patent: Frw2,000,000 (subject to withholding tax at 15%, which is Frw300,000).

4. Rental Income from Land and Buildings:

- Gross rental income: Frw20,000,000
- Deemed expense: 50% of rental income ($\text{Frw}20,000,000 \times 50\% = \text{Frw}10,000,000$)
- Taxable rental income: $\text{Frw}20,000,000 - \text{Frw}10,000,000 = \text{Frw}10,000,000$

5. Rental Income from Machinery and Equipment:

- Gross rental income: Frw15,000,000
- Deemed expense: 10% of gross revenue (Frw15,000,000 x 10% = Frw1,500,000)
- Interest paid on loans: Frw1,000,000
- Tax depreciation expenses: Frw2,500,000
- Taxable rental income: Frw15,000,000 – Frw1,500,000 – Frw1,000,000 – Frw2,500,000 = Frw10,000,000

Total Taxable Income

	Income	Frw
1	Interest income: (withholding tax charged to investment income paid to an individual is final tax, hence this income should not be part of taxable income)	0
2	Dividends from a resident company: (as above)	0
3	Dividends from a listed company: (as above)	0
4	Royalties: (as above)	0
5	Taxable rental income (land and buildings)	10,000,000
6	Taxable rental income (machinery and equipment)	10,000,000
	Total Taxable income	20,000,000

A1.4 Employed vs self-employed.

The determination of whether an individual is contracted on an employed or self-employed basis is important for tax purposes, as it affects the computation of taxable income, the deduction of expenses, the payment of social security contributions, and the withholding of tax at source.

The differentiation hinges on the nature of the contractual relationship between the worker and the hiring entity, which can be categorised as either a contract of service (employment) or a contract for services (self-employment).

Contractual Relationships

A contract of service typically signifies an employment relationship where the employer exerts a certain degree of control over the employee. This control includes not only the work outcomes but also the way the work is performed. On the other hand, a contract for services suggests a business-to-business relationship where the self-employed individual retains control over how the service is delivered, subject to fulfilling the contract terms.

Factors Indicating Employment

Several factors are indicative of an employment relationship, and these include:

- 1. Control:** The level of control exercised by the employer over the worker is a primary indicator. An employee is often subject to the employer's direction regarding how, when, and where to work.
- 2. Obligation for Work:** If the worker is expected to accept additional work when offered, and the employer is obliged to provide such work, this mutual dependency is characteristic of employment.
- 3. Employment Benefits:** Entitlement to benefits such as sick leave, holiday pay, and pension contributions are signs of an employment relationship.
- 4. Exclusivity:** Employees typically work for a single employer, which further solidifies their status as part of the organization.

Factors Indicating Self-Employment

In contrast, self-employment is characterised by a greater degree of independence and the following factors:

- 1. Provision of Equipment:** Self-employed individuals usually provide their own tools or equipment necessary to complete the job.
- 2. Hiring of Assistants:** The ability to hire others to assist in the work without the need for the client's approval suggests self-employment.
- 3. Financial Risk:** Self-employed individuals bear the financial risks associated with their business activities, which can include the potential for loss.
- 4. Investment and Management:** Those who are self-employed typically have a significant responsibility for investment and management within their business operations.
- 5. Profit from Management:** The potential to profit from the management and efficiency of their work is a strong indicator of self-employment.
- 6. Flexibility of Work:** The freedom to choose when and where to work, without being subject to an employer's schedule, points to self-employment.
- 7. Variety of Clients:** Working for multiple clients or organizations is a common feature of self-employment, as opposed to the exclusivity seen in employment.

Therefore, the distinction between employment and self-employment is complex and must be determined by examining the totality of the engagement's facts. This differentiation is crucial for tax purposes, as it affects the computation of taxable income, the applicability of various deductions, and the responsibility for tax payments.

However, while the above factors provide a framework for distinguishing between employment and self-employment, it is important to note that each case must be evaluated on its own merits. The complexity of these determinations is beyond a simple checklist approach and often requires a nuanced analysis of the working relationship.

The tax implications of being employed or self-employed are as follows:

Aspect	Employed (Salaried Individuals)	Self-Employed (Business Owners/ Independent Contractors)
Tax Authority Registration	Typically handled by the employer. The employer registers with the RRA and withholds taxes accordingly.	Self-employed individuals must register with the RRA themselves and are responsible for filing and paying their taxes.
Tax Rates	Progressive tax rates apply based on income brackets.	Liberal professionals are excluded from lump sum and flat tax regimes are instead covered under the real tax regime despite the turnover. If not considered a liberal professional, real, lumpsum or flat tax regime will apply based on the turnover of the business.
Tax Deductions	Transport allowances only deductible on social security contributions.	A wider range of business expenses are deductible, including costs directly related to the generation of income.
Tax Filing	The employer is responsible for withholding and remitting PAYE (Pay As You Earn) taxes monthly.	Self-employed individuals must make quarterly prepayment tax and file an annual final tax declaration.
Social Security Contributions	Both employer and employee contribute to the Rwanda Social Security Board (RSSB).	Self-employed individuals must make their own arrangements for social security contributions.
Health Insurance Contributions	Contributions are typically shared between employer and employee.	Self-employed individuals are responsible for their own health insurance contributions.
Tax Compliance	Compliance is largely the responsibility of the employer, who must ensure accurate withholding and timely remittance of taxes.	Self-employed individuals are solely responsible for their tax affairs, including keeping accurate records and meeting all filing deadlines.

Aspect	Employed (Salaried Individuals)	Self-Employed (Business Owners/ Independent Contractors)
VAT Obligations	Not applicable to employees.	Self-employed individuals providing taxable supplies may need to register for VAT if their turnover exceeds the VAT registration threshold. (ie. taxable turnover of Frw 20m in the previous fiscal year or Frw 5m in the preceding calendar quarter.
Withholding Tax on Services	Not applicable to employees.	Self-employed individuals may be subject to withholding tax on certain services provided, which is deducted by the client at the point of payment.
Tax Audits and Assessments	The employer is subject to audits regarding employment taxes.	Self-employed individuals are subject to audits on their business and tax filings.

A1.5 Employment income computations

Employment income is the income derived by an individual from the performance of services under a contract of employment or any other contract that provides for similar conditions. Employment income includes:

1. Wages, salary, leave pay, sick pay and medical allowance, payment in lieu of leave for an employee who stops working before benefiting from his/her annual leave, sitting allowances, commissions, bonuses and gratuity, allowances relating to the cost of living, subsistence allowances, housing allowances, benefits in kind and entertainment or travel allowances;
2. Any discharge or reimbursement of expenses incurred by the employee or an associate;
3. Payments to the employee working in exceptional conditions of employment;
4. Payments for redundancy or loss or termination of contract;
5. Pension payments;
6. Other payments made in respect of previous, current or future employment.

Benefits in Kind

Benefits in kind are non-cash benefits provided by the employer to the employee, such as housing, motor vehicle, loan, medical insurance, or school fees for employee's dependants. Under Article 18 of Law 027/2022, various benefits in kind provided to employees are considered part of their taxable employment income. These benefits are assessed based on their market value and are added to the employee's income for tax purposes. It is worth noting that share based payments, despite being a benefit in kind, are exempt from tax in Rwanda provided employee's proportion of the company's share capital is less than 10%.

1. Motor Vehicle Usage

For the use of a motor vehicle provided by an employer, an amount equivalent to ten percent (10%) of the employee's income, excluding benefits in kind, is added to the taxable income. This reflects the value of having access to a vehicle during the tax period.

- Illustration 1: An employee with a monthly income of Frw620,000 receives vehicle use, the taxable benefits is calculated as follows:
- Vehicle use: $10\% \text{ of Frw620,000} = \text{Frw62,000}$

2. Loan and Salary Advances

Benefits derived from loans or salary advances are also taxable. Specifically, if an employee receives a loan or a salary advance that exceeds three months' worth of salary, the taxable benefit is calculated as the difference between the hypothetical interest that would have been paid at the interbank rate and the actual interest paid by the employee. The interbank rate is the rate of interest offered to commercial banks by the National Bank of Rwanda.

- Illustration 2: An employee receives a loan of Frw10,000,000 at 12% interest, while the interbank rate is 15%. The taxable benefit is calculated as $(15\% - 12\%) \times \text{Frw10,000,000}$, resulting in Frw300,000.
- Illustration 3: John gets a salary advance of Frw8,000,000, repayable within a year, with no interest charged. His monthly gross salary is Frw1,500,000, and the interbank rate is 8%. The taxable benefit is computed by subtracting the exempted three months' salary ($\text{Frw1,500,000} \times 3$) from the advance and applying the interbank rate to the remainder, resulting in a taxable benefit of Frw280,000.

3. Housing Benefits

The value of housing provided to an employee, which may include household equipment, is added to taxable income at a rate of twenty percent (20%) of the employee's income, excluding benefits in kind. Direct payments by an employer for an employee's house rent are taxed as per Article 15 of Law 027/2022.

- Illustration 4: An employee with a monthly income of Frw620,000 receives housing, vehicle use, and an interest-free loan of Frw2,400,000. With an interbank rate of 10%, the taxable benefits are calculated as follows:
- Housing: $20\% \text{ of Frw620,000} = \text{Frw124,000}$
- Vehicle use: $10\% \text{ of Frw620,000} = \text{Frw62,000}$
- Interest benefit: $10\% \text{ of Frw2,400,000} \times 1/12 \text{ (for one month)} = \text{Frw20,000}$
- Total taxable income: $\text{Frw620,000 (base income)} + \text{Frw124,000 (housing)} + \text{Frw62,000 (vehicle use)} + \text{Frw20,000 (interest benefit)} = \text{Frw826,000}$

4. Domestic Employees

The cost of domestic employees paid for by the employer is considered a benefit to the employee and is added to their taxable employment income.

5. School Fees

School fees paid by the employer for an employee's children are treated as a benefit to the employee and are included in the calculation of taxable employment income. Payments made by the employer towards the training of the employee in the course of doing business are not regarded as benefits in kind and are usually not taxed in the hands of the employee.

6. Other Benefits or Assistance

Any other benefits received by an employee due to their job, or any assistance provided to their family members, are regarded as benefits, and must be added to the employee's taxable employment income.

Exclusions from Taxable Employment Income

Under Article 16 of Law No.027/2022, certain payments are specifically exempted from employment income tax. These are as follows:

- Reimbursements or payments made to cover expenses that an employee or their associate incurs, which are solely related to the business operations of the employer.
- Expenses that are, or would be eligible to be, deducted when calculating the employer's income from all their business endeavours.
- Employer contributions to the social security public institution on behalf of the employee.
- Pension distributions originating from the social security public institution or from a pension fund that meets the necessary qualifications.
- Remuneration for services rendered within Rwanda by a non-Rwandan citizen, which is paid by a foreign government or a non-governmental organization pursuant to an agreement with the Rwandan Government. This also includes employment income paid to a non-resident individual by an employer with no residency in Rwanda for services performed within Rwanda, provided these services are not associated with a permanent establishment of the employer in Rwanda.

Individuals Exempt from Employment Income Tax

In accordance with international agreements referenced in Article 16 of the income tax law, certain individuals are granted exemption from employment income tax in Rwanda due to the nature of their official duties. Article 17 of Law 027/2022 further clarifies that the following individuals are exempt:

- Foreign representatives of their respective countries stationed in Rwanda.
- Personnel employed by an embassy, legation, consulate, or mission of a foreign state who are engaged in state affairs, provided they are nationals of said state and possess a diplomatic passport.
- Non-citizen individuals working for an international organization that has entered into an agreement with the Rwandan Government, in line with Rwandan legal provisions.

Pension Scheme Overview

A pension scheme is a program instituted by the government to provide financial support to individuals who are elderly, incapacitated due to military service, or disabled as a result of their occupation. Additionally, such schemes can be set up by a person's previous employer as a reward for many years of dedicated service. In contrast, a provident fund scheme is initiated by an organization and serves a similar purpose.

Pension Contributions Explained

In the context of employment, an employer may contribute to an employee's pension scheme as a component of the overall employment benefits package. These contributions are considered exempt benefits for the employee, meaning they are not subject to taxation as a form of income. The contributions are as presented below.

	Employer	Employee
Pension	3%	3%
Occupation hazards	2%	0%
Maternity Leave Benefit	0.3%	0.3%
Total	5.3%	3.3%

Note: Tax base = Gross salary – transport allowance + benefits in kind

On January 1, 2025, the total contribution rate will move from 6% to 12%, This increase will be shared evenly between employers and employees, plus an existing 2% for occupational hazard on employer side.

Additionally, the definition of pensionable salary will be expanded to include transport allowances, which are currently excluded. Further incremental increases of 2% per year will begin in 2027, with the total rate reaching 20% by 2030.

Criteria for a Qualified Pension Fund

A qualified pension fund is characterized by adherence to specific criteria, which include:

- Establishment in accordance with the laws of Rwanda;
- Operation with the primary objective of disbursing pension payments to individuals residing within the country;
- Possession of effective management located within Rwanda for any duration within the tax period.

A2: Advanced Company Tax Liabilities

Corporate restructuring is the process of changing the legal or organizational structure of a company, such as by merging, acquiring, splitting, or liquidating. There are different tax implications for the transferring and receiving companies, as well as for the shareholders, depending on the type and mode of restructuring.

A2.1 Corporate Restructuring and Taxation

One of the main tax issues in corporate restructuring is the valuation and taxation of capital assets, such as land, buildings, machinery, vehicles, and intangible assets. Capital assets are subject to corporate income tax (CIT) when they are disposed of, either by sale, exchange, or transfer. CIT is calculated on balancing charge which can be determined by deducting the tax base of the asset from the consideration received or deemed to be received. The tax base of an asset is its cost of acquisition, plus any improvement costs, minus any depreciation or amortization allowed – in other words known as a Tax Written Down Value (TWDV). We discuss this topic further in detail under Unit E2.3.

A2.2 Complex Corporate Tax Scenarios (tax of foreign income, Reliefs, and losses)

Taxation of foreign sourced income

Income tax rules for foreign sourced income vary depending on the residence status of the taxpayer, the type of income, and the existence of any double taxation agreements (DTAs) between Rwanda and the source country.

A resident taxpayer is liable to income tax on their worldwide income, including income from foreign sources. However, the tax liability is reduced by the amount of foreign tax paid on the same income, subject to a limit of the Rwandan tax payable on that income. This is known as the foreign tax credit method, which aims to avoid double taxation of the same income in both countries.

A non-resident taxpayer is only liable to income tax on their income from sources in Rwanda. The income from sources in Rwanda includes but not limited to income from a permanent establishment, income from immovable property, dividends, interest, royalties, management or technical fees, and capital gains. The tax is usually withheld at source by the payer, unless the income is attributable to a permanent establishment, in which case the taxpayer must file a tax return and pay the tax due.

The tax treatment of foreign sourced income may also be affected by the provisions of any DTAs that Rwanda has signed with other countries. A DTA allocates the taxing rights and obligations of the contracting states with respect to cross-border income flows and provides relief from double taxation through either the exemption or the credit method. The DTAs generally follow the OECD Model Tax Convention, which assigns the primary taxing right to the source country, and the secondary taxing right to the residence country, subject to certain exceptions and limitations.

To apply the income tax rules to more complex scenarios involving foreign sourced income, the taxpayer should follow these steps:

- Identify the type and source of the income;

- Determine the residence status of the taxpayer and the existence of any permanent establishment;
- Check the relevant DTA, if any, for the allocation of taxing rights and the method of relief from double taxation;
- Compute the taxable income and the tax liability in both countries, taking into account any deductions, exemptions, credits, or allowances;
- Claim the foreign tax credit or the exemption, as applicable, in the residence country.

Reliefs and losses

Reliefs and losses are important aspects of income tax, as they affect the computation of taxable profits and tax liability. In this topic, we will cover the following subtopics:

- Loss carried forward
 - Loss relief against general income
 - Capital losses
 - Double taxation relief
1. Loss carried forward: According to Article 31 of Law 027/2022, if a company incurs a loss in a tax period, it can deduct the loss from its business profit in the next five tax periods, subject to certain conditions. However, the Tax Administration may authorise the company to carry forward the loss for more than five tax periods, if the taxpayer applies and meets the requirements determined by an Order of the Minister.

Illustration

Below is a structured table that presents the profits and losses over a five-year period for a company, along with the calculation of taxable profits and the loss carried forward (c/f) for each year. The table considers the utilization of losses from previous years against the profits of subsequent years, adhering to the principle that earlier losses are deducted before later losses.

Year	Profit/(Loss)	Taxable Profit	Loss c/f
1	(1,000,000)		1,000,000
2	2,500,000	1,500,000	0
3	(500,000)	–	500,000
4	3,000,000	2,500,000	0
5	1,500,000	1,500,000	0

Explanation of the Table:

- In Year 1, the company incurred a loss of 1,000,000, which is carried forward to the next year.
- In Year 2, the company made a profit of 2,500,000, from which the loss of 1,000,000 from Year 1 is deducted, resulting in a taxable profit of 1,500,000, and no loss is carried forward.

- Year 3 again records a loss of 500,000 which is carried forward to Year 4.
 - In Year 4, the company's profit is sufficient to fully absorb the loss from Year 3, leaving a taxable profit of 2,500,000 and no loss to carry forward.
 - Finally, in Year 5, the company has a profit of 1,500,000 with no losses to carry forward, resulting in a taxable profit of the same amount.
2. Loss relief against general income: In some cases, a company may claim loss relief against its general income, which is the aggregate of its various sources of income and its chargeable gains, before deducting losses and gift aid donations. This type of loss relief is available for:
- Trading losses which can be offset against general income of the same year or the next five years, subject to certain conditions and limits.
 - Property losses which can be offset against property income of the same year or the next five years, subject to certain conditions and limits.

On the other hand, Capital losses on shares can be offset against capital gains of the same year or carried forward for the next five years subject to certain conditions and limits.

For example, if a company has the following income and losses for two years:

Description	Year 1	Year 2
Income		
Trading Profit	2,000,000	3,000,000
Property Income	1,000,000	2,000,000
Chargeable Gains	500,000	1,000,000
Total income	3,500,00	6,000,000
Losses		
Trading Loss	(3,000,000)	0
Property Loss	(500,000)	0
Capital Loss on	(1,000,000)	0
Total Losses	(4,500,000)	
Taxable Income		
General Income	3,000,000	5,000,000
Loss brought Forward	(3,000,000)	(500,000)
Taxable Income	0	4,500,000

Description	Year 1	Year 2
Loss Relief		
Loss Relief Utilized	3,000,000	500,000
Loss Carried Forward	500,000	0
Capital income		
Capital income	500,000	1,000,000
Loss brought forward	(500,000)	(500,000)
Taxable income	0	500,000
Loss Relief		
Loss Relief Utilised	500,000	500,000
Loss Carried Forward	500,000	0

This table provides a clear summary of the company's financial situation over the two years, showing how the various types of income and losses interact to determine the taxable income and the application of loss relief.

Notes:

The trading loss in Year 1 is fully utilized against the general income of Year 1 and the balance of Frw500,000 is carried forward and utilized against the chargeable gains of Year 2.

Double taxation relief:

If a company derives income or gains from foreign sources, it may be subject to tax in both Rwanda and the foreign country. To avoid or reduce double taxation, the company may claim double taxation relief, which is a credit for the foreign tax paid against the Rwandan tax liability on the same income or gains, subject to certain conditions and limits (See Unit D3 for details on double taxation relief)

A2.3 Special Incentives for Registered Investors

Tax incentives are measures that reduce or eliminate the tax liability of certain taxpayers or activities to achieve specific economic or social objectives. In Rwanda, the Law N° **006/2021 dated February 5, 2021** relating to investment promotion and facilitation provides for a system of special incentives for registered investors who contribute to the national development.

The special incentives for registered investors include preferential tax rates, tax holidays, tax exemptions and refunds, and other non-tax benefits. These incentives are granted

according to the sector, location, and size of the investment, as well as the contribution to employment, exports, innovation, and social welfare. The incentives are detailed in Annexes of the Law and are subject to the fulfilment of certain requirements and conditions (See Unit E1.1, E1.3, E2.2 for detailed review on special incentives)

A2.4 Tax Treatment of Long-Term Contracts

The tax treatment of long-term contracts in Rwanda is based on the percentage of completion method, which recognizes revenue and expenses proportionally to the degree of work done in each tax period. This method applies to contracts that are not completed in the tax period in which they commenced, or that are estimated to take more than 12 months to complete. Long term contracts are governed by Article 23 of law no. 027/2022.

Determining percentage of completion

The percentage of completion can be calculated by comparing the total expenses allocated to the contract and incurred before the end of the tax period with the estimated total contract expenses, including any variations or fluctuations, or by comparing the value of the work certified and the contract price. For example, if a contract has an estimated cost of Frw100 million and a contract price of Frw120 million, and the contractor has incurred Frw40 million of expenses by the end of the tax period, the percentage of completion is 40% ($40/100$) and the revenue recognized is Frw48 million ($40\% \times 120$).

Deductible expenses on long term contracts

The expenses that are deductible for tax purposes are those that are directly related to the contract and are matched with the revenue recognized in the same tax period. These include salaries and wages, materials, rent or hire of machinery, utilities, fuel, communication, and other miscellaneous expenses.

Taxable income

The taxable income for the contractor is the difference between the revenue recognized and the expenses deducted in each tax period. The tax liability is the product of the taxable income and the applicable tax rate, which is 28%. The tax liability is reduced by the withholding tax paid by the contractor during the tax period.

A loss in the tax period in which a long-term contract is completed can be carried back and offset against previously taxed business profit from that contract to the extent that it cannot be absorbed by business profit in the tax period of completion. Alternatively, the loss can be carried forward and offset against future profits for a period of five years.

Illustration

Dorp Construction Company Limited entered a contract with the government of Rwanda to construct a road from Ngororero to Kigali for a contract price of Frw 100,000,000,000. The withholding tax on Government contracts is 3%. The company's cost accountant estimated a cost of Frw 78,000,000,000 to complete the job. The company estimated to finish the road in two years. On 1st January 2015, the company started the construction of the road. By 31/12/2015, the company had only reached Muhanga. The following costs had been incurred up to Muhanga.

Items	Costs (Frw)
Purchase of materials	20,500,000,000
Salaries and wages	15,780,000,000
Two heavy trucks	600,000,000
Communication	40,000,000
Rent of machinery	850,000,000
Utilities	420,000,000
Fuel	2,500,000,000
Other miscellaneous expenses	1,000,000,000

Required: Compute the taxable income and the tax liability of the company for the year ended 31/12/2015.

Solution:

Computation of taxable income and tax liability of Dorp Construction Company Limited for the year ended 31/12/2015.

Particulars	Workings	Amount (Frw)
Contract price		100,000,000,000
Estimated cost		78,000,000,000
Costs incurred during the period		54,691,800,000
Percentage of completion	Costs incurred / Estimated cost	70.12%
Revenues accruing to the period	Percentage of completion x Contract price	70,120,000,000
Less allowable expenses		
Purchase of materials		(20,500,000,000)
Salaries and wages		(15,780,000,000)
Communication		(40,000,000)
Rent of machinery		(850,000,000)
Utilities		(420,000,000)

Particulars	Workings	Amount (Frw)
Fuel		(2,500,000,000)
Other miscellaneous expenses		(1,000,000,000)
Capital allowance	$25\% \times 600,000,000$	(150,000,000)
Taxable income		28,880,000,000
CIT	$28\% \times 15,879,200,000$	8,086,400,000
Less withholding tax	$3\% \times 70,120,000,000$	(2,103,600,000)
Tax payable		5,982,800,000

A2.5 Taxation of financial institutions (i.e Banks, Insurance Companies etc)

Taxation of Banks

The taxation of banks in Rwanda is governed by the same tax laws that apply to other corporate entities. Banks are subject to a corporate tax rate of 28%, and the rules for allowable and disallowable deductions are consistent with those for non-financial service companies. One notable exception in the banking sector is the non-applicability of thin capitalization rules in which there is no restriction for interest deductibility for tax purposes based on the proportion of debt to equity.

Banking activities and definitions

A bank is essentially a financial institution that accepts deposits and provides loans and investment services. The core functions of a bank cover a variety of services, including:

- Safekeeping of customer deposits and facilitating withdrawals
- Issuance of cheque books to streamline the payment and settlement processes
- Provision of personal, commercial, and mortgage loans
- Issuance of credit cards and management of credit transactions
- Execution of wire transfers and electronic funds transfers between banks
- Setting up of standing orders and direct debits for automatic payments
- Offering overdraft facilities to customers on their current accounts
- Delivery of internet banking services
- Assurance of a customer's creditworthiness
- Acceptance of customer deposits and extension of credit facilities
- Provision of money and capital market services, including foreign exchange and stock brokerage
- Generation of fee-based income through various commission-earning activities
- Engagement in trade financing

The term “commercial bank” is used to differentiate these institutions from other types of banks (investment banks, development banks, etc).

Income Streams

The primary source of income for banks is derived from interest and similar income. According to International Financial Reporting Standards (IFRS), interest revenue is recognized when it is likely that economic benefits will accrue to the bank and the revenue can be measured reliably. This includes interest earned on various financial instruments such as loans, advances, treasury bills, development bonds, and other bank balances. Banks also incur financing costs, notably interest paid on savings accounts, term deposits, or deposits from other banks. Interest income or expense is recorded on the income statement using the effective interest rate method. This rate is calculated to discount the estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or liability. The calculation includes all contractual terms and any fees or incremental costs that are directly attributable to the instrument, excluding future credit losses.

Banks also generate fee and commission income from a wide array of services provided to customers. This income is accrued over the period the services are provided and includes:

- Fees for local and international cash transfers
- Credit-related fees and commissions
- Ledger fees for current accounts
- Commissions on loan services
- Commissions on guarantees and letters of credit
- Fees from electronic banking transactions

These fees are netted against related expenses to determine the net fees and commissions. Additionally, banks earn other operating income with tax implications, such as gains from the sale of property and equipment, income from foreign exchange transactions, rental income, and miscellaneous income.

Expenses

The following are key expense items for banks that are relevant for taxation:

1. **Interest Expense:** This includes interest paid on client deposits or placements with other banks. However, despite being a deductible expense, interest that banks or deposit-taking microfinance institutions operating in Rwanda pay to banks or other foreign financial institutions will not be subject to withholding tax.
2. **Provision for Bad Debts:** As per IFRS 9 and BNR regulations, banks must assess their financial assets for impairment at each reporting date and make provisions for bad debts. Banks can deduct any increase of the mandatory reserve for non-performing loans (provision for bad debts) as required by the directives related to management of loans of the National Bank of Rwanda.
3. **Staff Expenses:** These are disclosed separately in the financial statements.
4. **IT and Consultancy Fees:** Banks incur significant expenses for IT and consultancy services, often resulting in reverse VAT and withholding tax implications, especially when payments are made to non-resident persons.

5. **Management Fees:** Local banks that are part of regional or international groups may pay for technical or management services provided by non-resident related parties, which are disclosed in the financial statements.
6. **Provisions:** Beyond bad debt provisions, banks may also set aside funds for other expenses such as litigation, in compliance with IAS 39.
7. **Other Expenses:** Additional expenses are detailed in the notes to the financial statements.

In summary, while banks follow the same tax laws as other companies, their income streams and expense items have specific characteristics and implications that are essential for students preparing for CPA Rwanda taxation exams to understand.

Taxation of Insurance Companies

Key Terms in Insurance Sector

1. **Reinsurance** is a concept where an insurance company, known as the direct insurer, transfers a portion of the risks it has assumed through an insurance contract or legal provision to another insurer, the reinsurer. The reinsurer does not have a direct contractual relationship with the insured. This process is crucial for the direct insurer to limit annual fluctuations in losses and to secure protection in the event of a catastrophe. The direct insurer cedes a part of the premium received from the policyholder to the reinsurer.
2. **General Insurance** includes all insurance types excluding long-term business. This includes fire, marine, motor, accident, and other miscellaneous non-life insurance categories. The income for general insurance business primarily consists of gross premiums, net of premiums ceded to reinsurers. Additional income streams include commissions earned from business transferred to reinsurers, investment income such as rent, and other revenues like insurance policy fees.
3. **Commission on Reinsurance Ceded** refers to the commission an insurance company receives from other insurers or reinsurers for acting as their agent.
4. **Commission on Reinsurance Accepted** is the commission an insurance company pays to other insurers or reinsurers for acting as their agent and accepting business.
5. **Reserves for Unexpired Risks or Unearned Premium** represent the premiums received for insurance contracts that are still active at the end of the financial year. These reserves are held to cover potential risks that may occur during the policy period.
6. **Premium** is the payment made by the insured to the insurer in exchange for coverage.
7. **Bonuses** are a share of profits distributed to policyholders, typically in life insurance policies. They can be in the form of a cash bonus, which is paid out directly, or a bonus in the form of a premium reduction, where the bonus is used to decrease the future premium payments.

Determining the Taxable Income of Insurance Companies

The taxation of insurance companies involves treating the life insurance business as distinct from other types of insurance business. For non-life insurance business, the taxable gains or profits include:

- Gross premiums, after deducting any premiums returned to the insured and

premiums paid for reinsurance.

- Other income such as commissions or expense allowances from reinsurers and investment income.
- Adjustments for reserves for unexpired risks from the previous year.

Expenses that can be deducted include:

- Additional reserves for unexpired risks from the previous year.
- Claims admitted, net of recoveries from reinsurers.
- Agency expenses.
- Other permissible expenses.

The taxable income calculation considers:

- Gross premiums.
- Commissions or expense allowances received or due, i.e., commission ceded.
- Investment income from the general insurance fund.
- Bonuses received.
- Recoveries from reinsurers.
- Reductions in premiums for unexpired risks or unearned premiums, provided these are calculated using actuarial principles.

Allowable Deductions include:

- Claims admitted for the current year.
- Agent fees and commissions paid.
- Other permissible expenses.
- Increases in provisions for unexpired risks, estimated using actuarial principles.
- Reinsurance premiums paid.

Proforma for Taxable Income Calculation

To calculate the taxable income of an insurance company, one would list all incomes and allowable deductions as follows:

Description	Amount Frw
Incomes	
Gross premium	1,000,000,000
Less: Premium returned	(50,000,000)
Commission on reinsurance ceded	20,000,000

Description	Amount Frw
Recoveries from insurance claims	15,000,000
Bonus in reduction of premium	5,000,000
Reduction in expired risks	10,000,000
Unearned premium	25,000,000
Total Income	1,025,000,000
Deductions Allowed	
Claims payable for the year	(200,000,000)
Commission accepted	(30,000,000)
Reinsurance premium paid	(150,000,000)
Management expenses	(100,000,000)
Agency fees	(20,000,000)
Increase in provision for unexpired risks	(50,000,000)
Total Deductions	(550,000,000)
Taxable Income	475,000,000

The trading income is then calculated by subtracting the total deductions from the total income. Other sources of income such as rental income, dividends, interest, and others are added to arrive at the taxable trading income.

Insurance companies are subject to corporate tax at a rate of 28%, like other companies.

Life Insurance Business Taxation

The income from life insurance business includes:

1. Investment income from the life insurance fund, excluding the portion related to annuity funds, after deducting management expenses and commissions. Investment income is comprised of dividends and interest but excludes dividends from resident companies.
2. Interest received by the company upon the surrender of policies or the return of premiums, except for premiums related to registered annuity contracts, registered trust schemes, or registered pension funds.

A2.6 Tax-Avoidance Provisions

Tax-avoidance provisions are rules that aim to prevent taxpayers from reducing their tax liability by exploiting loopholes or inconsistencies in the tax laws. These provisions are part of the general anti-abuse rules that empower the tax administration to adjust the tax base or the tax rate of taxpayers who engage in avoidance arrangements.

Thin Capitalisation rule

One of the tax-avoidance provisions in Rwanda is the thin capitalisation rule, which limits the deductibility of interest paid on loans between related persons. This rule applies when the total loans between related persons exceed four times the amount of paid-up equity, excluding provisions or reserves and retained earnings. The interest paid or due on the excess loans is not deductible for corporate income tax purposes, and the realised foreign exchange loss arising from such loans is also not deductible. The thin capitalisation rule aims to prevent taxpayers from shifting profits to low-tax jurisdictions or related persons by inflating their debt financing and interest expenses.

Illustration

Ineza Company Ltd, resident in Rwanda has a paid-up share capital of RWF 100 million. In 2023, the company had a loan from its holding company in Egypt, the outstanding loan amount was RWF 500 million and the company accrued an interest of RWF 50 million during that year. What is the deductible amount of interest for tax purposes?

Thin Capitalisation Rule applies where Rwanda allows interest deductions only if loans are up to 4 times the equity.

Calculation:

Maximum loan allowed: $4 \times \text{Frw}100 \text{ million} = \text{Frw}400 \text{ million}$

Excess loan: $\text{Frw}500 \text{ million} - \text{Frw}400 \text{ million} = \text{Frw}100 \text{ million}$

Deductible interest: $(\text{Frw}400 \text{ million} / \text{Frw}500 \text{ million}) \times \text{Frw}50 \text{ million} = \text{Frw}40 \text{ million}$

Conclusion:

Frw40 million of the interest accrued is tax-deductible.

Forfeiting of tax losses rule

Another tax-avoidance provision in Rwanda is the forfeiting of losses rule, which disallows the carry forward of losses for taxpayers who change their ownership or control directly or indirectly by more than 25% in a tax period provided the taxpayer's shares are traded in the recognised stock exchange. The forfeiting of losses rule aims to prevent taxpayers from acquiring loss-making companies or assets for the sole purpose of offsetting their taxable income with the losses of the acquired entities.

Restriction of deductibility of management, technical and royalty fees

A third tax-avoidance provision in Rwanda is the restriction of payment of management, technical and royalty fees to non-resident related party to 2% of the company's turnover. This rule applies to the aggregate of expenses of management activities, technical services and royalty fees paid to a non-resident related person. The payment of such expenses exceeding 2% of the turnover of the taxpayer is not deductible for corporate income tax purposes. The restriction of payment of management and technical fees, royalty to non-resident related party to 2% of the company's turnover aims to prevent taxpayers from eroding their tax base by transferring excessive or artificial payments to related persons in low-tax jurisdictions or tax havens.

Transfer pricing rule

A fourth tax-avoidance provision in Rwanda is the transfer pricing rule, which requires related persons involved in controlled transactions to apply the arm's length principle. This principle means that the prices and profits of the transactions between related persons should be consistent with those that would have been agreed by independent parties under comparable circumstances. The tax administration can adjust the transaction prices or profits of related persons if they do not comply with the arm's length principle, based on the general rules on transfer pricing. The transfer pricing rule aims to prevent taxpayers from manipulating the prices or profits of transactions between related persons to shift income to low-tax jurisdictions or reduce their tax liability.

Anti-Abuse Regulations on Tax Avoidance Schemes

Rwanda has implemented anti-abuse tax rules to prevent avoidance arrangements. These rules apply when transactions between parties include any of the following:

- Transactions primarily aimed at gaining tax benefits.
- Transactions lacking a genuine business purpose.
- Transactions that establish rights or obligations not typical for independent parties.
- Transactions potentially misusing Rwanda's tax laws.

If such an avoidance arrangement is identified, the Tax Administration has the authority to take corrective measures. These measures may include:

- Ignoring the tax avoidance arrangement entirely.
- Reclassifying the nature of transactions for tax purposes.
- Disallowing or adjusting any income, losses, deductions, credits, or exemptions.
- Treating separate entities as related or as a single entity for tax assessment.

A3: Value Added Tax (VAT)

Value added tax (VAT) is a tax on the consumption of goods and services supplied in Rwanda or imported into Rwanda. It is levied at the standard rate of 18% or at the reduced rate of 0% for some zero-rated supplies or completely exempt for some goods and services.

A3.1 VAT Registration Requirements

A taxable activity is any activity that involves the supply of goods or services for a consideration, whether or not for profit, and includes any such activity carried out by a public authority or a non-governmental organization.

A person who carries out a taxable activity in Rwanda is required to register for VAT if his or her annual turnover exceeds or is expected to exceed Frw20 million (i.e Frw5 million in a quarter). The registration must be accomplished within 7 days from the end of that calendar year or quarter. If the business is newly formed, it may operate up to 3 months without registering for VAT. However, as soon as the taxable transactions reach Frw5,000,000 or more, it must be registered any time before the end of the 3 month period. If a person has different branches in the same or different locations, the person shall combine all the activities and register as one single taxable unit.

A person who does not meet the registration threshold for VAT may voluntarily apply for registration if he or she meets the conditions prescribed by law. The Commissioner General may also register a person for VAT if he or she has reasonable grounds to believe that the person is liable or will become liable for registration.

A person who is registered for VAT or who is required to register for VAT will be provided with a certificate of registration that is issued electronically by the RRA and contains the taxpayer's identification number, name, address, and date of registration.

A person who is registered for VAT or who is required to register for VAT must also issue a VAT invoice – which is an electronic invoice using an approved Electronic Invoicing Systems – for every taxable supply he or she makes. A VAT invoice is a document that shows the details of the supply, the amount of VAT charged, and the name and address of the supplier and the recipient.

Illustration

XYZ Enterprises commenced operations on January 1, 2023, in Rwanda. The company sells taxable goods for VAT purposes. The business experienced varying monthly sales volumes from its inception. Below are the monthly sales figures for XYZ Enterprises:

- January: Frw 1,500,000
- February: Frw 2,000,000
- March: Frw 3,000,000
- April: Frw 4,500,000
- May: Frw 6,000,000
- June: Frw 4,000,000
- July: Frw 5,500,000
- August: Frw 7,000,000
- September: Frw 4,500,000

Based on the above information and considering the VAT registration requirements in Rwanda. Determine the specific month in which XYZ Enterprises was required to register for VAT. What would be the tax implications should Gatsinzi not register at the required time?

Answer:

1. Cumulative Turnover Calculation:

- End of January: Frw 1,500,000
- End of February: $\text{Frw } 1,500,000 + \text{Frw } 2,000,000 = \text{Frw } 3,500,000$
- End of March: $\text{Frw } 3,500,000 + \text{Frw } 3,000,000 = \text{Frw } 6,500,000$
- End of April: $\text{Frw } 6,500,000 + \text{Frw } 4,500,000 = \text{Frw } 11,000,000$
- End of May: $\text{Frw } 11,000,000 + \text{Frw } 6,000,000 = \text{Frw } 17,000,000$
- End of June: $\text{Frw } 17,000,000 + \text{Frw } 4,000,000 = \text{Frw } 21,000,000$
- End of July: $\text{Frw } 21,000,000 + \text{Frw } 5,500,000 = \text{Frw } 26,500,000$
- End of August: $\text{Frw } 26,500,000 + \text{Frw } 7,000,000 = \text{Frw } 33,500,000$
- End of September: $\text{Frw } 33,500,000 + \text{Frw } 4,500,000 = \text{Frw } 38,000,000$

XYZ Enterprises was required to register for VAT in the month when its cumulative turnover first exceeded Frw 5,000,000. According to the data provided, this threshold was surpassed at the end of March, with a cumulative turnover of Frw 6,500,000, therefore registration should be made in April.

Implications of Late VAT Registration:

If XYZ Enterprises failed to register for VAT by the end of June, it would be in violation of the Rwandan VAT registration rules. The implications could include a penalty of 50% of the amount of VAT payable for the entire period of operation without VAT registration and interest on the VAT due. Additionally, the business might face legal consequences for non-compliance with tax regulations. It is also possible that the tax authority could require the business to pay VAT on sales made from the date it was supposed to register, even if the VAT was not collected from customers, leading to a financial burden on the business.

A3.2 VAT Determination and Applicability on Supplies

Value added tax (VAT) is a tax on the consumption of goods and services supplied in Rwanda or imported into Rwanda. VAT applies to all taxable goods and services, except those that are exempted by the law. Taxable goods and services are those that are imported or locally supplied to a person and which are subject to tax in accordance with the provisions of the VAT. The rates of VAT are 0% for zero-rated supplies and 18% for other taxable supplies. Zero-rated supplies include, among many, exports, international transport, and certain supplies to diplomats and international organisations. Exempted supplies include financial services, education, health, insurance, and certain unprocessed agricultural products and inputs, among many.

VAT is calculated based on the value of the taxable supply, which is the selling price of the goods or services, or the market value if there is no selling price or the price is not at arm's length. For imported goods or services, the value is determined according to the customs legislation. VAT is charged at each stage of the supply chain, but the tax paid by a taxpayer on the acquisition of taxable goods or services (input tax) can be deducted from the tax charged by the taxpayer on the supply of taxable goods or services (output tax). The difference between the output tax and the input tax is the VAT payable or refundable by the taxpayer.

Illustration

Here is a table summarizing the VAT accounting at each stage of the supply chain:

In this illustration, each player in the supply chain acts as a collecting agent for the VAT, passing the tax burden along until it reaches the final consumer, who ultimately bears the full VAT cost. The VAT paid by the final consumer is the sum of the VAT amounts added at each stage of the supply chain.

Supply Chain Stage	Cost Before VAT	Profit Margin	Selling Price Before VAT	VAT at 18%	Total Selling Price (incl. VAT)	VAT Paid to Suppliers	VAT Collected	VAT Remitted to RRA
	Frw	Frw	Frw	Frw	Frw	Frw	Frw	Frw
1. Producer	100,000	50,000	150,000	27,000	177,000		27,000	27,000
2. Wholesaler	177,000	3,000	180,000	32,400	212,400	27,000	32,400	5,400
3. Retailer	212,400	7,600	220,000	39,600	259,600	32,400	39,600	7,200
4. Final Consumer					259,600	-	-	

Notes

1. Producer/Manufacturer Stage

- The producer manufactures a product at a cost of Frw 100,000.
- The producer then adds a profit margin, let's say Frw 50,000, making the selling price before VAT Frw 150,000.
- VAT at 18% on Frw 150,000 is Frw 27,000.
- The producer sells the product to the wholesaler at a total price of Frw 177,000 (Frw 150,000 + Frw 27,000 VAT).
- The producer collects Frw 27,000 in VAT on behalf of the RRA and remits it to RRA.

2. Wholesaler Stage

- The wholesaler purchases the product from the producer at Frw 177,000.
- The wholesaler adds a markup, for example, Frw 3,000, making the selling price before VAT Frw 180,000.
- VAT at 18% on Frw 180,000 is Frw 32,400.
- The wholesaler sells the product to the retailer at a total price of Frw 212,400 (Frw 180,000 + Frw 32,400 VAT).
- The wholesaler can claim a VAT credit of Frw 27,000 (paid to the producer) and will only remit Frw 5,400 (Frw 32,400 collected – Frw 27,000 credit) to the RRA.

3. Retailer Stage

- The retailer buys the product from the wholesaler at Frw 212,400.
- The retailer adds a markup, say Frw 7,600, making the selling price before VAT Frw

220,000.

- VAT at 18% on Frw 220,000 is Frw 39,600.
- The retailer sells the product to the final consumer at a total price of Frw 259,600 (Frw 220,000 + Frw 39,600 VAT).
- The retailer can claim a VAT credit of Frw 32,400 (paid to the wholesaler) and will only remit Frw 7,200 (Frw 39,600 collected - Frw 32,400 credit) to the RRA.

4. Final Consumer Stage

- The final consumer purchases the product from the retailer at Frw 259,600.
- The final consumer cannot claim any VAT credit and bears the full burden of the VAT paid, which is Frw 39,600.

Defining 'Supply' in the Context of VAT

As pointed out above, VAT is levied on the supply of taxable goods and services, and it is essential to ascertain what a supply is?

The term 'supply' is central to the understanding of VAT. However, the legislation does not explicitly define 'supply' but categorizes it into distinct groups for the purpose of taxation. These categories are:

- The supply of goods and services
- The provision of complementary goods or services

Taxable Supply of Goods and Services: The supply of taxable goods and services includes various transactions. Specifically, the following are considered as supplying taxable goods or services:

- The sale, exchange, or any other form of transferring the right to dispose of goods as the owner
- The provision of any service
- The leasing of goods under a leasing agreement

It is important to note that even if a taxpayer supplies goods or services occasionally or without a direct payment, such transactions are deemed taxable under certain conditions. These conditions include supplies made:

1. For the benefit of the taxpayer or others
2. For the benefit of business partners, directors, or employees
3. For the benefit of customers, with the exception of approved telephone communication bonuses regulated by the public utilities' authority.

Illustration of these VAT Principles

To help students understand the principles of VAT as they apply to the taxable supply of goods and services, let's consider a bakery that produces and sells a variety of baked goods, such as bread, cakes, and pastries. This bakery is a business that is registered for VAT.

- **Sale of Goods:** When the bakery sells a cake to a customer, this is a straightforward example of a taxable supply. The bakery is transferring the right to dispose of the

cake as the owner to the customer. The price of the cake includes VAT, which the bakery must collect from the customer and later remit to the tax authority.

- **Provision of Services:** Suppose the bakery also offers cake-decorating classes. When a customer pays to attend a class, this is considered the provision of a service. The fee for the class includes VAT, which, like the sale of goods, the bakery collects and later pays to the tax authority.
- **Leasing of Goods:** Imagine the bakery has a special dough mixer that it leases to another local bakery. The leasing of this equipment is a taxable supply, and the lease payments received by the bakery will include VAT.

Now, let's consider the conditions under which occasional or non-direct payment supplies are taxable:

1. **For the Benefit of the Taxpayer or Others:** If the bakery decides to use its own cakes for a free public tasting event with the intention of promoting its products, this is a supply for the benefit of the bakery. Even though the cakes are not sold, the value of the cakes used for the tasting would be subject to VAT because they are being used to potentially increase sales. Additionally, input VAT was claimed in the production process therefore there must be output VAT.
2. **For the Benefit of Business Partners, Directors, or Employees:** If the bakery provides free cakes to its employees as a perk, this is considered a taxable supply for the benefit of the employees. The bakery must account for VAT on the value of the cakes provided to the employees.

In each of these examples, the bakery is engaging in activities that are considered taxable supplies under VAT law. It is crucial for the bakery to keep accurate records of all its transactions, including occasional or in-kind supplies, to ensure that it complies with VAT regulations and remits the correct amount of tax to the authorities.

Complementary Goods or Services: The concept of complementary goods or services is also significant. According to the law, when goods or services are supplied as complementary to other goods or services, they are considered part of the main good or service. This means that the taxation of such complementary goods or services is not separate but is integrated with the principal good or service.

Illustration of Complementary Goods or Services

Scenario: A local brewery, "BrewCrafters," produces beer and sells it to retailers. To enhance their service, BrewCrafters also offers delivery of the beer to the retailer's premises. While the beer itself is subject to VAT, public transportation services by a licenced persons are generally exempt from VAT. However, in this case, the delivery service is provided as a complementary service to the main supply of beer.

Example: BrewCrafters sells 100 crates of beer to "PubHub," a retailer, for Frw1,600,000. Additionally, BrewCrafters charges Frw100,000 for delivering the beer to PubHub's location. If beer is subject to a VAT rate of 18%, the VAT calculation would typically be as follows:

- Cost of beer (excluding VAT): Frw1,600,000
- VAT on beer (18% of Frw1,600,000): Frw288,000
- Total cost of beer (including VAT): Frw1,888,000

Now, if the delivery service were to be treated as a separate supply, it would be exempt from VAT (provided PubHub is licensed to provide transport services), and PubHub would

only pay the Frw100,000 delivery fee without any additional VAT. However, since the delivery is a complementary service to the main taxable supply of beer, the VAT treatment of the delivery service takes on the character of the main supply.

Therefore, the delivery fee is also subject to the same VAT rate as the beer. The VAT calculation for the entire supply, including delivery, would be:

- Cost of beer plus delivery (excluding VAT): Frw1,700,000
- VAT on total supply (18% of \$1,700,000): Frw306,000
- Total cost of beer plus delivery (including VAT): Frw2,006,000

In this example, the overall supply, which includes both the beer and the delivery service, is treated as a single taxable supply. Consequently, VAT is charged on the entire amount, including the delivery fee, because the delivery is considered an integral part of the main supply of beer.

Zero rate and exempt supplies

Once the nature of supply is determined, the next step is to determine whether the supply is taxable (i.e., at the standard rates or zero rated) or exempt. The VAT Act specifically delineates zero rated supplies (Article 7) and exempt supplies (Article 8). If a supply is not mentioned any of these two articles, then the supply is standard rated and subject to VAT at the rate of 18%.

Understanding VAT partial exemption

Students should refer to Article 7 and 8 of Law N° 049/2023 of 05/09/2023 establishing Value Added Tax to review the list of zero rate and exempt supplies.

VAT partial exemption is a concept that applies when a business makes both taxable and exempt supplies. In such cases, the business can only claim VAT on costs that relate directly to making taxable supplies. If costs relate to both taxable and exempt supplies, they are considered 'residual costs' and the VAT on these costs can only be partially claimed.

Direct Attribution Method

The direct attribution method involves identifying and attributing input tax directly to either taxable or exempt supplies. Input tax that is directly attributable to taxable supplies can be fully claimed, while input tax directly attributable to exempt supplies cannot be claimed (Article 17 (3) of Law No 049/2023)

Illustration

Let's consider a business in Rwanda that deals with both taxable and exempt supplies. We will use the VAT rate of 18% to calculate the VAT on purchases and how much of it can be claimed under the partial exemption rules.

Scenario

- Total sales: Frw1,000,000 (including both taxable and exempt sales) out of which:
- Taxable sales: Frw600,000
- Exempt sales: Frw400,000
- Total purchases: Frw500,000 all standard rated (including purchases for both taxable and exempt supplies)
- Purchases directly attributable to taxable sales: Frw300,000
- Purchases directly attributable to exempt sales: Frw100,000
- Residual purchases (related to both): Frw100,000

Calculations

1. VAT on Taxable Purchases
 - Purchases directly attributable to taxable sales: Frw300,000
 - VAT at 18%: $\text{Frw}300,000 \times 18\% = \text{Frw}54,000$
 - This VAT can be fully claimed since it relates directly to taxable sales.
2. VAT on Exempt Purchases
 - Purchases directly attributable to exempt sales: Frw100,000
 - VAT at 18%: $\text{Frw}100,000 \times 18\% = \text{Frw}18,000$
 - This VAT cannot be claimed as it relates directly to exempt sales.
3. VAT on Residual Purchases
 - Residual purchases: Frw100,000
 - VAT at 18%: $\text{Frw}100,000 \times 18\% = \text{Frw}18,000$
 - To calculate the claimable portion of the VAT on residual purchases, we need to determine the proportion of taxable sales to total sales.
 - Proportion of taxable sales: $\text{Frw}600,000 / \text{Frw}1,000,000 = 60\%$
 - Therefore, 60% of the VAT on residual purchases can be claimed.
 - Claimable VAT on residual purchases: $\text{Frw}18,000 \times 60\% = \text{Frw}10,800$

Summary of VAT Claimable

- VAT on purchases directly attributable to taxable sales: Frw54,000
- VAT on purchases directly attributable to exempt sales: Frw0 (not reclaimable)
- VAT on residual purchases (partially reclaimable): Frw10,800
- Total VAT claimable: $\text{Frw}54,000 + \text{Frw}0 + \text{Frw}10,800 = \text{Frw}64,800$

In this scenario, the business would be able to claim a total of Frw64,800 in VAT on its purchases. It's important to note that this is a simplified example and in practice, businesses would need to consider all their inputs and apply the partial exemption method accurately, possibly on a monthly or quarterly basis, depending on the reporting requirements. Calculations can become complex, especially when dealing with many transactions or when the proportion of taxable to exempt supplies fluctuates significantly.

VAT Tax Point

The concept of the VAT Tax Point is a foundation in the administration of VAT. It is the specific moment when the VAT becomes chargeable. Determining the correct tax point is crucial for both the supplier and the recipient, as it dictates when the tax must be accounted for and paid. The tax point can be established based on several criteria, and the earliest of these events is considered the determining factor:

- **Invoice Issuance:** The date when the invoice for the goods or services is generated.
- **Payment:** The date on which payment is received for the goods or services, including any partial payments. It is important to note that this does not apply to advance payments received for construction services.
- **Goods Removal or Transfer:** The date on which goods are either taken from the supplier's location or handed over to the recipient.
- **Service Completion:** The date on which the service is delivered.
- **Deregistration Request:** The date on which a taxpayer requests to be deregistered from VAT.

Furthermore, when taxable goods or services are utilized for personal consumption, the tax point is either the date the goods are taken from the business premises or the date the service is fully provided. This ensures that personal use is appropriately taxed in accordance with the law.

Restrictions on Input Tax Credit

Certain purchases are ineligible for input tax credit, which means that businesses cannot claim the VAT paid on these items. The specific categories of goods and services that are excluded from input tax credit include:

- **Passenger Vehicles and Related Expenses:** Input tax cannot be claimed on passenger vehicles, their spare parts, or any repair and maintenance services for these vehicles. An exception exists for businesses whose primary operations involve the sale or rental of passenger vehicles, or those running a driving school; these businesses may claim input tax.
- **Entertainment-Related Goods:** Goods that are purchased or imported for entertainment purposes are generally excluded from input tax credit. However, businesses that provide entertainment as a core part of their services can claim input tax, provided that the entertainment is delivered directly as part of their regular business activities and is not provided through an intermediary such as a partner or employee.
- **Accommodation-Related Goods:** Goods purchased for accommodation purposes are typically not eligible for input tax credit. There are two exceptions to this rule:
 1. If the business's primary service offering includes providing accommodation.
 2. If the accommodation is provided to individuals who are away from their usual place of residence for business-related reasons or due to the requirements of their employer.
- **Mixed-Use Goods and Services:** For goods and services that are used for both business and personal purposes and cannot be distinctly separated, there is a limitation on the input tax credit. Specifically, only 60% of the VAT paid on

such mixed-use goods and services can be claimed as input tax, reflecting the business use portion, while the remaining 40% that may relate to personal use is not recoverable.

These restrictions are designed to ensure that input tax credits are only claimed on goods and services that are directly related to the taxable business activities of a company. It is important for businesses to carefully consider these rules when calculating their input tax credits to ensure compliance with VAT regulations.

A3.3 VAT-Registered Taxpayer Obligations

i) Administration obligations:

- The taxpayer must charge VAT on the taxable goods and services supplied in Rwanda or imported, at the rate of 0% or 18%, depending on the nature of the goods and services.
- The taxpayer must issue an electronic VAT invoice to the recipient of the taxable goods or services, containing the prescribed information, such as the taxpayer identification number, the date, the description and value of the goods or services, and the amount of VAT charged.
- The taxpayer must file a VAT return, either monthly or quarterly, depending on the annual turnover of the taxpayer, within 15 days after the end of the month or quarter of declaration. The return must reflect the output tax received or deducted from the buyer, and the input tax allowed to the taxpayer, as well as any adjustments, errors, or omissions.
- The taxpayer must pay the VAT declared, either monthly or quarterly, within 15 days after the end of the month or quarter of declaration. The VAT payable by an importer is due when the imported goods enter the customs point, in accordance with the customs law.
- The taxpayer must keep accurate and complete records of the taxable goods and services supplied or acquired, the VAT invoices issued or received, the VAT returns filed, and the VAT payments made, for a period of ten years.

ii) De-registration requirements:

- The taxpayer must apply for de-registration from VAT within 15 days after ceasing to carry on a taxable activity, or after the annual turnover falls below the threshold of Frw20 million.
- The taxpayer must submit a final VAT return before de-registration, and pay any outstanding VAT liability or claim any refund due.
- The taxpayer must account for VAT on the taxable assets of the business that are owned by the taxpayer on the day of de-registration, as if the taxpayer had supplied those assets on that day.

iii) Pre-registration input VAT claims:

- A newly registered taxpayer on VAT may claim, in his or her first declaration, an input tax on the goods that he or she had in stock during the date of registration.

iv) The transfer of a going concern:

Rwanda has not specific regulations governing the transfer of assets as a going concern. Nonetheless, the legislation includes provisions concerning the transfer of assets between related parties. This provision stipulates exemption from VAT on transfer of assets between related parties who are residents of Rwanda during the restructuring of their businesses. The conditions for these exemptions are twofold:

- Firstly, the business activities of the acquiring party must continue for a minimum duration of three years following the asset acquisition.
- Secondly, the party relinquishing the assets must be engaged in a business that primarily supplies or provides goods or services that are exempt from VAT.

A3.4 VAT Treatment of International Trade

Importation of goods and services

Imports are subject to VAT at the rate of 18% unless they are exempted or zero-rated by the law. VAT on imports is payable at the customs point, in accordance with the customs legislation. A person who imports taxable goods must pay VAT to the customs administration and obtain a customs receipt, which serves as a VAT invoice. A taxpayer who imports taxable goods for the purposes of making taxable supplies can deduct the VAT paid on imports as input tax, subject to the requirements for claiming input tax. A taxpayer who imports taxable services must as well pay VAT on imported services (See unit D2.2)

Exports

Exports are taxable goods or services that are supplied by a taxpayer in Rwanda to a person who is outside Rwanda, or that are consumed or used outside Rwanda. Exports are subject to VAT at the rate of 0%, which means that the taxpayer does not charge VAT on the exports, but can deduct the input tax incurred on the acquisitions related to the exports. Exports must be supported by evidence of the exportation, such as customs documents, transport documents, or foreign exchange receipts.

Free Zones

Free zones are designated areas in Rwanda where goods or services are produced, processed, or stored for export or re-export, and where certain customs and tax incentives apply. Goods or services supplied by a taxpayer in a free zone to a person who is outside Rwanda or in another free zone are treated as exports and are subject to VAT at the rate of 0%. Goods or services supplied by a taxpayer in a free zone to a person who is in Rwanda but outside the free zone are treated as imports and are subject to VAT at the rate of 18%. Goods or services supplied by a taxpayer outside the free zone to a person who is in the free zone are treated as exports and are subject to VAT at the rate of 0%.

A3.5 Post-Sale Adjustments and VAT

Post-sale adjustments are changes in the value of the taxable supply that occur after the supply has been made, such as discounts, rebates, returns, or bad debts. Post-sale adjustments affect the output tax and the input tax of the taxpayer who made or received the supply, and must be reflected in the VAT account and the VAT return of the taxpayer.

The tax treatment of post-sale adjustments depends on the type and timing of the adjustment. The following are some examples of post-sale adjustments and their tax treatment:

- **Discounts or rebates:** These are reductions in the price of the taxable supply that are granted by the supplier to the recipient, either before or after the supply is made. If the discount or rebate is granted before the supply is made, the value of the supply is reduced by the amount of the discount or rebate, and the output tax and the input tax are calculated accordingly. If the discount or rebate is granted after the supply is made, the value of the supply is adjusted by the amount of the discount or rebate, and the output tax and the input tax are corrected in the VAT account and the VAT return of the tax period in which the discount or rebate is granted.
- **Returns:** These are goods that are returned by the recipient to the supplier, either because they are defective, damaged, or unwanted. If the goods are returned within the same tax period as the supply, the value of the supply is reduced by the value of the returned goods, and the output tax and the input tax are calculated accordingly. If the goods are returned in a different tax period from the supply, the value of the supply is adjusted by the value of the returned goods, and the output tax and the input tax are corrected in the VAT account and the VAT return of the tax period in which the goods are returned.
- **Bad debts:** These are debts that are owed by the recipient to the supplier for the taxable supply, but that are not paid or are not recoverable. If the debt is written off as bad by the supplier within three years from the date of the supply, the value of the supply is reduced by the amount of the bad debt, and the output tax and the input tax are corrected in the VAT account and the VAT return of the tax period in which the debt is written off. If the debt is recovered by the supplier after it has been written off as bad, the value of the supply is increased by the amount of the recovered debt, and the output tax and the input tax are corrected in the VAT account and the VAT return of the tax period in which the debt is recovered.

A3.6 VAT Declaration and Payment

The declaration and payment of VAT in Rwanda are governed by the Law N° 049/2023 of 05/09/2023 establishing value added tax and its implementing regulations. The following paragraphs explain the main aspects of these rules for different scenarios:

- **Imported goods:** As explained above, imported goods are subject to VAT at the rate of 18%, unless they are exempted or zero-rated by the law. VAT on imported goods is payable at the customs point, in accordance with the customs legislation. A person who imports taxable goods must pay VAT to the customs administration and obtain a customs receipt, which serves as a VAT invoice. The tax base for imported products is calculated according to customs legislation.

For example, if an importer brings in taxable goods worth Frw10,000,000 and pays customs duties of Frw1,000,000, the VAT base is Frw11,000,000 and the VAT due is Frw1,980,000 at the standard rate of 18%. A taxpayer who imports taxable goods for the purposes of making taxable supplies can deduct the VAT paid on imports as input tax, subject to the requirements for claiming input tax. The VAT paid on imports must be declared in the VAT return of the tax period in which the goods are imported.

- **Non-Rwandan currencies:** If the taxable supply is made in a currency other than the Rwandan francs, the value of the supply must be converted into Rwandan francs at the exchange rate prevailing on the date of the supply. The exchange rate must be

obtained from the National Bank of Rwanda or another source approved by the tax administration.

For example, if a taxpayer sells taxable goods for USD10,000 on 15/09/2023, the VAT base is the equivalent of USD10,000 in Frw on that date, using the exchange rate published by the National Bank of Rwanda. The VAT must be calculated and paid in Rwandan francs.

- **Subsidiaries:** A subsidiary is a company that is controlled by another company, called the parent company. For VAT purposes, a subsidiary is treated as a separate taxpayer from the parent company. Therefore, a subsidiary and the parent company must file separate VAT returns and pay separate VAT amounts, based on their own output tax and input tax. The supplies between the subsidiary and the parent company are subject to VAT, unless they are part of a transfer of a going concern.

A3.7 Electronic Invoicing and VAT Management

Electronic invoicing systems are tools that enable taxpayers to issue, transmit, store, and manage invoices electronically for VAT purposes. They can also be integrated with other systems, such as accounting, inventory, or payment software, to automate and streamline business processes.

In Rwanda, the RRA requires taxpayers who are registered for VAT to use the EBM system, which is a device that generates and prints invoices with a unique identification number and a QR code. The EBM system also transmits the invoice data to the RRA's central server/back office in real time, allowing the RRA to monitor and verify the transactions and the VAT collected.

Using electronic invoicing systems can have several advantages for VAT compliance and administration, such as:

- Reducing tax evasion and fraud, as electronic invoices are more difficult to manipulate, duplicate, or omit than paper invoices, and can be easily traced and cross-checked by the RRA.
- Improving record-keeping and reporting, as electronic invoices are stored digitally and can be accessed and retrieved anytime and anywhere and can also be used to generate VAT returns and other reports automatically.
- Facilitating audits and inspections, as electronic invoices can provide more accurate and reliable information and evidence for the RRA and the taxpayers and can also reduce the time and cost of audits and inspections.
- Enhancing transparency and accountability, as electronic invoices can improve the communication and cooperation between the RRA and the taxpayers and can also increase the awareness and trust of the public and the customers in the VAT system.

However, using electronic invoicing systems can also pose some challenges and risks for VAT compliance and administration, such as:

- Increasing costs and technical issues, as electronic invoicing systems require investment in hardware, software, maintenance, training, and security, and can also be affected by power outages, network failures, or system errors.
- Creating legal and operational uncertainties, as electronic invoicing systems may not be compatible or consistent with the existing laws, regulations, standards, or practices, and may also raise questions about the validity, authenticity, or admissibility of electronic invoices as legal documents.

- Exposing data and privacy concerns, as electronic invoicing systems involve the collection, transmission, storage, and access of sensitive and confidential information, and may also be vulnerable to cyberattacks, data breaches, or unauthorized use or disclosure.

Therefore, taxpayers who use electronic invoicing systems for VAT purposes should be aware of the benefits and challenges of these systems, and should also comply with the legal and technical requirements and guidelines issued by the RRA.

Summary of Unit A and key learning outcomes

- Unit A has covered advanced and complex direct and indirect tax considerations.
- The unit aims to enhance the understanding and application of complex tax computations and scenarios for both direct and indirect taxes.
- The unit has addressed the following key topics and details:
- Determination of taxable income, including the distinction between source rules and residence rules.
- Special tax regimes for micro-enterprises, transport operators, small businesses, liberal professions, and the real regime.
- Complex personal income tax scenarios, including financial income, dividend income, royalty income, and rental income.
- Employment income computations, including wages, benefits in kind, and other payments related to employment.
- Advanced company tax liabilities, covering corporate restructuring, complex corporate tax scenarios, special incentives for registered investors, tax treatment of long-term contracts, and tax-avoidance provisions.
- Value Added Tax (VAT) considerations, including registration requirements, determination and applicability on supplies, post-sale adjustments, declaration, and payment, electronic invoicing, and VAT management.

Quiz questions.

Quiz 1: Determination of taxable income

Quiz 1.1: TechGlobal Inc. – Source rules

Scenario: Imagine a non-resident company, TechGlobal Inc., provides digital services to clients in Rwanda. TechGlobal Inc. does not have a physical presence in Rwanda but has a significant number of users for its services within the country. In the fiscal year 2022, TechGlobal Inc. earned Frw50,000,000 from its Rwandan user base.

Question: Discuss the tax implications for TechGlobal Inc.'s income generated from digital services provided to clients in Rwanda, considering the source rules as stipulated by Rwandan tax law.

Quiz 1.2: TechNovation Solutions

You are a tax consultant tasked with advising a multinational corporation, TechNovation Solutions, which is considering expanding its operations into Rwanda. TechNovation Solutions is a technology company that specializes in digital services, including cloud computing, data analytics, and artificial intelligence. The company is headquartered in Germany but has a diverse international clientele. It plans to establish a permanent establishment in Rwanda, which will include a data center and a customer support office. Additionally, TechNovation Solutions intends to hire local Rwandan artists to design digital content for its international clients.

Given the information above and considering the Rwandan tax system's source rules, analyse the following scenarios and determine the tax implications for TechNovation Solutions:

- 1. Income from Digital Services:** TechNovation Solutions provides cloud services to a Rwandan bank. The services are delivered over the internet without any physical presence of TechNovation Solutions' employees in Rwanda. Discuss where this income is sourced from Rwanda and provide the rationale based on the source rules.
- 2. Employment and Services:** The company hires Rwandan residents to work in its customer support office located in Rwanda. These employees receive salaries, bonuses, and allowances. Explain the tax treatment of this remuneration.
- 3. Professional Activities:** TechNovation Solutions contracts local Rwandan artists to create digital content, which is then sold to clients outside Rwanda. Assess the tax liability of the income derived from these professional services.
- 4. Permanent Establishment:** TechNovation Solutions generates income through its permanent establishment in Rwanda, which includes a data center used by both local and international clients. Determine the extent of the company's tax obligations in Rwanda for the income attributable to the permanent establishment.
- 5. Investment Income:** The company invests in shares of a Rwandan startup company. After a year, TechNovation Solutions sells the shares at a profit. Discuss the tax consequences of this transaction.
- 6. Intellectual Property:** TechNovation Solutions acquires a patent from a Rwandan inventor and licenses it to other companies worldwide. Evaluate the tax implications

of the income from the transfer, sale, and lease of this intellectual property right.

For each scenario, provide a detailed explanation of the tax implications, referencing the relevant provisions of the Rwandan income tax law and the principles of the source rules.

Quiz 1.3: XYZ Corporation – Residence rules

Scenario: XYZ Corporation is a multinational company with its headquarters in Country A. However, it has a fully operational branch in Rwanda, which includes a physical office, local staff, and a dedicated country manager. The branch in Rwanda is responsible for a significant portion of XYZ Corporation's revenue through various contracts with local businesses. The company was incorporated in Country A, holds its board meetings there, and maintains its primary accounting records at the headquarters. However, most of the strategic decisions affecting the Rwandan operations are made by the country manager within Rwanda.

XYZ Corporation has been operating in Rwanda for the past three years. In the first year, the country manager spent 150 days in Rwanda, in the second year, 190 days, and in the third year, 200 days. The country manager has a permanent residence in Rwanda and has been actively involved in the local community.

Question: Based on the provided scenario and the Rwandan tax residency rules, determine the tax residency status of XYZ Corporation for the current tax year. Discuss the factors that contribute to this status and outline the tax liabilities of XYZ Corporation in Rwanda. Provide a detailed explanation of how the residency criteria apply to the given scenario and identify any additional information that might be necessary to make a definitive determination of the company's tax residency status.

Quiz 2: Special Tax Regimes Advisory

Quiz 2.1: Kihangi Enterprises

You are a tax consultant at a prestigious accounting firm. Your client, Kihangi Enterprises, is a rapidly growing company in Rwanda. They have approached you for advice on the tax regime they should operate under, given their current financial situation and future projections. Kihangi Enterprises has provided you with the following information:

- For the last financial year, Kihangi Enterprises had an annual turnover of Frw11,500,000.
- They are projecting a 50% increase in turnover for the next financial year due to a new contract they have secured.
- Kihangi Enterprises is involved in the transport of goods by road.
- The company is considering expanding its operations to include a new line of business – architectural services – that falls under the category of liberal professions.
- They are also contemplating significant investments in assets that could potentially impact their tax liabilities.

Based on the information provided above and special tax regimes, advise Kihangi Enterprises on the following:

1. The tax regime under which they should currently operate.
2. The implications of their projected turnover increase on their tax obligations.
3. The tax considerations they should take into account if they expand into architectural

services.

4. The potential benefits and drawbacks of opting out of the turnover tax regime.
5. The tax implications of their planned asset investments.

Provide a comprehensive advisory report, considering the various tax regimes and the specific circumstances of Kihangi Enterprises. Your advice should be substantiated with references to the relevant tax laws and regulations.

Quiz 3: Complex personal income tax scenarios

Quiz 3.1: Rental income – Advisory on tax planning.

Ms. Jane Smith is a non-resident taxpayer who owns a residential building and a fleet of agricultural machinery in Rwanda. The residential building generates Frw50,000,000 in rental income annually, while the machinery generates Frw30,000,000. Ms. Smith is considering making significant repairs on the building that would cost Frw15,000,000 and purchasing new machinery for Frw20,000,000. She has the option to finance the machinery purchase through a loan with an annual interest of 5%.

Required

Advise Ms. Jane Smith on the tax implications of her potential expenses and the best course of action to optimize her tax liability, considering the tax treatment of rental income from land and buildings as well as machinery and equipment.

Quiz 3.2: Rental income – Machinery

Clement owns machineries that he rents to various individuals, during the year ended 31/12/2024,

he received a gross rental income of Frw120,000,000. The machines were purchased in 2023 at

Frw40,000,000. During the purchase, he borrowed Frw25,000,000 from the bank at an annual interest rate of 20%.

Required: Compute his taxable rental income

Quiz 4: Employed Vs Self-employed.

Quiz 4.1: Assessment of Employment Status

You are a tax advisor, and your client, Jane Doe, has approached you for advice. Jane is a graphic designer who has recently started working with a new client, Artify Ltd. She has been given a desk at Artify Ltd.'s office, uses their computer and software for her designs, and works regular hours as set by the company. However, she is not on the company's payroll, does not receive employee benefits, and she invoices Artify Ltd monthly for her services. Artify Ltd does not supervise her work closely but does have final approval on all designs. Jane is concerned about her tax status and whether she should be classified as employed or self-employed for tax purposes.

Required:

1. Based on the criteria for distinguishing between employed and self-employed individuals, advise Jane on her likely tax status.
2. Explain the potential tax implications for Jane if she is considered employed versus self-employed.
3. Outline the steps Jane should take to ensure she is compliant with tax regulations based on her employment status.

Quiz 4.2: Deductible expenses for self-employed individuals

As a tax advisor, you are required to provide guidance to a self-employed client, John Smith, who is a freelance software developer based in Kigali. John has recently purchased a new high-end computer and specialized software for his business. He also attended a technology conference in another city, which required travel and accommodation expenses. Additionally, John has a home office that he uses exclusively for his work.

Required:

1. Identify which of John's recent expenditures are likely to be deductible for tax purposes.
2. Explain the criteria that must be met for an expense to be considered deductible for a self-employed individual.
3. Provide advice on how John should document and report these expenses to comply with tax regulations.

Quiz 5: Employment income computations

Quiz 5.1: Lwewa – employment income

Lwewa is employed by TMK Rwanda Limited as the Chief Accountant on the following contractual terms:

- a. Monthly salary Frw800,000
- b. Communication allowance Frw100,000 per month
- c. Overtime allowance Frw50,000 per month
- d. A company house where Lwewa contributes Frw100,000 per month as rent
- e. A company vehicle which he uses for both private and business
- f. Two domestic staff paid by the company at Frw80,000 each
- g. Medical insurance contribution of Frw80,000 per month
- h. The general policy of all employees is Frw50,000 per month paid in RAMA
- i. During the month of June, he was sent on an official mission in China. The company reimbursed him Frw5,000,000 spent on the mission.
- j. During the month of November, his wife got an accident the company paid Frw2,000,000 related to the treatment at King Faisal hospital.
- k. The employer withheld Frw150,000 per month from Lwewa as PAYE

Question: Compute Lwewa's taxable employment income?

Quiz 6: Complex Corporate Tax Scenarios (tax of foreign income, Reliefs, and losses)

Quiz 6.1: Determination of Tax Liability for Resident Taxpayers

A Rwandan company, Kigali Enterprises, has operations in both Rwanda and the neighbouring country of Burundi. During the fiscal year, Kigali Enterprises earned a profit of Frw100 million from its Rwandan operations and Frw50 million from its operations in Burundi. The corporate income tax rate in Rwanda is 28%, and in Burundi, it is 35%. Kigali Enterprises paid the full amount of corporate income tax to the Burundian government. Assuming there is a DTA between Rwanda and Burundi that follows the OECD Model Tax Convention and allows for a foreign tax credit, how should Kigali Enterprises report its foreign sourced income on its Rwandan corporate income tax return?

- A. Kigali Enterprises should report Frw150 million as taxable income in Rwanda and claim a foreign tax credit of Frw17.5 million, which is the Rwandan tax payable on the Burundian income.
- B. Kigali Enterprises should report Frw100 million as taxable income in Rwanda and claim a foreign tax credit of Frw17.5 million, which is the Burundian tax paid on the foreign income.
- C. Kigali Enterprises should report Frw150 million as taxable income in Rwanda and claim a foreign tax credit of Frw14 million, which is the limit of the Rwandan tax payable on the Burundian income.
- D. Kigali Enterprises should exclude the Frw50 million Burundian income from its Rwandan tax return and only pay tax on the Frw100 million earned in Rwanda.

Quiz 6.2: Tax Obligations of Non-Resident Taxpayers

A non-resident company, Nile Tech, provides technical services to a Rwandan company and earns Frw 20 million in fees. Nile Tech does not have a permanent establishment in Rwanda. The Rwandan corporate income tax rate for technical service fees earned by a non-resident company is 15%. There is no DTA between Rwanda and the country where Nile Tech is a resident. How should Nile Tech's income from Rwandan sources be treated for tax purposes?

- A. Nile Tech should file a tax return in Rwanda and pay a corporate income tax of Frw3 million on the Frw20 million earned from technical services.
- B. Nile Tech is exempt from paying corporate income tax in Rwanda since it does not have a permanent establishment in the country.
- C. The Rwandan company must withhold corporate income tax at the source at a rate of 15% and remit Frw3 million to the Rwandan tax authorities on behalf of Nile Tech.
- D. Nile Tech should claim an exemption under the OECD Model Tax Convention, as it does not have a permanent establishment in Rwanda.

Quiz 7: Tax-Avoidance Provisions

Quiz 7.1: Thin Capitalisation Rule

Scenario: Imagine a company, XtraFin Ltd., is based in Rwanda and has a paid-up equity of Frw50 million. The company has taken loans from related persons amounting to Frw250 million. During the fiscal year, XtraFin Ltd. paid Frw20 million in interest on these loans. Additionally, the company incurred a foreign exchange loss of Frw5 million due to these loans.

Question: Calculate the deductible interest for corporate income tax purposes for XtraFin Ltd. under the thin capitalisation rule and explain the treatment of the foreign exchange loss.

Quiz 7.2: Forfeiting of Losses Rule

Scenario: A company, AgriGrow Ltd., which operates in Rwanda, has been incurring losses for the past three years. In the current tax period, the company underwent a change in ownership, with 40% of its shares being acquired by a new investor. The company's losses amount to Frw30 million, which it plans to carry forward to offset against future taxable income.

Question: Discuss the conditions under which AgriGrow Ltd. can carry forward its losses considering the change in ownership, according to the forfeiting of losses rule. What would be the tax implications if the company fails to meet these conditions?

Quiz 8: Calculation of VAT Payable

XYZ Ltd is a company operating in Rwanda that manufactures and sells electronic gadgets. During the month of March, the company made sales totalling Frw100,000,000. The sales included Frw20,000,000 worth of exports to neighbouring countries. XYZ Ltd also imported raw materials worth Frw30,000,000, on which customs determined the VAT inclusive market value to be Frw35,000,000. During the same month, XYZ Ltd purchased local raw materials for Frw10,000,000 plus VAT and incurred Frw5,000,000 for taxable marketing services plus VAT.

Calculate the VAT payable or refundable for XYZ Ltd for the month of March.

Quiz 9: VAT Treatment of Various Supplies

Given the following transactions, identify whether each is subject to VAT at the standard rate, zero-rated, or exempt, and provide the rationale for your determination:

1. A Rwandan company provides international transport services to a client.
2. A local Rwandan bank provides a loan to a small business.
3. A Rwandan educational institution offers a professional development course.
4. A Rwandan farmer sells potatoes to a local supermarket.
5. A Rwandan IT company sells software to the government for use in public schools.

Quiz 10.VAT Treatment of International Trade

Quiz 10.1: VAT on Imports and Deductibility

A Rwandan business, ABC Ltd., imports machinery for its production line, which is not exempted or zero-rated, with a customs value of Frw100,000,000. The machinery is imported for the purpose of making taxable supplies.

1. Calculate the VAT payable at the customs point upon importation of the machinery.
2. Explain whether ABC Ltd. can deduct the VAT paid on this import as input tax and under what conditions the input tax can be claimed.

Quiz 10.2: VAT Treatment of Exports

XYZ Exporters, a registered taxpayer in Rwanda, exports coffee to a buyer in Germany. The total sale value of the coffee is Frw50,000,000. XYZ Exporters incurred Frw5,000,000 in input tax on acquisitions related to the coffee export.

1. What is the VAT rate applicable to the coffee export and why?
2. How much VAT should XYZ Exporters charge the German buyer?
3. Can XYZ Exporters deduct the input tax incurred on the acquisitions related to the coffee export? If so, how much can they deduct?

Quiz 10.3: VAT Treatment in Free Zones

Consider a taxpayer, DEF Industries, which operates in a Rwandan free zone. DEF Industries sells goods to a customer located in another free zone and to a customer located in Rwanda but outside the free zone.

- Explain the VAT treatment for the goods sold to the customer in another free zone.
- Explain the VAT treatment for the goods sold to the customer located in Rwanda but outside the free zone.
- If DEF Industries purchases raw materials from a supplier outside the free zone for Rrw 20,000,000, what is the VAT treatment of this transaction?

Quiz 11. Post-Sale Adjustments and VAT

Quiz 11.1 Discounts or rebates

ABC Ltd. made a taxable supply of goods worth Frw10,000,000 to XYZ Corp. in January. In February, ABC Ltd. granted a rebate of Frw1,000,000 to XYZ Corp. due to a contractual agreement based on sales volume. Explain how ABC Ltd. should reflect this post-sale rebate in its VAT account and VAT return, and how XYZ Corp. should treat the rebate for VAT purposes.

Quiz 11.2: Goods Returned

In March, DEF Inc. sold goods worth Frw5,000,000 inclusive of VAT at 18% to GHI Co.. In April, GHI Co. returned goods worth Frw1,000,000 due to defects.

Required: Describe how DEF Inc. should account for these returned goods in its VAT account and VAT return for April, and how GHI Co. should adjust its input tax.

Quiz 11.3: Bad Debt Write-off and Subsequent Recovery

LMN Ltd. sold goods on credit worth Frw2,000,000 exclusive of VAT at 18% to OPQ Enterprises in May. By the end of the three-year period, OPQ Enterprises had not paid the amount due, and LMN Ltd. decided to write off the debt as irrecoverable. Six months later, OPQ Enterprises unexpectedly settled the debt in full.

Required: Explain how LMN Ltd. should treat the write-off and subsequent recovery of the debt for VAT purposes, including the necessary adjustments to the VAT account and VAT return.

Unit B: Scope and Operation of Withholding Taxes

Learning outcomes

- B.1. Application of withholding taxes for individuals and companies
- B.2. Administration of withholding taxes

Introduction to Unit B

Upon successful completion of this unit, students will have developed a comprehensive understanding of the withholding tax system in Rwanda as it applies to both individuals and companies. Students will be equipped to:

- critically analyse the framework for withholding taxes on employment income, providing informed advice on its application and implications.
- their advisory skills to include withholding taxes on other sources of income, ensuring a holistic approach to tax planning and compliance.
- understand the administrative aspects of withholding taxes will be achieved, including the ability to guide on the collection, reporting procedures, relevant deadlines, and the identification of exemptions.
- assess the impact of withholding taxes on the corporate income tax due, enabling them to offer strategic tax advice that aligns with regulatory requirements and optimizes tax positions.

Unit list		Syllabus Reference
B1	Withholding Taxes for Individuals and Companies	Ba, b, c, d
B2	Administration of Withholding Taxes	B2a

B1: Withholding Taxes for Individuals and Companies

B1.1 Withholding Taxes on Employment Income

Rwanda's PAYE system and the system for withholding taxes on employment income are governed by Law No. 027/2022 of 20/10/2022 establishing taxes on income. The employer is responsible for withholding and paying the tax on employment income to the Tax Administration within 15 days following the end of each month or quarter, depending

on the relevant laws. The employer must also transmit to the employee a statement indicating his/her name, the amount and type of income, and the amount of tax withheld. The employer must keep and make available to the Tax Administration, for inspection and whenever necessary, records in relation to each tax period showing the payments made to the taxpayer and the amounts of tax withheld and paid.

The withholding tax on employment income is calculated according to the rates provided in the tables below. The rates vary depending on the year of application of the law and the monthly taxable income of the employee. The taxable income is rounded to the nearest thousand Rwandan francs (Frw 1,000).

Rates of income tax – permanent employees

The following rates of income tax apply to monthly employment income for permanent employees:

Bands of taxable income	Taxable income	Tax rate
Frw	Frw	%
0 – 60,000	60,000	0%
60,001-100,000	40,000	10%
100,001- 200,000	100,000	20%
200,001 +		30%

Calculation – permanent employees

The following working is suggested for your income tax calculations for permanent employees (based on monthly taxable employment income of Frw350,000):

Frw	%	Frw
60,000	X 0%	0
40,000	X 10%	4,000
100,000	X 20%	20,000
150,000	X 30%	45,000
350,000		
Total income tax payable on employment income		69,000

Rates of income tax – casual labourers

The following rates of income tax apply to monthly employment income for casual labourers:

Bands of taxable income	Taxable income	Tax rate
Frw	Frw	%
0 – 60,000	60,000	0%
60,001+		15%

Calculation – casual labourers

The following working is suggested for your income tax calculations for casual labourers (based on monthly taxable employment income of Frw 80,000):

Frw	%	Frw
60,000	X 0%	0–
20,000	X 15%	3,000
80,000		
Total income tax payable on employment income		3,000

Rates of income tax – employees with more than one employer

Employees engaged by multiple employers are subject to specific taxation rules:

- Primary employment: The initial employer is responsible for taxing the individual as a regular employee, in accordance with the provisions outlined above.
- Secondary employment: Subsequent employers are required to deduct tax at a flat rate of 30% from the employee's taxable earnings.

Payment deadlines

The default frequency for remitting PAYE tax and RSSB contributions is on a monthly cycle. This necessitates that employers calculate, declare, and pay PAYE within this timeframe.

However, there exists an exception for employers whose annual revenue does not exceed Frw200 million. These employers are granted the option to remit PAYE quarterly. It is important to note that this flexibility does not extend to RSSB contributions, which must continue to be declared monthly.

For those opting for the quarterly PAYE submission, the quarters conclude at the end of March, June, September, and December. Regardless of the chosen frequency—monthly

or quarterly—the deadline for both declaration and payment is the 15th day of the month following the tax period’s conclusion.

To illustrate,

- Taxes for the month of March are due by April 15th.
- Similarly, taxes for the quarter spanning January to March are due by April 15th.

In instances where the 15th falls on a weekend or public holiday, the deadline is extended to the subsequent working day.

Declarations

The declarations will contain details of each employee, together with their taxable pay and benefits on which PAYE is payable. There will be a computation of tax for each employee to arrive at the total liability. Details of casual labourers and individuals for whom this employer is their ‘second’ employer are recorded on separate tabs of the declaration.

Statement to employee

Employers are required to provide each employee with a statement for each tax period showing:

- The employee’s name.
- The amount and type(s) of income received.
- The amount of PAYE and RSSB contributions that have been withheld and paid on their behalf.

B1.2 Withholding Taxes on Non-Employment Income

Withholding tax on board member allowances

Board members are individuals who are appointed or elected to oversee the management and governance of an organisation, such as directors, trustees, or committee members. Withholding tax on board member allowances is a type of tax deducted at source from the income paid to board members.

The withholding tax rate on board member allowances is 30% of the gross amount paid, regardless of the residency status of the board member. This means that both resident and non-resident board members are subject to the same withholding tax rate on their allowances in Rwanda.

The withholding tax on board member allowances is a final tax, meaning that the board member does not have to declare or pay any additional tax on the income received and therefore not required to file annual income tax return.

The withholding tax on board member allowances is intended to ensure that board members pay their fair share of tax on their income and to facilitate the collection and administration of tax by the RRA. It also reduces the compliance burden and the risk of tax evasion by board members, especially those who are non-resident or have multiple sources of income.

Withholding tax on other payments

A withholding tax rate of fifteen percent (15%) is levied on payments made to individuals or entities that are either not registered with the tax administration or are registered but have not made recent income tax declarations. The following payments are subject to this withholding tax:

1. Dividends, with certain exceptions
2. Financial interests, excluding specific types of interests such as those on certain deposits and loans from foreign development financial institutions.
3. Royalties.
4. Service fees, excluding transport services.
5. Performance payments to artists, musicians, athletes, and others in similar fields
6. Sales of goods within Rwanda
7. Profits converted into shares with certain exemptions.
8. Profits repatriated from Rwanda.
9. Payments on behalf of non-resident contracted persons.
10. Reinsurance premiums paid to non-resident insurers except premiums paid to insurers that have signed agreements with the Government of Rwanda.

It is important to note that liabilities recorded in the books of account that reduce taxable income are considered paid if they exceed six (6) months following the tax period. Non-residents with permanent establishments in Rwanda are also subject to these provisions.

The table below sets out the further details on types of payment subject to withholding tax (WHT), together with those not subject to WHT or subject to WHT at a reduced rate.

Type of payment	WHT Standard rate	Exceptions subject to a reduced rate or nil WHT	Special Rates/ exempt status
Dividends	15%	Dividends are exempted from withholding (Article 60 (2) (1) and 47 (2))	Exempt
		Distributions to holders of shares or units in collective investment schemes (article 60)	Exempt
		Dividends on shares listed on the Rwanda capital market, where the recipient is resident in Rwanda or elsewhere in the East African Community (EAC) (Article 60 (5)(1))	5%
Where Rwanda has a double taxation agreement (DTA) with the country of the recipient that reduces the tax rate			Reduced rate per DTA

Type of payment	WHT Standard rate	Exceptions subject to a reduced rate or nil WHT	Special Rates/ exempt status
Financial Interest	15%	Interest paid by financial institutions (banks) on long-term deposits (>1 year) (Article 60 (2) (2a))	Exempt
		Interest paid to a foreign development financial institution where the interest is exempt from tax under applicable law in the country of origin (Article 60 (2) (2b))	Exempt
		Interests that banks or deposit-taking microfinance institutions operating in Rwanda pay to banks or other foreign financial institutions (Article 60 (2) (2c))	Exempt
		Interest on securities listed on the Rwanda capital market, where the recipient is resident in Rwanda or the EAC (Article 60 (5) (1))	5%
		Interest on treasury bonds with a maturity of at least three years Article 60 (5)(2)	5%
		Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA
Royalties	15%	Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA
Service fees, including management and technical services	15%	Registered transport services (Article 60 (2) (4))	Exempt
		Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA
Performance payments made to crafts people, musicians, artists, and sports people	15%	Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA

Type of payment	WHT Standard rate	Exceptions subject to a reduced rate or nil WHT	Special Rates/ exempt status
Goods sold in Rwanda	15%	Goods sold by registered suppliers who have made recent income tax declarations	Exempt
Profit after tax or retained earnings that are converted into shares.	15%	Except for financial institution with paid-up capital below the minimum requirement set by the National bank of Rwanda (Article 60 (2) (7))	Exempt
		Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA
Profits repatriated from Rwanda	15%	Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA
Payments made on behalf of a non-resident supplier (e.g., out of pocket expenses) under the contract in addition to contractual remuneration.	15%	Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA
Re-insurance premiums paid to a non-resident insurer	15%	Except premiums paid to insurers that have signed agreements with the Government of Rwanda (e.g. ZEP RE and AfricaRe).	Exempt
		Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA

Withholding tax on gaming activities

Withholding tax on gaming winnings is a tax that applies to the income derived from participating in gaming activities, such as lotteries, sports betting, casino games, and other games of chance. The tax rate is fifteen per cent (15%) and it is withheld by the company that carries out the gaming activities at the source of payment. The tax base is the difference between the winnings of the player and the amount invested by the player from the start until the end of the game (See Unit C4).

The withholding tax on gaming winnings is a form of indirect tax, as it is imposed on the consumption of a specific good or service. Indirect taxes can create a deadweight loss or

a loss in terms of economic efficiency, as they discourage the purchasing of such goods or services. However, indirect taxes can also have some social benefits, such as reducing the negative externalities of gambling, such as addiction, crime, and social problems.

Withholding tax on imported goods for commercial use

Withholding tax on imported goods for commercial use is a tax that is levied on the value of goods that are imported for the purpose of selling, exchanging, or otherwise disposing them in Rwanda. The tax rate is five percent (5%) of the cost, insurance, and freight (CIF) value of the goods at the first point of entry, and it is paid at the customs before the goods are released by the customs authorities.

The tax is an advance tax, meaning that it is deductible from the taxable liability of the importer at the end of the year. However, some taxpayers are exempted from withholding tax on imported goods for commercial use, if they are considered compliant taxpayers and possess tax clearance certificates.

Withholding tax on public tenders

Withholding tax on public tenders is a mechanism to ensure compliance with the tax obligations of the contractors who provide goods or services to public entities. It is also a way of collecting tax revenue in advance from the income derived from such contracts.

According to the Law, a withholding tax of three percent (3%) of the sum of invoice, excluding the Value Added Tax (VAT), is retained when successful bidders of public tenders are paid. This mainly applies to resident contractors, regardless of the nature or duration of the contract.

However, there is an exception to this rule. If the recipient of the payment is not registered with the Tax Administration or is registered but does not have his/her previous income tax declaration, a higher withholding tax rate of fifteen percent (15%) applies. This is to discourage tax evasion and to ensure that the Tax Administration has sufficient information to assess the tax liability of the contractor.

The withholding tax on public tenders is not a final tax. It is a credit against the income tax due by the contractor at the end of the tax period. The contractor must declare the income and the withholding tax paid in his/her annual income tax return and pay the balance or claim a refund.

B2: Administration of Withholding Taxes

The collection and reporting of withholding taxes in Rwanda are governed by Chapter IV of the Law N° 027/2022 Establishing Taxes on Income. The following table summarizes the main aspects of withholding taxes, including deadlines, exemptions, and impact on corporate income tax due.

Type of withholding tax	Rate	Deadline for payment	Exemption	Impact on corporate income tax
Withholding tax on employment income	0%, 10%, 20%, or 30% depending on the monthly taxable income bracket.	Within 15 days following the end of each month or quarter depending on the relevant laws.	None, except for employees covered by ratified international agreements.	Deductible from the income tax of the employee when declared and paid.
Withholding tax on allowance to a board member	30% of the allowance.	Within 15 days following the end of each month or quarter depending on the relevant laws.	None.	Deductible from the income tax of the board member when declared and paid.
Withholding tax on other payments	15% of the total amount excluding value added tax where applicable.	Within 15 days following the end of each month or quarter depending on the relevant laws.	Refer to the table above.	Deductible from the income tax of the recipient when declared and paid, unless the recipient is not registered with the tax administration or does not have recent income tax declaration, in which case the withholding tax is final.

Type of withholding tax	Rate	Deadline for payment	Exemption	Impact on corporate income tax
Withholding tax on winnings on gaming activities	15% of the winnings.	Within 15 days following the end of each month or quarter depending on the relevant laws.	None.	Final tax.
Withholding tax on goods imported for commercial use	5% of the customs value excluding value added tax and excise duty where applicable.	At the time of clearing the goods at the customs office.	None, except for goods imported by a person exempted from withholding tax by a Tax clearance certificate.	Deductible from the income tax of the importer when declared and paid.
Withholding tax on public tenders	3% of the sum of invoice, excluding the value added tax.	At the time of payment of the invoice.	None	Deductible from the income tax of the successful bidder when declared and paid.

Summary of Unit B and key learning outcomes

- Unit B has covered the scope and operation of withholding taxes, including their application for individuals and companies, and the administration of these taxes.
- The learning outcomes for Unit B were to understand the application of withholding taxes for individuals and companies, and to gain knowledge on the administration of withholding taxes.
- The key points discussed in Unit B were:
- Withholding taxes on employment income governed by Law No. 027/2022 of 20/10/2022 establishing taxes on income.
- Employers had to withhold and pay tax on employment income to the Tax Administration within 15 days following the end of each month or quarter, depending on the relevant laws, and issue a certificate of withholding tax to each employee within 15 days following the end of the month or quarter.
- Employers also had to keep a register of employees, their salaries, allowances, benefits, deductions, and taxes paid, and make it available for inspection by the Tax Administration.
- Withholding taxes on non-employment income applied to various types of payments, such as board member allowances, dividends, royalties, service fees, gaming winnings, imported goods for commercial use, and public tenders.
- The withholding tax rates varied depending on the nature and source of the income, ranging from 3% to 30% of the gross amount paid or the difference between the winnings and the amount invested.
- The administration of withholding taxes required taxpayers to file a tax declaration and transmit the tax withheld within 15 days following the end of each month or quarter, depending on status of the taxpayer, through procedures specified by the Tax Administration.
- Taxpayers also had to provide proofs required by the tax administration or to cooperate or provide information during a tax audit.
- Tax evasion, including the use of forged documents in one's accounts, hiding taxable goods or assets related to business, making a false declaration, changing the trade name of a person prosecuted in relation to tax, fraudulent registration of trade under the name of another person, hiding or damaging accounting documents, and the use of forged accounting records, was subject to imprisonment for a term not less than two years and not more than five years.

Quiz questions

Quiz 1: Withholding tax on payment made to persons not registered with the tax administration.

ABC Ltd is a resident company that provides consulting services to various clients, both resident and non-resident. In the month of June 2021, ABC Ltd made the following payments to its clients:

- Frw10,000,000 to a resident company that is registered with the tax administration and has recent income tax declaration.
- Frw15,000,000 to a non-resident company that is not registered with the tax administration.
- Frw5,000,000 to a resident individual who is not registered with the tax administration.

Advise ABC Ltd on the withholding tax obligations and the impact on its corporate income tax due for the year 2021.

Quiz 2: Withholding tax on imported goods

XYZ Ltd is a resident company that manufactures and sells furniture. In the year 2021, XYZ Ltd imported raw materials worth Frw50,000,000 (CIF value) for commercial use. XYZ Ltd is registered with the tax administration and has recent income tax declaration.

Required: Advise XYZ Ltd on the withholding tax obligations and the impact on its corporate income tax due for the year 2021.

Quiz 3: Withholding tax on gaming activities

PQR Ltd is a resident company that operates a casino. In the year 2021, PQR Ltd had a gross revenue of Frw100,000,000 and a net profit of Frw 20,000,000. PQR Ltd also paid Frw10,000,000 as winnings to its customers.

Advise PQR Ltd on the withholding tax obligations and the impact on its corporate income tax due for the year 2021.

Quiz 4: Withholding tax on dividend income

RST Ltd is a resident company that is listed on the capital market. In the year 2021, RST Ltd had a net profit of Frw50,000,000 and paid dividends of Frw10,000,000 to its shareholders. RST Ltd sold 40% of its shares to the public in the year 2020.

Required: Advise RST Ltd on the withholding tax obligations and the impact on its corporate income tax due for the year 2021.

Unit C: Other Taxes

(Consumption Tax, Payroll Taxes, Taxation of gaming and Capital gains tax.

Learning outcomes

- C1. Consumption tax
- C2. Payroll taxes and social security contributions
- C3. Property taxes
- C4. Taxation of gaming
- C5. Capital gains tax

Introduction to Unit C

Upon successful completion of this unit, students will have developed a comprehensive understanding of various taxes beyond the national level, focusing on those levied by subnational governments. They will be proficient in advising on the intricacies of consumption tax, including its scope, tax base, and the processes involved in its declaration, payment, and assessment. Students will also be able to navigate the complexities of payroll taxes and social security contributions, ensuring compliance with obligations related to deductions and reporting. In the realm of property taxes, learners will gain expertise in valuation methods, the application of fixed asset tax, and the nuances of rental income tax. Additionally, they will be equipped to handle the taxation of gaming, applying their knowledge to different sources of gaming taxation and understanding the administrative requirements. Lastly, the unit will enable students to adeptly apply capital gains tax on asset disposals and share transfers, while also evaluating the strategic use of reliefs, deferrals, and exemptions. Mastery of these topics will empower students to provide informed tax advice and apply administrative rules effectively, ensuring adherence to legal obligations and the optimization of tax positions.

Unit list		Syllabus Reference
C1	Consumption Tax	C1a, b, c, d, e
C2	Payroll Taxes and Social Security Contributions	C2a, b, c
C3	Payroll Taxes and Social Security Contributions	C3a, b, c
C4	Property Taxes	C4a, b, c
C5	Taxation of Gaming	C5a, b, c
C6	Capital Gains Tax	C6a, b, c

C1: Consumption Tax

C1.1 Scope and Tax Base of Consumption Tax

Consumption tax, also known as excise duty, is a tax levied on some of the imported products and products manufactured in Rwanda. as well as to telephone communication services. The products subject to consumption tax are listed in Article 4 of the Law No. 050/2023 of 05/09/2023 Establishing the Excise Duty on Consumable Products (see list below). The rates can be specific (based on quantity or weight) or ad valorem (based on value). For example, cigarettes are taxed at 36% of the retail price of the pack of 20 rods plus Frw130 per the pack, while telephone communications are taxed at 10% of the selling price. The products subject to consumption tax include alcoholic beverages, tobacco products, petroleum products, soft drinks, mineral water, cosmetics, perfumes, and vehicles among many. The purpose of this tax is to discourage the consumption of certain goods that are harmful to health, environment, or social welfare, or to raise revenue for the government.

Exercisable products and their corresponding tax rates

Products	Tax Rates
Natural juice	5%
Lemonade, soda and non-natural juice	39%
Beer whose local raw materials content, excluding water, is at least 70% by weight of its constituents	30%
Other beers	60%
Wine whose local raw materials content, excluding water, is at least 70% by weight of its constituents	30%

Products	Tax Rates
Other wines excluding grape must be listed under heading 22.04. of the structure of East African Community Common External Tariff	70% of the value of a litre not exceeding 40,000 Rwf
Brandies, liquors and whisky whose local raw material content, excluding water, is at least 70% by weight of its constituents	60%
Other brandies, liquor and whisky	70% of the value of a litre not exceeding 150,000 Rwf
Cigarettes	36% of retail price of a pack of 20 rods plus Rwf 130 per pack
Cigars and similar products containing tobacco or tobacco substitutes	160%
Electronic cigarette	Rwf 30,000 per unit
Cartridge with liquid for use in electronic cigarette	Rwf 24,400 per unit
Premium (excluding benzene)	Rwf 183/litre
Gas oil	Rwf 150/litre
Lubricants	37%
Vehicles with engine capacity of less than 1500 cc	5%
Vehicles with engine capacity of between 1500 and 2500 cc	10%
Vehicles with engine capacity of above 1500 cc	15%
Sweets and chewing gums	Rwf 322/Kg
Chocolate	Rwf 1,930/Kg
Telephone communications	10%

The tax base for consumption tax varies depending on the type of product and the mode of acquisition. According to Article 6 of the law, the tax base for imported products is calculated according to customs legislation, while the tax base for products manufactured in Rwanda and telephone communications is the selling price of the product or service. However, for cigarettes, the tax base is the combination of the specific and the retail price. The selling price is defined as the price that the product would reasonably be expected to fetch in an arm's length transaction at that time at the wholesale level in accordance with the law governing it.

CI.2 Determining Taxable Value

The taxable value of imported products is calculated according to the cost, insurance and freight (CIF) value upon arrival at the port of entry, which is the same as the customs value. The taxable value of locally manufactured products is the selling price of the product, excluding value added tax, paid or payable by a buyer or a recipient of the product to the producer. If the producer and the buyer or recipient are related, the selling price is the price that the product would reasonably be expected to fetch in an arm's length transaction at that time at the wholesale level.

Examples:

Tax Base for Imported Goods

The tax base for imported goods is determined in accordance with the customs legislation. This typically involves assessing the value of the goods as they enter Rwanda, including the cost the goods themselves, shipping, insurance, and any other costs up to the point of entry into EAC. Customs duties are then calculated based on this value. For example, if you import a batch of electronics valued at \$10,000, with the insurance and freight of \$2,000. For a customs duty rate of 5%, the tax base would be \$12,600, i.e., the cost of \$10,000 plus the insurance and freight charge of \$2,000 and customs duty payable of \$600 ($\$12,000 + 5\% \times (12,000)$) (see unit D1).

Tax Base for Locally Manufactured Goods

For goods that are manufactured within Rwanda, the tax base is the selling price of the product or service. This means that the amount of tax is calculated based on how much the product is sold for. For instance, if a local factory produces furniture and sells a table for Frw 800,000, the tax base for that table is Frw 800,000. This excludes any value-added tax that may also be applicable to the sale of the product.

Tax Base for Cigarettes

Cigarettes have a unique tax base that is a combination of a specific base and the retail price. This means that there are two components to the tax calculation: a fixed amount per unit (specific base) and a percentage of the retail price. For example, if the specific tax is Frw 130 per pack and the ad valorem tax rate is 36% on a pack of 20 rods of cigarettes that retails for

Frw 2,500, the total tax base would be Frw 130 plus Frw 2,500.

Pricing for Related Persons

When the producer and the buyer or recipient of the goods are related parties, the tax base is determined based on the price that would be expected in an arm's length transaction. This is to prevent tax avoidance through transfer pricing manipulation. An arm's length transaction is one where the buyer and seller act independently and have no relationship to each other. For example, if a company sells goods to its subsidiary, and the normal wholesale price for those goods is Frw1,000,000 but they sell it to the subsidiary for Frw700,000 the tax base should be the arm's length price of Frw1,000,000 not the discounted price of Frw700,000. This ensures that the tax base reflects the fair market value of the goods.

CI.3 Declaration, Payment, and Assessment

The timing for tax obligations is contingent upon the specific product category and the method by which it is acquired. As stipulated in Article 7 of Law No. 050/2023, tax liabilities arise under the following circumstances:

- When a taxable product is dispatched from a manufacturing facility within Rwanda.
- At the point when a product is under customs supervision, applicable to imported goods.
- Upon the sale of services, specifically in the case of telephone communications.

It is obligatory upon the taxpayer to conduct a self-assessment of the consumption tax and to file a tax declaration on a tri-monthly basis, a period referred to as a 'tax decade.' The tax period is defined by the calendar month, which is segmented into three distinct intervals as per Article 8 of Law No. 050/2023:

- The first interval spans from the 1st to the 10th day of the month.
- The second interval extends from the 11th to the 20th day of the month.
- The final interval covers from the 21st day to the conclusion of the month.

The deadlines for the declaration and remittance of the consumption tax are subject to variation based on the taxpayer's classification and the product type, as outlined in Article 9 of Law No. 050/2023:

- Manufacturers responsible for products that are subject to excise duty must complete their tax declarations and payments within a five-day window following the tax periods defined in Article 8 of the Law.
- The consumption tax due on imported goods must be settled simultaneously with the payment of customs duties.

CI.4 Administrative Rules and Penalties

1. Inventory Registers for Manufactured and Sold Products: Manufacturers of excise duty products must maintain a daily inventory register as stipulated in Article 10 of Law No. 050/2023. This register should include:

- Quantity and batch number of manufactured products;
- Records of damaged, discarded, or burnt products post-inspection by an authorized officer; and
- Details of exported products and those sold for consumption.

Additionally, a sales register is required, documenting:

- Price and quantity of products sold; and
- Customer names and addresses

2. Registers for Raw Materials and Ongoing Activities: Article 11 of Law No. 050/2023 mandates that taxpayers keep two specific registers:

- A raw materials register, detailing the materials used in the production of taxable goods; and
- An ongoing activities register, noting the daily status of factory equipment

3. Mandatory Register for Tax Stamps Usage: As per Article 12 of Law No. 050/2023, taxpayers must maintain a register for tax stamps, which includes:

- Tax stamps in stock at the end of the previous month;
- Tax stamps received from the Authority; and
- Tax stamps applied to manufactured or imported excise duty products

A monthly reconciliation statement is also required, summarizing the tax stamps used in relation to the products.

4. Affixing Tax Stamps to Taxable Products: Article 13 of Law No. 050/2023 outlines the requirement for taxpayers to affix tax stamps to taxable products following the Authority's instructions. The tax stamps must be:

- Affixed securely to prevent removal without damaging the product or packaging; and
- Visible, legible, and free from alterations or tampering

5. Reconciliation Statement Submission for Tax Stamps: Taxpayers are obligated under Article 14 of Law No. 050/2023 to submit a reconciliation statement on tax stamps usage within fifteen days after each month's end. This statement must:

- Adhere to the form and manner prescribed by the Authority; and
- Contain information as required by Article 12.

6. Maintenance of Books of Accounts: Article 15 of Law No. 050/2023 requires taxpayers to maintain books of accounts in line with the Law on consumption tax. These records should:

- Be clear and orderly
- Reflect an accurate and complete account of the taxpayer's activities and income; and
- Be preserved for five years from the end of the related tax period.

7. Right to Self-Assessment: Article 16 of Law No. 050/2023 grants taxpayers the right to self-assess excise duty on manufactured or imported products. Taxpayers must:

- Declare and pay the excise duty within the prescribed period;
- Use prescribed forms and methods; and
- Attach supporting documents and the tax stamps reconciliation statement.

8. Administrative Sanctions for Non-Compliance: Article 17 of Law No. 050/2023 warns of administrative sanctions for failing to comply with tax stamps obligations, which may include:

- Seizure and destruction of products without tax stamps
- Suspension or revocation of the taxpayer's license
- Fines up to 100% of the due excise duty
- Recovery of unpaid excise duty and interest

9. Criminal Penalties for Tax Stamps Offences: Under Article 18 of Law No. 050/2023, offences related to tax stamps usage can lead to criminal penalties, such offences include:

- Failing to affix tax stamps;
- Incorrect affixing of tax stamps;
- Overprinting or defacing tax stamps;
- Submitting incorrect or incomplete tax stamp reconciliation statements;
- Misusing tax stamps; and
- Selling excise duty products without tax stamps

Convicted individuals may face imprisonment from 6 months to 1 year, fines ranging from Frw1,000,000 to Frw2,000,000, or both.

C2: Payroll Taxes and Social Security Contributions

C2.1 Payroll Deduction Obligations

- An employer who pays employment income to its employees in cash or in kind is responsible for withholding and paying the tax on employment income according to the rates provided by the law (See Unit A1.5)
- The employer must file a tax declaration and transmit the tax withheld within 15 days following the end of each month or quarter, depending on status of the taxpayer, through procedures specified by the Tax Administration.
- The employer must also issue a certificate of withholding tax to each employee within 15 days following the end of the tax year, showing the amount of income paid and the tax withheld.
- The employer must keep a register of employees, their salaries, allowances, benefits, deductions, and taxes paid, and make it available for inspection by the Tax Administration.

C2.2 National Pension Fund Contributions

In Rwanda, contributions to the National Pension Fund are managed by the Rwanda Social Security Board, a key institution responsible for overseeing social security matters (See Unit C2.3). Employers and employees are both required to contribute to the Social Security Fund, which plays an important role in the country's social security framework.

C2.3 Social Security Contributions System

Social Security contributions are paid by all employees and employers and these fund the social security schemes run by the government, by the Rwanda Social Security Board.

The following schemes are examinable.

- (a) Pension – Social Security Contribution (SSC)
- (b) Maternity leave benefit (MLB)
- (c) Community based health insurance scheme (CBIHS)

The rates of contributions required are:

Scheme	Employee contribution	Employer Contribution	Total	Based on
	%	%	%	
SSC	3%	5%	8%	All employment income except transport allowances and car benefits
MLB	0.3%	0.3%	0.6%	All employment income except transport allowances and car benefits
CBHIS*	0.5%		0.5%	On employee's net salary
Total	3.8%	5.3%	9.1%	

On January 1, 2025, the total contribution rate will move from 6% to 12%, This increase will be shared evenly between employers and employees, plus an existing 2% for occupational hazard on employer side.

Additionally, the definition of pensionable salary will be expanded to include transport allowances, which are currently excluded. Further incremental increases of 2% per year will begin in 2027, with the total rate reaching 20% by 2030.

*Other Contributors towards Community based health insurance scheme include:

- Health insurance entities pay 5% of all annual contributions collected in its health insurance category.
- Subsidiaries from public institutions with medical insurance schemes in their attributions pay 10% of all annual contributions collected.
- Each fuel trade company pays Frw20 per litre of fuel sold.
- Telecommunications company pay 3% of its annual turnover to the scheme.

Medical scheme

This scheme is compulsory for public sector employers but optional for employers in the private sector. It provides extra benefits to employees.

Scheme	Employee contribution	Employer Contribution	Total	Based on
	%	%	%	
Medical	7.5%	7.5%	15%	Basic salary only

Employee contributions

When the scheme is in effect, employers are responsible for deducting contributions from their employees' earnings and remitting them directly to the RSSB on behalf of the employees by 15th of the following month. It is important to note that these contributions are not considered a deductible expense in the context of employment income. Instead, the Pay-As-You-Earn (PAYE) tax system is applied to the employee's total taxable income before any social security contributions are subtracted. This means that the PAYE tax calculation is based on the full amount of income before the RSSB deductions are made.

Employer contributions

For employees, employer's contributions are not subject to taxation on the employees, they are specifically exempted from PAYE. Conversely, employers can deduct these expenses when calculating their taxable business income. This distinction is crucial for understanding the tax treatment of various expenditures related to employment. It is important for both employees and employers to recognize which costs are tax-exempt for the employee and which can be claimed as a legitimate business expense by the employer, as this can affect the overall financial and tax strategy of both parties involved.

C3: Property Taxes

C3.1 Determining Property Taxes and Collection Dates

The scope and system for the determination and collection of property taxes in Rwanda are governed by the Law n° 048/2023 of 05/09/2023 determining the sources of revenue and property of decentralized entities. The law defines the types of immovable property subject to tax, the taxpayers liable for the tax, the tax base, the tax rate, the tax declaration, the tax assessment, the tax payment, the tax deferral, and the tax waiver.

(i) Types of immovable property subject to tax

Immovable property tax is levied on the following types of property:

- (a) buildings and related plots of land, whether for residential, commercial, or industrial use;
- (b) land designated for construction without any building;
- (c) land not designated for residential use; and
- (d) plots of land with buildings exempted from immovable property tax.

(ii) The taxpayers liable for the tax

The immovable property tax is assessed and paid by the owner, the usufructuary, or any other person considered to be the owner of the property. A person is the owner of a property if he/she has the right to use, enjoy, or dispose of it, or if he/she is the beneficiary of a trust or a fiduciary contract involving the property.

(iii) The taxpayers exempt from immovable property tax

- The owner of one building intended to be occupied as his or her dwelling and its annex buildings located in a residential plot for one family.

- The owner of a co-owned property for his or her portion of the property if it is the only family dwelling.
- The persons determined by the district Council or the Council of the City of Kigali as owners of property belonging to vulnerable persons.
- The owners of immovable property belonging to foreign diplomatic missions in Rwanda if their countries do not levy tax on immovable property of Rwanda's diplomatic missions abroad.
- The owners of land used for agricultural, livestock or forestry activities whose area is equal to or less than two hectares.
- The owners of land reserved for construction of residential houses but where no basic infrastructure has been erected.
- The State, decentralized entities and public institutions, except if they use the immovable property for profit-making activities or for leasing.

(iv) The tax base

The tax base for immovable property tax is determined as follows:

- for buildings and related plots of land, the market value of both;
- for land designated for construction without any building, the surface of the land;
- for land not designated for residential use, the surface of the land; and
- for plots of land with buildings exempted from immovable property tax, the surface of the plot.
- in determining the taxable value of a commercial or industrial building, machinery and equipment attached to the building are not considered.

(v) The tax rate

The tax rate for immovable property tax is fixed as follows:

- zero to FRW 80 per square meter of the surface of land;
- 0.5% of the market value of both the building and related plot of land for residential use;
- 0.3% of the market value of both the building and related plot of land for commercial use;
- 0.1% of the market value of both the building and related plot of land for industrial use, building and plot belonging to micro-enterprises and small enterprises.

However, special consideration is given to the following:

- a plot and a building for residential use of three floors are taxed at the rate of 0.25% of their market value;
- a plot and a building for residential use with more than three floors are taxed at the rate of 0.1% of their market value;

(vi) The tax declaration

The taxpayer declares the immovable property tax to the tax administration by filling in a form prescribed by the tax administration. The first declaration is made not later than

31 December in the year of valuation. Subsequent declaration is filed not later than 31 December of the last year of each tax assessment cycle which is five years. The declaration includes the following information:

- (a) the identification of the taxpayer and the property;
- (b) the location, size, and use of the property;
- (c) the market value of the property or the valuation certificate;
- (d) the rental income from the property, if any;
- (e) the tax due and the payment method; and (f) any other information required by the tax administration.

(vii) The tax assessment

The tax administration reviews and re-assesses the tax declared by the taxpayer, based on the information provided by the taxpayer, the valuation certificate, or the computerised mass valuation system. The tax administration issues a tax assessment notice to the taxpayer, indicating the amount of tax due, the payment deadline, and the appeal procedure. The tax assessment notice is issued within six months from the date of submission of the declaration by the taxpayer.

(viii) The tax payment

The tax payment for immovable property is due by 31st December of the tax year. The taxpayer can request a deferral of tax payment for up to six months in case of temporary inability to pay due to special circumstances, such as natural disasters, serious illness, or loss of income. The taxpayer can also request a waiver of tax liability in case of permanent inability to pay due to extreme indebtedness, disability, or death. The deferral or the waiver of tax payment must be justified by the taxpayer and approved by the tax administration or the council of the decentralized entity, respectively.

If the taxpayer fails to file or pay the fixed asset tax on time, he/she is liable to an interest of 1.5% per month on the unpaid tax amount. The taxpayer is also liable to a penalty of 40% of the tax due if he/she files a false declaration or fails to file a declaration within the prescribed period.

(ix) The tax deferral

The taxpayer can request a deferral of tax payment on immovable property in case of financial hardship, force majeure, or any other justified reason. The request must be submitted to the tax administration before the payment deadline and must be accompanied by supporting documents. The tax administration responds to the request within one month from the date of receipt of the request. The tax administration can grant a deferral of tax payment for a period not exceeding one year, and can impose conditions such as interest, guarantees, or instalments.

(x) The tax waiver

The taxpayer can request a waiver of tax liability on immovable property in case of insolvency, disappearance, or death of the taxpayer. The request must be submitted to the tax administration within one year from the date of occurrence of the event, and must be accompanied by supporting documents. The tax administration responds to the request within one month from the date of receipt of the request. The tax administration

can grant a waiver of tax liability only in the following cases:

- (a) the taxpayer has provided a written statement of an inventory of his property justifying that he/she is totally indebted so that a public auction of his/her remaining property would yield no result;
- (b) the taxpayer proves that he/she is not able to pay immovable property tax.

The waiver of immovable property tax liability cannot be granted to a taxpayer who has been found guilty of tax evasion.

(xi) Sale of immovable property

When immovable property is sold, the applicable tax rates differ based on the seller's tax registration status. A seller who is a registered taxpayer is liable to pay a tax rate of 2% on commercial properties. Conversely, if the seller is not a registered taxpayer, the tax rate increases to 2.5%. It is important to note that for registered taxpayers, this tax paid on the sale of property can be deducted as an expense when calculating income tax.

The legislation provides a tax relief on the initial Frw5,000,000 of the sale price, which is exempt from taxation. Therefore, the tax rates of 2% or 2.5% are only applied to the remaining amount of the sale price once the Frw5,000,000 exemption has been subtracted.

C3.2 Fixed Asset Tax and Rental Income Tax

Fixed asset tax is not a separate type of property tax, but rather a synonym for immovable property tax, as explained above. Therefore, the same rules and rates apply for the determination and payment of fixed asset tax.

Rental income tax is payable by any person who earns income from renting immovable property in Rwanda, and who is not subject to corporate tax. The tax base is the gross rental income, minus 50% as a flat deduction for expenses, and the actual bank interest paid on a loan for the construction or purchase of the property. The tax rate is as per the table below (See Unit A1.3). The taxpayer must file a declaration by 31st January of each year and pay the tax by the same date.

Bands of taxable income	Taxable income	Tax rate
Frw	Frw	%
0 – 180,000	180,000	0%
180,001–1,000,000	820,000	20%
1,000,000+		30%

C3.3 Trading licences

Legal Framework: The framework for the trading license tax is established by Law n° 048/2023, dated 05/09/2023, which outlines the revenue sources and properties of decentralized entities.

Person liable for the trading licence tax

Trading licence tax is a type of tax that is paid by any person that opens a business activity within a district.

Tax period for the trading license tax

The tax period for the trading licence tax is the calendar year, starting on January 1st and ending on December 31st. Businesses that begin operations after January are taxed for the remaining months of the year, including the month in which they commence. Seasonal or periodic businesses are taxed for the full year, irrespective of whether they operate year-round.

Trading license tax rate

The trading licence tax rate depends on the turnover of the business activity, as shown in the table below. For businesses not registered for income tax, the rate is determined by their location, classified as either urban or rural, as defined annually by the district Council or the Council of the City of Kigali.

I. Profit-oriented activities basing on their tax on turnover			
Turnover		Tax due	
From	To	Per year	Per quarter
50.000.000.000	And above	2.000.000	500.000
25.000.000.000	50.000.000.000	1.500.000	375.000
1.000.000.000	25.000.000.000	1.000.000	250.000
200.000.000	1.000.000.000	500.000	125.000
20.000.000	200.000.000	280.000	70.000
12.000.000	20.000.000	160.000	40.000
7.000.000	12.000.000	120.000	30.000
2.000.000	7.000.000	100.000	25.000
II. Other profit-oriented activities			
Profit-oriented activities not registered on income tax, in urban zone		60.000	15.000
Profit-oriented activities not registered on income tax, in rural zone		30.000	7.500
Individual transport activities by vehicle		40.000	10.000
Transport activities by boat		20.000	5.000
Transport activities by motorcycle		8.000	2.000

Date of trading license tax declaration

The taxpayer must file a tax declaration to the tax administration not later than January 31st of the year that corresponds to the tax period and pay the tax by the same date.

Trading license tax declaration for the head office and operating branches

If the taxpayer has a head office and branches in different districts, he or she must file a tax declaration for the head office as well as for each branch of his or her business activities, basing on the turnover of the previous year for the head office and for each branch.

However, if all the branches are in the same district as the head office, the taxpayer pays the trading license tax according to the turnover of the head office. On the other hand, if the branches are in a district other than that of the head office, the trading license tax is unique and calculated based on the turnover of the branch with the highest turnover.

For example, a bank with five branches in Kicukiro District, it will pay taxes for one branch, and the remaining four will be exempted from trade license tax. However, if all the branches are located in the same district as the head office, the taxpayer pays the trading license tax according to the turnover of the head office.

Trading license tax declaration basing on different business activities

If the taxpayer carries out different business activities in different buildings, he or she must file a tax declaration for each business activity. However, if the taxpayer carries out various activities in the same building, all of them are subject to a single trading licence tax calculated basing on the general turnover of those business activities.

Vehicles used in these activities are not separately taxed, except for those used in the transport business, which are taxed as follows:

- Companies with vehicles are taxed based on the turnover of each office in different districts.
- Individuals are taxed according to the rates specified in the annexed table above.

Trading license tax declaration for business in more than one district

In case a business activity is spread across more than one district, the taxpayer files his/her declaration of trade license tax in each district where he/she operates.

Trading license tax payment

- a. The trading license tax assessed by a taxpayer himself/herself is paid to the tax administration not later than 31st January of the tax year.
- b. If the trading license tax is not paid by the due date, the taxpayer is not allowed to start or to continue his/her business activities without having paid such tax.
- c. Business activities undertaken while the taxpayer is in arrears with the payment of his/her trading license tax are illegal. The tax administration has the power to stop such activities.

Trading license tax exemption

The following persons are exempted from the trading license tax:

- a. Non-commercial public institutions;
- b. Micro-enterprises and small businesses during the first two years following their establishment.

Issuing a trading license tax certificate

After consideration of the trading license tax declaration and proof of payment of such tax, the tax administration issues a trading license tax certificate showing that the trading license tax for the tax year specified on the certificate has been paid by the taxpayer.

Refunding of trading license tax

In case the taxpayer terminates or changes his/her business activities during a tax year, he/she is, after an audit, refunded the paid trading license tax depending on the remaining months until 31st December of the tax period.

C4: Taxation of Gaming

Gaming activities are any game played with cards, dices, tickets, equipment or any mechanical, electronic, or electromechanical device or machine for money, property, cheque, credit or credit card or any representative of value or a game where a sum of money or representative of value is risked on an occurrence for which the outcome is uncertain. Gaming activities also include any game played through digital services, such as online platforms or applications, that involve betting or wagering of money or anything of value.

C4.1 Different Sources of Taxation from Gaming

There are three main sources of taxation from gaming activities in Rwanda:

- Corporate income tax: Corporate income tax is levied on the business profit of companies carrying out gaming activities at a rate of 28%.
- Tax on gaming activities: Additionally, companies carrying out gaming activities pay a tax of 13% on the difference between the total amount placed for gaming and the winnings paid out.
- Withholding tax: Withholding tax is levied on the winnings of the players at a rate of 15%.

C4.2 Taxation of Gaming Services

Corporate income tax: For the corporate income tax on business profits received by companies carrying out gaming activities, the company must prepare and submit an annual tax declaration in accordance with the procedures specified by the tax administration and pay the tax due at the rate of 28% of the taxable income. The taxable income is the difference between the gross income and the allowable deductions, which must fulfil the conditions set out in the document.

Tax on gaming activities: For the tax on gaming activities, the company that carries out gaming activities must prepare and submit a declaration of tax on gaming activities in accordance with the form and procedure prescribed by the tax administration and pay the tax due within 15 days following the end of each month. The tax rate is 13% of the difference between the total amount placed for gaming and the total amount paid out as winnings. The tax paid is deductible from the taxable income in determining corporate income tax due.

Withholding tax: For the withholding tax on winnings on gaming activities, the company that carries out gaming activities must withhold and pay the tax at the rate of 15% of the difference between winnings of the player and the amount invested by the player. The company must also issue a withholding tax certificate to the player, indicating the amount of winnings, the amount of tax withheld and the date of payment. The withholding tax paid is a final tax and is not refundable or creditable against any other tax liability of the player.

C4.3 The administrative requirements for taxing gaming services

Licensing: Gaming operators are required to obtain a license from the Ministry of Trade and Industry before engaging in any gaming activity. The license is valid for one year and renewable upon payment of a fee. The license specifies the type, location, and conditions of the gaming activity. The license can be suspended or revoked for non-compliance with the gaming laws and regulations.

Registration: Gaming operators are required to register with the RRA as taxpayers and obtain a tax identification number (TIN). Whereas gaming activities are exempt from VAT, Gaming operators are also required to register for VAT if they provide non-gaming services that are subject to VAT. They must display their TIN and VAT registration certificate at their premises.

Filing and payment: Gaming operators are required to file monthly gaming tax returns and pay the gaming tax due to the RRA within 15 days of the end of the month in which the gaming revenue was generated. They are also required to file monthly withholding tax returns and pay the withholding tax deducted from the winnings of their players or participants to the RRA within 15 days of the end of the month in which the winnings were paid. They must issue withholding tax certificates to the winners and keep records of the payments.

Gaming operators who are registered for VAT are required to file quarterly VAT returns and pay the VAT due to the RRA within 15 days of the end of the quarter in which the taxable supplies were made. They must issue VAT invoices to their customers and keep records of the transactions.

Gaming operators are also required to file annual income tax returns and pay the income tax due to the RRA within six months of the end of their accounting year. They must keep records of their income and expenses and prepare financial statements in accordance with the accounting standards.

Audit and inspection: Gaming operators are subject to audit and inspection by the RRA and the Ministry of Trade and Industry to verify their compliance with the gaming laws and regulations and the tax laws and regulations. They must cooperate with the auditors and inspectors and provide them with the necessary information and documents. They must rectify any errors or omissions and pay any penalties or interest for late or underpayment of taxes.

C5: Capital Gains Tax

C5.1 Capital Gains Tax on Sale or Transfer of Shares

Capital Gains Tax (CGT) is levied on the profit/gain realised from the disposal of shares. This tax is computed at a rate of 5% on the gain, which is the increase in the value of the shares. The gain is the difference between the acquisition price—the price at which the shares were initially purchased—and the selling price—the price at which the shares are later sold.

The entity that hosts the shares – i.e., the entity in which the shares have been sold – is charged with the responsibility of collecting and remitting the CGT. This means that when shareholders sell their shares and exit the entity, the entity must collect the CGT from them and then forward this tax to the tax authority. The deadline for the payment of CGT is within 15 days after the month in which the sale of the shares occurred.

C5.2 CGT Reliefs, Deferrals, and Exemptions

General reliefs, deferrals, and exemptions that can reduce or eliminate the CGT liability on the disposal are granted under corporate reorganisation (See Unit E2.3 for further detail)

Summary of Unit C and key learning outcomes

- Unit C has covered other taxes levied by government in Rwanda, such as consumption tax, payroll taxes, social security contributions, property taxes, taxation of gaming, and capital gains tax.
- The learning outcomes for Unit C have included:
 - Understanding the scope and tax base of consumption tax, which is applied to specific imported and locally manufactured products and telephone communication services.
 - Grasping payroll taxes and social security contributions, which are based on gross salary and paid by both employers and employees to the Social Security Fund and the medical scheme.
 - Comprehending property taxes, which are levied on buildings and land, with exemptions and rates varying depending on the type and use of the property.
 - Recognizing the taxation of gaming, which involves corporate income tax, tax on gaming activities, and withholding tax on winnings, as well as licensing and reporting requirements for gaming operators.
 - Identifying capital gains tax and its application, which is levied on the profit or gain from the disposal of an asset and incorporated into the business income, with compliance and monitoring obligations for taxpayers.

Quiz questions

Quiz 1: Determination of Consumption Tax Rates

Which of the following statements accurately describe the method of determining consumption tax rates according to Law No. 050/2023 of 05/09/2023?

- A. Cigarettes are taxed at a specific rate based on the quantity, with an additional ad valorem rate based on the retail price.
 - B. Telephone communication services are taxed at a specific rate based on the duration of the call.
 - C. Alcoholic beverages are subject to a tax that is calculated based on the volume of the beverage.
 - D. The consumption tax on vehicles is determined by a specific rate based on the engine size of the vehicle.
1. A and B
 2. A and C
 3. C and B
 4. A and D

Quiz 2: Tax Base and Time of Taxation for Consumption Tax

According to Article 6 and Article 7 of Law No. 050/2023 of 05/09/2023, which of the following combinations correctly matches the tax base and the time of taxation for consumption tax?

- A. The tax base for imported products is the customs value, and the tax is payable when the product is under customs control.
 - B. The tax base for products manufactured in Rwanda is the cost of production, and the tax is payable when the product is cleared out of the factory.
 - C. The tax base for telephone communications is the selling price, and the tax is payable at the time of sale.
 - D. The tax base for cigarettes is a combination of a specific rate and the retail price, and the tax is payable when the product is cleared out of the factory.
1. A and B
 2. A and C
 3. C and B
 4. A and D

Quiz 3: Consumption Tax Administrative Rules and Penalties

Quiz 3.1: Inventory Registers

According to Article 10 of Law No. 050/2023, which of the following details must be included in the daily inventory register for manufacturers of excise duty products?

- A. Quantity and batch number of manufactured products

- B. Records of damaged, discarded, or burnt products post-inspection
- C. Details of exported products and those sold for consumption
- D. Customer feedback on products sold.

1. A and B
2. C and B
3. A and D
4. A and C

Quiz 3.2: Registers for Raw Materials and Ongoing Activities

What are the two specific registers that taxpayers must maintain as mandated by Article 11 of Law No. 050/2023?

- A. A raw materials register
- B. An ongoing activities register
- C. A finished goods register
- D. A register for employee attendance

1. A and C
2. A and B
3. C and B
4. A and D

Quiz 3.3: Mandatory Register for Tax Stamps Usage

Which of the following must be included in the register for tax stamps as per Article 12 of Law No. 050/2023?

- A. Tax stamps in stock at the end of the previous month
- B. Tax stamps received from the Authority
- C. Tax stamps applied to manufactured or imported excise duty products
- D. Tax stamps damaged during the manufacturing process

1. All the above apart from A
2. All the above apart from D
3. C and B
4. A and D

Quiz 3.4: Affixing Tax Stamps to Taxable Products

Article 13 of Law No. 050/2023 outlines the requirements for affixing tax stamps to taxable products. Which of the following statements are true regarding the affixing of tax stamps?

- A. Tax stamps must be affixed securely to prevent removal without damaging the product or packaging.

- B. Tax stamps must be visible, legible, and free from alterations or tampering.
 - C. Tax stamps can be affixed in a manner that allows easy removal for reuse
 - D. Tax stamps should be placed inside the product packaging
1. A and C
 2. A and B
 3. C and B
 4. A and D

Quiz 3.5: Reconciliation Statement Submission for Tax Stamps

Under Article 14 of Law No. 050/2023, when are taxpayers obligated to submit a reconciliation statement on tax stamps usage?

- A. Within fifteen days after each month's end
- B. Within thirty days after each quarter's end
- C. Within seven days before the end of the financial year
- D. Within sixty days after receiving a request from the Authority.

Quiz 3.6: Maintenance of Books of Accounts

Article 15 of Law No. 050/2023 requires taxpayers to maintain books of accounts. Which of the following statements are true regarding the maintenance of these records?

- A. Records should be clear and orderly
 - B. Records should reflect an accurate and complete account of the taxpayer's activities and income
 - C. Records should be preserved for three years from the end of the related tax period
 - D. Records should be preserved for five years from the end of the related tax period.
1. A and C
 2. A, B and C
 3. A, B and D
 4. A and D

Quiz 3.7: Right to Self-Assessment

What are the requirements for taxpayers under Article 16 of Law No. 050/2023 regarding the right to self-assess excise duty?

- A. Declare and pay the excise duty within the prescribed period
 - B. Use prescribed forms and methods for self-assessment
 - C. Attach supporting documents and the tax stamps reconciliation statement
 - D. Obtain third-party verification of the self-assessed excise duty.
1. A and C
 2. A, B and C

3. A, B and D
4. A and D

Quiz 3.8 : Administrative Sanctions for Non-Compliance

Which of the following are potential administrative sanctions for failing to comply with tax stamps obligations as warned by Article 17 of Law No. 050/2023?

- A. Seizure and destruction of products without tax stamps
 - B. Suspension or revocation of the taxpayer's license
 - C. Fines up to 100% of the due excise duty
 - D. Seven years of imprisonment.
1. A and C
 2. A and D
 3. A, B and C
 4. A, B and D

Quiz 3.9: Criminal Penalties for Tax Stamps Offences

Under Article 18 of Law No. 050/2023, which of the following offences related to tax stamps usage can lead to criminal penalties?

- A. Failing to affix tax stamps
 - B. Incorrect affixing of tax stamps
 - C. Overprinting or defacing tax stamps
 - D. Selling excise duty products without tax stamps.
1. A and C
 2. A and D
 3. A, B and C
 4. A, B, C and D

Quiz 4: Social Security Contribution

Quiz 4.1: Which of the following statements accurately describe the contributions required for the Social Security Contribution (SSC) and Maternity Leave Benefit (MLB) schemes?

- A. Employers contribute 5% for SSC and 0.3% for MLB of all employment income except transport allowances and car benefits.
 - B. Employees contribute 3% for SSC and 0.3% for MLB of all employment income except transport allowances and car benefits.
 - C. Employers contribute 8% for SSC and 0.6% for MLB of all employment income.
 - D. Employees contribute 3% for SSC and 2.5% for MLB of all employment income.
1. A and B

2. B and C
3. C and D
4. A and D

Quiz 4.2: Which of the following are true regarding the Community Based Health Insurance Scheme (CBIHS) contributions?

- A. Health insurance entities pay 5% of all annual contributions collected in its health insurance category.
 - B. Subsidiaries from public institutions with medical insurance schemes in their attributions pay 10% of all annual contributions collected.
 - C. Telecommunications companies pay 3.5% of their annual turnover to the scheme.
 - D. Employers and employees each contribute 0.5% on the employee's net salary.
1. A and B
 2. B and C
 3. C and D
 4. A and D

Quiz 4 3: Concerning the Medical Scheme under RAMA, which of the following statements are correct?

- A. The scheme is compulsory for public sector employers and optional for private sector employers.
 - B. It provides extra benefits to employees.
 - C. Employee contribution is 7.5% and Employer Contribution is also 7.5%.
 - D. Contributions for the scheme must be remitted to the RSSB by the 30th of the following month.
1. A and B
 2. A and C
 3. B and C
 4. C and D

Quiz 4.4: Regarding the tax treatment of social security contributions, which of the following statements are true?

- A. Employer's contributions are not subject to taxation on the employees and are exempt from PAYE.
 - B. Employers cannot deduct their contributions when calculating their taxable business income.
 - C. Employee contributions are considered a deductible expense in the context of employment income.
 - D. The PAYE tax system is applied to the employee's total taxable income before any social security contributions are subtracted.
1. A and B

2. B and C
3. C and D
4. A and D

Quiz (4.5): Which of the following entities are required to contribute towards the Community Based Health Insurance Scheme (CBIHS) besides employers and employees?

- A. Each fuel trade company pays Frw20 per litre of fuel sold.
 - B. Telecommunications companies pay 3% of their annual turnover to the scheme.
 - C. Health insurance entities pay 5% of all annual contributions collected in its health insurance category.
 - D. Subsidiaries from public institutions with medical insurance schemes in their attributions pay 10% of all annual contributions collected.
1. A and B
 2. B and C
 3. C and D
 4. All the above

Quiz 5: Sources of taxation from gaming.

Quiz 5.1: Which of the following is not a source of taxation from gaming in Rwanda?

- A) Gaming tax
 - B) Value added tax
 - C) Withholding tax
 - D) Personal income tax
1. A and B
 2. B and C
 3. C and D
 4. B and D

Quiz 6: Capital Gains Tax

Quiz 6.1: XYZ Corporation, which operates on a fiscal year ending on June 30th, sold a piece of machinery on April 15th, 2022. The machinery was originally purchased for Frw500,000,000 and had a tax written down value of Frw200,000,000 at the time of sale. The sales proceeds from the disposal of the machinery amounted to Frw350,000,000.

Calculate the capital gains tax due and determine the deadline for XYZ Corporation to pay this tax.

- A) Frw42,000,000 due by September 30th, 2022
- B) Frw42,000,000 due by March 31st, 2023

- C) Frw21,000,000 due by September 30th, 2022
- D) Frw21,000,000 due by March 31st, 2023

Quiz 6.2: DEF Ltd is a registered investor in Rwanda that owns 60% of the shares of GHI Ltd, a local company engaged in manufacturing. On 30/6/2020, DEF Ltd sold 30% of its shares in GHI Ltd to JKL Ltd, another registered investor, for Frw100,000,000. The shares were acquired by DEF Ltd on 1/7/2017 for Frw50,000,000. What is the capital gain or loss arising from the sale of the shares, and what is the capital gains tax payable by DEF Ltd?

- A) Capital gain of Frw50,000,000, tax of Frw15,000,000
- B) Capital gain of Frw50,000,000, tax of Frw7,500,000
- C) Capital gain of Frw50,000,000, no tax payable
- D) Capital loss of Frw50,000,000, no tax payable

Quiz 6.3: XYZ Corporation's financial analyst is reviewing the company's investment portfolio and has come across a transaction that requires the calculation of Capital Gains Tax (CGT). On January 3, 2023, XYZ Corporation sold 10,000 shares of ABC Ltd. at a price of Frw15,000 per share. These shares were originally purchased on July 21, 2018, at a price of Frw10,000 per share. As the entity responsible for collecting and remitting CGT, XYZ Corporation must calculate the CGT due and ensure it is paid within the stipulated deadline.

Required;

Calculate the following:

1. The total gain realized from the disposal of the shares.
2. The amount of CGT that XYZ Corporation must collect and remit.
3. The deadline by which the CGT payment must be made to the tax authority.

Unit D: Cross-Border Taxation Arrangements and Customs Union Memberships

Learning outcomes

- D.1. Customs and excise duties
- D.2. Cross-border VAT arrangements
- D.3. Foreign tax relief and double tax treaties

Introduction to Unit D

Upon successful completion of this Unit, students will have developed a comprehensive understanding of cross-border taxation and customs union memberships. They will be equipped to:

- Advise on Customs and Excise Duties: Students will be able to articulate the scope, key features, and objectives of customs unions and free trade areas. They will possess the analytical skills necessary to assess the effects of tariffs, barriers, and subsidies on members of these trade entities and recommend appropriate mitigating strategies. Furthermore, they will be capable of evaluating export promotion schemes, special economic zones, and other trade and development regimes, as well as the customs duties applied to goods from outside the unions and areas that Rwanda is affiliated with, including the methods for determining customs value.
- Understand Cross-border VAT Arrangements: Learners will gain the expertise to advise on VAT treatments for exported and imported goods and services, as well as the intricacies of the VAT reverse charge system.
- Navigate Foreign Tax Relief and Double Tax Treaties: Students will learn how to apply foreign tax credits in the absence of double taxation treaties and will be able to advise on the application of these treaties for individuals and companies with complex tax affairs.

Unit list	Syllabus Reference
D1. Customs and Excise Duties	D1a, b, c, d,e
D2. Cross-Border VAT Arrangements	D2a, b
D3. Foreign Tax Relief and Double Tax Treaties	D3a, b,c,d

D1: Customs and Excise Duties

D1.1 Customs Union and Free Trade Area Overview

Scope and Key Features of Customs Unions

A customs union is a trade arrangement between two or more countries that agree to remove trade barriers such as tariffs and quotas between member countries. The key features of a customs union include:

- **Common External Tariff (CET):** Member countries adopt a common external tariff on all goods entering the union from non-member countries. This means that once goods have entered one member country, they can move freely without additional tariffs to other member countries.
- **Trade Policy Coordination:** Members of a customs union coordinate their trade policies towards non-member countries. This includes negotiating trade agreements as a single bloc.
- **Elimination of Internal Barriers:** Customs unions remove all internal barriers to trade, which includes not only tariffs but also quotas, preferences, and other non-tariff barriers.
- **Revenue Distribution:** Customs unions often have mechanisms for the distribution of customs revenues collected from imports from non-member countries.

Objectives of Customs Unions

The objectives of customs unions typically include:

- **Promoting Trade:** By removing internal barriers and adopting a CET, customs unions aim to increase trade between member countries.
- **Economic Integration:** Customs unions are a step towards deeper economic integration, fostering closer economic ties and interdependence among member countries.
- **Enhancing Bargaining Power:** As a bloc, member countries can have greater bargaining power in international trade negotiations.
- **Economic Development:** By creating larger markets, customs unions can lead to economies of scale, increased competition, and economic development.

Scope and Key Features of Free Trade Areas (FTAs)

A free trade area is a region where a group of countries has signed a free trade agreement (FTA), and they agree to reduce or eliminate trade barriers on goods and services between each other. The key features of FTAs include:

- **Tariff Reductions or Eliminations:** FTAs typically involve the reduction or elimination of tariffs on goods traded between member countries.
- **Non-Tariff Barriers:** FTAs may also address the reduction of non-tariff barriers, such as import quotas, export restraints, and technical barriers to trade.
- **Rules of Origin:** FTAs establish rules of origin that determine which goods can benefit from the reduced tariffs, ensuring that only goods originating from member countries receive the preferential treatment.

Objectives of Free Trade Areas

The objectives of FTAs are generally to:

- **Stimulate Trade:** FTAs aim to stimulate trade between member countries by reducing the costs associated with tariffs and other trade barriers.
- **Increase Economic Growth:** By increasing trade, FTAs seek to contribute to economic growth and job creation within member countries.
- **Diversify Economies:** FTAs can help countries diversify their economies by expanding market access for a variety of goods and services.
- **Enhance Competitiveness:** By opening markets and reducing trade barriers, FTAs encourage domestic industries to become more competitive.

Differences Between Customs Unions and Free Trade Areas

The main differences between customs unions and free trade areas are:

- **Common External Tariffs:** Customs unions require member countries to adopt a CET on imports from non-member countries, while FTAs do not.
- **Policy Coordination:** Customs unions involve a higher level of economic integration, including coordinated trade policies towards non-member countries, which is not a requirement in FTAs.
- **Internal Trade:** While both customs unions and FTAs aim to reduce internal trade barriers, customs unions also involve the free movement of goods without any internal customs checks, which is not always the case in FTAs.

Examples of Customs Union and Free Trade Area

Customs Union:

- **East African Community (EAC):** Comprising Burundi, Kenya, Rwanda, South Sudan, Tanzania, Democratic Republic of the Congo, Somalia and Uganda, the EAC is working towards a common market and a full customs union.
- **Southern African Customs Union (SACU):** The oldest customs union in the world, SACU includes Botswana, Lesotho, Namibia, South Africa, and Eswatini (formerly Swaziland).
- **European Union (EU):** One of the most prominent examples of a customs union is the European Union. The EU has 27 member countries that have eliminated customs duties amongst themselves and have a common external tariff for goods entering the union. The EU also coordinates various aspects of the members' trade policies, agricultural policies, and product regulations.
- **Eurasian Economic Union (EAEU):** This union includes countries such as Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan. It was established to ensure the free movement of goods, services, capital, and labour, and to pursue coordinated, harmonized, and single policy in the sectors determined by the treaty and international agreements within the union.

Free Trade Area

- The African Continental Free Trade Area (AfCFTA) is an example of an FTA. It aims to create a single market for goods and services across 54 African countries, facilitating

the movement of capital and people, and paving the way for the establishment of a customs union.

- Common Market for Eastern and Southern Africa (COMESA): A free trade area with 21 member states stretching from Libya to Eswatini (formerly Swaziland).
- Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA): AFTA is a trade bloc agreement by the Association of Southeast Asian Nations supporting local manufacturing in all ASEAN countries. The AFTA agreement works to decrease trade barriers among ASEAN members and to increase the region's competitive advantage as a production base geared for the world market.

DI.2 Impact of Tariffs, Barriers, and Subsidies

Tariffs, barriers and subsidies can have positive and negative impacts on customs union and free trade area members. On the one hand, they can protect domestic industries from foreign competition, generate revenue for the government, support strategic sectors, and correct market failures. On the other hand, they can increase the cost of production and consumption, distort resource allocation, create trade diversion and inefficiencies, and trigger trade disputes and retaliation. To mitigate the negative impacts, customs union and free trade area members can adopt measures such as harmonizing standards and regulations, eliminating non-tariff barriers, providing compensation and adjustment assistance, and engaging in dispute resolution and cooperation mechanisms.

Customs Unions

The impact of tariffs within a customs union is neutralized for member countries because they agree not to impose tariffs on each other. However, the common external tariff can affect the union in several ways:

- Trade Creation: The removal of tariffs within the union can lead to trade creation, where there is an increase in trade between member countries because goods are now cheaper than those from non-member countries due to the CET.
- Trade Diversion: The common external tariff can cause trade diversion, where imports shift from a more efficient non-member producer to a less efficient member producer because of the tariff imposed on the non-member.
- Revenue Distribution: The revenue from the CET is typically shared among member countries, which can be a point of contention if the distribution does not seem equitable or if it does not compensate for losses incurred by specific sectors within member countries. However, this depends on a particular customs union. For example, the Southern African Customs Union (SACU) implements revenue sharing formula whereas the EAC customs union does not.

Free Trade Areas

The impact of tariffs and barriers in FTAs can be complex:

- Selective Liberalization: Unlike customs unions, FTAs allow for selective liberalization, where members can maintain certain tariffs and barriers against each other. This can lead to complexities in trade relations and may require rules of origin to be strictly enforced to prevent trade deflection.
- Regulatory Barriers: Non-tariff barriers such as different standards and regulations can still impede trade within FTAs, even when tariffs are eliminated. Harmonizing

regulations or mutual recognition agreements can mitigate these barriers.

- **External Tariff Policy Independence:** Members maintain their own external tariff policies, which can lead to competition among members to attract trade from non-members, potentially undermining the collective bargaining power of the FTA.

Subsidies

Subsidies can distort trade within both customs unions and FTAs:

- **Competitive Disadvantage:** Subsidies can give domestic producers an artificial advantage, leading to inefficiencies and potential trade disputes among members.
- **Retaliation and Trade Wars:** Subsidies can provoke retaliatory measures from other members or non-members, leading to trade wars that can undermine the benefits of the trade agreement.

Mitigating Measures

To address the challenges posed by tariffs, barriers, and subsidies, member countries of customs unions and FTAs can adopt several mitigating measures:

- **Harmonization of Policies:** Members can work towards harmonizing their external tariffs (in the case of a customs union) and regulations to reduce trade barriers.
- **Compensation Mechanisms:** Establishing mechanisms to compensate sectors or countries that lose out due to the trade agreement can help maintain the union's stability.
- **Dispute Resolution Mechanisms:** Effective dispute resolution mechanisms are crucial for resolving conflicts that arise from the imposition of tariffs, non-tariff barriers, or subsidies.
- **Transparency and Monitoring:** Ensuring transparency in trade policies and monitoring the implementation of subsidies can help prevent trade distortions and conflicts.
- **Adjustment Assistance:** Providing assistance to industries and workers affected by trade liberalization can facilitate economic adjustments and maintain support for the trade agreement.

D1.3 Impact of Export Promotion and Special Economic Zones

Export Promotion Schemes

Export promotion schemes are designed to boost a country's exports by providing various incentives to exporters. These incentives can range from tax exemptions to financial assistance, and they aim to make domestic goods and services more competitive in the global market. By reducing the costs associated with exporting, these schemes can help domestic companies expand their market reach, increase their scale of operations, and improve their overall economic viability.

In the context of Rwanda, the government has implemented several export promotion schemes to diversify its export base beyond traditional exports like coffee and tea. For instance, the National Export Strategy (NES) of Rwanda aims to promote the export of non-traditional products such as minerals, horticulture, and handcrafts. The strategy includes measures such as improving the quality of products, facilitating access to finance for exporters, and enhancing market access through trade agreements.

Special Economic Zones (SEZs)

Special Economic Zones are geographically designated areas within a country where business and trade laws differ from the rest of the country. SEZs are established with the goal of attracting foreign direct investment (FDI), creating jobs, and fostering an environment conducive to business operations. They often offer tax incentives, simplified customs procedures, and infrastructure support to businesses setting up within their boundaries.

Rwanda has established several SEZs, including the Kigali Special Economic Zone (KSEZ). The KSEZ offers a range of benefits to investors, such as reduced corporate income tax rates, exemption from import and export duties, and streamlined business registration processes. These incentives have been successful in attracting both domestic and foreign investors, contributing to Rwanda's economic growth and development.

Other Regimes

Other regimes to promote development and trade include trade agreements, investment treaties, and business-friendly regulatory reforms. These regimes are designed to create a more favorable business environment, reduce barriers to trade, and encourage both domestic and international investment.

As pointed out earlier, Rwanda is a member of the East African Community (EAC), a regional intergovernmental organization that promotes economic, social, and political integration among its member states. Through the EAC, Rwanda benefits from a common market and customs union, which facilitates trade with neighbouring countries. Additionally, Rwanda has signed various bilateral and multilateral trade agreements to enhance its trade relations and market access.

D1.4 Customs Duties and Valuation

Customs Duties in Rwanda

Rwanda, as a landlocked country in East Africa, is a member of several customs unions and Free Trade Areas (FTAs). These include the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the African Continental Free Trade Area (AfCFTA). Each of these trade blocs has its own system of customs duties designed to regulate the flow of goods between member states and from external sources.

Generally, the taxes applicable on importation of goods are:

- Import duty ranging from 0% to 35%.
- Value added tax (VAT) of 18%.
- Consumption tax/Excise duty ranging from 5% to 150%.
- Withholding tax (WHT) of 5%.
- Infrastructure Development levy (IDL) of 1.5%.
- Quality Inspection Fees (QIF) of 0.2%; and
- African Union Levy (AU Import Levy) of 0.2%

Specimen computation

In computing import taxes, the following order is adopted by the customs department.

- Import duty is levied on the CIF value. CIF stands for Cost, Insurance, and Freight. These are the fees a seller pays to cover the costs, Cost And Freight.
- Consumption tax is levied on the CIF value + import duty.
- VAT is levied on the CIF value + import duty + consumption tax.
- WHT is levied on the CIF value.
- IDL is levied on the CIF value.
- QIF is levied on the CIF value.
- AU fee is levied on the CIF value.

Below is a specimen computation of the import taxes applicable on the import of goods with CIF value of USD100.

Let us assume a 25% import duty is applicable and the goods are not subject to consumption tax.

Tax head	Duty computation	Total
		USD
Import duty	$(\$100 \times 25\%)$	25
Consumption tax	$(\$100 + \$25) \times 0\%$	0
VAT	$(\$100 + \$25 + \$0) \times 18\%$	22.5
WHT	$(\$100 \times 5\%)$	5
IDL	$(\$100 \times 1.5\%)$	1.5
QIF	$(\$100 \times 0.2\%)$	0.2
AU fees	$(\$100 \times 0.2\%)$	0.2
Total Import tax		54.4

**It should be noted that taxes have to be paid in Frw, hence conversion will have to be made based on the acceptable prevailing foreign exchange rate as provided by the central bank.

Illustration: Calculation of Import Taxes in Rwanda

You are a customs officer in Rwanda tasked with calculating the total import taxes for a shipment of goods. The shipment has a Cost, Insurance, and Freight (CIF) value of USD 8,000. The goods are subject to the following tax rates:

- Import duty: 10%
- Consumption tax: 10%

- Value Added Tax (VAT): 18%
- Withholding Tax (WHT): 5%
- Infrastructure Development Levy (IDL): 1.5%
- Quality Inspection Fees (QIF): 0.2%
- African Union Levy (AU Import Levy): 0.2%

Calculate the total import taxes due for the shipment.

Tax Head	Duty Computation	Total (USD)
CIF Value		8,000.00
Import Duty	$(\text{USD } 8,000 * 10\%)$	800.00
Consumption Tax	$(\text{USD } 8,000 + \text{USD } 800) * 10\%$	880.00
VAT	$(\text{USD } 8,000 + \text{USD } 800 + \text{USD } 880) * 18\%$	1,602.40
WHT	$(\text{USD } 8,000 * 5\%)$	400.00
IDL	$(\text{USD } 8,000 * 1.5\%)$	120.00
QIF	$(\text{USD } 8,000 * 0.2\%)$	16.00
AU Import Levy	$(\text{USD } 8,000 * 0.2\%)$	16.00
Total Import Tax	–	3,834.40

Explanation:

1. Import Duty: The import duty is calculated as 10% of the CIF value. Therefore, $\text{USD } 8,000 * 10\% = \text{USD } 800$.
2. Consumption Tax: The consumption tax is levied on the sum of the CIF value and the import duty. Thus, $(\text{USD } 8,000 + \text{USD } 800) * 10\% = \text{USD } 880$.
3. VAT: VAT is calculated on the cumulative total of the CIF value, import duty, and consumption tax. Therefore, $(\text{USD } 8,000 + \text{USD } 800 + \text{USD } 880) * 18\% = \text{USD } 1,602.40$.
4. WHT: The withholding tax is 5% of the CIF value, which amounts to $\text{USD } 8,000 * 5\% = \text{USD } 400$.
5. IDL: The infrastructure development levy is 1.5% of the CIF value, resulting in $\text{USD } 8,000 * 1.5\% = \text{USD } 120$.
6. QIF: The quality inspection fees are 0.2% of the CIF value, which is $\text{USD } 8,000 * 0.2\% = \text{USD } 16$.
7. AU Import Levy: The African Union levy is also 0.2% of the CIF value, equating to $\text{USD } 8,000 * 0.2\% = \text{USD } 16$.
8. Total Import Tax: The total import tax due is the sum of all the individual taxes calculated, which is $\text{USD } 800 + \text{USD } 880 + \text{USD } 1,602.40 + \text{USD } 400 + \text{USD } 120 + \text{USD } 16 + \text{USD } 16 = \text{USD } 3,834.40$.

The complexity of this calculation lies in understanding the order in which taxes are applied and the base value for each tax. It is important to apply each tax in the correct sequence to ensure accurate computation.

East African Community (EAC)

Within the EAC, Rwanda operates under a common external tariff (CET) when importing goods from non-member countries. The CET is structured into several bands that impose different duty rates based on the category of goods. For example, raw materials and capital goods may attract lower rates or be duty-free to encourage production, while finished goods may attract higher rates to protect the local industries of member states.

Common Market for Eastern and Southern Africa (COMESA)

COMESA aims to promote a free trade area with zero customs duties among member states. However, for goods originating outside of COMESA, a similar CET to the EAC is applied. Rwanda, as a member, benefits from reduced tariffs within the trade bloc but still imposes customs duties on goods from non-COMESA countries or COMESA countries that are yet to implement the agreement.

African Continental Free Trade Area (AfCFTA)

The AfCFTA is a relatively new agreement with the ambitious goal of creating a continent-wide free trade area. It seeks to progressively eliminate tariffs on intra-African trade, making it easier for African countries to trade with each other. However, for goods coming from outside Africa, Rwanda would still apply its external tariffs as per its commitments to the EAC and COMESA until a common external tariff is agreed upon within the AfCFTA framework.

Methods for Determining Customs Value

The customs value of goods is crucial as it determines the amount of duty to be paid. Rwanda, like many other countries, uses the World Trade Organization's (WTO) Agreement on Customs Valuation, which is a part of the General Agreement on Tariffs and Trade (GATT). This agreement stipulates the methods for determining the customs value, which are generally applied in a hierarchical order:

1. **Transaction Value Method:** This is the primary method and refers to the price actually paid or payable for the goods when sold for export to the country of importation, with certain adjustments as specified in the agreement.
2. **Transaction Value of Identical Goods:** If the transaction value cannot be determined using method 1, the value is based on the sale price of identical goods sold for export to the same country. Identical goods have been defined as goods which are same in all respects, including physical characteristics, quality and reputation.
3. **Transaction Value of Similar Goods:** If neither the transaction value nor identical goods can be used, the value is based on the sale price of similar goods. Similar goods are goods which, although not alike in all respects, have like characteristics and like component materials which enable them to perform the same functions and to be commercially interchangeable.
4. **Deductive Value Method:** This method is based on the unit price at which the imported goods or similar goods are sold in the greatest aggregate quantity to persons not related to the sellers in the country of importation.

5. Computed Value Method: This involves calculating the cost of production of the imported goods, plus an amount for profit and general expenses equal to that usually reflected in sales of goods of the same class or kind.
6. Fallback Method: When all other methods fail, this method uses reasonable means consistent with the principles and general provisions of the Agreement.

Illustration: Calculation of Customs Value

You are a customs officer tasked with determining the customs value of a shipment of electronic goods imported into Rwanda. The shipment consists of 100 units of Brand X smartphones. The following information is provided:

- The price paid for the smartphones by the importer was \$300 per unit.
- Adjustments to be made to the transaction value include shipping costs of \$500 and insurance costs of \$200.
- Identical Brand X smartphones were previously sold for export to Rwanda at a price of \$320 per unit, with no adjustments needed.
- Similar Brand Y smartphones are sold for export to Rwanda at a price of \$310 per unit, with no adjustments needed.
- The deductive value method indicates that similar electronic goods are sold within Rwanda at a unit price of \$350, but a discount of 10% is usually applied for bulk purchases.
- The computed value method data shows that the cost of production per unit is \$280, with a profit and general expenses addition of 12%.
- All prices are in USD.

Using the information above, calculate the customs value of the shipment using the first applicable method from the WTO's Agreement on Customs Valuation. Provide your answer in a table format, showing the calculations for each method in the hierarchical order until the first applicable method is found.

Method	Calculation	Customs Value (USD)
Transaction Value Method	$(100 \text{ units} \times \$300/\text{unit}) + \$500 \text{ shipping} + \200 insurance	\$30,700
Transaction Value of Identical Goods	Not applicable as the transaction value is determinable	–
Transaction Value of Similar Goods	Not applicable as the transaction value is determinable	–
Deductive Value Method	Not applicable as the transaction value is determinable	–
Computed Value Method	Not applicable as the transaction value is determinable	–
Fallback Method	Not applicable as the transaction value is determinable	–

Explanation:

The primary method for determining the customs value is the Transaction Value Method. Since we have a price actually paid or payable for the goods, we can use this method. The transaction value of the goods is the price paid for the goods adjusted for shipping and insurance costs. The calculation is as follows:

- The price paid for the smartphones: $100 \text{ units} \times \$300/\text{unit} = \$30,000$
- Add shipping costs: $\$30,000 + \$500 = \$30,500$
- Add insurance costs: $\$30,500 + \$200 = \$30,700$

Since the Transaction Value Method is applicable and provides a determinable customs value, there is no need to proceed to the other methods. The customs value of the shipment is therefore \$30,700.

The complexity of determining the customs value lies in the accurate application of these methods, which can involve intricate details about the nature of the transaction, the condition of the goods, and market variables.

D1.5 Impact of Excise Taxes on Manufacture and Importation

Impact on Manufacturers and Importers

As pointed out earlier (see Unit C1), Excise taxes are indirect taxes levied on the sale or production for sale of specific goods, on certain services, and on certain activities. They are often included in the price of the product or service. The rationale behind excise taxes is to generate revenue for the government and to discourage the consumption of goods that are considered harmful to health or the environment.

The below are possible consequences of imposition of excise taxes. However, it should be noted that the impact may be broader than what is listed below.

- **Cost of Production:** The imposition of excise taxes may increase the cost of production for manufacturers. This is because they have to pay an additional amount of money to the government for the commodities they produce. Manufacturers may respond to this by increasing the price of their goods to maintain profit margins, which can lead to a decrease in demand for their products.
- **Pricing and Demand:** For importers, excise taxes can make imported goods more expensive compared to locally produced items, assuming the latter are taxed differently or not at all. This can lead to a decrease in the quantity of goods imported and can also affect consumer choice if the imported goods become too expensive.
- **Competitiveness:** Excise taxes can affect the competitiveness of certain commodities. If the tax is too high, it can make the domestic products less competitive compared to similar untaxed products from other countries. This can lead to a decrease in sales and may affect the viability of businesses involved in the manufacture or importation of these commodities.

Impact on Government Revenue

- **Revenue Generation:** Excise taxes are a significant source of revenue for the Rwandan government. They help to fund public services and infrastructure development. The

effectiveness of excise taxes in revenue generation depends on the tax rate and the elasticity of demand for the taxed commodities.

- **Economic and Social Behavior:** The government can use excise taxes to influence economic and social behaviour. By imposing higher taxes on harmful products, the government can discourage their use. This is evident in the case of tobacco and alcohol, where higher excise taxes are used as a tool to reduce consumption due to their negative impact on health.

Impact on Consumers

- **Consumer Spending:** Excise taxes can lead to changes in consumer spending patterns. As the prices of goods increase due to the added tax, consumers may either reduce their consumption, switch to cheaper alternatives, or continue to purchase the same amount, depending on the price elasticity of demand for those goods.
- **Welfare Considerations:** The impact of excise taxes on consumer welfare can be mixed. While they can lead to higher prices and reduced consumption of harmful goods, which is beneficial from a public health perspective, they can also place a higher financial burden on consumers, particularly those with lower incomes.

Impact on Public Health and Environment

- **Health Benefits:** By discouraging the consumption of harmful products like tobacco and alcohol, excise taxes can lead to improved public health outcomes. This can result in lower healthcare costs for the government and society in the long run.
- **Environmental Benefits:** Excise taxes on commodities that are harmful to the environment, such as certain fuels or plastics, can encourage the use of cleaner alternatives and promote environmental sustainability.

Conclusion

The impact of excise taxes on the manufacture or importation of certain commodities in Rwanda is multifaceted, affecting manufacturers, importers, consumers, government revenue, public health, and the environment. While excise taxes serve as an important tool for revenue collection and behavior modification, their overall effectiveness depends on the balance between achieving policy objectives and maintaining economic competitiveness. It is crucial for policymakers to carefully consider the rates and application of excise taxes to optimize their benefits while minimizing any negative consequences.

D2: Cross-Border VAT Arrangements

D2.1 VAT on Exported and Imported Goods and Services

VAT on Exported Goods and Services

In Rwanda, exported goods and services are generally zero-rated for VAT purposes. This means that while the VAT is technically imposed at the rate of 0%, the exporter has the right to claim a refund for the input VAT paid on purchases related to the exported goods or services. The rationale behind this is to encourage exports by not burdening them with domestic taxes, making them more competitive in international markets.

- **Documentation:** Exporters must maintain proper documentation to prove that goods have been exported. This includes customs clearance documents and export invoices.
- **Refunds:** Exporters can claim refunds for the input VAT paid. The process involves filing the appropriate tax returns with the Rwanda Revenue Authority, along with supporting documentation.
- **Services:** For services, the place of supply is important. Services are considered exported when the recipient is outside Rwanda, and the use and benefit of the service are obtained outside the country.

VAT on Imported Goods and Services

Imported goods and services in Rwanda are subject to VAT at the point of entry. The standard VAT rate of 18% is applied to the cost, insurance, and freight (CIF) value of the goods, plus any import duty and excise duty that may be applicable. Imported services do not pass through customs and their VAT treatment follows the reverse charge mechanism discussed below.

- **Payment of VAT:** VAT on imports must be paid at the time of customs clearance. Importers must ensure that they have sufficient funds to cover all import-related taxes to avoid delays in clearing their goods.
- **Input VAT Credit:** Businesses that are registered for VAT in Rwanda can claim a credit for the VAT paid on imports, provided the goods or services are used for making taxable supplies. A special consideration has to be made for imported services, where input credit would only be allowed when a taxpayer is able to demonstrate that such services could not be sourced locally and the approval to import the service was attained from the Ministry of Finance.

Special Considerations

- **Exemptions:** Some goods and services may be exempt from VAT, and it is crucial for businesses to be aware of these exemptions to apply them correctly.
- **Reverse Charge Mechanism:** For imported services, the reverse charge mechanism may apply. This means that the recipient of the service must account for VAT as if they had supplied the service themselves (See Unit D2.2).
- **Record-Keeping:** Both exporters and importers must maintain accurate records for all transactions to support their VAT filings and to facilitate audits by the RRA.

Compliance and Reporting

VAT-registered businesses must file periodic VAT returns, usually on a monthly basis. The returns should accurately reflect all taxable transactions, including exports and imports, and any VAT due or refundable must be correctly reported.

- **VAT Invoices:** Proper VAT invoicing is essential for both exports and imports. Invoices must contain all required information as stipulated by the RRA. EBM invoices are mandatory to allow taxpayers to claim input VAT on local purchases.
- **Audits and Assessments:** The RRA conducts audits and assessments to ensure compliance with VAT regulations. Businesses should be prepared for such audits by keeping comprehensive records.

Conclusion

Understanding the VAT treatment of exported and imported goods and services is crucial for businesses engaged in international trade. In Rwanda, the VAT system is designed to promote exports by zero-rating them and ensuring that VAT on imports is recoverable as an input credit. Compliance with VAT regulations requires diligent record-keeping and an understanding of the various mechanisms such as reverse charge and deferred payment. By adhering to these guidelines, businesses can ensure they are managing their VAT obligations effectively in Rwanda.

D2.2 VAT Reverse Charge Mechanism

The reverse charge mechanism is an important aspect of VAT accounting that shifts the responsibility of declaring both input and output VAT from the seller to the buyer. This system is particularly relevant in cross-border transactions where the supplier is not based in the same country as the recipient. In Rwanda, this mechanism is employed when VAT-registered businesses acquire taxable services from non-resident companies.

Applicability of the Reverse Charge

The reverse charge is triggered under specific circumstances:

- **Services from Non-Residents:** It is applicable to services rendered by companies outside Rwanda to those registered for VAT within the country. This ensures VAT is accounted for in the location where the services are consumed.
- **VAT Recovery on Imported Services:** To recover VAT on services imported, the Rwandan buyer must demonstrate that such services are not available locally. This involves obtaining authorization from the Minister of Finance. Without this authorization, the VAT paid on these services cannot be reclaimed and becomes an additional cost for the buyer.

Qualification and Authorization Process

Entities seeking to utilize this mechanism must adhere to a stringent qualification process:

- **VAT Registration:** Only entities registered for VAT in Rwanda are eligible. This excludes organizations like NGOs, educational institutions, and banks, which are either exempt from VAT or supply exempt items, as they cannot reclaim VAT.
- **Application:** The process involves submitting a detailed request to the Minister of Finance, including evidence that substantiates the need for services from abroad.
- **Tender Evidence:** Applicants must demonstrate that attempts to source the services locally through a tender were unsuccessful.
- **Regulatory Endorsement:** A letter from a relevant regulatory body is required, confirming the absence or inadequacy of local services.

Benefits of the Reverse Charge System

The reverse charge mechanism offers several advantages:

- **Prevents VAT Evasion:** By shifting the responsibility of VAT reporting to the buyer, the reverse charge system helps to prevent evasion of VAT by non-resident suppliers who may not be directly subject to Rwandan tax jurisdiction.
- **Reduces Administrative Burden:** It reduces the administrative burden on foreign suppliers as they do not need to register for VAT in Rwanda.
- **Cash Flow Improvement:** Buyers may experience improved cash flow since they account for both input and output VAT in the same tax return, avoiding the need to pay VAT upfront and then reclaim it. This is contingent on the imported services not being available locally, which would otherwise result in a neutral VAT position for the buyer.

Compliance and Reporting Obligations

Businesses in Rwanda must be diligent in their compliance with the reverse charge mechanism:

- **Transaction Identification:** It is crucial to identify which transactions are subject to the reverse charge and apply it correctly.
- **Accurate VAT Returns:** Businesses must report the reverse charge on their VAT returns with precision, ensuring both input and output VAT are accounted for when services are not available locally. If services are available locally, the input VAT becomes a cost, and only output VAT is reported.
- **Record Keeping:** Maintaining comprehensive documentation and records is essential to substantiate the VAT return entries for transactions under the reverse charge.

In summary, the reverse charge mechanism is a critical component of VAT accounting in Rwanda, designed to ensure tax compliance and fairness in the market, especially in the context of international service transactions. It requires a thorough understanding of the applicable regulations and diligent record-keeping to ensure compliance and maximize potential benefits.

D3: Foreign Tax Relief and Double Tax Treaties

D3.1 Foreign Tax Credits and Double Taxation

Introduction to Foreign Tax Credits

Foreign tax credits are a mechanism used to alleviate the burden of being taxed twice on the same income—once by the country where the income is earned (source country) and again by the country where the taxpayer is resident. In the context of Rwanda, foreign tax credits are particularly relevant for individuals and businesses that operate across borders and are subject to tax in more than one jurisdiction and are legislated under Article 7 (Foreign Tax credit refund) of law no 027/2022

Understanding Double Taxation

Double taxation occurs when two or more countries impose taxes on the same taxpayer for the same taxable income or capital. This can happen because countries generally tax income based on either residence or source. The residence principle taxes individuals and entities on their worldwide income in the country where they are resident, while the source principle taxes income where it is generated, regardless of the taxpayer's residence (See Unit A1.1).

Rwanda's Tax System and International Taxation

Rwanda's tax system is based on a territorial principle, which means that only Rwandan-sourced income is subject to taxation in Rwanda. However, Rwandan residents with foreign income may still be subject to tax in the source country. Without a double taxation treaty (DTT), this can lead to double taxation.

Approach to Apply Foreign Tax Credits without Double Taxation Treaties

In the absence of a DTT, Rwanda allows for the unilateral relief from double taxation through foreign tax credits. The approach taken involves several steps:

1. **Determine Eligibility for Foreign Tax Credit:** Taxpayers must first establish that the income in question is subject to tax in both Rwanda and another country and that the other country has right of taxation and foreign tax has been paid.
2. **Calculate the Foreign Tax Credit:** The credit is generally limited to the lesser of the foreign tax paid or the Rwandan tax attributable to the foreign income. This ensures that the credit does not exceed the amount of Rwandan tax on the same income.
3. **Apply the Foreign Tax Credit:** The credit is applied against the Rwandan tax liability of the taxpayer. If the foreign tax paid is less than the Rwandan tax on that income, the taxpayer will still owe the difference to the Rwandan Revenue Authority.
4. **Carry Forward or Carry Back:** If the credit exceeds the taxpayer's Rwandan tax liability for the year, the excess may not be refundable. However, Rwanda's tax laws may allow the taxpayer to carry forward or carry back the excess to other tax years, subject to certain limitations.

Examples

- **Example 1:** A Rwandan resident company, ABC Ltd, earns income from a consulting project in a country with no DTT with Rwanda. ABC Ltd pays foreign income tax of Frw 10 million. In Rwanda, the income would be subject to a tax of Frw 15 million. ABC Ltd can claim a foreign tax credit of Frw 10 million against its Rwandan tax liability, reducing it to Frw 5 million. Therefore, ABC Ltd will only be required to pay an additional Frw 5 million.
- **Example 2:** A Rwandan resident individual, John, receives rental income from property located in a foreign country. The income is taxed at 20% in that country, and John pays Frw 2 million in foreign taxes. In Rwanda, the same income would be taxed at a rate of 30%, resulting in a potential tax liability of Frw 3 million. John can claim a foreign tax credit of Frw 2 million, and he will need to pay the remaining Frw 1 million to the RRA.

Note: Where the foreign tax liability is higher than the Rwanda tax liability, the foreign tax credit would not result in a refund. Instead, the taxpayer would not be required to pay any taxes in Rwanda.

Conclusion

The application of foreign tax credits in Rwanda is a critical aspect of tax planning for taxpayers with international income. It is essential to maintain accurate records of foreign taxes paid and to understand the Rwandan tax laws regarding foreign tax credits. While the RRA provides guidelines for claiming these credits, the complexity of international taxation may require careful calculation and consideration of various factors. Taxpayers must ensure compliance with both Rwandan tax laws and those of the foreign jurisdiction to effectively utilize foreign tax credits and mitigate the impact of double taxation.

D3.2 Application of Double Tax Treaties

Double tax treaties (DTTs), also known as double tax agreements, are bilateral agreements between two countries that aim to prevent the double taxation of income or gains arising in one country and being taxed again in the other country. These treaties are particularly relevant for individuals and companies with complex tax affairs that span multiple jurisdictions. Rwanda, like many other countries, has entered into DTTs with various countries to facilitate cross-border trade and investment by providing tax certainty and reducing the risk of double taxation.

Understanding Double Taxation

Double taxation occurs when the same income is taxed by two or more jurisdictions. This can happen because countries tax income on different bases; for example, one country might tax income based on residency while another taxes income based on the source. Without measures to prevent or mitigate double taxation, individuals and companies engaged in international activities could be subject to tax on the same income in both their country of residence and the country where the income is generated.

Rwanda's Tax System and Double Tax Treaties

When Rwandan residents earn income from abroad, or when foreign residents earn income from sources within Rwanda, the potential for double taxation arises.

To address this, Rwanda has signed DTTs with several countries, further Rwanda, as an emerging economy, has been actively engaging in the negotiation and signing of DTTs to foster a favorable environment for international trade and investment. These treaties typically include provisions that allocate taxing rights between the contracting states, reduce tax rates on certain types of income, and provide for relief from double taxation through credits or exemptions.

DTTs typically follow a model convention, with the most common templates being the OECD Model Tax Convention and the UN Model Double Taxation Convention. These models serve as a starting point for negotiations between countries, and while treaties may vary, they generally cover several key principles:

Key Provisions in Double Tax Treaties

DTTs generally cover the following key provisions:

- **Scope of the Treaty:** Defines the taxes and persons covered by the treaty.
- **Residence:** Establishes criteria for determining the tax residency of individuals and companies.
- **Permanent Establishment:** Defines what constitutes a permanent establishment for business profits taxation purposes.
- **Taxation of Business Profits:** Allocates taxing rights on business profits to the country of residence unless the business has a permanent establishment in the other country.
- **Taxation of Investment Income:** Sets forth reduced withholding tax rates for dividends, interest, and royalties.
- **Methods for Elimination of Double Taxation:** Provides methods such as tax credits or exemptions to avoid double taxation.
- **Non-Discrimination:** Ensures that nationals and businesses of one country are not discriminated against in the other country.
- **Mutual Agreement Procedure:** Establishes a process for resolving disputes arising under the treaty.

Application for Individuals and Companies

For individuals, DTTs can affect various forms of income, including employment income, pensions, and investment income. For example, a Rwandan resident working temporarily in a treaty country may only be taxed in that country, with Rwanda providing a credit for the taxes paid abroad.

For companies, DTTs can influence where a company decides to establish operations or how it structures its investments. A Rwandan company with a subsidiary in a treaty country may benefit from reduced withholding tax rates on dividends received from that subsidiary.

Examples

- **Example 1:** A Rwandan company has a subsidiary in Mauritius. Under the Rwanda-Mauritius DTT, the withholding tax rate on dividends that the subsidiary pays to the Rwandan parent company may be reduced from the standard rate to a treaty rate, thereby lowering the overall tax burden on the dividends received.
- **Example 2:** A Rwandan resident works in South Africa for six months. Under the Rwanda-South Africa DTT, the individual's employment income may only be taxed in South Africa, and Rwanda may provide a credit for the South African tax paid, preventing double taxation of that income.

Conditions for Treaty Benefits

For the benefits of a DTT to apply to a given transaction, certain conditions must be met:

- **Residency:** The taxpayer must be a resident of one of the countries party to the treaty. In Rwanda, a resident is typically a person or entity that is liable to tax in Rwanda by reason of domicile, residence, place of management, or any other criterion of a

similar nature (See Unit A).

- **Beneficial Ownership:** The taxpayer must be the beneficial owner of the income. This means that the person or entity must have the right to use and enjoy the income, unconstrained by a contractual or legal obligation to pass the income to another person.
- **Substance over Form:** The transaction must have economic substance and not be structured solely for the purpose of obtaining a tax benefit. Anti-abuse provisions are often included in treaties to prevent 'treaty shopping' or other forms of tax avoidance.
- **Compliance with Domestic Laws:** Taxpayers must comply with the tax laws of both jurisdictions, including registration, filing, and payment requirements.
- **Limitation on Benefits (LOB):** Some treaties include LOB clauses that restrict treaty benefits to those who meet certain criteria, such as carrying out substantive business activities in the treaty country.

Conclusion

Understanding and applying double tax treaties is crucial for individuals and companies with complex tax affairs involving cross-border transactions. These treaties can provide significant tax savings and prevent the unfair burden of double taxation. However, the application of DTTs can be complex, and it often requires careful analysis of the specific provisions of each treaty and the facts of each case. While the principles outlined here provide a general framework, the specifics can vary widely between different treaties and the unique circumstances of each taxpayer.

D3.3 Withholding Tax Rates and Treaty Benefits

Introduction to Withholding Tax and Double Tax Treaties

Withholding tax is a mechanism used by tax authorities to collect income tax at the source of the income, rather than waiting for the payment of tax until the filing of the tax return. This ensures that tax is collected in a timely manner and reduces the risk of tax evasion. In Rwanda, withholding tax is applicable to various types of income, including employment income, dividends, interest and royalties.

As pointed out above, DTTs aim to avoid or mitigate the double taxation of income that is earned in one jurisdiction by a resident of another. DTTs typically cover various categories of income such as dividends, interest, royalties, and capital gains. They set out the maximum rates of tax that the source country can charge on these types of income when paid to residents of the other treaty country. The treaty also provides for relief from double taxation either through an exemption method or a credit method.

- **Exemption Method:** The income is taxed in only one of the two countries, usually in the country of residence of the recipient.
- **Credit Method:** The income is taxed in both countries, but the country of residence of the recipient allows a credit for the tax paid to the source country.

Application of Withholding Tax Rates under Double Tax Treaties

When a double tax treaty exists between Rwanda and another country, the withholding tax rates on payments made to residents of the treaty country may be reduced. The specific rates are determined by the provisions of the respective DTT.

For example, if a Rwandan company pays interest to a resident of a country with which Rwanda has a DTT, the withholding tax rate on that interest payment may be lower than the domestic rate. The domestic rate for withholding tax on interest in Rwanda is 15%, but under a DTT, this rate could be reduced to 10% or even lower, depending on the treaty's provisions.

As pointed out above, a DTT can override the normal 15% rate of WHT. The following rates of WHT apply under existing Rwandan DTTs:

S/N	Country	Dividend	Interest	Royalties	Management and Technical fees
	Standard Rate	15%	15%	15%	15%
1	Barbados	7.5%	10%	10%	15%
2	Belgium	0%/15%	10%	10%	10%
3	People's Republic of China	7.5%	8%	10%	10%
4	Democratic Republic of Congo	10%	10%	10%	14%
5	Jersey	10%	10%	10%	12%
6	Luxembourg	10%	10%	10%	10%
7	Mauritius	10%	10%	10%	12%
8	Morocco	8%	10%	10%	10%
9	Qatar	5%/10%	10%	10%	10%
10	Singapore	7.5%	10%	10%	10%
11	South Africa	10%/20%	10%	10%	10%
12	Türkiye	10%	10%	10%	10%
13	United Arab Emirates	7.5%	10%	10%	10%

Compliance and Documentation

Taxpayers in Rwanda must ensure compliance with the withholding tax obligations under both domestic law and the applicable DTT. It is important for taxpayers to maintain proper documentation, such as tax residency certificates, to prove eligibility for the benefits under a DTT. Failure to comply with these requirements may result in the application of domestic withholding tax rates, which are generally higher.

Conclusion

Understanding the application of withholding tax rates under double tax treaties is crucial for taxpayers engaged in cross-border transactions. It allows for tax efficiency and compliance with international tax obligations. Students should familiarize themselves with the DTTs that Rwanda has with other countries and the specific provisions that apply to their cross-border transactions to take advantage of the reduced withholding tax rates.

Summary of Unit D and key learning outcomes

- Unit D has covered the main aspects of cross-border taxation arrangements and customs union memberships that affect Rwanda's trade and tax system.
- The learning outcome for Unit D was to enable students to understand and apply advanced and complex tax concepts and rules to provide accurate tax computations and planning advice for individuals and companies with cross-border transactions and activities.
- The content discussed in Unit D included the following topics:
 - **Customs and Excise Duties:** Students learned about the impact of tariffs, barriers, and subsidies on trade within and outside the customs unions and free trade areas that Rwanda is affiliated with, such as the East African Community (EAC) and the African Continental Free Trade Area (AfCFTA). They also learned about the methods for determining customs value and the calculation of customs duties on imported goods from non-member countries.
 - **Cross-Border VAT Arrangements:** Students learned about the VAT treatments for exported and imported goods and services, and how to apply the zero-rating and reverse charge rules. They also learned about the documentation and reporting requirements for cross-border VAT transactions.
 - **Foreign Tax Relief and Double Tax Treaties:** Students learned about the application of foreign tax credits in the absence of double taxation treaties, and how to use the relevant tax rates and methods for relief from double taxation under the existing treaties that Rwanda has with other countries. They also learned about the main features and benefits of double taxation treaties, and how to interpret and apply them to complex tax scenarios.

Quiz questions

Quiz 1: Objectives and Features of Economic Agreements

Which of the following statements accurately reflect the objectives and key features of Customs Unions and Free Trade Areas (FTAs)?

- A. Customs Unions aim to promote trade and economic integration by adopting a Common External Tariff (CET) and coordinating trade policies, while FTAs focus on reducing tariffs and non-tariff barriers without the adoption of a CET.
- B. Free Trade Areas aim to enhance competitiveness and economic growth by establishing rules of origin and reducing internal trade barriers, whereas Customs Unions require the free movement of goods without internal customs checks.
- C. Customs Unions and FTAs both require member countries to adopt a CET on imports from non-member countries.
- D. FTAs require a higher level of economic integration, including coordinated trade policies towards non-member countries, which is not a requirement in Customs Unions.

- 1. A and B
- 2. B and C
- 3. C and D
- 4. B and D

Quiz 2: Revenue Distribution and Policy Coordination

Which of the following are true regarding the mechanisms of revenue distribution and policy coordination in Customs Unions?

- A. Customs Unions often have mechanisms for the distribution of customs revenues collected from imports from non-member countries and coordinate their trade policies as a single bloc.
- B. Free Trade Areas typically involve the coordination of trade policies towards non-member countries and have a common mechanism for revenue distribution like Customs Unions.
- C. Both Customs Unions and Free Trade Areas have mechanisms for the distribution of customs revenues collected from imports from non-member countries.
- D. Free Trade Areas require member countries to coordinate their trade policies towards non-member countries to the same extent as Customs Unions.

Quiz 3: Examples of Regional Economic Integrations

Identify the correct pairing of the type of regional economic integration and its example based on the provided content below.

- A. The European Union (EU) is an example of a Customs Union that aims to create a single market for goods and services across its member countries.

- B. The East African Community (EAC) is working towards a common market and a full customs union, which includes the adoption of a Common External Tariff (CET).
 - C. The African Continental Free Trade Area (AfCFTA) is an example of a Customs Union that aims to establish a common market for goods and services across 54 African countries.
 - D. The Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) is a trade bloc agreement that supports local manufacturing in all ASEAN countries without adopting a CET.
1. A and B
 2. B and C
 3. C and D
 4. B and D

Quiz 4: Impact of Common External Tariffs in Customs Unions

Which of the following statements accurately describe the effects of a common external tariff (CET) within a customs union? Select two correct options.

- A. The removal of tariffs within the union can lead to an increase in trade between member countries as goods become relatively cheaper compared to those from non-member countries.
 - B. The CET can cause trade to shift from a more efficient non-member producer to a less efficient member producer due to the tariff imposed on the non-member.
 - C. Revenue from the CET is shared among member countries, which can lead to disputes if the distribution is perceived as inequitable or does not compensate for sector-specific losses.
 - D. Members maintain their own external tariff policies, leading to competition among members to attract trade from non-members.
1. A and B
 2. B and C
 3. A and C
 4. C and D

Quiz 5: Challenges and Mitigation in Free Trade Areas (FTAs)

Identify two true statements regarding the challenges faced by Free Trade Areas (FTAs) and the mitigation measures that can be adopted.

- A. FTAs allow for selective liberalization, where members can maintain certain tariffs and barriers against each other, necessitating strict enforcement of rules of origin.
- B. Members of FTAs can work towards harmonizing their external tariffs and regulations to reduce trade barriers.
- C. Non-tariff barriers such as differing standards and regulations can impede trade within FTAs, even when tariffs are eliminated.
- D. Providing assistance to industries and workers affected by trade liberalization in FTAs can facilitate economic adjustments and maintain support for the agreement.

1. A and D
2. B and C
3. C and D
4. A and B

Quiz 6: Subsidies and Their Effects in Trade Agreements

Which two statements correctly reflect the role of subsidies in customs unions and Free Trade Areas (FTAs) and the potential consequences they may have?

- A. Subsidies can give domestic producers an artificial advantage, leading to inefficiencies and potential trade disputes among members.
- B. Subsidies can provoke retaliatory measures from other members or non-members, potentially leading to trade wars that can undermine the benefits of the trade agreement.
- C. Subsidies can cause trade diversion, where imports shift from a more efficient non-member producer to a less efficient member producer because of the tariff imposed on the non-member.
- D. The distribution of subsidy-generated revenue among members can be a point of contention if it does not seem equitable or if it does not compensate for losses incurred by specific sectors within member countries.

1. A and B
2. B and C
3. C and D
4. B and D

Quiz 7: Export Promotion Schemes and the National Export Strategy (NES) of Rwanda

Which of the following statements accurately reflect the objectives and measures of Rwanda's National Export Strategy (NES)? Select two options.

- A. The NES focuses exclusively on the promotion of traditional exports such as coffee and tea.
- B. Improving the quality of non-traditional products like minerals and handcrafts is a key measure under the NES.
- C. The NES includes facilitating access to finance for exporters as one of its initiatives.
- D. The strategy aims to reduce the export of minerals and horticulture from Rwanda.

1. A and B
2. B and C
3. C and D
4. B and D

Quiz 8: The Multifaceted Impact of Excise Taxes

Which of the following statements accurately reflects the impact of excise taxes on manufacturers in Rwanda?

- A. Excise taxes decrease the cost of production for manufacturers as they are exempt from paying additional amounts to the government for the commodities they produce.
- B. Manufacturers may reduce the price of their goods when excise taxes are imposed to maintain profit margins and increase demand.
- C. Excise taxes increase the cost of production for manufacturers, potentially leading to higher prices for their goods to maintain profit margins.
- D. The imposition of excise taxes has no significant impact on the competitiveness of domestic products compared to similar untaxed products from other countries.

Quiz 9: Excise Taxes and Government Policy Objectives

How do excise taxes contribute to the Rwandan government's policy objectives?

- A. By decreasing government revenue, excise taxes allow for increased spending on public services and infrastructure development.
- B. Excise taxes are imposed primarily to reduce the administrative burden on the government in regulating harmful products.
- C. The Rwandan government uses excise taxes to discourage the consumption of harmful products, such as tobacco and alcohol, thereby improving public health outcomes.
- D. Excise taxes on imported goods are designed to increase the quantity of goods imported into Rwanda and enhance consumer choice.

Quiz 10: VAT Treatment of Exported Goods and Services

Which of the following statements accurately describes the VAT treatment of exported goods and services in Rwanda?

- A. Exported goods and services are subject to the standard VAT rate, and exporters cannot claim a refund for the input VAT paid on related purchases.
- B. Exported goods and services are zero-rated, and exporters are entitled to claim a refund for the input VAT paid on purchases related to the exported goods or services.
- C. Exported goods and services are exempt from VAT, and exporters are not required to maintain documentation for exports.
- D. Exported goods and services are subject to a special export VAT rate higher than the standard rate to encourage domestic consumption.

Quiz 11: VAT on Imported Goods and Services

Which of the following is NOT true regarding the VAT on imported goods and services in Rwanda?

- A. VAT on imported goods and services is charged at the standard rate on the CIF value, plus any import duty and excise duty applicable.
- B. Importers must pay VAT at the time of customs clearance and should have sufficient funds to cover all import-related taxes.
- C. Businesses registered for VAT in Rwanda cannot claim a credit for the VAT paid on imports, even if the goods or services are used for making taxable supplies.

- D. Qualified taxpayers may be eligible for a deferred VAT payment scheme, which allows them to defer the payment of VAT on imports to assist with cash flow management.

Quiz 12: Eligibility and Authorization for the Reverse Charge Mechanism

Which of the following statements is correct regarding the eligibility and authorization process for utilizing the reverse charge mechanism in Rwanda?

- A. Any entity, including NGOs and educational institutions, can apply for the reverse charge mechanism as long as they are involved in international transactions.
- B. Entities must be VAT registered in Rwanda and must provide evidence of unsuccessful local sourcing through a tender to qualify for the reverse charge mechanism.
- C. The reverse charge mechanism is automatically applied to all services rendered by non-resident companies to Rwandan businesses without any authorization process.
- D. A letter from the Minister of Finance confirming the need for services from abroad is sufficient for an entity to qualify for the reverse charge mechanism.

Quiz 13: Compliance and Reporting Obligations under the Reverse Charge Mechanism

In the context of the reverse charge mechanism in Rwanda, which of the following statements accurately reflects the compliance and reporting obligations for businesses?

- A. Businesses must pay VAT upfront on imported services and then reclaim it in their VAT returns, regardless of the availability of such services locally.
- B. When services are available locally, businesses must report both input and output VAT on their VAT returns, resulting in a neutral VAT position.
- C. Businesses are required to report only output VAT on their VAT returns for transactions subject to the reverse charge when comparable services are available locally.
- D. It is mandatory for businesses to maintain comprehensive documentation and records to substantiate VAT return entries for transactions under the reverse charge, including transactions where services are NOT available locally.

Quiz 14: Determining Eligibility and Calculating Foreign Tax Credits

ABC Corporation, a Rwandan resident company, has earned income from a project in a country with which Rwanda does not have a Double Taxation Treaty (DTT). The income earned by ABC Corporation is Frw50 million, on which it has paid a foreign income tax of Frw20 million. In Rwanda, the same income would attract a tax of Frw25 million. Based on the Rwandan tax system's approach to foreign tax credits, which of the following statements is correct?

- A. ABC Corporation can claim a foreign tax credit of Frw20 million against its Rwandan tax liability, eliminating its tax obligation in Rwanda.
- B. ABC Corporation can claim a foreign tax credit of Frw25 million, which is the Rwandan tax on the income, and will receive a refund of Frw5 million.
- C. ABC Corporation can claim a foreign tax credit of Frw20 million and will owe Frw 5 million in additional taxes to the Rwandan Revenue Authority.
- D. ABC Corporation is not eligible for a foreign tax credit because there is no DTT in place with the country where the income was earned.

Quiz 15: Application and Carry Forward of Excess Foreign Tax Credits

John, a Rwandan resident individual, has received rental income from a property located in a foreign country. The rental income amounts to Frw10 million, and the foreign country's tax rate on this income is 25%. John has paid Frw2.5 million in foreign taxes. In Rwanda, the rental income would be taxed at a rate of 30%, which would result in a Rwandan tax liability of Frw3 million. Assuming John has no other foreign tax credits to claim and Rwanda's tax laws allow for the carry forward of excess credits, what is the correct tax treatment for John's situation?

- A. John can claim a foreign tax credit of Frw2.5 million, and he will need to pay the remaining Frw0.5 million to the RRA, with no amount to carry forward.
- B. John can claim a foreign tax credit of Frw3 million, and he will have no tax liability in Rwanda, with an excess of Frw0.5 million to carry forward.
- C. John can claim a foreign tax credit of Frw2.5 million, and he will need to pay the remaining Frw0.5 million to the RRA, with an excess of Frw0.5 million to carry forward.
- D. John cannot claim any foreign tax credit because the tax rate in the foreign country is lower than the tax rate in Rwanda.

Quiz 16: Allocation of Taxing Rights and Relief Methods

Which of the following statements accurately reflects the principles of double tax treaties (DTTs) as they pertain to the allocation of taxing rights and methods for the elimination of double taxation, according to the Rwanda tax system?

- A. DTTs allow the country of residence to tax business profits exclusively, without granting any taxing rights to the source country where the income is generated.
- B. Under DTTs, if a Rwandan resident company has a permanent establishment in another country, that country has no right to tax the business profits attributable to the permanent establishment.
- C. DTTs typically provide for reduced tax rates on investment income such as dividends, interest, and royalties, and include methods such as tax credits or exemptions to avoid double taxation.
- D. The non-discrimination provision of DTTs permits nationals and businesses of one treaty country to be taxed more favourably in the other treaty country.

Quiz 17: Application of Double Tax Treaties in Specific Scenarios

Consider the following scenarios and select the option that correctly applies the principles of double tax treaties (DTTs) based on the Rwanda tax system and the information provided:

A Rwandan company has a subsidiary in Mauritius, and a Rwandan resident works in South Africa for six months. How would the Rwanda-Mauritius and Rwanda-South Africa DTTs potentially affect the taxation of dividends and employment income, respectively?

- A. The Rwanda-Mauritius DTT would likely increase the withholding tax rate on dividends paid to the Rwandan parent company, and the Rwanda-South Africa DTT would result in the employment income being taxed in both South Africa and Rwanda without any relief.

- B. The Rwanda-Mauritius DTT would not affect the withholding tax rate on dividends, while the Rwanda-South Africa DTT would allow the employment income to be taxed only in Rwanda, with South Africa providing a credit for the Rwandan tax paid.
- C. Under the Rwanda-Mauritius DTT, the withholding tax rate on dividends paid to the Rwandan parent company may be reduced, and the Rwanda-South Africa DTT may allow the employment income to be taxed only in South Africa, with Rwanda providing a credit for the South African tax paid.
- D. Both the Rwanda-Mauritius and Rwanda-South Africa DTTs would completely exempt the dividends and employment income from taxation in both the source and residence countries.

Quiz 18: Determination of Tax Residence under Double Tax Treaties (DTTs)

Which of the following best describes the principle of residence as it applies to Double Tax Treaties (DTTs), particularly in the context of Rwanda?

- A. Residence is solely determined by the location of the individual or company's primary business operations.
- B. Residence is determined by the country in which the individual or company is physically present for more than 183 days in any calendar year.
- C. Residence is determined by where the individual or company is liable to tax by reason of domicile, residence, place of management, or any other criterion of a similar nature.
- D. Residence is determined by the nationality of the individual or the country of incorporation of the company.

Quiz 19: Application of Double Tax Treaties (DTTs) and Treaty Benefits

A Rwandan resident company, ForestFibre Inc., earns royalty income from a patent used by a company in Singapore. Assuming there is a DTT between Rwanda and Singapore, which of the following conditions must ForestFibre Inc. meet to benefit from the DTT provisions?

- A. ForestFibre Inc. must transfer at least 50% of its royalty income to a Singaporean entity as part of a contractual agreement.
- B. ForestFibre Inc. must be the beneficial owner of the royalty income, have economic substance in the transaction, and comply with the tax laws of both jurisdictions.
- C. ForestFibre Inc. must have a permanent establishment in Singapore and conduct substantive business activities there to qualify for treaty benefits.
- D. ForestFibre Inc. must restructure its operations to ensure that the royalty income is taxed solely based on the form of the transaction rather than its economic substance.

Quiz 20: Application of Withholding Tax Rates under Double Tax Treaties

A Rwandan company engages in a transaction involving the payment of royalties to a company based in Country Z. Rwanda has a Double Tax Treaty (DTT) with Country Z that caps the withholding tax rate on royalties at 8%. The domestic withholding tax rate for royalties in Rwanda is higher than the rate stipulated in the DTT. In this scenario, which of the following statements is correct regarding the withholding tax that the Rwandan company should apply to the royalty payment?

- A) The Rwandan company should apply the domestic withholding tax rate since the DTT does not cover royalty payments.
- B) The Rwandan company should apply a withholding tax rate of 8% on the royalty payment as per the DTT with Country Z.
- C) The Rwandan company should apply the domestic withholding tax rate because the DTT with Country Z only covers interest and dividends, not royalties.
- D) The Rwandan company should apply a withholding tax rate of 15% on the royalty payment, regardless of the DTT with Country Z.

Quiz 21: Compliance and Documentation for Withholding Tax

A Rwandan financial institution makes an interest payment to a bank resident in Country Y, with which Rwanda has a DTT setting the withholding tax rate on interest at 10%. The domestic rate for withholding tax on interest in Rwanda is 15%. To ensure compliance with the withholding tax obligations and to apply the reduced rate under the DTT, which of the following documents is most likely required by the Rwandan financial institution from the bank in Country Y?

- A) A certificate of incorporation of the bank in Country Y.
- B) A tax residency certificate from the bank in Country Y.
- C) A declaration of dividend payment form from the Rwandan financial institution.
- D) A proof of payment of the domestic withholding tax rate from the bank in Country Y.

Unit E: Minimisation and Deferral of Tax Liabilities

Learning outcomes

- E1. Types of investment and other expenditure to reduce tax liabilities and penalty regimes
- E2. Forms of business organisation and restructuring
- E3. Decisions on methods of disposal and acquisition
- E4. Tax consequences of sources of funding
- E5. Ethical and professional issues arising from giving tax planning advice.

Introduction to Unit E

Upon successful completion of this unit, students will have developed a comprehensive understanding of advanced tax planning strategies and their application to complex financial scenarios. They will be able to identify and advising on investments and expenditures that can minimize tax liabilities for both individuals and businesses, while also understanding the importance of ethical considerations in tax planning. Students will be able to evaluate the benefits of various fiscal incentives, such as preferential tax rates and accelerated depreciation, and will be knowledgeable about the penalty regimes associated with different taxes.

Furthermore, they will possess the skills to counsel on the tax and non-tax implications of various business structures and organizational restructurings, including mergers and acquisitions. The unit will also cover the tax consequences of different methods of asset disposal and acquisition, such as leasing versus purchasing, and the sale of assets versus shares. Additionally, students will analyse the tax treatment of various sources of funding and investment products and advise on the tax implications of equity and loan finance, as well as the impact of taxation on business cash flows.

Finally, the unit will ensure that students are well-versed in the ethical and professional issues that arise when providing tax planning advice, ensuring they can guide taxpayers on their obligations and offer ethical tax planning strategies.

Unit list		Syllabus Reference
E1	Tax Reduction and Penalty Regimes	E1a, b, c, d,e.
E2	Business Organisation and Restructuring	E2a, b,c.
E3	Disposal and Acquisition Methods	E3a, b.
E4	Tax Consequences of Funding Sources	E4a, b,c.
E5	Ethical and Professional Tax Planning Advice	E5a, b.

E1: Tax reduction and penalty regimes

E1.1 Investments and expenditures to reduce tax liabilities.

Investment and other expenditure that will result in a reduction in tax liabilities for an individual and/or a business can be classified into two broad categories:

- Investment incentives; and
- Tax deductions.

Investment incentives: Investment incentives are tax or non-tax inducements extended to a registered investor following his or her contribution to the national development to facilitate and support his or her investment.

Investment incentives can include:

- Preferential corporate income tax rates,
- Tax holidays,
- Tax exemptions,
- Accelerated depreciation, and
- Other benefits depending on the sector, amount, and duration of the investment. For example, a registered investor who invests at least USD 50 million and contributes at least 30% of this amount in form of equity in energy projects producing at least 25 MW is granted a maximum of seven-year corporate income tax holiday.

Unit E1.3 and E2.2 provides further details on the investment schemes provided by the investment code.

Tax deduction: Tax deductions are expenses that can be subtracted from the taxable income of an individual or a business to reduce the amount of tax owed. Tax deductions can include business expenses, capital allowances, interest expenses, donations, and other allowable costs. For example, a registered investor is entitled to a flat accelerated depreciation rate of 50% for the first year for new or used assets, if he or she invests in business assets worth at least USD 50,000 and meets other criteria.

To claim investment incentives or tax deductions, an individual or a business must comply with the laws and regulations under the investment code, register with the

tax administration, file tax returns, and provide supporting documents. The Rwanda Development Board and tax administration has the power to monitor, audit, and cancel the investment incentives or tax deductions if the individual or the business fails to meet the obligations or provides false or fraudulent information.

Unit E1.2 provide further details on tax deduction used in tax planning.

Tax planning is an essential component of financial strategy for both individuals and businesses, aiming to optimize tax efficiency while adhering to the legal framework established by the Rwandan tax authorities. By understanding and utilizing the various tax planning strategies available, taxpayers can effectively reduce their tax burden and enhance their financial position.

E1.2 Legitimate Tax Planning Measures

Strategic tax deductions: In Rwanda, the tax code allows for a range of deductions that can significantly lower taxable income. For instance:

Business Expenses: Companies can deduct legitimate business expenses, including operational costs, employee salaries, and asset depreciation. For example, when a company invests in new production equipment, the depreciation of this asset can be spread over its useful life, thereby decreasing the firm's taxable income incrementally each year.

Investment in tax-efficient Instruments: Investing in certain financial instruments can yield tax advantages:

- **Government Securities:** Earnings from Rwandan government bonds are subject to a reduced withholding tax rate (5%), which is lower than the standard rate (15%). (See unit E4.1)
- **Retirement Contributions:** Contributions made to approved pension plans may be deductible, up to a specified ceiling, fostering a culture of saving for retirement while reducing current taxable income (See unit E4.1).

Optimizing business structure: The structure of a business can have profound tax implications:

- **Entity selection:** The choice between operating as a sole proprietorship, partnership, or corporation can influence tax rates and liabilities. For example, transitioning from a sole proprietorship to a limited liability company may offer benefits such as lower corporate tax rates and limited personal liability (See Unit E2.1).

Leveraging tax credits and incentives: The Rwandan government provides tax credits and incentives to stimulate specific economic activities:

- **Investment Credits:** Taxpayers may receive credits for capital investments in designated sectors or areas.
- **Export Incentives:** Export-oriented businesses may enjoy incentives that bolster international trade, such as tax holidays or reduced rates for operations within special economic zones.

See Unit E1.3 for further details.

Timing of transactions: The timing of income and expenses recognition can affect tax liabilities:

- **Income deferral:** Postponing income to a subsequent tax period can be advantageous, particularly if it will be taxed at a lower rate in the future.
- **Expense acceleration:** Advancing deductible expenses into the current tax period can decrease taxable income, which is beneficial for companies anticipating higher profits in the following year. While expenses are usually deducted in the year they are incurred, making advance payments allows companies to take the deduction earlier, reducing taxable income in the current period.

Charitable Giving: Making donations to approved charitable organizations can yield deductions:

- **Tax-Deductible Donations:** Contributions to approved charities can reduce taxable income, provided they fall within the allowable limits (i.e. 1% of the entities' turnover) set by the tax law (Article 25 (4) of law no. 027/2022).

Capital Allowances and Employee Development: Investments in capital assets and employee training can also offer tax relief:

- **Capital allowances:** Deductions for the wear and tear of qualifying capital assets can lower taxable income (Article 27 and 28 of law no. 027/2022).
- **Skills development:** Costs incurred for employee training may be fully deductible, promoting a skilled workforce and reducing taxable income (Article 29 of law no. 027/2022).

Conclusion and Ethical Considerations

While these strategies are integral to tax planning in Rwanda, it is crucial to remain abreast of tax law changes. Additionally, Rwanda's participation in the OECD's BEPS initiative reflects a commitment to combating tax avoidance and ensuring that tax planning practices are both legal and ethical.

Taxpayers must align their strategies with Rwanda's economic development objectives, balancing tax efficiency with corporate social responsibility. Transparent and compliant tax practices are paramount to avoid legal issues and maintain a positive reputation. Ultimately, informed and legitimate tax planning is key to achieving long-term success for individuals and businesses in Rwanda. Under Unit E5.2 we explore ethical consideration when undertaking tax planning measure.

E1.3 Fiscal Incentives and Corporate Tax Rates

Important note: Students are strongly advised to thoroughly review the **Annex to Law No. 006/2021 dated February 5, 2021, concerning Investment Promotion and Facilitation (link)** to gain a comprehensive understanding of the incentives outlined within the investment code. The study notes presented here serve merely as an introductory overview of the law's critical elements. Please be aware that the examination will include numerous specific details drawn directly from the Annex to the law.

As pointed out in Unite E1.1 fiscal incentives are tax or non-tax inducements extended to a registered investor following their contribution to the national development to facilitate and support their investment. Rwanda offers a range of fiscal incentives to certain businesses depending on their sector, location, size, and export orientation. These incentives include:

- (i) Preferential corporate income tax rates,
- (ii) Accelerated depreciation,
- (iii) Withholding tax exemptions,
- (iv) Value added tax exemptions, and
- (v) Other tax exemptions, deductions or holidays.
- (I) Preferential corporate income tax rates are lower than the standard rate of 28% for certain categories of investors. For example,
 - A preferential rate of 0% is granted to an international company that has its headquarters or regional office in Rwanda if it invests at least USD 10 million in tangible or intangible assets and provides employment and training to Rwandans.
 - A preferential rate of 3% is granted to a registered investor licensed to operate as a Collective Investment Scheme, a special purpose vehicle registered for investment purpose, a global trading or paper trading company, or an intellectual property company, if they fulfil certain requirements such as minimum fund size, expenditure, staff, and directors.
 - A preferential rate of 15% is granted to a registered investor undertaking energy generation, transmission, and distribution from peat, solar, geothermal, hydro, biomass, methane and wind, or manufacturing, or exporting at least 50% of total turnover of goods and services.
- (II) Accelerated depreciation is a method of allocating the cost of an asset over its useful life at a faster rate than the normal straight-line method. This allows the investor to deduct a larger amount of the asset's cost in the earlier years of its use, reducing the taxable income and the tax liability. Rwanda allows a registered investor to claim a flat accelerated depreciation rate of 50% for the first year for new or used assets, if he or she invests in business assets worth at least USD 50,000 per asset and informs the Rwanda Revenue Authority of the disposal of the business assets in case the disposal is made before three years have elapsed.
- (III) Withholding tax is a tax deducted at source from payments such as dividends, interest, royalties, and fees to non-residents or residents. Rwanda offers a preferential withholding tax rate of:
 - 0% for dividends, interest and royalties paid by investors benefiting from preferential corporate income tax of 15% and 3%, and for foreign professional and technical services procured outside Rwanda by specialised innovation park developers or specialised industrial park developers.
 - Preferential withholding tax of 10% is applicable to specialised innovation park developers or specialised industrial park developers on interest on foreign loans, dividends, royalties, and service fees, including management and technical service fees.
- (IV) Value added tax is a tax levied on the value added at each stage of production and distribution of goods and services. Rwanda exempts from value added tax certain goods and services procured locally or imported by investors in specific sectors or activities. For example:

- Goods and services procured locally by a registered film investor are zero-rated (0%) for value added tax, and
 - Goods and services imported by a registered investor in education, health, or energy etc, are exempted from value added tax.
- (v) Other tax deductions or holidays are reductions or exemptions of tax liability for a specified period or amount. Rwanda grants other tax deductions or holidays to investors in certain sectors or activities. For example:
- A philanthropic investor is exempted from value added tax and corporate income tax on grants and funds transferred to the entity for the purposes of financing its social impact activities, and on employment income tax for foreign nationals recruited by the entity who ordinarily reside in Rwanda.
 - A specialised innovation park developer or a specialised industrial park developer is exempted from property tax, land transfer fees, domestic taxes on importation of construction materials and finished goods, and corporate income tax for a period of five years from the date of issuance of the construction permit.
 - A registered investor is entitled to a 150% tax deduction of all qualifying expenditures relating to internationalisation, such as overseas marketing and public relations, participation in overseas trade fairs, overseas business development costs, and market entry and research costs.
 - A registered investor is allowed to deduct mineral exploration expenditure from the taxable income of the mining operations, if the mineral exploration expenditure has accounted for at least 50% of the investor's total expenditure during the years in which losses were made.

The table below summarizes some of the main fiscal incentives available to investors in Rwanda – especially investors under the Kigali International Financial Centre (KIFC) ecosystem – See Unit E2.2.

Type of investor	Economic Substance required	Tax incentive
International company	Investment of at least USD 10 million in tangible or intangible assets in Rwanda and provides employment and training to Rwandans (Annex to Law No. 006/2021 dated February 5, 2021, concerning Investment Promotion and Facilitation)	0% Preferential corporate income tax rate
Pure holding company	<p>Total net assets consolidated in Rwanda not less USD 1,000,000.</p> <p>Annual expenditure in Rwanda of at least USD 15,000</p> <p>A physical office of the company in Rwanda</p> <p>At least 30% of the professional staff are Rwandan</p>	<p>3% preferential corporate income tax rate</p> <p>0% preferential withholding tax on dividends, interest and royalty payments</p>

Type of investor	Economic Substance required	Tax incentive
Special purpose vehicle registered for investment purposes	<p>Registered for investment purpose in projects, which are meant to last for more than 2 years.</p> <p>Total net assets consolidated in Rwanda not less USD 1,000,000.</p> <p>Annual expenditure in Rwanda of at least USD 15,000</p> <p>A physical office of the company in Rwanda</p> <p>At least 30% of the professional staff are Rwandan</p>	<p>- 3% preferential corporate income tax rate</p> <p>- 0% preferential withholding tax on dividends, interest and royalty payments</p>
Collective Investment Scheme	<p>Minimum fund size not less than USD 1,000,000 within the first 3 years</p> <p>Minimum expenditure in Rwanda of USD 50,000 per year</p> <p>Collective Investment Scheme manager, custodian and operator established in Rwanda</p> <p>At least 30% of the professional staff are Rwandan</p>	<p>- 3% preferential corporate income tax rate</p> <p>- 0% preferential withholding tax on dividends, interest and royalty payments</p>
Global trading or paper trading	<p>An annual turnover or trade volume of not less than USD 10,000,000</p> <p>An annual expenditure in Rwanda of at least USD 50,000</p> <p>At least 30% of the professional staff are Rwandan</p> <p>A physical office of the company in Rwanda</p>	<p>- 3% preferential corporate income tax rate</p> <p>- 0% preferential withholding tax on dividends, interest and royalty payments</p>
Intellectual property company	<p>Annual expenditure in Rwanda of at least USD 10,000</p> <p>A physical office in Rwanda</p> <p>To have a bank account in a bank operating in Rwanda</p> <p>At least thirty per cent (30%) or three (3) of the staff are Rwandan residents, whichever is higher</p>	<p>- 3% preferential corporate income tax rate</p> <p>- 0% preferential withholding tax on dividends, interest and royalty payments</p>

Type of investor	Economic Substance required	Tax incentive
<p>A registered investor licensed to operate as a;</p> <ul style="list-style-type: none"> - fund management entity - collective investment scheme - wealth management service provider - financial advisory commercial entity - family office services entity - fund administrator - financial technology commercial entity - Captive Insurance Scheme entity - private bank - mortgage finance institution - finance lease commercial entity - Asset Backed Securities entity - reinsurance company - trust and - corporate service providers 	No Economic substance requirements	<p>15% preferential corporate income tax rate</p> <p>0% preferential withholding tax on dividends, interest, and royalty payments</p>

Type of investor	Economic Substance required	Tax incentive
Export investments	The incentive is applicable for a maximum of five years from the first year of exporting at least 30% of total turnover of goods and services.	<p>25% Preferential corporate income tax rate if at least 30% and less than 50% of total turnover comes from export of goods and services, and</p> <p>15% if at least 50% of total turnover comes from export of goods and services.</p>
Internationalization		<p>A 150% tax deduction of all qualifying expenditures relating to internationalization, including overseas marketing and public relations, participation in overseas trade fairs, overseas business development costs, market entry and research costs, and overseas professional services.</p> <p>The Tax Administration provides expedited pre-approval and value added tax refunds for these expenditures</p>
Film industry investors		<p>0% Value added tax for goods and services procured locally by the investor, and</p> <p>0% preferential withholding tax is applicable to foreign professional and technical services procured by the investor.</p>

Type of investor	Economic Substance required	Tax incentive
Mineral exploration	The incentive is applicable if the mineral exploration expenditure has accounted for at least 50% of the investor's total expenditure during the years in which losses were made.	Allowance to carry forward losses for a period of ten years from the first year of making the loss, by deducting losses in the order in which they incurred.

Additional incentives: These incentives target investors under the Kigali Innovational City (KIC) – See unit E2.2. KIC offers various fiscal and tax incentives to different types of investors, as summarized in the table below.

Type of investor	Tax/fiscal incentives
A specialized innovation/industrial park developer	<ul style="list-style-type: none"> • Corporate income tax holiday of five years from the first year of positive net income. • Preferential withholding tax of 10% on interest, dividends, royalties, and service fees. • Property tax exemption for five years from the date of construction permit. • Land transfer fees exemption if the transferor holds shares equivalent to the value of immovable property transferred. • Carry forward of accumulated tax losses in case of change of ownership of share capital or voting rights. • Carry forward of losses for seven years from the first year of making the loss. • Accelerated depreciation of 50% for capital expenditures incurred for one year from the date of construction works. • Zero-rated VAT for construction materials and finished goods for construction projects.
Innovative foreign entrepreneurs	<ul style="list-style-type: none"> • Two-year entrepreneurship visa to start a business in Rwanda.
Qualifying international students from qualifying higher institutions of learning	<ul style="list-style-type: none"> • Two-year talent visa upon completion of their studies.
Qualifying remote workers in priority professional fields	<ul style="list-style-type: none"> • Two-year visa allowing them to live in Rwanda and legally work for an employer registered abroad or their own company.

Type of investor	Tax/fiscal incentives
A registered investor that establishes an innovation research and development facility, information and communication technology training centre, software build and test lab, information and communication technology and innovation specialized institution of higher learning, business incubation centre and related activities in the area of information and communication technology and innovation sector	<ul style="list-style-type: none"> 15% preferential corporate income tax rate.
An investment involving electric mobility, agriculture tourism, or film industry	<ul style="list-style-type: none"> – 15% preferential corporate income tax rate.

E1.4 Penalty Regime for Taxes

The penalty regime for all taxes in Rwanda is governed by the Law N° 020/2023 of 31/03/2023 on Tax Procedures which covers: (i) taxes on income, (ii) Value Added Tax, (iii) property tax on motor vehicles and boats, (iv) tax on minerals, (v) any other tax for the matters not covered by its specific tax procedure or a tax which may be established without its specific tax procedure. The law provides for different types of penalties, depending on the nature and severity of the tax offence. The penalties can be classified into three categories: fixed administrative fines, non-fixed administrative fines, and criminal sanctions.

- Fixed administrative fines are imposed for specific violations of the tax law, such as failure to register, failure to keep books and records, failure to cooperate with tax audit, and failure to withhold tax. They are usually expressed as a fixed amount of Rwandan francs or a percentage of the tax due. For example, a taxpayer who fails to declare and pay tax within the time limit provided by law pays a fixed administrative fine ranging from 20% to 60% of the due tax. The fine increases with the length of the delay: 20% for up to 30 days, 40% for 31 to 60 days, and 60% for more than 60 days. .
- Non-fixed administrative fines are imposed for more serious violations of the tax law, such as non-declaration and non-payment of tax, understatement of tax, and tax evasion. The amount of the fine is calculated as a percentage of the tax liability, the unpaid tax, or the evaded tax, depending on the offence. The percentage ranges from ten percent (10%) to one hundred percent (100%), depending on the offence and the circumstances. The fine is imposed by the Tax Administration and notified to the taxpayer in writing. The taxpayer has the right to appeal to the Commissioner General within thirty (30) days from the date of notification.
- Criminal sanctions are imposed for the most serious violations of the tax law, such as tax fraud, forgery, obstruction of tax audit, and conspiracy to evade tax. The sanctions include imprisonment and/or a fine, depending on the offence and the circumstances. The imprisonment term ranges from six (6) months to five (5) years, and the fine ranges from one million Rwandan francs (Frw 1,000,000) to ten million Rwandan francs (Frw 10,000,000). The sanctions are imposed by the competent court,

upon prosecution by the Public Prosecutor. The taxpayer has the right to appeal to the competent commercial court within thirty (30) days from the date of judgment.

The following table summarizes the main fines, interest, and penalties for all taxes, as provided by the Law:

	Violation	Reference to the law
1	Interest for late payments	<p>Article 80</p> <p>Interest rate for late payments will be:</p> <p>0.5% of the tax due for a delay of up to 6 months</p> <p>1% of the tax due for a delay of 6 to 12 months</p> <p>1.5% of the tax due for a delay of more than 12 months</p> <p>Note:</p> <p>Interests for late payment are non-compounding and calculated on a monthly basis counting from the first day following the day on which the tax would have been paid until the day of payment inclusive. Every month that begins is considered as a complete month.</p>
2	Wrongful acts punished with fixed administrative fines	Article 81

	Violation	Reference to the law
	Failure to submit a tax declaration on time	<p>Administrative fine is set at:</p> <p>FRW50,000 for a taxpayer whose annual turnover is more than FRW2m but not exceeding FRW20m or for a natural person not engaged in any commercial activity</p> <p>FRW300,000 if the taxpayer's annual turnover exceeds FRW20m or if the taxpayer is a public institution or a non-profit-making organisation</p> <p>FRW500,000 if the taxpayer is considered by the tax administration to be in the category of large taxpayers</p> <p>Note: If a person repeats the same offence within two years from receiving a fine notification for the first offence, the initial fine will be doubled. If the offence is repeated for the third time in that period, the fine is four times the basic administrative fine</p>
	Failure to submit a withholding tax declaration on time	
	Failure to withhold tax	
	Failure to provide proofs required by the tax administration	
	Failure to cooperate or not providing information during a tax audit	
	Failure to communicate on time one's appointment as a legal/judicial administrator and heir of a property or legacy	
	Failure to comply with the obligation to Register	
	Failure to comply with record keeping provisions	
	Failure to comply with any requirements provided for in specific laws governing taxes if no provision of such laws provides for a sanction	
	Failure to keep books and records of controlled transactions	The fine is twice (i.e. 200%) the applicable fine above
	To obstruct or attempt to obstruct the activities or duties of the tax administration	<p>The administrative fine is FRW200,000 for every violation</p> <p>The qualified professional approved by the tax administration may also be suspended from duties by the Commissioner General for a period of two years.</p>
	Tax evasion	The fine is equivalent to the evaded tax

	Violation	Reference to the law
	Failure to submit financial statements by a person with an obligation to submit its financial statements for taxation purpose	FRW500,000 for every delayed month
	Failure to provide information in due time and the provision of incomplete, incorrect or misleading information following a request from the tax administration	Administrative fine is: FRW500,000 for a person who has an annual turnover equal to or less than FRW20m FRW2m for a person who has an annual turnover exceeding FRW20m but less than FRW200m FRW3m for a person who has an annual turnover equal to or more than FRW200m but less than FRW600m FRW5m for a person with an annual turnover equal to or more than FRW600m
3	Administrative fine for non-declaration and non-payment of tax on time	Article 82
	Administrative fine for late declaration and payment	Administrative fine is set at: 20% of due tax if the delay is not more than 30 days 40% of due tax if the delay is more than 30 days but not more than 60 days 60% of due tax if the delay is more than 60 days.
	Administrative fine for late payment after timely declaration	Administrative fine is set at: 5% of the due tax when the delay is not more than 30 days 10% of the due tax when the delay is more than 30 days but not more than 60 days 30% of the due tax when the delay is more than 60 days

	Violation	Reference to the law
4	Administrative fine for understatement of tax	<p>Article 83:</p> <p>Administrative fine is:</p> <p>10% of the understatement if the understatement is at least 10% but not more than 20%</p> <p>20% of the understatement if the understatement is more than 20%.</p> <p>However, a taxpayer that voluntarily declares and pays the due tax after the required time limit, but before being notified of imminent audit, will be exempt from the understatement fine above but liable to an administrative fine as per Article 82 above.</p>
5	Administrative fines for failure to comply with modalities and conditions for use of the electronic invoicing system	Article 84
	Failure to issue an invoice generated by an electronic invoicing system recognised by the tax administration by a VAT unregistered person	Administrative fine is two times the value of the transaction
	Issuance of an invoice with undervalued price or quantity by a VAT unregistered person	Administrative fine is two times the value of the undervalued transaction
	Repetition of any of the above offences	Two times the respective fine if one repeats any of the above offences in a period not exceeding two years
6	Administrative fines for aiding, abetting and conspiracy with a taxpayer	<p>Article 85:</p> <p>Administrative fine equals to that imposed to a taxpayer</p>
7	Administrative fine for failure to provide information	<p>Article 86:</p> <p>Failure to provide information or a provision of incomplete, incorrect and/or misleading information in relation to controlled transactions is subject to a fine equivalent to 5% of the value of the transactions</p>
8	VAT violations	Article 87

	Violation	Reference to the law
	Non-registration when mandatory registration was required	Administrative fine is 50% of the VAT due for the entire period of operation without registration
	Issuance of VAT invoice by a non-VAT registered person	Administrative fine is 100% of the VAT indicated in the invoice
	Issuance of an incorrect VAT invoice with the intention to decrease the amount of VAT payable or to increase the VAT input credit	Administrative fine is 100% of the VAT payable
9	Failure to use the electronic invoicing system by a person registered for VAT	Article 88: Administrative fine is ten times the value of the evaded VAT In case the offence is repeated in two years, the fine is 20 times the evaded VAT
10	Non-compliance with the obligations of the user of the electronic invoicing system	Article 89
	Non compliance with the obligations of the user of electronic invoicing system	Administrative fine is FRW200,000 In case the offence is repeated in two years, the fine is FRW400,000
	Issuance of undervalued invoice in terms of price or quantity by a VAT registered person	Administrative fine is ten times the evaded VAT In case the offence is repeated in two years, the fine is 20 times the evaded VAT
11	Tax evasion	Article 90

	Violation	Reference to the law
	Use of forged documents in one's accounts	Upon conviction, one will be imprisoned for a term not less than two years and not more than five years
	Counterfeit and use of documents or materials of the tax administration used for taxation	
	Hiding taxable goods or assets related to business	
	Making a declaration indicating that the taxpayer has not made sales	
	Changing the trade name of a person prosecuted in relation to tax	
	Fraudulent registration of trade under the name of another person	
	Hiding accounting documents from the tax administration or damaging them	
	Use of forged accounting records	
12	Fraudulent tax refund requests	Article 91: Administrative fine is 100% of unduly claimed amount and imprisonment for a term not less than two years and not more than five years
13	Accessories/additional sanctions	Article 92
	A person who commits any fault/offence provided for by this law	May be liable to the following accessories sanctions to be levied by either the Commissioner General or by the court depending on the gravity of the offence: closure of business activities for a period not exceeding 30 days depending on the seriousness of the fault to be barred from bidding for public tenders withdrawal from a business register to be published in the media

E2: Business organisation and restructuring

E2.1 Choice of business structure

When starting a business, one of the most critical decisions an entrepreneur must make is choosing the appropriate business structure. The choice of business structure has significant implications for taxation, legal liability, decision-making processes, and the ability to raise capital. The most common business structures include sole proprietorships, partnerships, and companies. Each of these structures has unique characteristics that can affect the business's operations and financial outcomes.

A. Sole proprietorship

A sole proprietorship is a business structure where a single individual both owns and operates the company. It is the most basic and common form of business ownership and is characterized by its simplicity, ease of setup, and minimalistic regulatory demands. In Rwanda, as in many other jurisdictions, a sole proprietorship is a popular choice for small business owners due to its straightforward nature.

Tax implications of a sole proprietorship

Most sole proprietorships would be taxed under the special tax regimes. Special tax regimes are meant for certain categories of taxpayers, such as micro-enterprises, transport operators, and taxpayers under the real and presumptive tax regime (See Unit A1.2 for more details)

Non-Tax Implications of a sole proprietorship

Liability: One of the significant drawbacks of a sole proprietorship is the unlimited personal liability of the owner. This means that the owner is personally responsible for all debts and obligations incurred by the business. If the business cannot pay its debts, creditors can go after the owner's personal assets, such as their home, car, or savings.

Control: The sole proprietor has complete autonomy over the business, making all decisions without the need to consult with partners or shareholders. This level of control can be advantageous for individuals who prefer to work independently and make decisions quickly.

Continuity: A sole proprietorship does not have a separate legal existence from its owner. Consequently, the business does not continue to exist if the owner dies, retires, or decides to stop operating the business. This lack of continuity can be a risk for employees and customers who rely on the business.

Example: If John operates a small bakery as a sole proprietor in Rwanda, his bakery's profits are considered his personal income and taxed accordingly. If the bakery incurs debts, John's personal assets, such as his car or home, could be at risk to settle those debts.

In summary, a sole proprietorship in Rwanda offers the benefits of simplicity, direct control, and straightforward tax reporting. However, it also comes with the risks of unlimited personal liability and lack of business continuity. When considering this business structure, it is crucial to weigh these pros and cons carefully. Sole proprietors must manage their business finances diligently, while also preparing for the implications of their unlimited personal liability.

B. Partnership

A partnership is a form of business organization where two or more individuals or entities come together to conduct business with the aim of sharing profits and losses. It is a popular choice for many businesses due to its simplicity of formation and operation. Partnerships are governed by a partnership agreement, which is a crucial document that outlines the rights, responsibilities, and other terms agreed upon by the partners.

There are two different types of partnership that may be formed under Rwandan Partnership law:

1. a general partnership, in which all partners are jointly liable for debts and obligations of the partnership.
2. a limited partnership, which consists of a limited liability partnership (LLP) which, unlike a general or limited partnership, is liable for its own debts—the liability of the members of an LLP is normally limited to the amount of their financial contribution.

A general or a limited partnership is not a corporate entity; rather it is a relationship between its partners. By contrast, an LLP is a body corporate and can contract with third parties in its own name.

Tax implications of partnerships

Income Tax:

- General partnerships, limited partnerships and most LLPs are what is known as ‘tax transparent’ for Rwanda tax purposes. They are considered “pass-through” entities for tax purposes, meaning that the profits and losses of the partnership are passed through to the individual partners. This means that the partnership is not itself liable to tax. Instead, the legislation ‘looks through’ the partnership and taxes the partners directly. Partners are taxable on their share of any profits or gains of the partnership as and when these arise, whether they are distributed or not.
- Each partner reports their share of the partnership’s income or loss on their personal tax return. This share is determined by the partnership agreement or, if the agreement is silent on this, by the proportion of their investment in the partnership.
- For example, if a partnership earns a profit of Frw10,000,000 and there are two partners with equal shares, each partner will report Frw5,000,000 of income on their personal tax return.

Deductible Expenses:

- Partnerships can deduct business expenses from their income, which can include costs such as rent, utilities, payroll, and other operational expenses.
- These deductions reduce the partnership’s overall taxable income, which in turn reduces the amount of income passed through to the partners.
- It is important for partnerships to maintain accurate records of all expenses to substantiate deductions.

Capital Gains:

- When a partnership sells an asset for more than its purchase price, the resulting profit is subject to capital receipt which is incorporated as part of the partnership’s

business profit.

- For instance, if a partnership sells a piece of property that has appreciated in value, the gain from that sale is incorporated into the partnership's business profit, which profit is divided among the partners according to their ownership interests, and each partner must report their profit share – which included the capital gain– on their tax return.

Non-Tax implications of partnerships

Liability:

- In a general partnership, all partners have unlimited liability, which means they are personally responsible for the debts and obligations of the partnership.
- A limited partnership has both general and limited partners. General partners manage the business and have unlimited liability, while limited partners have liability only up to the amount of their investment.
- This distinction is crucial for potential partners to understand before entering into a partnership agreement.

Control:

- The partnership agreement typically sets out how decisions are made within the partnership.
- Control can be equally shared among partners, or it can be divided in any other way that the partners agree upon.
- Some partnerships may designate certain partners to make day-to-day decisions, while others may require unanimous consent for major decisions.

Continuity:

- Partnerships can be more complex to dissolve than sole proprietorships.
- The partnership agreement should include provisions for the continuation of the partnership in the event of a partner's death, withdrawal, or the addition of new partners.
- Without such provisions, changes in the partnership can lead to its automatic dissolution.

Example: If Jane and Doe form a partnership to run a consultancy firm, they will share the profits based on their partnership agreement. If the firm is sued, both Jane and Doe's personal assets could be at risk unless they have formed a limited partnership where liability is restricted.

In summary Partnerships offer a flexible way for individuals or entities to collaborate in a business venture. Understanding the tax implications and non-tax considerations is essential for anyone looking to form or join a partnership. The partnership agreement is the cornerstone of this business structure and should be crafted with care to ensure that all partners are clear on their rights and obligations. By doing so, partners can focus on the growth and success of their business while being prepared for the various financial and legal aspects that come with operating a partnership.

C. Limited liability Companies

A company is a legal entity that is distinct and separate from its owners, who are known as shareholders. The concept of a company as a separate legal entity means that it has its own rights and obligations, separate from those of its shareholders. Companies can be classified into two main types: private companies, which do not offer their shares to the general public, and public companies, whose shares are traded on a stock exchange and can be bought by the general public.

Tax implications for companies

Corporate Tax: Companies are subject to corporate tax, which is levied on the profits generated by the business. The corporate tax rate is typically different from the tax rates applied to individual income. For example, in Rwanda the standard corporate income tax rate is 28%. However, there are different rates and incentives for various sectors and circumstances.

Dividends: When a company makes a profit, it may choose to distribute a portion of these profits to its shareholders in the form of dividends. Shareholders must then pay tax on these dividends according to the tax laws applicable to them. It's important to note that the taxation of dividends can be subject to double taxation: once at the corporate level when profits are earned (i.e. 28%) and again at the individual level when dividends are received (i.e. 15%). Therefore, the effective tax on dividend is 38.8% (i.e. $28\% + 10.8\% (72 (100 - 28) * 15\%)$).

Deductible Expenses: Companies are allowed to deduct a wide range of business expenses from their revenues to determine their taxable profits. These expenses must be wholly and exclusively incurred in the production of income. Deductible expenses can include salaries, rent, utilities, marketing costs, and depreciation of assets, among others.

Capital Gains: When a company sells an asset for more than its purchase price, the profit is considered a capital gain and is incorporated into the company's taxable profits. Additionally, shareholders may be subject to capital gains tax when they sell their shares in the company for a profit.

Non-Tax Implications for Companies

Liability: One of the key advantages of a company structure is the limited liability afforded to its shareholders. This means that the personal assets of shareholders are generally protected; they are only liable for the company's debts to the extent of their investment in the company.

Control: The control of a company is typically vested in a board of directors, who are elected by the shareholders. The board of directors is responsible for making major decisions and overseeing the management of the company. Day-to-day operations are usually managed by appointed executives and managers.

Continuity: A company enjoys perpetual existence, meaning it can continue to operate indefinitely, regardless of changes in ownership or management. This is because the company is a separate legal entity; thus, the departure or death of shareholders or managers does not affect its existence.

In conclusion, understanding the tax and non-tax implications of a company is crucial for students. Companies operate under a unique set of rules that affect how they are taxed, how they distribute profits, and how they are managed and controlled. These rules ensure

that companies can operate as separate legal entities, providing benefits such as limited liability and perpetual existence to their shareholders.

Below is a decision table form that outlines the tax and non-tax implications of choosing a business structure as an individual (sole proprietorship), a partnership, or a company. This table is designed to help in understanding the key considerations that may influence their decision on which investment vehicle to choose.

Business Structure	Sole Proprietorship	Partnership	Company
Definition	A business owned and operated by one individual.	A business owned and operated by two or more individuals or entities.	A separate legal entity owned by shareholders and operated by directors.
Tax Implications	<p>Income mainly taxed under the special tax regime.</p> <p>No separate tax return for the business; profits and losses are reported on the individual's tax return.</p> <p>Self-employment taxes apply.</p>	<p>Income is passed through to partners and taxed at their personal income tax rates.</p> <p>Must file an informational return, but the partnership itself does not pay income tax.</p> <p>Self-employment taxes apply to general partners.</p>	<p>Subject to corporate income tax rates.</p> <p>Potential for double taxation: once at the corporate level and again at the individual level on dividends.</p> <p>Salaries paid to employees and directors are tax-deductible expenses for the company.</p>
Non-Tax Implications	<p>Full control and decision-making power.</p> <p>Unlimited personal liability for business debts.</p> <p>Easier and less costly to set up and maintain.</p>	<p>Shared control and decision-making among partners.</p> <p>Joint and several liability for business debts.</p> <p>Partnership agreement is essential to outline roles and responsibilities.</p>	<p>Limited liability for shareholders.</p> <p>More complex and costly to set up and maintain.</p> <p>Subject to more regulations and reporting requirements.</p> <p>Ownership is easily transferable through the sale of shares.</p>

Business Structure	Sole Proprietorship	Partnership	Company
Regulatory Requirements	<p>Fewer regulatory requirements.</p> <p>No requirement to publicly disclose financial information.</p>	<p>Must comply with the Partnership Law</p> <p>Partnership agreement should be drafted.</p> <p>No requirement to publicly disclose financial information.</p>	<p>Must comply with the Companies Law</p> <p>Annual filings and disclosures are mandatory.</p> <p>Public companies must disclose financial information to the public.</p>
Continuity and Succession	<p>Business may cease to exist upon the owner's death or incapacity.</p> <p>Succession planning is critical for continuity.</p>	<p>Depends on the partnership agreement, but the partnership can be dissolved upon a partner's death or exit.</p> <p>Succession planning is important for smooth transition.</p>	<p>The company has perpetual existence, independent of the shareholders' or directors' lives.</p> <p>Shares can be bequeathed, allowing for easier succession planning.</p>
Raising Capital	<p>Limited to personal funds and loans.</p> <p>May be more challenging to raise capital due to perceived risk by lenders.</p>	<p>Capital can be raised from all partners.</p> <p>Additional partners can be added for more capital, subject to the partnership agreement.</p>	<p>Can raise capital through the sale of shares or issuance of bonds.</p> <p>Generally easier to access various forms of financing due to limited liability and perpetual existence.</p>
Record Keeping	<p>Less stringent record-keeping requirements.</p> <p>Must keep track of all business income and expenses for tax purposes.</p>	<p>More complex record-keeping due to multiple owners.</p> <p>Must maintain clear records of each partner's contributions and share of profits/losses.</p>	<p>Most stringent record-keeping requirements.</p> <p>Must maintain accurate records of all financial transactions, shareholder meetings, and corporate decisions.</p>

E2.2 Kigali International Financial Centre (KIFC) and Kigali Innovation City (KIC)

The Kigali International Financial Centre (KIFC) and Kigali Innovation City (KIC) programmes are strategic initiatives of the Government of Rwanda to position the country as a preferred destination for investments into Africa, especially in the fields of finance, technology, and innovation. They are part of the Law No. 006/2021 dated February 5, 2021, concerning Investment Promotion and Facilitation.

Kigali International Finance Centre

The KIFC is intended to create a conducive environment for domestic and foreign financial service providers, such as fund managers, corporate service providers, and family office services, to operate in Rwanda and access the African market. The KIFC offers a range of tax incentives to registered investors, such as a preferential corporate income tax rate of 3%, exemption from withholding tax on dividends, interest, and royalty payments, and accelerated depreciation of capital expenditures. However, to qualify for these incentives, investors must also demonstrate minimum economic substance and management and control in Rwanda, such as having a physical office, employing local staff, and holding board meetings in the country (See Unit E1.3 for a detailed list of incentives and economic benefit requirements)

Kigali Innovation City

The Kigali Innovation City (KIC) is designed to foster a vibrant ecosystem of universities, technology companies, and biotech firms, that can drive innovation, research, and development in Rwanda and beyond. The KIC also provides attractive tax incentives to registered investors, such as a five-year tax holiday, a preferential withholding tax rate of 10%, exemption from property tax and land transfer fees, and loss carry forward provisions. Additionally, investors under the KIC can benefit from financing under the Rwanda Seed Innovation Fund, which offers convertible grants, equity, and debt instruments. Like the KIFC, investors under the KIC must also meet certain economic substance requirements to access these incentives (See Unit E1.3 for a detailed list of incentives and economic benefit requirements).

Tax Impact of the KIFC and KIC

The tax impact of the KIFC and KIC programmes can be assessed from different perspectives.

- From the perspective of the investors, the programmes offer significant tax advantages that can lower their effective tax rate, increase their after-tax returns, and enhance their competitiveness in the region.
- From the perspective of the Government, the programmes may entail some revenue foregone in the short term, but also generate potential revenue gains in the long term, as the programmes attract more investments, create more jobs, and stimulate more economic activity.
- From the perspective of the society, the programmes may have positive spillover effects, such as fostering innovation, skills development, and financial inclusion, but also pose some challenges, such as ensuring fair and transparent tax administration, avoiding harmful tax practices, and balancing social and environmental objectives.

E2.3 Company Reorganisation and Tax Consequences

Company reorganisation or restructuring of business entities refers to various forms of changes in the legal, financial, or operational structure of a business entity, such as a merger, acquisition, takeover, split, or liquidation. These changes may have different tax consequences depending on the type and nature of the restructuring, the status and location of the entities involved, and the applicable tax laws and regulations.

Options for restructuring of business entities along with the tax consequences are as follows:

1. A merger of two or more entities into a separate entity. This option involves the transfer of all the assets and liabilities of the merging entities to the new entity, which assumes their rights and obligations. The merging entities cease to exist as separate legal persons. The transferring entities are exempt from capital gain tax on the transfer of their assets and liabilities to the new entity. The new entity values the assets and liabilities at their book value in the hands of the transferring entities at the time of the merger. The new entity also carries over the reserves and provisions of the transferring entities, subject to the same conditions that would have applied to them if the merger did not take place. The new entity depreciates the business assets according to the rules that would have applied to the transferring entities as if the merger did not take place.

2. The acquisition or a takeover of fifty percent (50%) or more of shares or voting rights, by number or value, operated by shareholders in a resident entity. This option involves the change of ownership or control of a resident entity by another entity, which acquires or takes over the majority of its shares or voting rights. The transferring shareholders are exempt from capital gain tax on the sale or transfer of their shares or voting rights to the acquiring or taking over entity. The acquired or taken over entity remains a separate legal person, and does not change the value of its assets, liabilities, reserves, or provisions. The acquiring or taking over entity does not depreciate the shares or voting rights acquired or taken over, as they are not business assets.

3. The acquisition or transfer of fifty percent (50%) or more of the assets or liabilities of a resident entity by another entity. This option involves the transfer of a substantial part of the assets or liabilities of a resident entity to another entity, which may or may not acquire or take over the shares or voting rights of the transferring entity. The transferring entity is exempt from capital gain tax on the transfer of its assets or liabilities to the receiving entity. The receiving entity values the assets and liabilities at their book value in the hands of the transferring entity at the time of the acquisition or transfer. The receiving entity also carries over the reserves and provisions related to the assets or liabilities transferred, subject to the same conditions that would have applied to the transferring entity if the acquisition or transfer did not take place. The receiving entity depreciates the business assets according to the rules that would have applied to the transferring entity as if the acquisition or transfer did not take place.

4. The acquisition or transfer of the entire entity's shares, assets or liabilities so that its existence is replaced by the purchasing or receiving entity. This option involves the transfer of all the shares, assets, and liabilities of a resident entity to another entity, which replaces the transferring entity as a separate legal person. The transferring entity is exempt from capital gain tax on the transfer of its shares, assets, and liabilities to the receiving entity. The receiving entity values the shares, assets, and liabilities at their book value in the hands of the transferring entity at the time of the acquisition or transfer. The receiving entity also carries over the reserves and provisions of the transferring entity, subject to the same

conditions that would have applied to the transferring entity if the acquisition or transfer did not take place. The receiving entity depreciates the business assets according to the rules that would have applied to the transferring entity as if the acquisition or transfer did not take place.

5. Splitting of a resident entity in Rwanda into two or more resident entities in Rwanda. This option involves the division of a resident entity into two or more entities, which assume the rights and obligations of the splitting entity. The splitting entity ceases to exist as a separate legal person. The splitting entity is exempt from capital gain tax on the transfer of its assets and liabilities to the new entities. The new entities value the assets and liabilities at their book value in the hands of the splitting entity at the time of the split. The new entities also carry over the reserves and provisions of the splitting entity, subject to the same conditions that would have applied to the splitting entity if the split did not take place. The new entities depreciate the business assets according to the rules that would have applied to the splitting entity as if the split did not take place.

Other considerations from reorganisation of companies

- Carry forward of losses: In instances where there is a change in the ownership of a company within a given tax period, specific tax rules come into play as regards accumulated tax losses for the company that is changing ownership. This change pertains to either direct or indirect control over the company's share capital or its voting rights. Should such a change exceed twenty-five percent (25%)—measured by either the value or the number of shares—and the company in question is not listed on a recognized stock exchange then any such losses that have been carried forward by the company will be forfeited in the tax period during which the ownership change occurs, as well as in any preceding tax periods.

Nevertheless, there is an exception to this rule that allows for the preservation of the right to carry forward losses. This exception is applicable when the ownership change is the result of an internal business reorganization that does not alter the composition of the shareholders. For this exception to apply, it is imperative that the existing shareholders, who remain post-reorganization, have been part of the company's shareholding structure for a minimum duration of three (3) years. This provision ensures that companies undergoing internal restructuring can retain their accumulated losses, provided the continuity of ownership is maintained.

- Business liquidation: When a business entity is dissolved, the process of liquidation triggers certain tax consequences. Following the settlement of all outstanding debts and the allocation of assets to shareholders, any residual amount is classified as a dividend distribution. This distribution occurs during the final tax period in which the business entity operates. It is essential for the shareholders to recognize this final distribution as dividend income for tax purposes.

The following table summarises the position for easy guidance:

Form of reorganisation or restructuring	Tax consequences for the transferring entity	Tax consequences for the receiving entity
Merger	Exempt from capital gains and losses tax	Values assets and liabilities at book value; depreciates assets according to previous rules; carries over reserves and provisions; assumes rights and obligations
Acquisition or takeover	Exempt from capital gains and losses tax	Values assets and liabilities at book value; depreciates assets according to previous rules; carries over reserves and provisions; assumes rights and obligations
Transfer of assets and liabilities	Exempt from capital gains and losses tax	Values assets and liabilities at book value; depreciates assets according to previous rules; carries over reserves and provisions; assumes rights and obligations
Carry forward of tax losses	Tax losses are forfeited in the event of a change in ownership that exceed 25%—measured by either the value or the number of shares	N/A
Liquidation	Pays dividends tax on the remainder after liabilities and shares distribution	N/A

E3: Disposal and Acquisition Methods

Leasing: Leasing is a contractual arrangement where the owner of an asset, known as the lessor, allows another party, the lessee, to use the asset for a specified period in exchange for periodic payments.

Outright purchasing: Outright purchasing refers to the acquisition of an asset by paying the full price upfront or through financing arrangements. The buyer gains immediate ownership and assumes all the risks and rewards associated with the asset.

E3.1 Leasing vs. Outright Purchasing: Tax Implications

Leasing

There are two primary types of leases:

- 1. Operating Lease:** This is a lease agreement that allows the lessee to use an asset for a short period, which is significantly less than the asset's useful life. The lessor retains the risks and rewards of ownership. Operating leases are typically used for equipment and are often renewable.
- 2. Finance Lease (Capital Lease):** In a finance lease, the lessee essentially obtains all the risks and rewards associated with ownership of the asset, even though legal title may not be transferred. This type of lease is typically for a period close to the asset's useful life and the lessee has the option to purchase the asset at a reduced price at the end of the lease term.

Lease Accounting

Lease accounting is a specific area of accounting that focuses on the correct reporting of lease transactions in the financial statements of lessees (the entities that obtain the right to use an asset) and lessors (the entities that provide the right to use an asset). The accounting treatment for leases has undergone significant changes with the introduction of new standards such as IFRS 16, which have replaced the older IAS 17.

Lessee Accounting Treatment

Under the new standards, lessees are required to recognize nearly all leases on their balance sheets; this includes both finance leases (previously known as capital leases) and operating leases. The key steps in accounting for leases by a lessee are as follows:

- 1. Lease Identification:** Determine whether a contract contains a lease by assessing if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.
- 2. Classification:** Under previous standards, leases were classified as either finance or operating leases. However, under IFRS 16, this distinction is largely removed for lessees, and a single lessee accounting model is applied, requiring the recognition of a right-of-use asset and a lease liability.
- 3. Recognition and Measurement:** At the commencement date of the lease, a lessee recognizes a lease liability and a corresponding right-of-use asset. The lease liability is measured at the present value of the lease payments not yet paid, discounted

using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The right-of-use asset is initially measured at the lease liability amount, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred by the lessee.

4. Subsequent Measurement: The lease liability is increased for the accrual of interest and reduced for the lease payments made. The right-of-use asset is typically depreciated over the lease term on a straight-line basis unless another systematic basis is more representative of the pattern in which the asset's future economic benefits are expected to be consumed.

5. Presentation and Disclosure: Lessees must present right-of-use assets and lease liabilities in their balance sheets. They must also disclose information that enables users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Lessor Accounting Treatment

Lessors continue to classify leases as either finance or operating leases.

1. Finance Leases: When a lease is classified as a finance lease, the lessor derecognizes the underlying asset and recognizes a receivable at an amount equal to the net investment in the lease. Finance income is recognized based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.

2. Operating Leases: Under an operating lease, the lessor retains the risks and rewards of ownership. The leased asset remains on the balance sheet of the lessor, and lease income is recognized on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Tax Implications

As point out earlier, the advent of IFRS 16 has significantly altered the accounting landscape for lease transactions. However, despite these advancements in financial reporting, there remains a divergence when it comes to tax legislation.

Specifically, Income Tax Law No. 027/2022, under Article 27, provides that the depreciation of leased assets is permissible as a deduction for the lessee in the context of finance leases, while the lessor retains this allowance in the case of operating leases. This legislative provision underscores a significant deviation from the accounting treatment prescribed by IFRS 16, as it adheres to the traditional split of leases into finance and operating categories for tax purposes.

Discrepancy Between Accounting and Tax Treatment

Consequently, for taxation purposed, the accounting position is effectively disregarded, and leases are treated according to their pre-IFRS 16 classification. To illustrate, even though a lessee may recognize both finance leases and operating leases on their financial statements in accordance with IFRS 16, for tax purposes, operating leases are excluded from the lessee's capitalized lease assets. No capital allowances are granted for these operating leases. Furthermore, any adjustments reflected in the profit and loss account for lease liabilities and corresponding right-of-use assets are not taken into consideration for tax calculations. Instead, the actual lease payments are the amounts considered for tax deductions. This results in the lease liability and the corresponding right-of-use asset

being reversed as expenses in the profit and loss account, with the actual lease rental payments being recognized for tax purposes.

Capital Deductions and Lease Classification

The implications of this tax treatment are particularly noteworthy in the context of operating leases. Despite the lessee's obligation to recognize the leased asset on their balance sheet under IFRS 16, it is the lessor who is entitled to claim capital deductions. This entitlement arises from the lessor's position in an operating lease agreement, which remains consistent with the traditional tax treatment of leases.

In contrast, for finance leases, the lessee retains the benefit of capital deductions, aligning with the historical approach to such transactions. This continuity ensures that lessees engaged in finance leases can continue to claim depreciation on the leased assets, thereby reducing their taxable income in a manner consistent with the pre-IFRS 16 era.

In summary, while IFRS 16 has unified the accounting treatment of leases by requiring lessees to recognize most leases on their balance sheets, tax legislation, as illustrated by Income Tax Law No. 027/2022, maintains a distinction between finance and operating leases for the purposes of depreciation deductions. This contrast between accounting standards and tax law necessitates a nuanced understanding of the financial and tax implications of lease transactions for both lessees and lessors.

Illustration of Tax Treatment under IFRS 16

Scenario: Lease Classification and Accounting Treatment

Let's consider a company, ABC Ltd., that enters into a lease agreement for an office space. Under IFRS 16, ABC Ltd. is required to recognize a right-of-use asset and a lease liability on its balance sheet for this lease.

- Lease Term: 5 years
- Annual Lease Payment: Frw 10,000,000
- Incremental Borrowing Rate: 5%
- Present Value of Lease Payments: Frw 43,329,000 (calculated using the incremental borrowing rate)
- Right-of-Use Asset at Inception: Frw 43,329,000
- Lease Liability at Inception: Frw 43,329,000

Accounting Entries at Inception under IFRS 16:

- Dr Right-of-use asset Frw 43,329,000
- Cr Lease liability Frw 43,329,000

Subsequent Accounting Treatment (Year 1):

- Depreciation of the right-of-use asset (straight-line method over 5 years): Frw 8,666,000 (i.e., Frw 43,329,000 / 5)
- Interest expense on lease liability (5% of Frw 43,329,000): Frw 2,166,000

Accounting Entries in Year 1 under IFRS 16:

- Dr Depreciation expense Frw 8,666,000
- Cr Accumulated depreciation Frw 8,666,000

- Dr Interest expense Frw 2,166,0000
- Cr Lease liability Frw 2,166,000
- Dr Lease liability Frw 10,000,000
- Cr Cash/Bank Frw 10,000,000

Tax Treatment under Income Tax Law No. 027/2022:

For tax purposes, the lease is classified as either a finance lease or an operating lease. The tax treatment differs based on this classification.

Operating Lease Tax Treatment (Assuming the lease is classified as an operating lease for tax purposes):

- Lease payments are deductible: Frw 10,000,000
- No depreciation deduction for the lessee
- The lessor claims the depreciation deduction.

Finance Lease Tax Treatment (Assuming the lease is classified as a finance lease for tax purposes):

- Lessee can claim depreciation on the leased asset: Frw8,666,000
- Interest is also deductible: Frw2,166,000
- Lease payments are not directly deductible as they are split into interest and principal components for tax purposes.

Accounting vs. Tax Treatment Discrepancy:

- For accounting purposes, ABC Ltd. recognizes a depreciation expense and interest expense, which reduces the profit before tax by Frw10,832,000 (Frw8,666,000 depreciation + Frw2,166,000 interest).
- For tax purposes, only the lease payment of Frw10,000,000 is deductible (Actual lease payments), and the depreciation and interest expenses are not considered.

The above illustration demonstrates the discrepancy between the accounting treatment under IFRS 16 and the tax treatment under Income Tax Law No. 027/2022. While the lessee recognizes both depreciation and interest expenses in their financial statements, for tax purposes, only the actual lease payments are deductible in the case of an operating lease. This results in a different impact on the taxable income of the lessee compared to the accounting profit.

Outright Purchasing

Outright purchasing refers to the acquisition of an asset by paying the full price upfront or through financing arrangements. The buyer gains immediate ownership and assumes all the risks and rewards associated with the asset.

- Accounting Treatment: When an asset is purchased outright, it is recorded on the balance sheet as an asset at its cost. The cost includes the purchase price and any other costs necessary to bring the asset to a working condition. Over time, the asset is depreciated, and this depreciation is recognized as an expense on the income statement.

Tax Treatment of Leasing vs. Outright Purchase

The tax treatment of leasing versus purchasing can differ significantly:

- **Leasing:** Lease payments under an operating lease are generally fully deductible as a business expense in the period they are paid. For finance leases, the lessee can deduct depreciation and interest expense.
- **Outright Purchase:** When assets are purchased, the buyer can typically claim capital allowances on the asset, which is a form of tax relief. The capital cost of the asset is written off against taxable profits over the asset's useful life.

The Difference between Leasing and Outright Purchase

The key differences between leasing and outright purchase include:

- **Ownership:** Leasing does not usually lead to ownership (unless it's a finance lease with a purchase option), while outright purchase immediately conveys ownership to the buyer.
- **Cash Flow:** Leasing often requires less upfront cash, providing cash flow benefits, whereas purchasing typically requires a larger initial outlay.
- **Asset Management:** Lessees do not have to worry about asset disposal at the end of the lease term, whereas owners must manage the asset's disposal.

Tax Advantages of Leasing

1. **Immediate Deductibility of Lease Payments:** Lease payments are generally considered a business expense and are therefore deductible for tax purposes. This can reduce the taxable income of the business in the year the expense is incurred.
2. **Off-Balance Sheet Financing:** Leasing can keep liabilities off the balance sheet, which may improve financial ratios and the appearance of the company's financial health. This is because the lease obligation does not appear as debt.
3. **VAT Considerations:** VAT on leased assets may be recoverable or spread over the period of the lease, which can improve cash flow.
4. **Flexibility and Adaptability:** Leasing allows businesses to adapt to technological changes by upgrading to new equipment at the end of the lease term without having to sell old equipment.
5. **Avoidance of Obsolescence:** Leasing can be particularly advantageous for assets that depreciate quickly or become obsolete, as the lessee can return the asset at the end of the lease term.

Tax Disadvantages of Leasing

1. **Higher Long-Term Cost:** Over the long term, leasing can be more expensive than purchasing an asset outright due to the cumulative cost of lease payments.
2. **No Ownership Equity:** Leasing does not allow for equity buildup in the asset, which means the business has nothing to show for the asset at the end of the lease term.
3. **Limited Tax Benefits:** The tax benefits of leasing are generally limited to the deduction of lease payments. Unlike purchasing, leasing does not allow for depreciation deductions or potential capital gains treatment on the sale of the asset.

Tax Advantages of Purchasing

1. **Depreciation Deductions:** Purchasing an asset allows a business to take depreciation deductions over the asset's useful life, which can provide a significant tax shield.
2. **Capital Allowances:** Capital allowances or investment credits for the purchase of new assets, which can reduce the taxable income of the business.
3. **Ownership and Equity:** Ownership of an asset can build equity for the business and can be used as collateral for financing or sold for a potential gain in the future.
4. **Potential for Capital Gains Treatment:** If an asset appreciates in value and is sold for more than its depreciated value, the business may benefit from capital gains treatment, which is often taxed at a lower rate than ordinary income.

Tax Disadvantages of Purchasing

1. **Upfront Costs:** Purchasing an asset requires an upfront investment, which can be substantial and affect the business's cash flow.
2. **Risk of Obsolescence:** The business bears the risk of the asset becoming obsolete, and it may be stuck with an asset that has little to no resale value.
3. **Maintenance and Repair Costs:** The owner of an asset is responsible for all maintenance and repair costs, which can be unpredictable and add to the total cost of ownership.
4. **Less Flexibility:** Purchasing assets can lock a business into using specific equipment for a longer period, reducing flexibility to upgrade or change assets as needs or technology change.

Summary: Leasing vs. Outright Purchase

Aspect	Leasing	Outright Purchase
Tax Treatment	Operating lease payments are fully deductible as a business expense. – Finance leases allow for deduction of depreciation and interest expense.	Capital allowances on the asset can be claimed. – Capital cost is written off against taxable profits over the asset's useful life.
Ownership	Does not usually lead to ownership, except for finance leases with a purchase option.	Immediate ownership upon purchase.
Cash Flow	Requires less upfront cash, beneficial for cash flow.	Requires a larger initial outlay.
Asset Management	No worries about asset disposal at lease end.	Owner must manage asset disposal.

Aspect	Leasing	Outright Purchase
Tax Advantages	<ol style="list-style-type: none"> 1. Immediate deductibility of lease payments. 2. Off-balance sheet financing. 3. VAT may be recoverable or spread over the lease period. 4. Flexibility to upgrade at lease end. 5. Avoidance of obsolescence. 	<ol style="list-style-type: none"> 1. Depreciation deductions over the asset's useful life. 2. Capital allowances or investment credits. 3. Ownership builds equity and can be collateral. 4. Potential for capital gains treatment.
Tax Disadvantages	<ol style="list-style-type: none"> 1. Higher long-term cost. 2. No ownership equity. 3. Limited tax benefits, no depreciation deductions or capital gains treatment. 	<ol style="list-style-type: none"> 1. Substantial upfront costs. 2. Risk of obsolescence. 3. Maintenance and repair costs. 4. Less flexibility to upgrade or change assets.

Conclusion

The decision to lease or purchase an asset has both tax advantages and disadvantages that must be weighed carefully. The right choice depends on the specific circumstances of the business, including cash flow considerations, the importance of ownership, the type of asset, and the tax environment. It is crucial for students to understand these nuances to make informed decisions and provide accurate tax advice in a professional setting. While the complexity of each individual case may vary, the fundamental principles outlined here provide a solid foundation for understanding the tax implications of leasing versus purchasing business assets.

E3.2 Asset vs. Share Disposal

When a business owner decides to dispose of their investment in a company, they can choose to sell either the assets of the company or the shares of the company. The decision between selling assets or shares has significant tax implications, which can vary depending on the specific tax laws of the jurisdiction. In Rwanda, as in many other countries, the tax treatment of these two disposal methods can affect both the seller and the buyer in different ways.

Disposal of Assets

Disposing of assets refers to the sale of individual assets of the company, such as equipment, property, or inventory. This can be done piece by piece or as a bulk sale of all the company's assets. The tax implications for the seller and the buyer can be quite complex.

For the Seller:

- The sale of assets can lead to corporate income tax liability if the assets are sold for more than their tax book value – the gain is also known as a balancing charge or a capital receipt. Capital gains in Rwanda are taxed at the same rate as ordinary income.
- The seller may also be able to claim capital allowances on the assets sold – if the proceeds from the sale are less than the tax book value of the asset known as a balancing allowance, which can reduce the taxable gain.
- If the assets are depreciable, claw back tax may apply. This is a tax on the depreciation that has been claimed on assets, which is claw back as ordinary income upon sale. In Rwanda this would apply to investment allowance of 50% normally granted to qualifying investors who then disposes off the asset within three years after claiming the investment allowance
- The sale of certain assets may also be subject to Value Added Tax, depending on the nature of the asset and the VAT status of the business.
- Sale of immovable property can also result in property tax of 2% or 2.5% of sale proceeds in excess of Frw 5 million.

For the Buyer:

- The buyer can often start to claim capital allowances on the assets purchased, providing a future tax shield.
- The buyer may also be responsible for paying VAT on the purchase of the assets, although this can often be reclaimed if the buyer is VAT registered.
- The buyer acquires the assets without any of the seller's historical tax liabilities.

Disposal of Shares

When disposing of shares, the seller is selling their ownership in the company rather than the company's individual assets. This method of disposal has a different set of tax consequences.

For the Seller:

- The sale of shares is typically subject to capital gains tax on the difference between the sale price and the acquisition cost of the shares. The acquisition cost is generally the price paid for the shares without any adjustments.
- The tax rate on capital gains from the sale of shares is currently 5% of the gain.
- Selling shares can be more tax-efficient for the seller if the capital gains tax rate is lower than the combined tax impact of selling assets, especially if there are significant recaptured depreciation or other recapture taxes.. This is because capital gains on shares are taxed at lower long-term rates, while the sale of assets can trigger depreciation recapture taxed at higher ordinary income rates. As a result, selling depreciated assets may lead to a higher overall tax burden than selling shares.

For the Buyer:

- The buyer takes over the company with all its liabilities and potential hidden liabilities, which can include historical tax liabilities.
- The buyer does not get a step-up in the basis of the assets, which means they cannot claim capital allowances based on the purchase price of the shares.
- The purchase of shares is not subject to VAT – as shares are VAT exempt – which can be a significant saving.

Considerations for Both Parties

Both the seller and the buyer need to consider their positions carefully when deciding on the method of disposal. The seller will typically prefer the method that minimizes their tax liability, while the buyer will prefer a method that maximizes their future tax benefits. Negotiations between the parties will often centre around these tax implications, and the final decision may involve a trade-off between the competing interests of the seller and the buyer.

The table below summarizes the key points regarding the disposal of assets and shares in a company, focusing on the tax implications for both the seller and the buyer, as well as the considerations that both parties must consider during the disposal process.

Aspect	Disposal of Assets	Disposal of Shares
Definition	Sale of individual company assets (equipment, property, inventory).	Sale of ownership in the company.
Seller Tax Implications	<p>Corporate income tax on sale above tax book value.</p> <p>Balancing charge/capital receipt for gains.</p> <p>Capital allowances claimable as balancing allowance if sold below book value.</p> <p>Recapture tax on depreciated assets.</p> <p>Possible VAT on sale of certain assets.</p>	<p>Capital gains tax on the difference between sale price and acquisition cost.</p> <p>Tax rate on gains is 5%.</p> <p>Can be more tax-efficient due to lower capital gains tax rate compared to asset sale implications.</p>

Aspect	Disposal of Assets	Disposal of Shares
Buyer Tax Implications	<p>Can claim capital allowances on purchased assets.</p> <p>May be responsible for VAT on asset purchase, reclaimable if VAT registered.</p> <p>Acquires assets free from seller's historical tax liabilities.</p>	<p>Inherits all company liabilities, including historical tax liabilities.</p> <p>No step-up in asset basis, cannot claim capital allowances on share purchase price.</p> <p>No VAT on share purchase, as shares are VAT exempt.</p>
Considerations for Both Parties	<p>Complexity of tax implications for both parties.</p> <p>Seller and buyer must negotiate based on tax impact and future tax benefits.</p>	<p>Decision involves trade-off between seller's tax minimization and buyer's future tax benefits.</p> <p>Negotiations focus on tax implications and respective interests.</p>

Conclusion

The decision to sell assets or shares has significant tax implications that can greatly affect the net proceeds from the sale for the seller and the cost of acquisition for the buyer. It is essential for both parties to carefully analyse the tax consequences of each method in the context of Rwandan tax law and consider how it aligns with their financial and strategic objectives. Due to the complexity of these transactions and the potential for significant tax liabilities, it is crucial for the parties involved to conduct thorough due diligence and possibly engage in tax planning strategies to optimize the tax outcomes of the disposal.

E4: Tax Consequences of Funding Sources

Taxation plays a crucial role in the financial decisions of individuals, particularly when it comes to choosing sources of funding and investment products. The tax implications of these choices can significantly affect the net returns and the cost of capital. In Rwanda, as in many other jurisdictions, different sources of funding and investment products are subject to varying tax treatments. Understanding these can help individuals optimize their tax liability and make informed financial decisions.

E4.1 Tax Treatment of Funding and Investment Products

Sources of Funding

Funding can be broadly categorized into debt and equity. Each source has distinct tax treatments:

- **Debt Financing:** This includes loans, bonds, and other forms of borrowing. The interest expense on debt is typically tax-deductible, which can reduce the taxable income of the individual. However, this benefit must be weighed against the cost of borrowing and the potential risks associated with increased leverage.
- **Equity Financing:** This involves obtaining capital through the sale of shares or ownership stakes. Dividends received from equity investments may be subject to different tax rates compared to ordinary income. In some cases, dividends may benefit from reduced tax rates or credits.

Investment Products

Investment products are diverse, and each comes with its own tax implications:

- **Savings Accounts and Fixed Deposits:** Interest income earned from savings accounts and fixed deposits is usually subject to a standard withholding tax of 15%. However, interests on deposits in financial institutions for at least a period of one year are exempt from withholding tax of 15% (Article 60 (2)(a)).
- **Shares:** Capital gains from the sale of shares are typically subject to capital gains tax of 5% (Article 35,36,37). However, Capital gain from the sale or transfer of listed shares and other securities on the securities exchange operating in Rwanda is exempted from capital gain tax. Dividends are typically subject to withhold tax at the rate of 15%, however dividends on securities listed on capital market – if the beneficiary of the dividends is a resident taxpayer of Rwanda or of the East African Community– is subject to a reduced withholding tax of 5%.
- **Bonds:** Interest from bonds is generally taxable as income at the rate of 15%. However, interests derived from treasury bonds with a maturity of at least three (3) years – is subject to a reduced withholding tax of 5%.
- **Mutual Funds:** Taxation of mutual funds can be complex, as it depends on the type of income the fund generates (e.g., interest, dividends, capital gains) and the investor's holding period. For example, interest, dividends, and capital gains derived from collective schemes is exempt from any form of tax.
- **Retirement Accounts:** Contributions to retirement accounts like pension funds e.g., Rwanda Social Security Board are not tax-deductible, but the growth of investments within these accounts is tax exempt and on withdrawal the income is equally tax exempt.
- **Real Estate:** Rental income is taxable, and expenses related to the property can often be deducted. Balancing charge from the sale of real estate are subject to corporate income tax, but there are exemptions or reliefs available, especially for primary residences (See Unit A1.3).

Summary of the sources of funding and investments products

Category	Type	Tax Treatment	Additional Information
Sources of Funding	Debt Financing	Interest expense is tax-deductible.	Must consider the cost of borrowing and risks of increased leverage.
	Equity Financing	Dividends may be subject to different tax rates or credits.	
Investment Products	Savings Accounts and Fixed Deposits	Interest is usually taxed at 15% withholding tax; exempt if deposited for at least one year.	Article 60 (2)(a) specifies the exemption for deposits in financial institutions for at least one year.
	Shares	Capital gains taxed at 5%; listed shares on securities exchange exempt. Dividends taxed at 15% or 5% for residents of Rwanda or East African Community on listed securities.	Articles 35, 36, 37 detail capital gains tax; exemptions for listed shares and securities.
	Bonds	Interest taxable at 15%; treasury bonds with maturity of 3+ years taxed at 5%.	
	Mutual Funds	Depends on income type and holding period; exempt from tax on interest, dividends, and capital gains derived from collective schemes.	Taxation can be advanced and varies.
	Retirement Accounts	Contributions not tax-deductible; growth and withdrawals are tax exempt.	Example given: Rwanda Social Security Board.
	Real Estate	Rental income taxable; expenses deductible. Capital gains subject to tax, with exemptions available.	Exemptions especially for primary residences (See Unit A1.3).

Conclusion

The tax treatment of various sources of funding and investment products can be complex and subject to change based on evolving tax laws. Individuals must stay informed about the current tax regulations in Rwanda to make the most of their investment choices and funding strategies. While tax considerations should not be the sole factor in making financial decisions, they are an important component of a comprehensive financial plan.

E4.2 Equity and Loan Finance Tax Implications

When a company is considering raising finance, there are two primary methods it can employ: equity financing and debt financing. Equity financing involves the sale of shares in the company, thereby raising capital by inviting new investors to share in the ownership of the company. Debt financing, on the other hand, involves borrowing funds, typically in the form of a loan, which must be repaid over time with interest. Each method of financing has distinct tax implications that can affect both the company and its investors.

Equity Financing

- **Issuance of Shares:** When a company issues new shares, it does not incur any immediate tax liability. This is because the issuance of shares is considered a capital transaction, not a revenue transaction. However, the new shareholders will potentially face capital gains tax upon the disposal of their shares if the value of the shares has increased.
- **Dividends:** Shareholders may receive dividends from the company's profits. Dividends are typically subject to withholding tax at the source at the rate of 15%. However, as pointed out above, dividends on securities listed on capital market – if the beneficiary of the dividends is a resident taxpayer of Rwanda or of the East African Community – is subject to a reduced withholding tax of 5%. The rate of withholding tax may also vary depending on any applicable double taxation treaties.
- **Capital Gains:** Shareholders may also be subject to capital gains tax if they sell their shares for more than they paid for them. The rate of capital gains tax and the availability of exemptions or reliefs will depend on the nature of the transaction (See Unit C5).

Debt Financing

- **Interest Payments:** For the company, interest payments on loans are generally tax-deductible expenses, which can reduce the company's taxable income. This tax deductibility makes debt financing an attractive option for many companies.
- **Loan as a Tax Shield:** The tax deductibility of interest makes debt a tax-efficient form of financing. This is often referred to as a 'tax shield' because the interest expense shields some of the company's income from taxation.
- **Withholding Tax on Interest:** Generally, the interest paid to lenders is subject to withholding tax at the rate of 15%. However, the rate and applicability of withholding tax on interest payments can be influenced by tax treaties between countries.
- **Thin Capitalization Rules:** Rwanda has thin capitalization rules that limit the amount of interest that can be deducted if the company is deemed to be excessively financed by debt rather than equity. The debt-to-equity ratio is set at 4:1 (i.e., interest on total

loans in excess of four (4) times of the amount of paid-up equity which excludes provisions or reserves and retained earnings is not deductible for tax purposes) These rules are designed to prevent companies from eroding the tax base through excessive interest deductions.

- **Debt vs. Equity Classification:** Tax authorities may scrutinize transactions to determine whether they should be classified as debt or equity for tax purposes. This classification affects the tax treatment of the funds provided to the company. Misclassification can lead to unexpected tax consequences.

Conclusion

The decision to raise capital through equity or debt financing carries significant tax implications that can influence the overall cost of capital for a company. Understanding these implications is essential for making informed decisions that align with the company's financial strategy and tax compliance obligations. As advanced taxation students, it is important to delve deeply into the local tax code, case law, and administrative guidance to fully grasp the nuances of these tax implications.

E4.3 Taxation Impact on Business Cashflows

Taxation is a critical aspect of a business's financial planning and management. It has a direct impact on the cash flows of a business, which is the net amount of cash being transferred into and out of a business. Taxes reduce the cash available to a business for various operational needs, investments, and distributions to shareholders. Understanding the impact of taxation on cash flows is essential for making informed decisions that can enhance a company's financial health and strategic growth.

The Direct Impact of Taxation on Cash Flows

- **Reduction of Net Income:** Taxes are levied on the profits of a business, which means that they directly reduce the net income available to the business. This reduction in net income translates to a decrease in the cash available for reinvestment or distribution.
- **Cash Outflow Timing:** Tax payments typically represent cash outflows. The timing of these payments can affect the liquidity and cash management strategies of a business. For instance, quarterly or annual tax payments require careful cash flow planning to ensure that sufficient funds are available when taxes are due.
- **Impact on Investment Decisions:** Taxes can influence the attractiveness of investment opportunities. After-tax cash flows are the relevant measure for evaluating potential investments, as they represent the actual benefit to the business. Higher taxes can make investments less appealing, as they reduce the after-tax return.

Acceleration of Tax Depreciation

- **Tax Depreciation:** Depreciation is an accounting method of allocating the cost of both the tangible and intangible asset over its useful life. For tax purposes, depreciation allows a business to deduct the cost of the purchased asset from its taxable income, which reduces the tax liability.

- **Accelerated Tax Depreciation:** A business with an investment license (See Unit E1.3) can accelerate the depreciation deductions, leading to a lower taxable income in the initial years of an asset's life. This accelerated depreciation can result in significant tax savings and improved cash flows in the short term.
- **Improved Cash Flow:** The accelerated tax depreciation can improve a business's cash flow by reducing the tax payments in the early years of an asset's life. This can free up cash for other uses, such as expanding operations, paying down debt, or investing in new projects.
- **Long-term Considerations:** While accelerated tax depreciation strategies can enhance cash flows in the short term, they may result in higher taxable income and tax payments in later years. It's important for businesses to consider the long-term impact of such strategies on their overall tax liability and cash flow projections.

Strategic Tax Planning

- **Tax Credits and Incentives:** Businesses should be aware of any tax credits and incentives available to them, which can reduce their tax burden and improve cash flows (See Unit E1.3)
- **Tax-efficient Business Structures:** The choice of business structure (e.g., sole proprietorship, partnership, corporation) can have significant tax implications. Different structures are subject to different tax rates and regulations, which can affect the cash flows of a business (See Unit E2.1).
- **Loss Carry forward and Carrybacks:** The income tax act allows businesses to carry forward (Article 31 of law No. 027/2022) or carry back losses (Article 23 law No.027/2022) to offset taxable income in other years. This can result in tax refunds or reduced tax payments, positively impacting cash flow.

Conclusion

Taxation plays an important role in the financial dynamics of a business, particularly in relation to cash flows. Effective tax planning, including strategies like the accelerated tax depreciation, can lead to improved cash flow management and can provide a competitive advantage. It is crucial for businesses to understand the complexities of tax laws and to incorporate tax considerations into their broader financial strategies to optimize their cash flows. However, the intricacies of tax laws and their application to specific business scenarios can be complex and may require careful analysis and planning.

E5: Ethical and Professional Tax Planning Advice

E5.1 Taxpayer Obligations and Record-Keeping

Taxpayer Registration and Identification In Rwanda, taxpayers have specific responsibilities based on their income type, source, and residency status, as outlined in the tax Law N° 027/2022. A primary duty is to register for tax and secure a Tax Identification Number (TIN) from the Tax Administration. This TIN is essential for all tax-related activities and communication with the authorities. Non-compliance, such as failing to register or using a false TIN, can result in administrative fines (See Unit E1.4).

Filing Annual Tax Declarations Taxpayers engaged in income-generating activities must prepare and submit an annual tax declaration by March 31st of the following year, along

with necessary financial statements and documents. This declaration should include all domestic and foreign income and account for any applicable deductions and exemptions. Late or incomplete submissions, as well as underpayment, attract interest and fines, and in cases of underreporting or evasion, the Tax Administration may issue a tax assessment notice, which can be appealed within the stipulated timeframe (See Unit E1.4).

Exemptions from Filing: Individuals with only employment income, income from investments taxed at source, or those with an annual turnover below two million Rwandan francs are exempt from filing an annual tax declaration. However, they may file if they wish to claim a refund for overpaid taxes (See Unit A1.5).

Small and Micro-Enterprise Taxation Small enterprises can opt out of flat-rate taxation by adhering to recognized accounting principles. Micro-enterprises, on the other hand, are required to pay a flat tax as specified by law and are exempt from the tax declaration and payment (See Unit A1.2).

Withholding Tax Compliance Certain income types, such as dividends and royalties, are subject to withholding tax. Taxpayers must provide their TIN to the income payer, who is then responsible for withholding the correct tax amount and remitting it to the Tax Administration. The rates vary, and taxpayers must maintain records of all transactions, taxes withheld, and payments for inspection (See Unit B).

Tax Payment and Refunds Personal and corporate income tax must be paid starting from the declaration date and no later than March 31st of the following year. If excess tax has been paid, taxpayers can request a refund within 30 days after the Tax Administration verifies that all prior tax obligations have been met.

Record-Keeping Requirements Taxpayers are required to maintain accurate books of accounts and records in one of the official languages, which must be accessible electronically to the Tax Administration. These records should be kept for a minimum of five years after the tax period's end. Failure to maintain or produce these records can lead to fines.

Cooperation During Audits and Investigations Taxpayers must cooperate with the Tax Administration during audits or investigations by providing a suitable work environment, access to records, and any requested information. Obstructing these processes can result in administrative penalties.

E5.2 Ethical Tax Planning Advice

Tax planning is an essential aspect of financial management for individuals and businesses alike. It involves strategizing to minimize tax liabilities within the bounds of the law. While tax planning is legal and often encouraged, it must be conducted ethically and responsibly to maintain the integrity of the tax system. Tax advisers play a crucial role in guiding clients through this complex landscape, ensuring that they benefit from available tax planning opportunities without engaging in evasion or avoidance schemes.

Introduction to professional ethics

Professional Ethics: Professional ethics include the personal and corporate standards of behavior expected by professionals. These standards are established by professional bodies to guide their members in conducting their duties ethically.

The Role of Accountancy: A key characteristic of the accountancy profession is its commitment to acting in the public interest. This means considering the legitimate interests of various stakeholders, including clients, governments, financial institutions, employers, employees, investors, and the business community, who depend on the objectivity and integrity of accountants to ensure the smooth operation of commerce. Accountants have a duty to the public interest and must consider how their actions are perceived by the public, especially when dealing with large or high-profile entities.

Responsibilities of Accountants: Accountants must balance their responsibilities to individual clients or employers with their obligation to act in the public interest. They must adhere to the Code of Ethics, even when laws or regulations prevent compliance with certain parts of the Code. The Code outlines fundamental principles and a conceptual framework for ethical behavior, which includes:

1. Identifying threats to ethical compliance.
2. Evaluating the significance of these threats.
3. Applying safeguards to eliminate or reduce threats to an acceptable level.

Fundamental Principles: Accountants must follow these fundamental principles:

- a. Professional Competence and Due Care – Maintain up-to-date professional knowledge and skill, and act diligently according to professional standards.
- b. Confidentiality – Keep information confidential unless authorized to disclose or legally obliged to do so.
- c. Professional Behavior – Comply with laws and regulations and avoid actions that discredit the profession.
- d. Integrity – Be honest and straightforward in all professional and business relationships.
- e. Objectivity – Avoid bias, conflicts of interest, or undue influence over professional judgments.

Conceptual Framework Approach

The conceptual framework helps accountants address ethical threats that arise from specific circumstances or the nature of their work. When threats are identified, accountants must evaluate and apply safeguards to reduce them to an acceptable level. If threats cannot be eliminated or reduced, the accountant must decline or discontinue the service or resign from the position.

Threats and Safeguards

Threats to ethical compliance can be categorized as follows:

1. Self-Interest Threat – Financial or other interests that could inappropriately influence the accountant's judgment or behavior.
2. Self-Review Threat – The challenge of objectively reviewing one's own previous work.
3. Advocacy Threat – The risk of promoting a client's interests to the point of compromising objectivity.
4. Familiarity Threat – Being too sympathetic to the interests of clients or employers due to close relationships.
5. Intimidation Threat – Feeling deterred from acting objectively due to actual or perceived pressures.

Safeguards are measures that can eliminate or reduce threats to an acceptable level and are created by the profession, legislation, or regulation, as well as within the work environment. Ethical Conflict Resolution: When faced with ethical conflicts, accountants should consider relevant facts, parties involved, ethical issues, fundamental principles, internal procedures, and alternative actions. If conflicts remain unresolved, consultation with others or seeking professional advice may be necessary. In extreme cases, disassociation from the matter or resignation may be required.

Principles

- Integrity requires honesty and fairness in all professional dealings.
- Objectivity demands that accountants not allow personal bias or influence to affect their professional judgments.
- Professional Competence and Due Care involve maintaining and updating professional knowledge and skill and acting diligently.
- Confidentiality requires accountants to protect information and not use it for personal gain or the advantage of third parties.

Disclosure of confidential information

Confidential information may be disclosed under certain conditions, such as with client or employer authorization, when required by law, or to comply with professional standards.

Ethical Tax planning

Principles of Ethical Tax Advice

- Client-Specific Advice: Tax advice should always be tailored to the individual circumstances of the client. This ensures that the guidance provided is relevant and practical, taking into account the client's unique financial situation, goals, and obligations. Generic advice can lead to misinterpretation and potentially non-compliant tax positions.
- Legal Compliance: Any tax planning strategy recommended must have a solid foundation in current tax law. Advisers should avoid aggressive interpretations of tax rules that could be viewed as abusive or intentionally opaque. The advice should be clear, well-reasoned, and based on credible legal precedents and interpretations.

- **Full Disclosure:** Ethical tax planning requires transparency with tax authorities. Advisers should not rely on the ignorance of tax officials or the lack of information to achieve a tax benefit. Clients should be encouraged to make all necessary disclosures and provide complete and accurate information to tax authorities, enabling them to assess and inquire further if needed.
- **Risk Awareness:** Advisers should inform clients of the broader implications of their tax planning decisions, including economic, commercial, and reputational risks. It is important for clients to understand the potential consequences of their actions beyond the immediate tax savings.
- **Professional Standards:** Tax advisers must adhere to professional standards and codes of conduct, which may vary by jurisdiction but are generally aligned with principles of integrity, objectivity, and due care. This includes compliance with both local regulations and international ethical codes, such as the IESBA International Code of Professional Ethics for Professional Accountants.

Guidelines for Providing Ethical Tax Advice

1. **Assess the Client's Situation:** Begin by thoroughly understanding the client's financial status, business activities, and future plans. This assessment forms the basis for any tax planning advice.
2. **Research and Analysis:** Conduct detailed research to identify applicable tax laws and opportunities. Analyze how these laws apply to the client's specific situation.
3. **Develop Strategies:** Formulate tax planning strategies that are effective and compliant with the law. Ensure that these strategies are not based on exploiting loopholes or incomplete disclosures.
4. **Evaluate Risks:** Consider the potential risks associated with each tax planning strategy, including the likelihood of additional scrutiny from tax authorities and the impact on the client's reputation.
5. **Present Options:** Clearly present the client with various tax planning options, outlining the benefits and risks associated with each. Provide a recommendation but allow the client to make an informed decision.
6. **Documentation:** Keep comprehensive records of all advice provided, including the rationale for recommendations and the client's decisions.
7. **Continuous Education:** Stay informed about changes in tax laws and ethical standards to ensure that advice remains current and compliant.
8. **Client Education:** Educate clients about their tax obligations and the importance of ethical compliance. Encourage them to ask questions and be engaged in the tax planning process.

Conclusion

Ethical tax planning is a delicate balance between minimizing tax liabilities and upholding the integrity of the tax system. Tax advisers must navigate this balance by providing advice that is not only effective but also responsible and transparent. By adhering to the principles and guidelines outlined above, tax advisers can ensure that they serve their clients with the highest level of professional ethics and conduct.

Summary of Unit E and key learning outcomes

- Unit E has covered strategies for minimizing and deferring tax liabilities, as well as the application of advanced tax planning measures to complex financial scenarios.
- The learning outcome of Unit E was to enable students to identify and advise on investments and expenditures that can reduce tax liabilities, counsel on the tax and non-tax implications of various business structures and organizational restructuring, analyse the tax treatment of different methods of asset disposal and acquisition, understand the tax implications of various sources of funding and investment products, and highlight ethical and professional issues in tax planning advice.
- The specific content discussed in Unit E included:
 - Tax reduction and penalty regimes, such as fiscal incentives and tax deductions offered in Rwanda, and the administrative fines and criminal sanctions for tax offences.
 - Business organization and restructuring, such as the tax exemptions and book value rules during mergers, acquisitions, asset transfers, and splitting of entities.
 - Disposal and acquisition methods, such as the tax implications of leasing versus purchasing, and asset versus share disposal.
 - Tax consequences of funding sources, such as the tax treatment of equity and loan finance, and the impact of taxation on business cash flows.
 - Ethical and professional tax planning advice, such as the taxpayer obligations and record-keeping requirements, and the ethical tax planning advice principles.

Quiz questions

Quiz 1: Analysis of Preferential Corporate Income Tax Rates

An international company in the energy sector is considering establishing its headquarters in Rwanda and is evaluating the fiscal incentives offered by the Rwandan government. The company plans to invest USD 12 million in both tangible and intangible assets and is committed to providing employment and training to the local population.

Required:

Advise the company on the preferential corporate income tax rate it would be eligible for under the Rwandan fiscal incentive scheme. Include in your advice the conditions that must be met to maintain this rate and any additional benefits that may apply to the company's investment.

Quiz 2: Accelerated Depreciation Benefits

A registered investor has recently invested in new business assets worth USD 200,000 per asset in Rwanda. The investor is keen on maximizing tax savings in the early years of the investment.

Required:

Explain the concept of accelerated depreciation and how the investor can benefit from it in Rwanda. Discuss the conditions that must be adhered to for the investor to claim the accelerated depreciation for the first year.

Quiz 3: Withholding Tax Exemptions for Specialized Park Developers

A specialized industrial park developer in Rwanda is planning to procure foreign professional and technical services and is also considering the distribution of dividends to its foreign investors.

Required:

Advise the developer on the preferential withholding tax rates that may apply to the payments for foreign professional and technical services and dividends. Also, discuss any conditions that must be met to benefit from these preferential rates.

Quiz 4: VAT Exemptions for Specific Sectors

A registered investor in the health sector is importing medical equipment and supplies for the establishment of a new hospital in Rwanda.

Required:

Provide a detailed explanation of the value added tax exemptions that the investor might be eligible for. Include in your explanation the types of goods and services that could be exempt and any necessary conditions or documentation that must be provided to the tax authorities.

Quiz 5: Fiscal Incentives and corporate tax rates

Quiz 5.1: Which of the following statements is correct about the preferential corporate income tax rates for registered investors in Rwanda?

- A. An exporter of goods and services who exports at least 30% of their total turnover is entitled to a preferential tax rate of 3% for five years.
- B. An investor in a priority economic sector who invests at least USD 50 million and contributes at least 30% of equity is entitled to a preferential tax rate of 0% for seven years.
- C. A specialized innovation park developer or a specialized industrial park developer is entitled to a preferential tax rate of 0% for five years from the date of issuance of the construction permit.
- D. A licensed microfinance institution is entitled to a preferential tax rate of 0% for five years from the date of their license.

Quiz 5.2: Which of the following statements is correct about the tax exemptions for registered investors in Rwanda?

- A. An investor in a strategic investment project approved by the Cabinet is exempted from customs taxes and duties in accordance with the East African Community Customs Management Act.
- B. An investor in the film industry who receives majority funding from a foreign investor and spends at least USD 500,000 on activities in Rwanda is exempted from paying value added tax on goods and services procured locally by the investor.
- C. An investor in the mining sector who incurs exploration expenditure is exempted from paying corporate income tax on their profits for 10 years.
- D. An investor in private equity and venture capital, investing an equivalent of at least USD 50 million and contributing at least 30% of equity in the priority economic sectors is exempted from paying withholding tax on dividends, interest and royalties.

Quiz 5: Tax Deductions for Philanthropic Activities

A philanthropic organization is considering expanding its social impact activities in Rwanda and is interested in understanding the tax implications of such an expansion.

Required:

Advise the philanthropic organization on the tax deductions or holidays it may be entitled to for its social impact activities in Rwanda. Discuss the types of tax exemptions available and the conditions under which these exemptions apply, including any limitations or exclusions that may affect the organization's tax liability.

Quiz 7: Tax Implications of Business Structures

Which of the following statements is correct regarding the tax implications of a sole proprietorship in Rwanda?

- A. Profits from the sole proprietorship are taxed at the corporate tax rate.
- B. The sole proprietorship is subject to double taxation on its profits.

- C. Profits from the sole proprietorship are considered the personal income of the owner and taxed accordingly.
- D. Sole proprietorships are exempt from taxation under the special tax regimes.

Quiz 8: Liability in Business Structures

In the context of Rwandan business structures, which of the following best describes the liability of the owners?

- A. In a limited liability partnership (LLP), all members have unlimited personal liability.
- B. In a general partnership, partners have liability limited to the amount of their investment.
- C. Sole proprietors have unlimited personal liability for debts and obligations of the business.
- D. Shareholders of a limited liability company are personally liable for the company's debts beyond their investment.

Quiz 9: Continuity of Business Structures

Which statement accurately reflects the continuity aspect of a sole proprietorship and a company?

- A. Both a sole proprietorship and a company have perpetual existence, regardless of changes in ownership.
- B. A sole proprietorship does not have a separate legal existence from its owner and ceases to exist upon the owner's death, while a company enjoys perpetual existence.
- C. A company ceases to exist when its board of directors resigns, like a sole proprietorship when the owner retires.
- D. Sole proprietorships and companies are required to dissolve after a fixed period of operation as per the Companies law.

Quiz 10: Tax Transparency of Partnerships

In Rwanda, how are partnerships treated for tax purposes?

- A. Partnerships are taxed at a flat rate on their total profits before distribution to the partners.
- B. Partnerships are considered tax transparent, meaning the partners are taxed directly on their share of the profits.
- C. Each partner is taxed on the full amount of the partnership's profits, leading to multiple taxation on the same income.
- D. Partnerships pay corporate tax, and partners are also taxed on distributions received from the partnership.

Quiz 11: Dividend Taxation in Companies

How are dividends taxed in Rwanda when distributed by a company to its shareholders?

- A. Dividends are only taxed at the individual level when received by shareholders.
- B. Dividends are taxed at the corporate level, and shareholders are not subject to

further taxation upon receipt.

- C. Dividends are subject to double taxation: once at the corporate level when profits are earned and again at the individual level when dividends are received.
- D. Shareholders pay a fixed rate of 10% on dividends, regardless of the corporate tax already paid on profits.

Quiz 12: Deductible Expenses for Partnerships

Which of the following statements is true regarding deductible expenses for partnerships in Rwanda?

- A. Partnerships cannot deduct any business expenses, and all operational costs must be absorbed by the partners.
- B. Partnerships can deduct business expenses such as rent and utilities, which reduces the partnership's overall taxable income.
- C. Only limited partnerships are allowed to deduct business expenses, while general partnerships must report gross income without deductions.
- D. Deductible expenses for partnerships are limited to capital expenditures and interest payments on loans.

Quiz 13: Control in Business Structures

How is control typically exercised in a Rwandan limited liability company?

- A. Control is exercised by the shareholders directly managing day-to-day operations.
- B. A board of directors, elected by the shareholders, is responsible for making major decisions and overseeing the management of the company.
- C. All employees have equal say in the decision-making process, regardless of their position or shareholding.
- D. The Rwandan government appoints a representative to manage the company and make all major decisions.

Quiz 14: Merger Tax Implications

Which of the following statements is true regarding the tax consequences of a merger of two or more entities into a separate entity?

- A. The transferring entities must pay capital gain tax on the transfer of their assets and liabilities.
- B. The new entity must revalue the assets and liabilities at market value at the time of the merger.
- C. The new entity carries over the reserves and provisions of the transferring entities, subject to the original conditions.
- D. The merging entities continue to exist as separate legal persons after the merger.

Quiz 15: Acquisition of Shares or Voting Rights

What is the tax treatment for shareholders when there is an acquisition or takeover of fifty percent (50%) or more of shares or voting rights in a resident entity?

- A. Shareholders must pay capital gain tax on the sale or transfer of their shares or voting rights.
- B. The acquired entity must revalue its assets, liabilities, reserves, or provisions.
- C. Shareholders are exempt from capital gain tax on the sale or transfer of their shares or voting rights.
- D. The acquiring entity must depreciate the shares or voting rights acquired.

Quiz 16: Asset or Liability Transfer Tax Consequences

In the acquisition or transfer of fifty percent (50%) or more of the assets or liabilities of a resident entity, how does the receiving entity treat the valuation of these assets or liabilities?

- A. The receiving entity must value the assets and liabilities at market value at the time of the transfer.
- B. The receiving entity values the assets and liabilities at their book value in the hands of the transferring entity.
- C. The receiving entity is required to immediately write down the value of the transferred assets.
- D. The transferring entity must revalue its remaining assets and liabilities after the transfer.

Quiz 17: Complete Entity Transfer

What happens to the reserves and provisions of a transferring entity when there is an acquisition or transfer of the entire entity's shares, assets, or liabilities?

- A. The reserves and provisions are subject to immediate taxation as income.
- B. The reserves and provisions are dissolved and cannot be carried over.
- C. The receiving entity carries over the reserves and provisions, subject to the same conditions as before.
- D. The receiving entity must revalue the reserves and provisions at market value.

Quiz 18: Tax Implications for the Seller in Asset Disposal

Which of the following statements are correct regarding the tax implications for the seller when disposing of assets in Rwanda?

- A. The seller may incur a capital gains tax liability if the assets are sold for more than their tax book value, which is taxed at 28%.
 - B. Capital allowances cannot be claimed by the seller on the assets sold.
 - C. Claw back tax does not apply to depreciable assets when claimed investment allowance is disposed of within three years.
 - D. The sale of certain assets may be subject to Value Added Tax at the rate of 18%.
1. A and B
 2. B and C
 3. C and D

4. A and D

Quiz 19: Capital Assets

Which of the following statements is correct regarding the tax implications for capital assets during corporate restructuring, according to Article 53 of Law 027/2022?

- A. The transferring company must pay CGT on capital assets involved in the restructuring, regardless of the restructuring conditions.
- B. The transferring company is exempt from CGT on capital assets involved in restructuring, provided the restructuring does not result in the transfer of at least fifty percent of shares or voting rights.
- C. The transferring company is exempt from CGT on capital assets involved in restructuring, provided the restructuring meets certain conditions such as mergers, acquisitions, or splitting of the entity.
- D. The receiving company must revalue the capital assets at market value at the time of restructuring and depreciate them according to new rules established post-restructuring.

Quiz 20: Taxation of Liquidation Proceeds

In the event of a company's liquidation, how are the liquidation proceeds treated for tax purposes?

- A. Liquidation proceeds are exempt from all forms of taxation as the company is winding up its affairs.
- B. Liquidation proceeds distributed to shareholders are considered dividends and are subject to withholding tax (WHT) at 15%, and shareholders are subject to CGT on the difference between the liquidation proceeds and the cost of their shares.
- C. The company is subject to CGT on the liquidation proceeds, but shareholders are not taxed on the distributions they receive.
- D. Only the company's income for the last tax period is subject to corporate income tax (CIT), and liquidation proceeds are not taxed further.

Quiz 21: Considerations in Disposal of Shares vs. Assets

Which combinations of statements accurately reflect the considerations for both the seller and the buyer when deciding between the disposal of shares and the disposal of assets?

- A. The buyer acquires the assets without any of the seller's historical tax liabilities when purchasing shares.
- B. The buyer can claim capital allowances based on the purchase price of the shares, providing a future tax shield.
- C. The seller prefers to sell shares as the capital gains tax rate of 5% on shares is typically lower than the tax impact of selling assets.
- D. The purchase of shares is not subject to VAT, which can be a significant saving for the buyer.

1. A and B

2. B and C
3. C and D
4. A and D

Quiz 22: Tax Treatment of Funding

Which of the following statements accurately describe the tax treatment of debt and equity financing? Select two options.

- A. The interest expense on debt financing, such as loans and bonds, is not tax-deductible and does not affect the taxable income of the individual.
- B. Equity financing through the sale of shares may result in dividends that are subject to different tax rates than ordinary income, and these dividends can sometimes benefit from reduced tax rates or credits.
- C. Debt financing includes instruments like loans and bonds, and the interest expense incurred is typically tax-deductible, thereby potentially reducing the taxable income of the individual.
- D. Dividends received from equity financing are always taxed at a standard rate, without any consideration of the profits being taxed at the corporate level before distribution.

1. A and B
2. B and C
3. C and D
4. B and D

Quiz 23: Investment Products and Their Tax Implications

In the context of Rwanda's tax regulations, consider the following scenarios regarding the taxation of investment products:

1. A resident taxpayer of Rwanda has earned interest income from a fixed deposit held in a financial institution for 18 months.
2. A company has realized a capital gain from the sale of shares that are listed on the securities exchange operating in Rwanda.
3. An individual has received dividends from securities listed on the capital market, and the individual is a resident taxpayer of the East African Community.
4. Interest income has been earned from treasury bonds with a maturity period of four years.
5. An investor has received income from a mutual fund, which includes interest, dividends, and capital gains.
6. A taxpayer has contributed to the Rwanda Social Security Board's pension fund and is now withdrawing the investment upon retirement.

Which of the following combinations correctly identifies the tax treatment for the scenarios above?

- A. Scenarios 1, 2, and 5 are exempt from tax.
- B. Scenarios 3 and 4 are subject to a reduced withholding tax of 5%.

- C. Scenario 6 indicates that both the contributions and withdrawals are tax exempt.
- D. Scenarios 1 and 4 are subject to a standard withholding tax of 15%.

Choose the correct combination:

- 1. A and B
- 2. A and C
- 3. B and C
- 4. B and D

Quiz 24: Taxation Impact on Business Cashflows

Which of the following statements accurately reflect the direct impact of taxation on cash flows and the benefits of strategic tax planning for businesses in Rwanda? Select the correct combination of statements.

- A. Taxes levied on the profits of a business directly reduce the net income, which translates to a decrease in the cash available for reinvestment or distribution.
- B. The timing of tax payments does not significantly affect the liquidity and cash management strategies of a business since tax payments are predictable and do not represent substantial cash outflows.
- C. Accelerated tax depreciation allows a business to lower its taxable income in the initial years of an asset's life, which can result in significant tax savings and improved cash flows in the short term.
- D. Tax-efficient business structures do not influence the cash flows of a business, as all structures are subject to the same tax rates and regulations.
- E. Loss carryforward and carrybacks, as allowed by the income tax act, can offset taxable income in other years, potentially resulting in tax refunds or reduced tax payments, which positively impact cash flow.
- F. Strategic tax planning, including the utilization of tax credits and incentives, is irrelevant to improving cash flows and does not provide a competitive advantage to businesses.

- 1. A, B and C
- 2. C, D and E
- 3. A, C and E
- 4. D, E and F

Summary of Module and key learning

Under Unit A, has taught advanced tax computation skills for both direct and indirect taxes.

- The Unit has covered advanced and complex direct and indirect tax considerations.
- The Unit has covered complex income and corporate tax liabilities, including international aspects.
- The Unit has addressed the scope, computation, and administration of Value Added Tax (VAT).
- The Unit has discussed special tax regimes for micro-enterprises, transport operators, and small businesses.
- The Unit has examined complex personal income tax scenarios, employment status, and employment income computations.

Under Unit B, the Unit has detailed the administration of withholding taxes, including collection, reporting, and deadlines.

- The Unit has explored withholding taxes for individuals and companies.
- The Unit has examined withholding taxes on employment income, board member allowances, and other payments.
- The Unit has discussed withholding taxes on gaming activities and imported goods for commercial use.

Under Unit C, the Unit has covered consumption tax, payroll taxes, social security contributions, and property taxes.

- The Unit has discussed other taxes, including those levied by subnational government.
- The Unit has addressed taxation of gaming and capital gains tax.
- The Unit has provided insights into tax base determination, administrative rules, and penalties.

Under Unit D, the Unit has discussed customs and excise duties, cross-border VAT arrangements, and foreign tax relief.

- The Unit has focused on cross-border taxation arrangements and customs union memberships.
- The Unit has examined double tax treaties and their application to complex tax situations.

Under Unit E, the Unit has explored investment and expenditure options to reduce tax liabilities and penalty regimes.

- The Unit has addressed strategies for minimizing and deferring tax liabilities.
- The Unit has discussed business organization, restructuring, disposal and acquisition methods, and funding sources.
- The Unit has highlighted ethical and professional issues in providing tax planning advice.
- The Unit has taught how to provide ethically sound tax planning advice and apply administrative rules effectively.

Unit A: Exercises – Advanced and Complex Direct and Indirect Tax Considerations

Example 1: Determination of Individual Tax Residency Status

Scenario: Mr. John Kale, a citizen of multiple countries, has various homes around the world. He owns a fully furnished apartment in Kigali, Rwanda, where he stays every time, he visits. In the last tax year, Mr. Kale spent a total of 120 days in Rwanda, spread over several trips. He also represented Rwanda as a trade envoy in a series of international conferences for 90 days in the same year. In the previous two tax years, he spent an average of 100 days per year in Rwanda.

Question: Based on the residency rules for tax purposes in Rwanda where is Mr. John Kale's tax residence? Justify your answer with reference to the specific criteria that apply to his situation.

Example 2: Assessment of Corporate Tax Residency

Scenario: TechFrontier Inc., a multinational corporation, was incorporated in Singapore. However, its senior management team operates from Kigali, Rwanda, where they make key operational decisions. The company also holds its annual shareholder meetings in Kigali and maintains its accounting records there. TechFrontier Inc. has a significant online trading platform that is managed from Rwanda, although it is registered in Singapore. The company is not owned by the Rwandan Government.

Question: Where is TechFrontier Inc's tax residence? Provide a detailed explanation of your conclusion based on the corporate residency criteria.

Exercise 3: personal income:

During the year ended 31/12/2024, John received income from the following assets:

1. Invested Frw20,000,000 in a fixed deposit account in the bank for a period of eight months at an annual interest rate of 9%.
2. Received Frw8,000,000 from the investment in Government bonds with a maturity period of two years.
3. John has 80,000 shares in KB a listed company at RSE market. At the end of the year, the company declared a dividend of Frw200 per share.
4. John also owns a fixed deposit account in ACCO bank with a maturity of two years, at the end of the year he received an interest income of Frw3,000,000
5. During the year he sold a copy right of his new book at Frw12,000,000.
6. He also invested in government securities with a maturity period of 5 years, during the year he received an interest income of Frw6,000,000
7. He owns 20,000 shares of Frw300 each in Akandi limited a listed company in Rwanda stock exchange market. During the year he disposed of 12, 000 shares at Frw400 each
8. He owns shares in Akabanga limited a private company that is listed at RSE. During the year ended, he received a dividend income of Frw2,500,000

Required: Compute the relevant withholding taxes.

Example 4: XtraTech Ltd

You are a tax advisor at a reputable firm in Rwanda. Your client, XtraTech Ltd, a resident entity, is considering a corporate restructuring and they have approached you for advice. The restructuring involves the acquisition of another resident entity, Y-Comms Ltd, by taking over 60% of its shares and assets. XtraTech Ltd is also contemplating the possibility of liquidating a non-performing subsidiary, Z-Mobile Ltd, after the acquisition.

As part of your advisory role, you are required to:

- Explain the tax implications for XtraTech Ltd in the acquisition of Y-Comms Ltd, with reference to the conditions specified in Article 53 of Law 027/2022.
- Discuss the valuation and taxation of capital assets that XtraTech Ltd would need to consider in this acquisition.
- Advise on the tax consequences for XtraTech Ltd if it proceeds with the liquidation of Z-Mobile Ltd, including the treatment of liquidation proceeds and the tax obligations in the last tax period of Z-Mobile Ltd's existence.
- Provide a comprehensive analysis, ensuring that you cover the implications for both the transferring and receiving companies, as well as for the shareholders involved.

Example 5: Multinational Corporation

You are an advisor at a multinational corporation that is resident in Rwanda and has various foreign operations. The corporation has received different types of income from several countries, some of which have DTAs with Rwanda, while others do not. Your task is to advise the corporation on the tax implications of its foreign-sourced income and to outline the steps to ensure compliance with Rwandan corporate income tax rules and any applicable DTAs.

Instructions:

- Describe the process of determining the tax liability in Rwanda for the foreign-sourced income of the corporation.
- Explain how the foreign tax credit method works for a resident taxpayer in Rwanda and under what conditions the credit is limited.
- Discuss the implications of DTAs on the taxation of foreign-sourced income and how they might affect the corporation's tax liability.
- Provide a step-by-step guide on how the corporation should proceed to apply the corporate income tax rules to its foreign-sourced income, including the application of any DTAs.

Exercise 6: Thin Capitalisation Rule Application

Scenario: XYZ Corporation, a company operating in Rwanda, has been aggressively expanding its operations through debt financing from its related company, ABC Holdings. The paid-up equity of XYZ Corporation is Frw50 million. During the fiscal year, XYZ Corporation has taken loans amounting to Frw250 million from ABC Holdings. The interest paid on these loans for the year amounted to Frw20 million. XYZ Corporation also incurred a foreign exchange loss of Frw5 million due to these loans.

Question: Calculate the deductible interest expense for XYZ Corporation for the fiscal year, considering the thin capitalisation rule. Also, determine the deductibility of the foreign exchange loss incurred by XYZ Corporation.

Exercise 7: Transfer Pricing Rule and Arm's Length Principle

Scenario: LMN Ltd, a Rwandan-based company, has been purchasing raw materials from its subsidiary, QRST International, which is based in a low-tax jurisdiction. For the tax period, LMN Ltd reported purchases amounting to Frw300 million. An independent market analysis revealed that similar raw materials are available from unrelated parties at a cost of Frw250 million under comparable circumstances.

Required : Discuss how the transfer pricing rule and the arm's length principle would apply to LMN Ltd's transactions with QRST International. What adjustments, if any, should the tax administration make to LMN Ltd's taxable income?

Exercise 8: Taxation of long term projects

Starroads Construction Company Limited entered into a contract on the 1st of January, 2024, for the construction of a road from Gatuna to Kigali. The contract was valued at Frw800,000,000, with the company's estimated costs for completion being Frw650,000,000. The government applied a withholding tax of 3% on the contract price. As of the 31st of December, 2024, the company had progressed to Gicumbi and incurred various expenses as listed below:

- Salaries and wages: Frw28,800,000
- Purchase of machineries: Frw150,000,000
- Hire of machineries: Frw55,000,000
- Utilities: Frw8,500,000
- Communication: Frw5,800,000
- Fuel: Frw40,000,000
- Raw materials: Frw101,200,000
- Stationaries: Frw2,300,000
- Repair and maintenance: Frw12,100,000
- Allowable capital allowance for tax purposes: Frw5,950,000

Required:

Calculate the taxable income of Starroads Construction Company Limited for the year ended 31st December 2024, and determine the tax liability.

Exercise 9: VAT payable

Calculate the Value Added Tax (VAT) payable to the Rwanda Revenue Authority (RRA) at each stage of the following supply chain: Rukundo sells wood to a furniture maker for Frw100,000 including VAT; the furniture maker then sells a table made from this wood to a shop for Frw150,000 including VAT; finally, the shop sells the table to the final consumer for Frw300,000 plus an additional 18% VAT.

Exercise 10: VAT partial exemption

Kigali Supplies Ltd deals in both taxable and exempt supplies. The company sells office furniture (taxable at 18% VAT) and rents out residential property (exempt from VAT). In the month of June, the company incurred various expenses, some of which relate directly to taxable supplies, some to exempt supplies, and others to both.

The following are the expenses incurred in June:

- Purchase of office furniture for resale: Frw10,000,000 (exclusive of VAT)
- Commercial property rent: Frw5,000,000 (VAT exempt)
- Utility bills for the office: Frw2,000,000 (VAT inclusive)
- Advertising expenses for both furniture sales and property rentals: Frw1,800,000 (VAT inclusive)
- Legal fees for property rental contracts: Frw900,000 (VAT exempt)

Required: Using the method of direct attribution, calculate the amount of input VAT that Kigali Supplies Ltd can recover for the month of June. Assume that all VAT-inclusive expenses are at the standard rate of 18%.

Exercise 11: VAT tax points

You are a senior tax advisor at a reputable accounting firm. One of your clients, a medium-sized enterprise, has recently expanded its product line and is now offering both goods and services across multiple jurisdictions. The client is concerned about the complexities of VAT and seeks your advice on how to determine the correct VAT Tax Point for various transactions to ensure compliance with tax regulations. The client's transactions include the issuance of invoices, receipt of payments (including partial payments), removal or transfer of goods, completion of services, and the use of goods and services for personal consumption.

Advise your client on the following:

1. The criteria for establishing the VAT Tax Point for the supply of goods and services.
2. How to determine the correct tax point when multiple criteria are met.
3. The implications of using taxable goods or services for personal consumption on the VAT Tax Point.
4. Any special considerations that should be taken into account for transactions involving advance payments for construction services.

Provide a comprehensive response that outlines the key principles and offers practical guidance for the client to manage their VAT obligations effectively.

Exercise 12: VAT on blocked items

You are an advisor to a company that is reviewing its expenses to determine the eligibility of input tax credit claims under the current VAT regulations. The company has incurred various expenses, including the purchase of a passenger vehicle, entertainment expenses for a corporate event, entertainment equipment for the office, accommodation expenses for employees on business trips, and the purchase of smartphones for employees that are used for both business and personal purposes.

Required:

Prepare a detailed advisory report for the company, outlining which of these expenses are eligible for input tax credit and which are not, based on the restrictions on input tax credit. Your report should include the rationale for each category of expense, referencing the specific rules that apply, and provide guidance on how to calculate the input tax credit for mixed-use goods and services. Additionally, identify any exceptions that may allow the company to claim input tax credits where they would typically be restricted.

Exercise 13: Mixed question 1

Nyirarukundo, a VAT-registered business owner in Rwanda, has provided the following information for the VAT return for the quarter ended 31 March 2024:

- Standard rated sales: Frw120,000,000 with a 5% prompt payment discount offered to customers.
- Standard rated purchases and expenses: Frw35,640,000, including Frw480,000 for customer entertainment.
- Irrecoverable debts written off: Frw2,840,000 from invoices dated 10 May 2020.
- Service received from a foreign consultant firm: Frw3,000,000 exclusive of VAT, with local alternatives available.

Required:

- a. Calculate the VAT payable to the Rwanda Revenue Authority for the quarter ended 31 March 2024. Show all workings and provide notes for any adjustments made.
- b. List and explain four circumstances under which Input VAT cannot be claimed by taxpayers in Rwanda.
- c. Identify and describe four circumstances where a taxpayer will be penalized for violating VAT laws in Rwanda.
- d. Explain the objectives behind the introduction of the Electronic Billing Machine by the RRA.

Exercise 14: Mixed question 2

- A. Define a taxable supply according to the VAT law and provide examples to illustrate what constitutes a taxable supply for VAT purposes.
- B. List and explain four circumstances under which output VAT may be adjusted.
- C. Ndaku is a registered VAT payer. For the period ended 30/6/2016, the following transactions occurred in his business:
 1. Purchased items worth Frw28,800,000 inclusive of VAT.
 2. Paid for electricity Frw270,500.
 3. Sold goods worth Frw30,000,000 on credit inclusive of VAT.
 4. Sold goods worth Frw12,700,000 exclusive of VAT for cash.
 5. Purchased home use items worth Frw6,500,000 inclusive of VAT.
 6. A bad debt of Frw2,000,000 exclusive of VAT was written off after one and a half years without knowing the whereabouts of the customer.

7. The company outsourced a foreign consultancy to install and train employees on new business management software, paying Frw14,000,000 exclusive of VAT. There are similar companies in Rwanda that could provide the same service.
8. The company returned goods to the supplier due to defects, and the supplier issued a credit note of Frw5,000,000 inclusive of VAT.

Required:

Compute the VAT payable or claimable by Ndaku's business.

Exercise 15: Mixed question 3

Droppex has been operational for six years, dealing exclusively with standard-rated supplies. The company currently has an annual turnover of Frw19,000,000. A proposal to raise the prices of its products was discussed in a recent board meeting, which is projected to increase the annual turnover to Frw21,620,000. A debate has emerged among the board members regarding the necessity of VAT registration following the price hike, as this would surpass the VAT registration threshold of Frw 20,000,000. The company's total expenses, including VAT, amount to Frw 6,800,000. With a VAT rate of 18%, is it advantageous for Droppex to implement the price increase?

Exercise 16: Mixed question 4

Calculate the Value Added Tax (VAT) payable or claimable to the Rwanda Revenue Authority (RRA) for Akandi Limited, considering the following transactions for the quarter ending June 30, 2024, with an 18% VAT rate:

1. Total sales, including VAT: Frw85,690,000
2. Total credit notes, including VAT: Frw11,200,000
3. Discounts given, excluding VAT: Frw1,230,000
4. Total purchases, including VAT: Frw105,500,300
5. Total debit notes, including VAT: Frw16,500,600
6. Bad debts written off, including VAT: Frw1,870,000 (customer declared bankrupt by the court)
7. Input VAT on 2013 imports declared this quarter: Frw3,580,000 (delayed due to lack of supporting documents)
8. Payment to a foreign consultant, including VAT: Frw8,000,000 (service available in Rwanda)

Exercise 17: Mixed question 5

- A. List four characteristics of Value-Added Tax (VAT).
- B. Differentiate between zero-rated supply, exempt supply, and standard-rated supply by providing two examples for each category.
- C. VAT Computation Case Study

Kapele is a registered VAT payer. The following transactions took place in his business for the period ended 30/11/2024:

1. Purchased goods on credit worth Frw20,000,000 inclusive of VAT.

2. Returned goods worth Frw5,000,000 to the supplier because they were defective, and the supplier issued a debit note of the same amount.
3. Sold goods worth Frw28,000,000 on credit exclusive of VAT.
4. After one week, the customer realized that his invoice was overestimated by Frw3,000,000. He complained to Kapele, and Kapele issued a credit note of the same amount.
5. Kapele wrote off a bad debt of Frw2,500,000 which had stayed for one year without any information from the customer.

Compute the VAT payable by Kapele and state when he is supposed to pay the VAT.

Unit A: Solution to the exercises

Answer to Example 1: Determination of Individual Tax Residency Status

Mr. John Kale is considered a tax resident of Rwanda for the last tax year. Despite not meeting the physical presence requirement of 183 days within the 12-month period, he satisfies two other criteria that establish his residency status for taxation purposes:

- **Permanent Home:** Mr. Kale owns a permanent dwelling in Rwanda, which is a fully furnished apartment in Kigali that he occupies during his visits. This fulfils the criterion of having a permanent home in Rwanda.
- **National Service:** As Mr. Kale represented Rwanda abroad as a trade envoy for 90 days, he is deemed a resident under the national service criterion.

Therefore, even though he did not meet the physical presence threshold, the combination of having a permanent home in Rwanda and representing the country in an official capacity abroad qualifies him as a tax resident.

Answer to Example 2: Assessment of Corporate Tax Residency

TechFrontier Inc. is considered a resident company for tax purposes in Rwanda based on the criteria for corporate residency. Despite being incorporated in Singapore, the company satisfies the following conditions that establish its residency in Rwanda:

- **Management Location:** The company's effective management is conducted within Rwanda, as evidenced by the senior management team operating from Kigali and making key operational decisions there.
- **Venue for Shareholder Meetings:** TechFrontier Inc. convenes its annual shareholder meetings in Kigali, which is indicative of the company's management and control being exercised within Rwanda.
- **Accounting Records Maintenance:** The maintenance of accounting records in Kigali further supports the argument that the company's effective management is in Rwanda.

The fact that TechFrontier Inc. operates a significant online trading platform managed from Rwanda also reinforces the notion that the company's business operations and management are rooted in Rwanda. Therefore, even though TechFrontier Inc. is incorporated in Singapore and is not owned by the Rwandan Government, the location of its effective management and operational control within Rwanda qualifies it as a resident company for tax purposes under Rwandan law.

Answer to Exercise 3: personal income:

The table shows the income, the workings, the withholding taxes, and the net income for each asset.

	Asset	Income	Workings	Withholding Taxes	Net Income
1.	Sale of shares	2,100,000	Proceeds from the sale of shares $(359 \times 6,000) = 2,100,000$ Cost of the shares (200×6000) Capital gain = 900,000 Capital gain tax $(900,000 \times 5\%) = 45,000$	45,000	2,055,000
2.	Fixed deposit account	1,200,000	$(20,000,000 \times 9\%) \times 8/12 = 1,200,000$ $1,200,000 \times 15\% = 180,000$	180,000	1,020,000
3.	Government bonds	9,411,765	$8,000,000 \times 100/85$ (since maturity is below 3 years the withholding is 15% and it is at the source) $9,411,765 \times 15\% = 1,411,765$	1,411,765	8,000,000
4.	KB shares	16,000,000	$200 \times 80,000 = 16,000,000$ (since it is a listed company, the WHT is 5%) $5\% \times 16,000,000 = 800,000$	800,000	15,200,000
5.	ACCO bank account	3,000,000	Exempted: Since the maturity of the deposit is above one year the income is exempted	0	3,000,000
6.	Copy right	12,000,000	$12,000,000 \times 15\% = 1,800,000$	1,800,000	10,200,000
7.	Government securities	6,315,790	$6,000,000 \times 100/95$ (since it is a long-term government bond the WHT is 5%) $6,315,790 \times 5\% = 315,790$	315,790	6,000,000
	Akandi shares	4,800,000	Capital gain on shares that are listed at RSE is exempted	0	4,800,000

	Asset	Income	Workings	Withholding Taxes	Net Income
8	Akabanga limited shares	2,631,590	$2,500,000 \times 100/95 = 2,631,590$ (since shares are listed at RSE the WHT tax is 5%) $2,631,590 \times 5\% = 131,590$	131,590	2,500,000

Note: when the income are received net, in order to calculate the withholding tax (WHT), there is a need to first gross them before computing the tax.

Answer to example 4: XtraTech Ltd

In advising XtraTech Ltd on the tax implications of their proposed corporate restructuring, we must consider the various aspects of the transaction in light of Rwandan tax law, specifically referencing Article 53 of Law 027/2022.

Acquisition of Y-Comms Ltd:

The acquisition of 60% of the shares and assets of Y-Comms Ltd by XtraTech Ltd falls within the conditions specified in Article 53 of Law 027/2022. This article provides for an exemption from Capital Gains Tax (CGT) on capital assets transferred during qualifying restructuring activities. Since XtraTech Ltd is acquiring a significant portion of Y-Comms Ltd, it is essential to ensure that all other conditions outlined in the law are met to benefit from this exemption.

Valuation and Taxation of Capital Assets:

Upon the acquisition, XtraTech Ltd must value the capital assets at their book value as recorded in the accounts of Y-Comms Ltd at the time of restructuring. This valuation will be the basis for future depreciation and any capital gains calculation if these assets are disposed of in the future. XtraTech Ltd will continue to depreciate the assets according to the rules that applied to Y-Comms Ltd, maintaining consistency in the tax treatment of these assets.

Liquidation of Z-Mobile Ltd:

Should XtraTech Ltd proceed with the liquidation of Z-Mobile Ltd, the tax consequences are twofold. Firstly, Z-Mobile Ltd will be subject to CGT on the capital assets sold or transferred during the liquidation process. The CGT will be calculated by deducting the tax base of the assets from the consideration received. The tax base is the cost of acquisition plus any improvement costs, minus any allowed depreciation or amortization.

Secondly, Z-Mobile Ltd will be liable for Corporate Income Tax (CIT) on its income for the final tax period of its existence. Any proceeds from the liquidation distributed to shareholders, after settling liabilities and capital, are considered dividends. These dividends are subject to a 15% withholding tax (WHT). Additionally, shareholders must account for CGT on the difference between the liquidation proceeds and the cost of their shares.

In conclusion, XtraTech Ltd must carefully consider the tax implications of the acquisition and liquidation processes. The company should ensure compliance with the conditions for CGT exemption during the acquisition and prepare for the tax consequences of

liquidating Z-Mobile Ltd, including the potential tax liabilities for both the company and its shareholders. It is crucial for XtraTech Ltd to maintain accurate and detailed records of all valuations, transactions, and tax calculations throughout the restructuring process.

Answer to Example 5: Multinational Corporation

To advise the corporation on the tax implications of its foreign-sourced income, the following steps should be meticulously followed:

Step 1: Determine Tax Liability in Rwanda

- The corporation, as a resident taxpayer in Rwanda, is liable to corporate income tax on its worldwide income. This includes all foreign-sourced income.
- The tax liability in Rwanda is calculated by adding the foreign-sourced income to any domestic income to determine the total taxable income.
- The applicable corporate income tax rate is then applied to the total taxable income to calculate the preliminary tax liability.

Step 2: Understand the Foreign Tax Credit Method

- The foreign tax credit method allows the corporation to reduce its Rwandan tax liability by the amount of foreign tax paid on the same income.
- This credit is subject to a limit, which is the amount of Rwandan tax payable on the foreign income.
- If the foreign tax paid is higher than the Rwandan tax on that income, the excess cannot be credited and is effectively a sunk cost.

Step 3: Implications of DTAs

- DTAs between Rwanda and other countries can alter the default tax treatment by allocating taxing rights between the source and residence countries.
- The corporation must examine each DTA to understand which country has the primary taxing right and what relief is provided for double taxation (exemption or credit method).
- The specific provisions of the DTA may override Rwandan domestic tax rules and must be carefully applied to each type of income.

Step 4: Step-by-Step Guide to Apply Tax Rules

- Identify the Type and Source of Income: Classify the income (e.g., dividends, interest, royalties) and determine the country from which it is sourced.
- Determine Residence Status and Permanent Establishment: Confirm the corporation's status as a resident taxpayer in Rwanda and identify any permanent establishments abroad.
- Check Relevant DTAs: For countries with which Rwanda has a DTA, analyze the agreement to ascertain the allocation of taxing rights and the method for relief from double taxation.
- Compute Taxable Income and Tax Liability: Calculate the taxable income in both the source and residence countries, considering any deductions, exemptions, credits, or

allowances.

- **Claim Foreign Tax Credit or Exemption:** In Rwanda, claim the foreign tax credit against the Rwandan tax liability or apply the exemption method as specified by the relevant DTA.

By following these steps, the corporation can ensure compliance with Rwandan corporate income tax rules and properly apply the provisions of any applicable DTAs, thereby minimizing its tax liability and avoiding double taxation.

Answer to Exercise 6: Thin Capitalisation Rule Application.

Parameter	Details
Paid-up Equity	Frw50 million
Thin Capitalisation Threshold	Paid-up Equity x 4
	= Frw50 million x 4
	= Frw200 million
Total Loans	Frw250 million
Excess Loan Amount	Total Loans – Thin Capitalisation Threshold
	= Frw250 million – Frw200 million
	= Frw50 million
Interest Paid on Total Loans	Frw20 million
Deductible Interest Calculation	(Interest Paid on Total Loans) x (Threshold / Total Loans)
	= Frw20 million x (Frw200 million / Frw250 million)
	= Frw20 million x 0.8
Deductible Interest	Frw16 million
Non-deductible Interest	Interest Paid on Total Loans – Deductible Interest
	= Frw20 million – Frw16 million
	= Frw4 million
Non-deductible Foreign Exchange Loss	Arising from Excess Loans

Parameter	Details
	= Frw5 million
Deductible for Corporate Income Tax	Frw16 million of interest expense; foreign exchange loss not deductible

Notes:

- According to the thin capitalisation rule in Rwanda, the deductibility of interest is limited when the total loans between related persons exceed four times the amount of paid-up equity. In this case, the threshold for XYZ Corporation is Frw50 million (paid-up equity) times 4, which equals Frw200 million. Since the loans amount to Frw250 million, there is an excess of Frw50 million (Frw250 million – Frw200 million).
- The interest paid on the excess loan amount is not deductible. To calculate the deductible interest, we need to determine the proportion of the interest that corresponds to the non-excess portion of the loan:
 - Deductible interest = (Interest paid on total loans) x (Threshold / Total loans)
 Deductible interest = Frw20 million x (Frw200 million / Frw250 million) Deductible interest = Frw 20 million x 0.8 Deductible interest = Frw16 million
 - Therefore, Frw16 million of the interest expense is deductible, and Frw4 million (Frw20 million – Frw16 million) is not deductible for corporate income tax purposes. Additionally, the realised foreign exchange loss of Frw5 million arising from the excess loans is also not deductible.

Answer to Exercise 7: Transfer Pricing Rule and Arm's Length Principle

The transfer pricing rule in Rwanda requires that related persons involved in controlled transactions apply the arm's length principle. This principle dictates that the prices and profits of transactions between related persons should be consistent with those that would have been agreed upon by independent parties under comparable circumstances.

In the scenario provided, LMN Ltd has purchased raw materials from its subsidiary at a cost of Frw300 million, whereas the market rate for similar materials is Frw250 million. This indicates a potential discrepancy from the arm's length principle.

The tax administration should review the transaction and compare it to what would have been reasonable between independent parties. If the tax administration determines that the price paid by LMN Ltd exceeds the arm's length price, it can adjust the transaction price for tax purposes.

The adjustment would be calculated as follows:

Adjustment = Price paid to related party – Arm's length price
 Adjustment = Frw300 million – Frw250 million
 Adjustment = Frw50 million

The tax administration would then reduce the cost of goods sold by Frw50 million, thereby increasing LMN Ltd's taxable income by the same amount. This adjustment ensures that the taxable income of LMN Ltd reflects what it would have been had the transactions been conducted at arm's length, preventing the shifting of profits to the low-tax jurisdiction where QRST International is based.

Answer to Exercise 8: Taxation of long term projects

Computation of Taxable Income and Tax Liability for Starroads Construction Company Limited for the Year Ended 31st December 2024

Taxable Income Calculation:

- Revenue Recognition:
- Percentage of Completion: $(\text{Actual Contract Price} / \text{Estimated Costs}) \times 100$
- Calculation: $(\text{Frw}403,700,000 / \text{Frw}650,000,000 \text{ RWF}) \times 100 = 62.1\%$
- Revenue to Date: $62.1\% \times \text{Frw}800,000,000 = \text{Frw}496,800,000$
- Allowable Expenses:
- Salaries and Wages: Frw28,800,000
- Hire of Machineries: Frw55,000,000
- Communications: Frw5,800,000
- Purchase of Raw Materials: Frw101,200,000
- Repair and Maintenance: Frw12,100,000
- Utilities: Frw8,500,000
- Capital Allowance: Frw5,950,000
- Total Allowable Expenses: Frw217,350,000
- Taxable Income:
- Revenue to Date: Frw496,800,000
- Less: Total Allowable Expenses: (Frw217,350,000)
- Taxable Income: Frw279,450,000

Tax Liability Calculation:

- Corporate Income Tax (CIT):
- CIT Rate: 28%
- CIT on Taxable Income: $28\% \times 279,450,000 \text{ RWF} = \text{Frw}78,246,000$
- Withholding Tax Credit:
- Withholding Tax Rate: 3%
- Withholding Tax on Contract: $3\% \times 800,000,000 \text{ RWF} \times 62.1\% = \text{Frw}14,904,000$
- Net Tax Payable:
- CIT on Taxable Income: Frw78,246,000
- Less: Withholding Tax Credit: (14,904,000 RWF)
- Net Tax Payable: Frw63,342,000

Tax Treatment of a Loss at the End of the Contract:

- The loss may be carried forward to offset future profits for a period of up to five years.
- Alternatively, the loss may be carried back to offset profits declared in previous periods.

Answer to example 9: VAT payable

Stage of Supply Chain	Sale Price (Frw)	VAT Rate	VAT Amount (Frw)	Net Price (Frw)	VAT Payable to RRA (Frw)
Wood sale by Rukundo	100,000	Included	Calculated below	84,746	15,254
Table sale by maker	150,000	Included	Calculated below	127,119	22,881-15,254=7,627
Final sale by shop	300,000	18%	54,000	300,000	54,000-22,881=31,119

Observation: The cumulative VAT remitted to the RRA throughout the distribution network amounts to Frw54,000, comprising three distinct payments: Frw15,254, Frw7,627, and Frw31,119. This figure represents the VAT shouldered by the end-user, emphasising the fact that while each entity in the supply chain acts as a collector of VAT, the ultimate financial burden of VAT is borne by the final consumer.

VAT Calculation Details:

- Wood sale by Rukundo: Since the VAT is included in the Frw100,000, we need to calculate the VAT amount. The net price is calculated as $\text{Frw}100,000 / (1 + 0.18) = \text{Frw}84,746$ (rounded to the nearest Frw). The VAT amount is then $\text{Frw}100,000 - \text{Frw}84,746 = \text{Frw}15,254$. This is the VAT Rukundo collected and must pay to the RRA.
- Table sale by furniture maker: Similarly, for the furniture maker, the net price is $\text{Frw}150,000 / (1 + 0.18) = \text{Frw}127,119$ (rounded to the nearest Frw). The VAT amount is $\text{Frw}150,000 - \text{Frw}127,119 = \text{Frw}22,881$. However, the furniture maker can claim the VAT paid to Rukundo as input tax credit. Therefore, the VAT payable to RRA by the furniture maker is $\text{Frw}22,881 - \text{Frw}15,254 = \text{Frw}7,627$.
- Final sale by shop: The shop sells the table for Frw300,000 plus an additional 18% VAT, which amounts to $\text{Frw}300,000 * 0.18 = \text{Frw}54,000$. The shop collects Frw54,000 as VAT from the final consumer. The shop can claim the VAT paid to the furniture maker as input tax credit. Therefore, the VAT payable to RRA by the shop is $\text{Frw}54,000 - \text{Frw}22,881 = \text{Frw}31,119$.

Note: The VAT payable to RRA is the VAT collected at each stage minus any input tax credit from VAT paid at the previous stage. The final VAT payable to RRA by each party in the supply chain is the difference between the VAT collected and the VAT credit from the previous purchase.

Answer to example 10: VAT partial exemption

Step 1: Identify Directly Attributable Input VAT

- Purchase of office furniture for resale: Directly attributable to taxable supplies.
- Residential property rent: Directly attributable to exempt supplies.
- Utility bills for the office: Needs to be apportioned as it relates to both taxable and exempt supplies.
- Advertising expenses: Needs to be apportioned as it relates to both taxable and exempt supplies.
- Legal fees for property rental contracts: Directly attributable to exempt supplies.

Step 2: Calculate Input VAT on Taxable Supplies

- Purchase of office furniture for resale: $\text{Frw}10,000,000 \times 18\% = \text{Frw}1,800,000$

Step 3: Apportion Input VAT on Mixed Supplies

- Utility bills for the office: $\text{Total VAT} = \text{Frw}2,000,000 / (1 + 0.18) \times 0.18 = \text{Frw}305,084.75$
- Advertising expenses: $\text{Total VAT} = \text{Frw}1,800,000 / (1 + 0.18) \times 0.18 = \text{Frw}271,186.44$

Step 4: Determine the Proportion of Taxable Use

For this example, let's assume that the company's revenue from taxable supplies is twice that of exempt supplies. Therefore, the proportion of taxable use for mixed expenses is $2/3$.

Step 5: Calculate Recoverable VAT on Mixed Supplies

- Utility bills for the office: $\text{Frw}305,084.75 \times 2/3 = \text{Frw}203,389.83$
- Advertising expenses: $\text{Frw}271,186.44 \times 2/3 = \text{Frw}180,790.96$

Step 6: Total Recoverable VAT

- Directly Attributable to Taxable Supplies: $\text{Frw}1,800,000$
- Apportioned Mixed Supplies: $\text{Frw}203,389.83 + \text{Frw}180,790.96 = \text{Frw}384,180.79$

Total Recoverable VAT for June:

$\text{Frw}1,800,000 \text{ (Direct)} + \text{Frw}384,180.79 \text{ (Apportioned)} = \text{Frw}2,184,180.79$

Summary answer:

Description	Total Cost (Frw)	VAT Rate	VAT Amount (Frw)	Direct/ Indirect	Taxable Use Proportion	Recoverable VAT (Frw)
Office Furniture Purchase	10,000,000	18%	1,800,000	Direct	100%	1,800,000
Commercial Property Rent	5,000,000	Exempt	-	Direct	0%	0
Utility Bills	2,000,000	18%	305,084.75	Indirect	66.67%	203,389.83
Advertising Expenses	1,800,000	18%	271,186.44	Indirect	66.67%	180,790.96
Legal Fees	900,000	Exempt	-	Direct	0%	0
Total	19,700,000		2,376,271.19			2,184,180.79

Conclusion: Kigali Supplies Ltd can recover a total of Frw2,184,180.79 as input VAT for the month of June, using the method of direct attribution. This includes VAT directly attributable to taxable supplies and a proportion of VAT on mixed expenses based on the taxable use proportion.

Answer to Exercise 11: VAT Tax Point

To effectively manage VAT obligations, it is essential to understand the concept of the VAT Tax Point, which is the moment when VAT becomes chargeable. The determination of the correct tax point is based on several criteria, and the earliest of these events is considered the determining factor. Here is how you can advise your client:

Criteria for Establishing the VAT Tax Point:

- **Invoice Issuance:** The tax point can be the date when the invoice for the goods or services is generated. Invoices should be issued promptly to avoid any confusion regarding the tax point.
- **Payment:** The tax point may also be the date on which payment is received, including any partial payments. It is crucial to keep accurate records of all payments received to establish the tax point accurately.
- **Goods Removal or Transfer:** If goods are removed from the supplier's location or transferred to the recipient, the date of this event can serve as the tax point.
- **Service Completion:** For services, the tax point is the date on which the service provision is completed. This requires clear documentation of when services are fully rendered.
- **Deregistration Request:** If a taxpayer requests to be deregistered from VAT, the tax point is the date of this request.

Determining the Correct Tax Point:

When multiple criteria are met, the earliest date among these events is taken as the tax point. For instance, if an invoice is issued on the 10th, but payment is received on the 5th, the tax point would be the 5th. It is important to systematically review each transaction to identify which event occurred first.

Implications for Personal Consumption:

When taxable goods or services are used for personal consumption, the tax point is either the date the goods are taken from the business premises or the date the service is fully provided. This ensures that personal use is taxed in accordance with the law. Your client must be diligent in recording the use of goods or services for personal purposes to accurately determine the tax point.

Special Considerations for Construction Services:

For construction services, advance payments received do not establish the tax point. Instead, the tax point would be determined by the completion of the service or another applicable criterion. It is important to inform your client of this exception to avoid any misinterpretation of the tax point in such transactions.

In conclusion, your client should establish clear procedures for recording the dates of invoices, payments, goods removal, service completion, and deregistration requests. By doing so, they can ensure that the earliest date is always used to determine the VAT Tax Point, thereby maintaining compliance with tax regulations. Additionally, they should be aware of the specific rules regarding personal consumption and construction services to prevent any inadvertent tax liabilities.

Answer to Exercise 12: VAT on blocked items

Advisory Report on Eligibility of Input Tax Credit Claims

Introduction

This report provides an analysis of the company's expenses in relation to the eligibility for input tax credit claims under the VAT regulations. The expenses in question include the purchase of a passenger vehicle, corporate entertainment expenses, entertainment equipment for the office, accommodation expenses, and the purchase of smartphones for mixed-use. Each category will be assessed based on the current restrictions on input tax credit.

Passenger Vehicle and Related Expenses

The purchase of a passenger vehicle, along with any spare parts or maintenance services, is generally ineligible for input tax credit. This is because such expenses are not directly related to the taxable business activities of most companies. However, an exception exists for businesses whose primary operations involve the sale or rental of passenger vehicles or those operating a driving school. If the company does not fall into these categories, the input tax on the passenger vehicle cannot be reclaimed.

Entertainment-Related Goods

Entertainment expenses for a corporate event are typically excluded from input tax credit, as they are considered for entertainment purposes. Nevertheless, if the company provides entertainment as a core part of its services and the corporate event is delivered directly as part of regular business activities, the input tax may be claimed. The entertainment equipment for the office, if used solely for entertainment and not as part of the company's service offering, would not be eligible for input tax credit.

Accommodation-Related Goods

Accommodation expenses are not eligible for input tax credit unless the company's primary service offering includes providing accommodation. The second exception is if the accommodation is provided to employees who are away from their usual place of residence for business-related reasons or due to employer requirements. If the company's accommodation expenses fall under these exceptions, the input tax credit can be claimed.

Mixed-Use Goods and Services

For the smartphones purchased for employees' use, which are used for both business and personal purposes, the company can claim only 60% of the VAT paid as input tax credit. This reflects the estimated business use portion. The remaining 40%, presumed to relate to personal use, is not recoverable. The company should maintain records to support the business use percentage claimed.

Conclusion

In conclusion, the company must carefully evaluate each expense category against the VAT regulations to determine the eligibility for input tax credit. Passenger vehicles and related expenses are ineligible unless the company operates within the specified exceptions. Entertainment-related goods are claimable only if they are part of the company's core service offering. Accommodation expenses are eligible under certain conditions. For mixed-use goods and services, only a portion of the input tax credit can be claimed, reflecting the business use. It is crucial for the company to maintain accurate records and documentation to support their input tax credit claims and ensure compliance with VAT regulations.

Answer to Exercise 13: Mixed question 1

Category		Details	Amount (RWF)
Output VAT			
VAT on sales		$(95\% \text{ of } 120,000,000) * 18/118$	17,389,830
Less: VAT on irrecoverable debts	N1	$18/118 \text{ of } 2,840,000$	(433,220)
Add: VAT on foreign service	N2	$3,000,000 * 18\%$	540,000

Category		Details	Amount (RWF)
Total Output VAT			17,496,610
Input VAT			
VAT on purchases and expenses	N3	(35,640,000 - 480,000 for entertainment) * 18/118	5,363,389
VAT Payable		Total Output VAT - Input VAT	12,133,221

Notes:

- N1: The invoice for the irrecoverable debts is more than 24 months old, thus it is allowed to be written off.
- N2: The service from the foreign consultant is subject to VAT as similar services are available in Rwanda.
- N3: VAT on entertainment is specifically blocked unless the company is in the business of entertainment.

1. Circumstances where Input VAT is denied:

- Motor Vehicles: VAT on passenger vehicles is not claimable, except for vehicles for resale or those used in a taxi or car hire business.
- Business Entertainment: VAT on entertainment expenses is non-deductible unless the cost is a tax-deductible trading expense. If used partly for entertainment and partly for other purposes, only the non-entertainment portion is deductible.
- Domestic Accommodation for Directors: VAT on domestic accommodation expenses for directors is not claimable.
- Non-Business Items: VAT on items not related to business activities but passed through business accounts is not claimable.
- Business overheads: VAT on expenses that cannot be articulated to business purpose or personal use, 40% of input tax on the same is denied.

2. Circumstances leading to penalties:

- Operating without VAT Registration: When a business operates without the required VAT registration.
- Incorrect VAT Invoicing: Issuing incorrect VAT invoices that result in less VAT payable or higher VAT credits.
- Failure to Issue VAT Invoice: Not issuing a VAT invoice when required to do so.
- Unregistered VAT Invoicing: Issuing a VAT invoice by an entity not registered for VAT.
- Late VAT Payment: Not paying the due VAT on time.

3. Purpose of Introducing EBM

Objectives of EBM:

- Combat Tax Evasion: EBMs help in reducing tax evasion by ensuring all transactions are recorded.
- Combat Corruption: EBMs reduce corruption in the tax system by providing a transparent record of sales.
- Market Balance: EBMs create equal business opportunities by ensuring all businesses comply with tax regulations.

Answer to Exercise 14: Mixed question 2

- A. A taxable supply refers to a supply of goods or services supplied in Rwanda, except for exempt supplies. Zero-rated supplies are taxable at 0%. In such cases, a taxable supplier whose outputs are zero-rated but whose inputs are standard-rated will receive repayments of the VAT paid on purchases. Examples of zero-rated supplies include exported goods and services, goods sold in duty-free shops, and services rendered to tourists for which VAT has been paid. A standard supply involves goods and services where both inputs and outputs are taxed at the standard rate, which is currently 18%. Examples of standard supplies include alcohol and sugar.
- B. Output VAT may be adjusted under the following circumstances:
1. If taxable goods or services are no longer in existence.
 2. If the nature of taxable goods or services has changed or they have been damaged.
 3. If the consideration (price) for taxable goods or services has been altered.
 4. If goods or a portion of the goods are returned to the supplier.
- C. The computation of VAT payable or claimable for Ndaku's business is as follows:

OUTPUT VAT

Sales on credit: $(\text{Frw}30,000,000 \times 18\%) = \text{Frw}5,400,000$

Cash sales: $(\text{Frw}12,700,000 \times 18/118) = \text{Frw}1,937,288$

Foreign consultancy services: $(\text{Frw}14,000,000 \times 18\%) = \text{Frw}2,520,000$

A) Total output VAT = $\text{Frw}9,857,288$

INPUT VAT

Purchase of items: $(\text{Frw}28,800,000 \times 18\%) = \text{Frw}5,184,000$

Electricity: $(\text{Frw}270,500 \times 18\%) = \text{Frw}48,690$

Credit note: $(\text{Frw}5,000,000 \times 18\%) = (\text{Frw}900,000)$

B) Total input VAT = $\text{Frw}4,332,690$

(A-B) VAT Payable = $\text{Frw}5,524,598$.

Answer to Exercise 15: Mixed question 3

To determine whether it is beneficial for Droppex to increase its prices, we need to consider the financial implications of registering for VAT and the potential increase in revenue.

Current Situation:

- Annual turnover: Frw19,000,000
- Expenses (inclusive of VAT): Frw6,800,000
- Profit before VAT registration: $\text{Frw}19,000,000 - \text{Frw}6,800,000 = \text{Frw}12,200,000$

Proposed Situation with Price Increase:

- Projected annual turnover: Frw21,620,000
- Expenses (inclusive of VAT): Frw6,800,000 (assuming expenses remain constant)
- VAT on new turnover: $18\% \text{ of Frw}21,620,000 = \text{Frw}3,891,600$
- Profit after VAT registration: $\text{Frw}21,620,000 - \text{Frw}6,800,000 - \text{Frw}3,891,600 = \text{Frw}10,928,400$

By increasing the prices, Droppex's turnover exceeds the VAT registration threshold, which means the company would need to charge VAT on its products and remit this amount to the tax authorities. The new profit, after accounting for VAT, would be Frw10,928,400, which is less than the current profit of Frw12,200,000.

However, this analysis assumes that the expenses remain constant and include VAT. If Droppex is registered for VAT, it can reclaim the VAT on its expenses, which would reduce the actual cost. To accurately assess the benefit, we need to calculate the net expenses after reclaiming VAT.

Adjusted Expenses after VAT Reclaim:

- VAT on expenses: $18\% \text{ of Frw}6,800,000 = \text{RWF } 1,224,000$
- Net expenses after reclaiming VAT: $\text{Frw}6,800,000 - \text{Frw}1,224,000 = \text{Frw}5,576,000$

Adjusted Revenue after VAT is charged:

- VAT on new turnover: $18\% \text{ of Frw}21,620,000 = \text{Frw}3,891,600$
- Net revenue: $\text{Frw}21,620,000 - \text{Frw}3,891,600 = \text{Frw}17,728,400$

Adjusted Profit after VAT Registration:

- Profit after VAT registration and reclaiming VAT on expenses: $\text{Frw}17,728,400 - \text{Frw}5,576,000 = \text{Frw}12,152,400$

Conclusion: After adjusting for the reclaim of VAT on expenses, the new profit would be Frw12,152,400, which is slightly less than the current profit of Frw12,200,000. Therefore, the financial benefit of increasing the prices and registering for VAT is marginal and may not be considered significantly advantageous. It is important to note that this analysis is simplified and does not take into account other factors such as potential changes in demand due to price increases, administrative costs of VAT compliance, and strategic business considerations.

Answer to exercise 16: Mixed question 4

To calculate the VAT payable or claimable, we need to determine the output VAT (VAT on sales) and the input VAT (VAT on purchases and expenses) for the quarter.

Output VAT:

Sales (inclusive of VAT): Frw85,690,000

$\text{VAT} = \text{Total Sales} / (1 + \text{VAT Rate}) * \text{VAT Rate}$

$\text{VAT} = \text{Frw}85,690,000 / (1 + 0.18) * 0.18$

$\text{VAT} = \text{Frw}12,915,254.24$

Less: Credit Notes (inclusive of VAT): Frw11,200,000

$\text{VAT} = \text{Total Credit Notes} / (1 + \text{VAT Rate}) * \text{VAT Rate}$

$\text{VAT} = \text{Frw}11,200,000 / (1 + 0.18) * 0.18$

$\text{VAT} = \text{Frw}1,694,915.25$

Less: Discounts (exclusive of VAT): Frw1,230,000

$\text{VAT} = \text{Discounts} * \text{VAT Rate}$

$\text{VAT} = \text{Frw}1,230,000 * 0.18$

$\text{VAT} = \text{Frw}221,400$

Net Output VAT:

$\text{Net Output VAT} = \text{VAT on Sales} - \text{VAT on Credit Notes} - \text{VAT on Discounts}$

$\text{Net Output VAT} = \text{Frw}12,915,254.24 - \text{Frw}1,694,915.25 - \text{Frw}221,400$

$\text{Net Output VAT} = \text{Frw}10,998,938.99$

Input VAT:

Purchases (inclusive of VAT): Frw105,500,300

$\text{VAT} = \text{Total Purchases} / (1 + \text{VAT Rate}) * \text{VAT Rate}$

$\text{VAT} = \text{Frw}105,500,300 / (1 + 0.18) * 0.18$

$\text{VAT} = \text{Frw}15,932,669.49$

Add: Debit Notes (inclusive of VAT): Frw16,500,600

$\text{VAT} = \text{Total Debit Notes} / (1 + \text{VAT Rate}) * \text{VAT Rate}$

$\text{VAT} = \text{Frw}16,500,600 / (1 + 0.18) * 0.18$

$\text{VAT} = \text{Frw}2,491,220.34$

Less: Bad Debts (inclusive of VAT): Frw1,870,000

$\text{VAT} = \text{Total Bad Debts} / (1 + \text{VAT Rate}) * \text{VAT Rate}$

$\text{VAT} = \text{Frw}1,870,000 / (1 + 0.18) * 0.18$

$\text{VAT} = \text{Frw}282,203.39$

Add: Input VAT on Imports: Frw3,580,000

Less: VAT on Foreign Consultant Services (since the service is available in Rwanda, this VAT is not claimable): Frw8,000,000

$\text{VAT} = \text{Total Payment} / (1 + \text{VAT Rate}) * \text{VAT Rate}$

$\text{VAT} = \text{Frw}8,000,000 / (1 + 0.18) * 0.18$

VAT = Frw1,208,474.58

Net Input VAT:

Net Input VAT = VAT on Purchases + VAT on Debit Notes – VAT on Bad Debts + Input VAT on Imports – VAT on Foreign Consultant Services

Net Input VAT = 15,932,669.49 Rwf + 2,491,220.34 Rwf – 282,203.39 Rwf + 3,580,000 Rwf – 1,208,474.58 Rwf

Net Input VAT = Frw20,513,211.86

VAT Payable/Claimable:

VAT Payable/Claimable = Net Output VAT – Net Input VAT

VAT Payable/Claimable = Frw10,998,938.99 – Frw20,513,211.86

VAT Payable/Claimable = Frw–9,514,272.87

Since the result is negative, Akandi Limited has a VAT claimable amount of Frw9,514,272.87 for the quarter ending June 30, 2024.

Conclusion Notes:

- The VAT on sales and credit notes was calculated by removing the VAT component from the inclusive amounts.
- Discounts were treated as a reduction in the taxable amount, and VAT was calculated on the discount amount.
- The VAT on purchases, debit notes, and bad debts was similarly calculated by removing the VAT component from the inclusive amounts.
- The input VAT on imports was directly added to the input VAT total.
- The VAT on the payment to the foreign consultant was not claimable because the service is available in Rwanda.
- The final VAT payable or claimable is the difference between the net output VAT and the net input VAT.

Taxable Form:

- Output VAT: Frw10,998,939
- Input VAT: Frw20,513,212
- VAT Payable/Claimable: Frw–9,514,273 (Claimable)

Answer to Exercise 17: Mixed question 5

A: Characteristics of VAT

1. VAT is a consumption tax, meaning the final consumer of taxable goods or services pays VAT.
2. VAT is an indirect tax.
3. VAT is a multi-stage tax on transactions from importer or manufacturer to a wholesaler and finally to the consumer.
4. VAT is levied on the supply of goods made in Rwanda, on the supply of services, and on the importation of goods or services.
5. VAT is a tax on the value added to commodities or services. It is imposed on the

value added at each stage from the stage of production to the retail stage.

6. VAT is imposed on the value that business firms add to the goods and services that are purchased from other firms.

B: Differentiation of VAT Categories

- Zero-rated supply: A supply of goods and services whose input may be taxed at 18% but whose output is taxed at 0%. Examples include exports and services rendered to a tourist for which value-added tax has been paid and diplomatic supplies as well..
- Exempt supply: A supply of goods and services which are not charged for VAT. Examples include computers, educational materials and services, books, newspapers, journals, and other electronic equipment used as educational materials.
- Standard-rated supply: A supply of goods and services whose inputs and outputs are charged for VAT at the rate of 18%. Examples include the supply of electricity, processed food, and juice.

C. VAT Computation Case Study

To calculate the VAT payable, we need to determine the Input VAT and Output VAT for Kapele's transactions.

Input VAT Amount:

- Purchases: Frw20,000,000 (Inclusive of VAT)
- VAT Component: $\text{Frw}20,000,000 / (1 + \text{VAT Rate}) * \text{VAT Rate}$
- The VAT rate is 18%, the VAT Component = $\text{Frw}20,000,000 / 1.18 * 0.18 = \text{Frw}3,050,847$
- Debit Note: Frw5,000,000
- VAT Component: $\text{Frw}5,000,000 / (1 + \text{VAT Rate}) * \text{VAT Rate}$
- VAT Component = $\text{Frw}5,000,000 / 1.18 * 0.18 = \text{Frw}762,712$
- Total Input VAT: $\text{Frw}3,050,847 - \text{Frw}762,712 = \text{Frw}2,288,135$

Output VAT:

- Sales: Frw28,000,000 (Exclusive of VAT)
- VAT Component: $\text{Frw}28,000,000 * \text{VAT Rate}$
- VAT Component = $\text{Frw}28,000,000 * 0.18 = \text{Frw}5,040,000$
- Credit Note: Frw3,000,000
- VAT Component: $\text{Frw}3,000,000 * \text{VAT Rate}$
- VAT Component = $\text{Frw}3,000,000 * 0.18 = \text{Frw}540,000$
- Total Output VAT: $\text{Frw}5,040,000 - \text{Frw}540,000 = \text{Frw}4,500,000$

VAT Payable:

- VAT Payable: Total Output VAT - Total Input VAT
- VAT Payable = $\text{Frw}4,500,000 - 2,288,135 = \text{Frw}2,211,865$

Kapele is required to pay the VAT by 15 of December 2024.

Unit B Exercises – Scope and Operation of Withholding Taxes

Exercise 1: Withholding tax on imported goods.

You are a tax consultant and you have been approached by a resident company, ABC Ltd, that is planning to import some goods for commercial use from a non-resident supplier, XYZ Inc. ABC Ltd has asked you to advise them on the withholding tax implications of this transaction and how they can reduce their tax liability. Provide a detailed answer to ABC Ltd, citing the relevant provisions of the law and explaining the rationale behind your advice.

Exercise 2: Withholding tax on gaming activities.

You are a tax auditor and you have been assigned to audit the withholding tax compliance of a resident company, DEF Ltd, that operates in the gaming industry. During your audit, you have discovered that DEF Ltd has not withheld any tax on the winnings of the players who participated in its gaming activities. DEF Ltd has argued that the withholding tax on winnings is not applicable to them because they are not a company that carries out gaming activities, but rather a company that provides gaming software and equipment to other gaming operators. How would you respond to DEF Ltd's argument and what are the consequences of their failure to withhold tax? Provide a detailed answer, citing the relevant provisions of the law and explaining the rationale behind your response.

Exercise 3: Withholding tax on services.

ABC Ltd is a resident company in Rwanda that procures several services that include repair services, management, and technical services from various suppliers, both local and foreign. During the year ended 31 December 2020, ABC Ltd made the following payments to its suppliers.

- Frw50,000,000 for repair services to a resident company registered with the tax administration and with a recent income tax declaration.
- Frw30,000,000 for technical support services to a resident company not registered with the tax administration.
- Frw20,000,000 for management services from a non-resident company with a permanent establishment in Rwanda.
- Frw10,000,000 for technical support services from a non-resident company without a permanent establishment in Rwanda.

Required: Compute the withholding taxes that ABC Ltd should account for and pay to the tax administration.

Unit B: Solutions to the exercises

Answer to Exercise 1: Withholding tax on imported goods.

According to Article 62 of the Law on Income Tax, a withholding tax of 5% of the cost insurance and freight (CIF) value of the goods imported for commercial use shall be paid at customs before the goods are cleared for home consumption. This withholding tax shall be deducted from the income tax when it is declared and paid. However, ABC Ltd can benefit from an exemption or a reduced rate of withholding tax if the ABC can secure a Tax Clearance Certificate which confirms that ABC Ltd is tax compliant and therefore does not need to pay the 5% advance withhold tax. Alternatively, ABC Ltd can also avoid the withholding tax if they purchase the goods from a resident supplier or a non-resident supplier who is registered with the Tax Administration and has a recent income tax declaration.

Answer to exercise 2: Withholding tax on gaming activities.

DEF Ltd's argument is not valid and does not exempt them from the withholding tax obligation. According to Article 61 of the Law on Income Tax, a withholding tax of 15% of the difference between the winnings of the player and the amount invested by the player shall be withheld by a company that carries out gaming activities. The term "gaming activities" is defined in Article 2 of the Law on Gaming as "any activity that involves the use of gaming equipment or software to offer a game of chance or a game of mixed chance and skill for money or money's worth". Therefore, DEF Ltd falls under the definition of a company that carries out gaming activities, regardless of whether they provide the gaming software and equipment to other operators or not. As such, they are required to withhold tax on the winnings of the players who use their software and equipment, and remit it to the Tax Administration within 15 days following the end of each month.

The consequence of DEF Ltd's failure to withhold tax is that they are personally liable to pay to the Tax Administration the amount of tax that has not been withheld, plus penalties and interest as provided by the Law on Tax Procedures. Moreover, they may also face criminal sanctions for tax evasion or fraud, depending on the circumstances and the intention of the company.

Answer to Exercise 3: Withholding tax on services.

According to Article 60 of law No. 027/2022 withholding tax is levied on payments or other methods of extinguishing an obligation made by resident individuals or entities, when such payments are made to a person not registered in the Rwandan tax administration or to a registered person who does not have a recent income tax declaration. The withholding tax also applies to payments made to non-resident persons for services rendered in Rwanda. The withholding tax on payments made to a person registered with the tax administration but without a recent income tax declaration is deducted from income tax during its declaration and payment.

Based on these provisions, the withholding taxes that ABC Ltd should account for and pay to the tax administration are as follows:

- Frw 50,000,000 to a resident company registered with the tax administration and with a recent income tax declaration: No withholding tax, as this payment is not subject to withholding tax under Article 60 of law no 027/2022.
- Frw30,000,000 to a resident company not registered with the tax administration: 15% withholding tax is applicable to the payment since the services providers is not registered with the tax administration. The withholding tax amount is Frw4,500,000 ($15\% \times 30,000,000$).
- Frw20,000,000 RWF to a non-resident company with a permanent establishment in Rwanda: 15% withholding tax, as this payment is subject to withholding tax under Article 60. The withholding tax amount is Frw3,000,000 ($15\% \times 20,000,000$).
- Frw10,000,000 to a non-resident company without a permanent establishment in Rwanda, there is a 15% withholding tax, on this payment. The withholding tax amount is Frw1,500,000 ($15\% \times \text{Frw}10,000,000$) and this account is a final tax from a Rwanda tax perspective. Although the service provider could claim a foreign tax credit relief of the taxes withheld in Rwanda if the law of the country of residence permits this claim.

Unit C: Exercises – Other Taxes: Consumption Tax, Payroll Taxes, Property Taxes, Taxation on Gaming, Capital Gains Tax

Exercise 1: Tax base for consumption tax purposes

You are an advisor for a company that is both importing goods and manufacturing goods locally in Kigali, Rwanda. The company also has a subsidiary to which it sells products. You are required to calculate the tax base for a variety of transactions that have taken place in the last quarter. Use the information provided below to calculate the tax base for each scenario and advise on the tax implications for the company.

1. The company imported a batch of electronic components valued at \$20,000. The cost of shipping was \$1,000, and the insurance cost was \$500. The customs duty rate is 10%.
2. Locally, the company produced and sold furniture. One of the items, a wardrobe, was sold for Frw1,200,000 excluding VAT.
3. The company sells cigarettes and has recently sold a pack of 20 rods for Frw3,000. The specific tax per pack is Frw150, and the ad valorem tax rate is 30%.
4. The company sold goods to its subsidiary. The normal wholesale price for these goods is Frw2,000,000, but they sold it to the subsidiary for Frw1,500,000.

Calculate the Excise tax base for each of the above scenarios and present your findings in a table format.

Exercise 2: Social Security Contributions and Tax Implications in Rwanda

You are an advisor at a Rwandan consultancy firm specializing in employment law and tax. Your client is a medium-sized enterprise that has recently expanded its workforce and is now required to comply with the Rwanda Social Security Board (RSSB) regulations. The client is seeking advice on the implications of social security contributions for both the employer and the employees, as well as the tax treatment of these contributions.

Task:

Provide a comprehensive advisory report to your client that covers the following aspects:

1. Outline the mandatory social security schemes that the client must participate in, including the Pension – Social Security Contribution (SSC), Maternity Leave Benefit (MLB), Community Based Health Insurance Scheme (CBIHS), and the optional Medical Scheme. Explain the rates of contributions for each scheme and identify which elements of employment income are exempt from these contributions.
2. Discuss the additional contributors towards the CBIHS and the specific contributions they are required to make.
3. Explain the responsibilities of the employer in terms of deducting and remitting employee contributions to the RSSB, including the deadline for these remittances.
4. Clarify the tax treatment of both employee and employer contributions, focusing on the implications for the Pay-As-You-Earn (PAYE) tax system and the deductibility of these expenses for the employer.

5. Advise on the potential financial and tax strategies that the employer might consider in light of the tax treatment of social security contributions.

Exercise 3: Social Security Contributions and Taxation

An employee of a private sector company in Rwanda earns a monthly salary of Frw800,000. This salary does not include transport allowances and car benefits. The company is enrolled in all the social security schemes including the optional medical scheme. Calculate the following for the month:

1. The total Social Security Contribution (SSC) amount that the employer and employee must each contribute.
2. The total Maternity Leave Benefit (MLB) amount that the employer and employee must each contribute.
3. The total Community Based Health Insurance Scheme (CBIHS) contribution from both the employer and the employee, assuming the employee's net salary (after PAYE tax, which is not calculated here) is Frw700,000.
4. The total contribution to the medical scheme by both the employer and the employee.
5. The total amount that the employer will remit to the Rwanda Social Security Board (RSSB) for all schemes combined.
6. The total amount that will be deducted from the employee's salary for all schemes combined.

Assume that there are no other deductions or contributions applicable other than those mentioned above. Provide your answers with detailed calculations.

Exercise 4: Property Taxes and collection dates

Mr. Kabuga is a resident of Kigali who owns multiple properties, which include:

1. A residential building with an attached plot of land valued at Frw50,000,000.
2. A commercial building with an attached plot of land valued at Frw100,000,000.
3. An industrial building with an attached plot of land valued at Frw30,000,000, which qualifies as a small enterprise.
4. A plot of land designated for construction without any building, measuring 1,000 square meters.
5. A plot of agricultural land measuring 1.5 hectares.

Mr. Kabuga also sold a commercial property this year for Frw20,000,000. He is a registered taxpayer. The sale occurred on 1st July of the current year, and he has not yet declared this sale to the tax administration.

Required:

- A. Calculate the immovable property tax liability for Mr. Kabuga for the current year, detailing the tax due for each property type, and considering any exemptions or special tax rates that may apply according to the Law n° 048/2023 of 05/09/2023.
- B. Determine the tax liability arising from the sale of the commercial property, taking into account the seller's tax registration status and any applicable tax relief.

C. Advise Mr. Kabuga on the deadlines for the declaration and payment of the immovable property tax, the consequences of late filing or payment, and the options available to him if he faces financial hardship that may prevent him from paying the tax on time.

Example 5- Rental income

Habineza owns two properties in Nyenyeri which he rents to various business men. In Property one he receives a monthly rent of Frw800,000 and in Property two he receives a monthly rent of Frw1,200,000. Property two was constructed using a loan of Frw15,000,000 from the bank at an interest rate of 16% per annum.

Required:

Calculate his taxable rental income.

Example 6 – Rental income

Uwimana owns two properties in Gikondo. The first property was constructed in 2015 at a cost Frw150,000,000. During the construction, she borrowed Frw50,000,000 from the bank and she pays an interest rate of 15%. The property was occupied from 1/1/2020 to 31/12/2020. The second property was constructed in 2019 at a cost of Frw125,000,000 using her own money. The property was occupied from 1/5/2020 to 31/12/2020. Each property is rented at Frw3,500,000 per month. Uwimana incurred the following expenses on the two properties during the year.

Salaries of the manager Frw4,800,000

Electricity Frw2,500,000

Painting Frw4,500,000

Water Frw1,200,000

Depreciation Frw10,500,000

Security personal Frw5,000,000

Required

Compute the taxable rental income and the tax liability for the year ended 31/12/2020

Example 7: Trading license

Explain the obligations of a taxpayer in relation to the trading licence tax declaration and payment. Your answer should include the following points:

- The due date for filing the tax declaration and making the payment.
- The procedure for filing tax declarations for a head office and operating branches in different districts.
- The implications of not paying the trading licence tax by the due date.
- The conditions under which a taxpayer is exempt from the trading licence tax.

Example 8: Calculation of Trading Licence Tax

XYZ Ltd. has its head office in Kigali and operates branches in both urban and rural districts. The turnover for the head office and each branch for the previous year is as follows:

- Head Office: Frw15,000,000
- Branch 1 (Urban): Frw8,000,000
- Branch 2 (Rural): Frw5,000,000
- Branch 3 (Urban): Frw20,000,000

Calculate the total trading licence tax due for XYZ Ltd. for the current year, including the tax for each branch. Use the provided tax rates table for your calculations.

Example 9: Refunding of Trading Licence Tax

Assuming that XYZ Ltd. decides to terminate its Branch 3 operations on July 1st, calculate the refund amount of the trading licence tax paid for Branch 3, considering that the tax year ends on December 31st.

Exercise 10: Betting House Limited

Betting House Limited an online gaming business made the following transactions during the year ended 30 June 2021 for which company requires your advice.

Particulars		Frw
Amount Wagered		850,450,000
Winning Payouts		570,500,450
Salaries and benefits		30,000,000
Allowable general expenses		20,000,000
Interest		60,000,000
Allowable tax depreciation		90,000,000

During the European Championship, Teta betted Frw500,000 on a football match in the month of July 2021. After the end of the game, she was awarded Frw2,000,000 by the operator.

Required

- Calculated Betting House Limited's estimated tax paid during the year on the online gaming activities.
- Calculate the tax deductible on Teta's winnings and state when the tax due.
- Calculate Betting House Limited's taxable income and state when the company's Corporate Income Tax is due.

Unit C: Solutions to the exercises

Answer to Exercise 1: Tax base for consumption tax purposes

Scenario	Description	Calculation	Tax Base
1	Imported Electronic Components	$\text{CIF Value} = \$20,000 + \$1,000 + \$500 = \$21,500$ Customs Duty = 10% of CIF Value Tax Base = CIF Value + Customs Duty	$\$21,500 + (\$21,500 * 10\%) = \$23,650$
2	Sale of Locally Manufactured Wardrobe	Selling Price = Frw1,200,000 Tax Base = Selling Price (Excluding VAT)	Frw1,200,000
3	Sale of Cigarettes	Specific Tax = Frw150 Ad Valorem Tax = 30% of Retail Price Tax Base = Specific Tax + Ad Valorem Tax	$\text{Frw150} + (\text{Frw3,000} * 30\%) \text{ Tax} = \text{Frw1,050}$
4	Sale to Subsidiary	Arm's Length Price = Frw2,000,000 Tax Base = Arm's Length Price	Frw2,000,000

Note:

- For the imported electronic components, the tax base includes the CIF value plus the customs duty calculated at 10%. It is important to ensure that all costs up to the point of entry into Rwanda are included in the CIF value.
- When dealing with locally manufactured goods, such as the wardrobe, the tax base is straightforwardly the selling price, excluding VAT. This ensures that the tax is levied on the actual amount received by the manufacturer.
- Cigarettes have a unique tax base that combines a specific tax per unit and a percentage of the retail price. It is crucial to apply both components to arrive at the correct tax.
- In transactions with related parties, such as the sale to a subsidiary, the tax base must reflect the arm's length price to prevent transfer pricing manipulation. This ensures that the tax base corresponds to the fair market value, even if the actual selling price is lower.
- The company should maintain thorough documentation for all transactions, especially when related parties are involved, to substantiate the tax bases calculated and to comply with local tax regulations.

Answer to Exercise 2: Social Security Contributions and Tax Implications in Rwanda

Advisory Report on Social Security Contributions and Tax Implications

Introduction

As part of the compliance with the Rwanda Social Security Board (RSSB) regulations, it is imperative for your enterprise to participate in several mandatory social security schemes. These schemes are designed to provide a safety net for employees in various circumstances, such as retirement, maternity leave, and health-related issues. Additionally, there is an optional medical scheme that offers extra benefits.

Mandatory Social Security Schemes

The mandatory schemes include:

- Pension – Social Security Contribution (SSC): Employers are required to contribute 5%, and employees are required to contribute 3% of all employment income, excluding transport allowances and car benefits.
- Maternity Leave Benefit (MLB): Both employers and employees contribute 0.3% of all employment income, again excluding transport allowances and car benefits.
- Community Based Health Insurance Scheme (CBIHS): Contributions are set at 0.5% from both employers and employees, calculated on the employee's net salary.

Optional Medical Scheme

- For the optional medical scheme, both the employee and employer contribute 7.5%. This scheme is compulsory for public sector employers but remains optional for private sector employers.

Additional Contributors to CBIHS

- Health insurance entities contribute 5% of all annual contributions collected in their health insurance category.
- Public institutions with medical insurance schemes contribute 10% of all annual contributions collected.
- Fuel trade companies contribute Frw20 per litre of fuel sold.
- Telecommunications companies contribute 3% of their annual turnover to the scheme.

Employer Responsibilities

Employers must deduct the appropriate contributions from their employees' earnings and remit them to the RSSB by the 15th of the following month. It is crucial to ensure timely and accurate remittances to avoid penalties and ensure compliance.

Tax Treatment

- Employee Contributions: These are not deductible for the purpose of calculating employment income. The PAYE tax is calculated on the total taxable income before

any RSSB deductions.

- Employer Contributions: These are exempt from PAYE taxation on the employees and can be deducted by the employer when calculating taxable business income.

Financial and Tax Strategies

Given the tax treatment of social security contributions, employers should consider the financial implications of these contributions as part of their overall tax strategy. Since employer contributions are deductible as a business expense, it may be advantageous to participate in the optional medical scheme, not only to provide additional benefits to employees but also to optimize the company's taxable income.

Conclusion

Understanding the intricacies of social security contributions and their tax implications is essential for your enterprise's financial planning and compliance. By adhering to the contribution rates and deadlines, and by strategically considering the tax deductibility of these expenses, your company can ensure both regulatory compliance and financial efficiency.

Answer to Exercise 3: Social Security Contributions and Taxation

1. Social Security Contribution (SSC):
 - Employer's SSC = 5% of Frw800,000 = Frw40,000
 - Employee's SSC = 3% of Frw800,000 = Frw24,000
2. Maternity Leave Benefit (MLB):
 - Employer's MLB = 0.3% of Frw800,000 = Frw2,400
 - Employee's MLB = 0.3% of Frw800,000 = Frw2,400
3. Community Based Health Insurance Scheme (CBIHS):
 - Employer's CBIHS = 0.5% of Frw700,000 (net salary) = Frw3,500
 - Employee's CBIHS = 0.5% of Frw700,000 (net salary) = Frw3,500
4. Optional RAMA - Medical Scheme:
 - Employer's Medical Scheme Contribution = 7.5% of Frw800,000 = Frw60,000
 - Employee's Medical Scheme Contribution = 7.5% of Frw800,000 = Frw60,000
5. Total Employer Remittance to RSSB:
 - Total Employer Contribution = SSC (Employer) + MLB (Employer) + CBIHS (Employer) + Medical Scheme (Employer)
 - Total Employer Contribution = Frw40,000 + Frw2,400 + Frw3,500 + Frw60,000
 - Total Employer Contribution = Frw105,900
6. Total Deduction from Employee's Salary:
 - Total Employee Deduction = SSC (Employee) + MLB (Employee) + CBIHS (Employee) + Medical Scheme (Employee)
 - Total Employee Deduction = Frw24,000 + Frw2,400 + Frw3,500 + Frw60,000
 - Total Employee Deduction = Frw89,900

Answer to Exercise 4: Property Taxes and collection dates

A. Calculation of Immovable Property Tax Liability:

No.	Type of Property	Market Value or Surface (Frw)	Tax Rate or Amount per Unit	Tax Due (Frw)
1	Residential Building and Plot	50,000,000	0.5%	250,000
2.	Commercial Building and Plot	100,000,000	0.3%	300,000
3.	Industrial Building and Plot	30,000,000	0.1%	30,000
4.	Plot of Land for Construction	1,000 square meters	80 per square meter (assuming maximum)	80,000
5.	Agricultural Land	1.5 hectares	Exempt (<2 hectares)	0
	Total Immovable Property Tax Due			660,000

B. Tax Liability from Sale of Commercial Property:

Item	Amount (Frw)
Sale Price	20,000,000
Tax Relief (Exempt)	5,000,000
Taxable Amount	15,000,000
Tax Rate for Registered Taxpayer	2%
Tax Due	300,000

C. Advice on Declaration, Payment Deadlines, and Options in Case of Financial Hardship:

- Declaration Deadline: The immovable property tax declaration is made once every four years. The first declaration has to be made, not later than 31 December and subsequent declarations have to be not later than 31 December of fifth year from the earlier declaration..
- Payment Deadline: The immovable property tax payment is due by 31st March of the year following the year for which the tax declaration was made.

- **Consequences of Late Filing or Payment:** If Mr. Kabuga fails to file or pay the immovable property tax on time, he is liable to an interest of 1.5% per month on the unpaid tax amount. Additionally, a penalty of 40% of the tax due may be imposed for filing a false declaration or failing to file a declaration within the prescribed period.
- **Financial Hardship:** If Mr. Kabuga faces temporary financial hardship, he can request a deferral of tax payment for up to six months. In case of permanent inability to pay due to extreme indebtedness, disability, or death, he can request a waiver of tax liability. These requests must be justified and approved by the tax administration or the council of the decentralized entity.

It is important for Mr. Kabuga to comply with the tax laws and regulations to avoid penalties and interest charges. If he anticipates any difficulty in meeting his tax obligations, he should proactively engage with the tax administration to explore available options.

Answer to Example 5- Rental income

Computation of Rental income for Habineza for the Year Ended 31/12/2024

Particulars	Workings	Frw
Property One		
Gross Rent	800,000 x 12	9,600,000
Less Allowable expense	50% x 9,600,000	(4,800,000)
Taxable income from property one (A)		4,800,000
Property Two		
Gross Rent	1,200,000 x 12	14,400,000
Less Allowable expenses	14,400,000 x 50%	(7,200,000)
Less interest expenses	16% x 15,000,000	(2,400,000)
Taxable income from property one (B)		4,800,000
Total taxable income (A+B)		9,600,000

Note: To calculate the tax liability, you apply Personal income tax rates/bands to the taxable income

Answer to Example 6– Rental income

Computation of Rental Income and Tax of Uwimana for the Year Ended 31/12/2020

Particulars	Workings	Frw
Property One		
Gross Rent	$3,500,000 \times 12$	42,000,000
Less Allowable expense	$50\% \times 42,000,000$	(21,000,000)
Less Interest	$50,000,000 \times 15\%$	(7,500,000)
Taxable income from property one (A)		13,500,000
Property Two		
Gross Rent	$8 \times 3,500,000$	28,000,000
Less Allowable expenses	$28,000,000 \times 50\%$	(14,000,000)
Taxable income from property one (B)		14,000,000
Total taxable income (A+B)		27,500,000

PIT liability:	
Frw	Frw
$720,000 \times 0\%$	0
$480,000 \times 10\%$	48,000
$1,200,000 \times 20\%$	240,000
$25,100,000 \times 30\%$ (Balancing figure)	7,530,000
27,500,000	
Personal income tax liability for the period	7,818,000

Answer to example 7: Trading license

- Taxpayers are required to file a trading licence tax declaration and make the payment by January 31st of the corresponding tax year.
- For a taxpayer with a head office and branches in different districts, a tax declaration

must be filed for each location based on the previous year's turnover. If branches are in the same district as the head office, the trading licence tax is paid according to the head office's turnover. However, if branches are in different districts, the tax is calculated based on the branch with the highest turnover.

- Failure to pay the trading licence tax by the due date results in the taxpayer being prohibited from starting or continuing business activities. Any business activity conducted while in arrears is considered illegal, and the tax administration has the authority to halt such activities.
- Exemptions from the trading licence tax are granted to non-commercial public institutions and micro-enterprises and small businesses during their first two years of establishment.

Answer to Example 8: Calculation of Trading Licence Tax

Location	Turnover (Frw)	Tax Rate (Per Year)	Tax Due (Frw)
Head Office	15,000,000	160,000	160,000
Branch 1	8,000,000	60,000 (Urban)	120,000
Branch 2	5,000,000	30,000 (Rural)	100,000
Branch 3	20,000,000	280,000	280,000
Total Tax			660,000

Note:

- We have assumed all the branches are in different districts.
- The tax for the head office is based on the turnover bracket from the table provided. Whereas Branch 1 and Branch 2 are in urban and rural locations, they are considered registered taxpayers because they are part of the Head office. Therefore, rates for tax registered business will apply to all Branches and taxed based on its turnover.

Answer to Example 9: Refunding of Trading Licence Tax

Description	Amount (Frw)
Annual Tax Paid	280,000
Months Operated (Jan-Jun)	6 months
Months Not Operated (Jul-Dec)	6 months
Monthly Tax Rate	280,000 / 12
Refund Amount (6 months)	Monthly Tax Rate x 6

Calculation:

Monthly Tax Rate = $280,000 / 12 = 23,333.33$ (rounded to two decimal places)

Refund Amount = $23,333.33 \times 6 = 140,000$

Refund Amount for Branch 3: Frw140,000

Answer to Exercise 10: Gaming Activities

a) Gaming tax

		Frw
Amount Wagered		850,450,000
Less: Winning Payouts		570,500,450
Gross gaming revenue		279,949,550
Gaming tax (13%)		36,393,442

ii) Tax due on Teta's winning

		Frw
Amounts awarded by the operator		2,000,000
Amount Wagered		500,000
Winnings		1,500,000
Withholding tax (15%)		225,000

The due date for paying withholding tax is 15 days following the month in which the winning where made. Therefore, the due date would be – 15 August 2021.

iii) Total taxable income of Betting House Limited

		Frw
Amount Wagered		850,450,000
Winning Payouts		(570,500,450)
Gross gaming Revenue		279,949,550
Less		
Gaming tax		(36,393,442)
Salaries and benefits		(30,000,000)
Allowable general expenses		(20,000,000)
Interest		(60,000,000)
Allowable tax depreciation		(90,000,000)
Taxable income		43,556,109

Due date for paying of Corporate Income Tax is three (3) following the end of company's year-end. Therefore, the due date is 31 September 2021

Unit D: Exercises – Cross-Border Taxation Arrangements and Customs Union Memberships

Exercise 1: Analysis of Excise Tax Implications on Manufacturers and Importers

Discuss in detail the implications of excise taxes on manufacturers and importers in Rwanda, considering the following aspects:

- The effect excise taxes may have on the cost of production and how it may influence manufacturers' pricing strategies.
- The impact excise taxes may have on the competitiveness of domestically produced commodities versus imported goods.
- The potential consequences for importers when excise taxes are applied to their products.

Exercise 2: The Role of Excise Taxes in Government Revenue and Public Policy

Evaluate the role of excise taxes in government revenue and public policy in Rwanda by addressing the following points:

- Explain how excise taxes contribute to government revenue and the factors that determine their effectiveness in this role.
- Discuss the use of excise taxes as a tool for influencing economic behavior, particularly in relation to public health and environmental sustainability.
- Analyze the potential mixed effects of excise taxes on consumer welfare, considering both public health benefits and financial burden.

Exercise 3: VAT on Exported Goods and Services in Rwanda

Scenario: Kigali Exports Ltd. is a company based in Rwanda that specializes in exporting locally made crafts to various countries. In the financial year 2022, the company made significant purchases of raw materials and incurred VAT on these purchases. During the same period, Kigali Exports Ltd. successfully exported crafts worth Frw500 million. The company has maintained all necessary export documentation, including customs clearance documents and export invoices.

Question: As the Chief Financial Officer (CFO) of Kigali Exports Ltd., you are required to file the company's VAT returns with the Rwanda Revenue Authority (RRA). Explain the process you would follow to claim a refund for the input VAT paid on purchases related to the exported goods. Additionally, outline the documentation you would need to support your claim and discuss the importance of the place of supply in relation to the services that may have been exported by the company.

Exercise 4: VAT on Imported Goods and Services in Rwanda

Scenario: Nyabugogo Importers Ltd. is a VAT-registered business in Rwanda that imports electronics for resale within the country. In the month of March 2023, the company imported electronics valued at CIF Frw100 million. The company paid the standard VAT rate on the CIF value plus import duty and excise duty at the point of entry.

Question: As the Tax Manager of Nyabugogo Importers Ltd., describe the VAT treatment of the imported electronics and explain how the company can recover the VAT paid on

these imports. Discuss any special considerations that may apply, such as exemptions, the reverse charge mechanism, and the deferred VAT payment scheme. Additionally, explain the compliance and reporting requirements that the company must fulfill in relation to the imported goods.

Exercise 5: Reverse charge VAT mechanism

Kigali Consulting Group (KCG) is a VAT-registered business in Rwanda that specializes in providing financial advisory services. Recently, KCG identified a need for a specialized service in blockchain technology to enhance its data analysis capabilities. After an extensive local search, it was determined that no Rwandan company offered the specific service, or the expertise required to implement it. Consequently, KCG decided to procure the services from DataTech Inc., a renowned blockchain technology service provider based in Germany.

KCG has approached you, a tax advisor, to guide them through the process of applying the reverse charge mechanism for this international transaction. They require advice on the applicability of the reverse charge, the steps for VAT recovery on the imported services, and the compliance and reporting obligations they must fulfil.

Question:

As a tax advisor, provide a detailed advisory report to KCG on the following:

1. The applicability of the reverse charge mechanism to the services provided by DataTech Inc. and the conditions under which KCG can recover the VAT on these imported services.
2. The qualification and authorization process that KCG must undertake to utilize the reverse charge mechanism, including the documentation and evidence required.
3. The benefits KCG can expect from the reverse charge mechanism and the potential impact on their cash flow.
4. The compliance and reporting obligations that KCG must adhere to, including how to accurately report the reverse charge on their VAT returns and the importance of record-keeping.

Exercise 6: Advisory on Foreign Tax Credits for a Rwandan Resident Company with International Operations

ABC Holdings is a Rwandan resident company that has recently expanded its operations to include a subsidiary in the neighbouring country of Kenya, where there is no double taxation treaty (DTT) with Rwanda. In the financial year 202X, ABC Holdings received a dividend income of Frw50 million from its Kenyan subsidiary. The Kenyan tax authority levied a withholding tax of 15% on the dividend paid to ABC Holdings. In Rwanda, the investment income such as dividend income would be subject to a corporate income tax rate of 28%.

As the tax advisor for ABC Holdings, you are required to provide a detailed advisory report to the management on how to apply for foreign tax credits in Rwanda to mitigate the impact of double taxation on the dividend income received from Kenya. Your report should include the following:

1. An explanation of the eligibility criteria for foreign tax credits in Rwanda and the

necessary documentation required to support the claim.

2. A step-by-step calculation of the foreign tax credit that ABC Holdings can claim against its Rwandan tax liability, including any limitations that may apply.
3. Advice on how ABC Holdings should proceed if the foreign tax paid is either less or more than the Rwandan tax on that income.
4. Recommendations on record-keeping practices that ABC Holdings should adopt to ensure compliance with both Rwandan tax laws and those of Utopia, and to facilitate the effective utilization of foreign tax credits.

Exercise 7: Application of Double Tax Treaties in Cross-Border Transactions

You are a tax advisor at a Rwandan firm that specializes in international tax law. Your client is a Rwandan-based manufacturing company, Ngwino Ltd, which has recently expanded its operations to include a subsidiary in Belgium, BelCo, through which it intends to distribute its products within the European market. Ngwino Ltd has received its first dividend payment from BelCo amounting to €100,000. The standard withholding tax rate on dividends in Belgium is 15%. However, Rwanda has a Double Tax Treaty (DTT) with Belgium which reduces the withholding tax rate on dividends to 5% for qualifying entities.

Ngwino Ltd also has a senior employee, Mr. Kabuga, who has been seconded to work in South Africa for a period of one year. Mr. Kabuga is a Rwandan resident for tax purposes and will continue to receive his salary from Ngwino Ltd during his secondment. His annual salary is Frw50,000,000. The South African tax authorities have withheld tax on his salary at a rate of 20%. Rwanda has a DTT with South Africa which provides that employment income may only be taxed in the country of employment if the individual is present in that country for more than 183 days in any 12-month period.

Required:

1. Advise Ngwino Ltd on the tax implications of the dividend payment from BelCo, considering the provisions of the Rwanda-Belgium DTT. Calculate the potential tax savings for Ngwino Ltd because of the reduced withholding tax rate under the DTT.
2. Provide a detailed analysis of the tax treatment of Mr. Kabuga's employment income under the Rwanda-South Africa DTT. Determine whether Mr. Kabuga will be subject to double taxation on his employment income and explain the mechanism through which double taxation will be avoided or mitigated according to the DTT.

Exercise 8: Advisory on Double Tax Treaties and Their Application in Rwanda

You are a tax consultant at a leading firm in Rwanda. Your client, a multinational corporation with its headquarters in Rwanda, is expanding its operations to include a new subsidiary in Singapore. The corporation will be receiving dividends from the subsidiary and expects to engage in significant financial transactions that will generate interest and royalty income. The corporation is also planning to send a team of employees to Singapore to manage the subsidiary's operations. Rwanda and Singapore have a Double Tax Treaty (DTT) in place, which follows the OECD Model Tax Convention framework.

Required:

1. Advise your client on the key principles of Double Tax Treaties (DTTs) that would be relevant to their operations with the Singapore subsidiary, specifically addressing:

The concept of residence and how it determines the taxing rights between Rwanda and Singapore.

The definition and implications of Permanent Establishment in the context of the employees being sent to Singapore.

The treatment of withholding taxes on dividends, interest, and royalties under DTTs and the potential benefits for your client.

The allocation of taxing rights on income from employment and capital gains according to DTTs.

4. Explain the conditions that must be met for your client to benefit from the Rwanda-Singapore DTT, focusing on:

The criteria for establishing residency for the purpose of the treaty.

The importance of beneficial ownership in the context of the income received by the corporation.

The significance of substance over form and the role of anti-abuse provisions in preventing treaty shopping.

The necessity for compliance with domestic laws of both Rwanda and Singapore.

3. Provide examples of how the DTT between Rwanda and Singapore could potentially affect the tax liabilities of your client in relation to the interest income from the subsidiary and the employees' income from employment.

Exercise 9: Application of Withholding Tax and Double Tax Treaties in Cross-Border Transactions

You are a tax consultant at a leading firm in Rwanda. Your client is a Rwandan company that engages in various cross-border transactions with entities in countries with which Rwanda has Double Tax Treaties (DTTs). The company has received different types of income from these entities, including dividends, interest, and royalties. Your task is to advise the company on the application of withholding tax rates under the DTTs and ensure compliance with both domestic law and the applicable DTTs.

Required:

1. Explain the mechanism of withholding tax in Rwanda and its importance in the context of international transactions.
2. Discuss the role of Double Tax Treaties in mitigating the risk of double taxation and how they can benefit Rwandan companies engaged in cross-border trade and investment.
3. Provide detailed advice on how the company should apply withholding tax rates to the following payments to entities in countries with which Rwanda has DTTs:
 - Dividends to Country X, where the DTT stipulates a 5% withholding tax rate.
 - Interest to Country Y, where the DTT sets a 10% withholding tax rate.
 - Royalties to Country Z, where the DTT caps the withholding tax rate at 8%.
4. Outline the compliance and documentation requirements that the Rwandan company must fulfill to prove eligibility for the benefits under a DTT and the consequences of non-compliance.

Unit D: Solutions to the exercises

Answer to Exercise 1: Analysis of Excise Tax Implications on Manufacturers and Importers

Excise taxes have a profound impact on both manufacturers and importers in Rwanda, influencing their cost structures, pricing strategies, and overall competitiveness in the market.

For manufacturers, the introduction of excise taxes represents an additional cost of production. This is because they are required to pay a levy to the government on the commodities they produce, which are subject to excise taxation. To cope with this increased cost, manufacturers may opt to raise the prices of their goods. However, this strategy can be a double-edged sword; while it may help in maintaining profit margins, it can also lead to a reduction in consumer demand for their products. The decrease in demand is particularly pronounced if the goods are price elastic, meaning consumers are sensitive to price changes and may reduce consumption or switch to alternatives as prices rise.

Importers face a different set of challenges due to excise taxes. When these taxes are imposed on imported goods, it can make these products more expensive than similar locally produced items, especially if the latter are taxed at a lower rate or exempt from excise taxes. This price discrepancy can lead to a decrease in the quantity of goods imported as consumers may opt for the cheaper local alternatives. Consequently, importers may experience a decline in sales volumes, and consumer choice may be adversely affected if the imported goods become prohibitively expensive.

Furthermore, excise taxes can significantly affect the competitiveness of commodities. A high excise tax can render domestic products less competitive compared to similar untaxed products from abroad. This can result in a decrease in sales for local manufacturers and may even threaten the viability of businesses involved in the production or importation of these commodities if they cannot compete effectively on price.

In conclusion, excise taxes can have a substantial impact on the operations and strategic decisions of manufacturers and importers in Rwanda. These stakeholders must navigate the challenges posed by excise taxes, such as increased production costs, altered consumer demand, and shifts in market competitiveness, to ensure the sustainability of their businesses.

Answer to Exercise 2: The Role of Excise Taxes in Government Revenue and Public Policy

Excise taxes play a crucial role in the fiscal framework of Rwanda, serving as a significant source of government revenue and as an instrument for public policy implementation.

The contribution of excise taxes to government revenue is substantial, as they provide a steady stream of income that can be used to fund public services and infrastructure development. The effectiveness of excise taxes in generating revenue hinges on two main factors:

- the tax rate set by the government and the elasticity of demand for the taxed commodities. A higher tax rate can potentially lead to more revenue;
- however, if the demand for the taxed goods is highly elastic, consumers may significantly reduce their consumption in response to price increases, which could

offset the anticipated revenue gains.

Therefore, the government must strike a balance when setting excise tax rates to maximize revenue without causing a sharp decline in consumption that could undermine the tax's revenue-generating potential.

Excise taxes also serve as a powerful tool for influencing economic behavior, particularly concerning public health and environmental sustainability. By imposing higher taxes on products deemed harmful, such as tobacco and alcohol, the government aims to discourage their use due to the negative impact on health. This policy can lead to reduced consumption of these products, resulting in improved public health outcomes and potentially lower healthcare costs over time. Similarly, excise taxes on environmentally detrimental commodities, like certain fuels or plastics, can encourage the adoption of cleaner alternatives and foster environmental conservation efforts.

However, the impact of excise taxes on consumer welfare is complex and can be viewed as having mixed effects. On the one hand, higher prices and reduced consumption of harmful goods can be beneficial from a public health perspective. On the other hand, these taxes can impose a higher financial burden on consumers, especially those with lower incomes who may spend a larger proportion of their earnings on taxed goods. This regressive nature of excise taxes can lead to equity concerns and may necessitate the implementation of compensatory measures to alleviate the financial strain on the most vulnerable segments of the population.

In summary, excise taxes are a vital component of Rwanda's revenue system and public policy landscape. They are instrumental in funding government initiatives and steering economic behavior towards healthier and more environmentally friendly choices. Nonetheless, the design and application of excise taxes require careful consideration to ensure that they effectively meet policy objectives while also considering the broader implications for consumer welfare and economic equity.

Answer to Exercise 3: VAT on Imported Goods and Services in Rwanda

To claim a refund for the input VAT paid on purchases related to the exported goods, as the CFO of Kigali Exports Ltd., I would need to follow these steps:

1. **Filing Tax Returns:** Prepare and file the appropriate VAT returns with the RRA within 15 days following the month to which the VAT return relates. The returns should detail all taxable transactions, including the exported goods and the input VAT incurred on related purchases.
2. **Supporting Documentation:** Gather all necessary documentation that proves the goods were exported. This includes customs clearance documents that show the goods left Rwanda and export invoices that detail the transactions and the zero-rated VAT applied.
3. **Claiming Refunds:** Include in the VAT returns a claim for the refund of the input VAT paid. The claim should be supported by the documentation, which must be presented to RRA upon request.
4. **Place of Supply for Services:** If the company also exported services, it is crucial to establish that the place of consumption is outside Rwanda. This means ensuring that the recipient of the services is located outside Rwanda and that the use and benefit of the services are obtained outside the country. Documentation to support this might include contracts, correspondence, and proof of payment from foreign clients.

5. Record-Keeping: Maintain thorough records of all transactions and documentation in case of an audit by the RRA. This includes keeping copies of all export-related documents and records of input VAT paid.

The importance of the place of consumption in relation to services is that it determines the VAT treatment of the services. For services to be considered exported, and thus zero-rated, the recipient must be outside Rwanda, and the use and benefit of the service must be obtained outside Rwanda. This ensures that the services are not subject to domestic VAT, aligning with the policy to encourage exports and make them more competitive internationally.

Answer to Exercise 4: VAT on Imported Goods and Services in Rwanda

As the Tax Manager of Nyabugogo Importers Inc., the VAT treatment of the imported electronics and the recovery process would involve the following steps:

1. VAT Payment at Import: Calculate the VAT due on the imported electronics based on the CIF value plus any import duty and excise duty. Pay the calculated VAT at the time of customs clearance to avoid any delays.
2. Input VAT Credit: Since Nyabugogo Importers Inc. is registered for VAT and the electronics are for resale (making taxable supplies), the company can claim a credit for the VAT paid on these imports. This would be done by including the VAT paid as input VAT in the company's VAT returns.
3. Special Considerations:
 - Assess whether any exemptions apply to the imported goods that could reduce the VAT liability.
 - Determine if the reverse charge mechanism applies to any imported services associated with the electronics, which would require the company to account for VAT as if it had supplied the service itself.
 - Evaluate eligibility for the deferred VAT payment scheme, which could help manage cash flow by allowing the company to defer the payment of VAT on imports.
4. Compliance and Reporting:
 - Ensure that all VAT invoices for the imports contain the required information as stipulated by the RRA.
 - File periodic VAT returns, usually on a monthly basis, reflecting all taxable transactions, including the imported electronics.
 - Accurately report any VAT due or refundable in the VAT returns.
 - Maintain comprehensive records of all transactions to support VAT filings and to facilitate any audits conducted by the RRA.

By following these steps, Nyabugogo Importers Inc. can ensure that the VAT on imported electronics is correctly treated and that the company recovers the VAT paid, where applicable. Compliance with VAT regulations, including diligent record-keeping and understanding of mechanisms like reverse charge and deferred payment, is essential for managing VAT obligations effectively in Rwanda.

Answer to Exercise 5: Reverse charge VAT mechanism

Applicability of the Reverse Charge Mechanism:

The reverse charge mechanism is indeed applicable to the services provided by DataTech Inc. since they are a non-resident company supplying KCG, a VAT-registered business in Rwanda, with specialized services. To recover VAT on these imported services, KCG must first obtain authorization from the Minister of Finance by demonstrating that such services are not available locally. This involves providing evidence of a thorough local search and the necessity for outsourcing the services internationally.

Qualification and Authorization Process:

To qualify for the reverse charge mechanism, KCG must be registered for VAT in Rwanda, which they are. The next step is to submit a detailed application to the Minister of Finance, including:

- Evidence of the unavailability of the services in Rwanda, such as responses from local tenders indicating no suitable providers.
- A letter from a relevant regulatory body, if applicable (i.e Ministry of ICT), confirming the absence of such services locally.

Benefits of the Reverse Charge Mechanism:

By applying the reverse charge mechanism, KCG can expect the following benefits:

- Prevention of VAT evasion by DataTech Inc., as the responsibility of VAT reporting shifts to KCG.
- Reduction in administrative burden for DataTech Inc., eliminating their need to register for VAT in Rwanda.
- Potential improvement in cash flow for KCG, as they can account for both input and output VAT in the same tax return, provided the Minister of Finance authorizes the VAT recovery on the imported services.

Compliance and Reporting Obligations:

KCG must be diligent in their compliance with the reverse charge mechanism by:

- Identifying transactions subject to the reverse charge and applying it correctly.
- Reporting the reverse charge accurately on their VAT returns, ensuring both input and output VAT are accounted for if the services are authorized as not available locally. If not authorized, only output VAT is reported, and the input VAT becomes a cost.
- Maintaining comprehensive documentation and records to substantiate the VAT return entries for transactions under the reverse charge.

In conclusion, the reverse charge mechanism is a critical aspect of VAT accounting for KCG's international transaction with DataTech Inc. It is imperative that KCG follows the outlined steps to ensure compliance and to maximize the financial benefits of the mechanism.

Answer to Exercise 6: Advisory on Foreign Tax Credits for a Rwandan Resident Company with International Operations

Eligibility and Documentation for Foreign Tax Credits

To be eligible for a foreign tax credit in Rwanda, ABC Holdings must demonstrate that the dividend income is subject to tax in both Rwanda and Kenya and that the Kenyan tax has indeed been paid. The company should retain all foreign tax payment receipts, withholding tax certificates, and any other relevant documentation from Kenya as evidence of the taxes paid.

Calculation of Foreign Tax Credit

The foreign tax credit that ABC Holdings can claim is limited to the lesser of the Kenyan tax paid or the Rwandan tax attributable to the dividend income. The calculation is as follows:

- Kenyan tax paid: 15% of Frw50 million = Frw7.5 million
- Rwandan tax on the same income: 28% of Frw50 million = Frw14 million
- The foreign tax credit available to ABC Holdings is the lesser amount, which is Frw7.5 million.

Application of the Foreign Tax Credit

If the foreign tax paid (Frw7.5 million) is less than the Rwandan tax on that income (Frw 14 million), ABC Holdings will owe the difference to the Rwandan Revenue Authority, which in this case is Frw6.5 million (Frw14 million – Frw7.5 million). If the foreign tax paid had been more than the Rwandan tax, the excess could not be refunded but could potentially be carried forward, subject to Rwandan tax law limitations.

Record-Keeping Recommendations

ABC Holdings should maintain thorough records of all foreign tax payments and relevant financial transactions. This includes keeping original tax receipts, bank statements, and accounting records that detail the income received and taxes paid. The company should also ensure that it complies with any reporting requirements set forth by the RRA, such as the timely submission of tax returns that include a declaration of foreign income and evidence of foreign tax credits claimed.

Conclusion

By following the above steps and recommendations, ABC Holdings can effectively utilize foreign tax credits to mitigate the impact of double taxation on its international operations. It is crucial for the company to understand and comply with the tax laws of both Rwanda and Utopia to maintain its financial health and avoid any legal complications.

Answer to Exercise 7: Application of Double Tax Treaties in Cross-Border Transactions

1. Tax Implications for Ngwinoltd:

Under the Rwanda-Belgium DTT, the withholding tax rate on dividends is reduced from the standard Belgium rate of 15% to a treaty rate of 5%. This means that on the dividend payment of €100,000, BelCo is required to withhold tax at the rate of 5%, which amounts to

€5,000, instead of the standard rate of €15,000. The tax savings for Ngwino Ltd due to the application of the DTT would therefore be €10,000 (€15,000 – €5,000).

Ngwino Ltd should ensure that it meets any requirements under the DTT to qualify for the reduced withholding tax rate, such as providing proof of residency and beneficial ownership of the dividends. The company should also examine the provisions of the Rwandan tax law to determine if it can claim a foreign tax credit for the taxes withheld in Belgium, thereby avoiding double taxation on these dividends.

2. Tax Treatment of Mr. Kabuga's Employment Income:

According to the Rwanda-South Africa DTT, employment income is taxable only in the country of employment if the individual is present in that country for more than 183 days in any 12-month period. Since Mr. Kabuga will be working in South Africa for one year, his employment income will be subject to tax in South Africa at the rate that has been applied (20%).

Rwanda would typically provide a credit for the tax paid in South Africa to prevent double taxation. However, if Mr. Kabuga's presence in South Africa does not exceed 183 days within a 12-month period, then his salary would only be taxable in Rwanda, and South Africa would have to refund the withheld tax. If his stay does exceed 183 days, the income would be taxed in South Africa, and Rwanda would provide a credit for the taxes paid abroad.

In conclusion, Mr. Kabuga will not be subject to double taxation on his employment income due to the relief provided under the DTT. Ngwino Ltd should ensure that Mr. Kabuga's tax residency status is clearly documented and that the appropriate evidence of South African tax paid is obtained to claim the tax credit in Rwanda.

Answer to Exercise 8: Advisory on Double Tax Treaties and Their Application in Rwanda

1. Key Principles of DTTs:

- **Residence:** The DTT between Rwanda and Singapore contains provisions that define a resident for tax purposes. For your client, the corporation's status as a resident in Rwanda means it is subject to Rwandan tax laws. However, the DTT may provide that the Singapore subsidiary's dividends are taxed in Singapore, with Rwanda providing a credit or exemption to avoid double taxation.
- **Permanent Establishment (PE):** The concept of PE will be crucial in determining whether the activities of your client's employees in Singapore create a taxable presence. If the employees' presence or activities in Singapore meet the DTT's definition of a PE, the profits attributable to that PE may be taxed in Singapore. Otherwise, the profits would remain taxable only in Rwanda.
- **Withholding Taxes:** The DTT may stipulate reduced withholding tax rates for dividends, interest, and royalties paid by the Singapore subsidiary to the Rwandan parent corporation. This could lower the overall tax burden on these types of income and provide a cash flow advantage to your client.
- **Income from Employment and Capital Gains:** The DTT will likely allocate the right to tax employment income to the country where the work is performed, unless a PE is established. For capital gains, the DTT will specify which country has the right to tax gains from the alienation of property, which could affect the sale of assets by your client.

2. Conditions for Treaty Benefits:

- **Residency Criteria:** Your client must be recognized as a resident of Rwanda under the treaty. This typically involves being liable to tax in Rwanda due to domicile, residence, or place of management.
- **Beneficial Ownership:** The corporation must be the beneficial owner of the income from Singapore, meaning it has the right to use and enjoy the income without being contractually or legally obligated to pass it on to another entity.
- **Substance over Form:** Transactions must have economic substance and not be structured solely to obtain tax benefits. Anti-abuse provisions in the DTT aim to prevent treaty shopping and ensure that the treaty benefits are not misused.
- **Compliance with Domestic Laws:** Your client must adhere to the tax laws and reporting requirements in both Rwanda and Singapore to qualify for the treaty benefits.

3. Examples of DTT Impact:

- **Interest Income:** If the DTT provides for a reduced withholding tax rate on interest, the Singapore subsidiary may withhold tax at this lower rate. Your client can then claim a credit for this tax against its Rwandan tax liability on the same income, reducing double taxation.
- **Employees' Income from Employment:** If the employees do not create a PE in Singapore, their employment income may only be taxed in Rwanda. If a PE is established, the DTT will dictate how the income is taxed between the two countries, potentially leading to tax savings for your client.

In conclusion, the DTT between Rwanda and Singapore can offer significant tax advantages to your client. However, careful consideration of the treaty's provisions and compliance with both countries' tax laws is essential to maximize these benefits.

Answer to Exercise 9

1. **Withholding Tax Mechanism in Rwanda:** Withholding tax in Rwanda serves as a pre-emptive tax collection method where tax is deducted at the source of the income. This system is crucial for ensuring timely tax revenue collection and reducing the risk of tax evasion, especially in the context of international transactions where the payee is not within the domestic tax jurisdiction. By applying withholding tax, Rwanda secures a portion of the tax due on income paid to non-residents, such as employment income, dividends, interest, and royalties.
2. **Role of Double Tax Treaties:** Double Tax Treaties (DTTs) are designed to prevent the same income from being taxed by two different jurisdictions, which is a common issue in international business activities. These treaties provide a framework for tax cooperation between countries, setting maximum tax rates for various income types and establishing methods for relief from double taxation, such as the exemption method and the credit method. For Rwandan companies, DTTs can significantly reduce the tax burden on foreign income, thereby encouraging cross-border trade and investment.
3. **Application of Withholding Tax Rates under DTTs:**
 - **Dividends to Country X:** When the Rwandan company pays dividends to Country X, it should apply the 5% withholding tax rate as stipulated by the DTT between Rwanda and Country X. This rate is favourable compared to the domestic rate of

15%, resulting in tax savings for the recipient company.

- Interest to Country Y: For interest payment to Country Y, the company should withhold tax at the 10% rate provided by the DTT. This is a reduction from the domestic rate of 15% and reflects the negotiated terms of the treaty to facilitate economic cooperation.
 - Royalties to Country Z: In the case of royalties to Country Z, the company is required to withhold tax at the rate of 8%, as capped by the DTT. This again is lower than the 15% rate and represents the benefits of engaging in transactions with treaty partners.
4. Compliance and Documentation: The company must carefully comply with withholding tax obligations and maintain accurate documentation, such as tax residency certificates, to benefit from the reduced rates under DTTs. This documentation serves as proof of the payee's residency and eligibility for treaty benefits. Non-compliance or inadequate documentation can lead to the application of higher domestic withholding tax rates and potential penalties. It is imperative for the company to adhere to these requirements to avoid adverse tax consequences and to optimize its tax position in international dealings.

In conclusion, the company should leverage the advantages offered by DTTs by applying the reduced withholding tax rates and ensuring strict compliance with the associated documentation and procedural requirements. This will not only ensure adherence to tax laws but also enhance the company's tax efficiency in its cross-border transactions.

Unit E: Exercises – Minimisation and Deferral of Tax Liabilities

Exercise 1- Incentives

You are a tax consultant at a prestigious firm in Kigali, Rwanda. Your client, Pan-African Innovations Ltd., is a multinational company planning to establish its regional headquarters in Rwanda. The company is expected to invest USD 15 million in tangible and intangible assets and is projected to employ and train a significant number of Rwandans. Additionally, the company is considering venturing into the energy sector, specifically in solar power generation, with an anticipated investment in business assets worth USD 300,000 per asset. They are also exploring the possibility of setting up a Collective Investment Scheme with a minimum fund size of USD 5 million. Furthermore, the company is interested in developing a specialized innovation park and is in the process of securing a construction permit.

As their tax consultant, advise Pan-African Innovations Ltd. on the following:

1. The fiscal incentives available to them for establishing their regional headquarters in Rwanda, including the specific preferential corporate income tax rates they would be eligible for and any conditions they must meet.
2. The benefits of accelerated depreciation they can avail for their investment in solar power generation assets and the implications of disposing of these assets within three years.
3. The value-added tax implications for goods and services procured or imported in relation to their planned activities in Rwanda.
4. Any additional tax deductions or holidays they may qualify for, particularly concerning their specialized innovation park development and the Collective Investment Scheme, including the tax treatment of mineral exploration expenditure should they decide to diversify into mining operations.

Provide a comprehensive response, outlining the tax implications and advising on the optimal tax strategy for Pan-African Innovations Ltd. to maximize the fiscal incentives offered by the Rwandan government.

Example 2: ABC LTD – Manufacturing Sector

ABC Ltd is a registered investor in Rwanda that operates in the manufacturing sector. It has invested USD 60 million in tangible and intangible assets and has contributed 40% of equity. It exports 35% of its total turnover to the East African Community and other countries. What are the tax incentives that ABC Ltd can benefit from and what are the conditions and requirements to qualify for them?

Example 3: Akagera – Film investor

Imagine you are a tax consultant at a prestigious accounting firm in Kigali. Your client, Akagera Productions, is a domestic film production company that has recently registered as an investor with the Rwanda Development Board. They are planning to produce an animated series and a feature film, with substantial investment in both production and post-production activities. The animated series will have a budget of USD 200,000 for post-production, while the feature film is a co-production with a Belgian film company, with a budget of USD 600,000 to be spent on activities within Rwanda. The Belgian company will provide the majority of the funding, and the principal photography for the feature film is

scheduled to last six weeks, with at least 50% of the filming taking place in Rwanda.

Required: As their tax consultant, you are required to provide a detailed advisory report to Akagera Productions outlining the preferential tax incentives they are eligible for under the current Rwandan tax legislation for the film industry. Your report should include an analysis of the conditions that must be met for each incentive, the specific tax benefits available to the company, and any necessary steps or documentation required to avail of these incentives. Additionally, provide advice on the implications of these incentives for the company's financial planning and tax compliance.

Exercise 4: Analysis of Tax Implications for Different Business Structures

You are an advisor to an entrepreneur who is considering the formation of a new business in Rwanda. The entrepreneur is evaluating whether to operate as a sole proprietorship, form a partnership, or incorporate a limited liability company. They are particularly concerned about the tax implications of each structure.

Required:

- i. Discuss the tax implications of operating as a sole proprietorship in Rwanda.
- ii. Explain how partnerships are taxed in Rwanda, and the impact of tax transparency on partners.
- iii. Outline the corporate tax obligations for companies in Rwanda and the concept of double taxation on dividends.
- iv. Advise the entrepreneur on the tax considerations they should consider when choosing a business structure.

Exercise 5: Non-Tax Considerations in Business Structure Decision-Making

As an advisor, you are tasked with guiding an entrepreneur through the non-tax considerations that should influence their decision when choosing between a sole proprietorship, a partnership, or a limited liability company for their new business venture in Rwanda.

Required:

- I. Examine the non-tax implications of operating a sole proprietorship, particularly focusing on liability, control, and continuity.
- II. Discuss the non-tax implications of forming a partnership, with an emphasis on liability, control, and continuity.
- III. Evaluate the non-tax implications for limited liability companies, considering liability, control, and continuity.
- IV. Provide recommendations to the entrepreneur on how to balance these non-tax considerations with their business objectives.

Exercise 6: Company Reorganisation and Tax Consequences

You are a senior tax advisor tasked with providing guidance to a multinational corporation considering the restructuring of its business operations in Rwanda. The corporation is evaluating different restructuring options to optimize its operational efficiency and tax obligations. The options under consideration include a merger, an acquisition or takeover

of shares or voting rights, an acquisition or transfer of assets or liabilities, a complete replacement of the entity through acquisition or transfer and splitting the entity into two or more entities.

Given the tax consequences associated with each restructuring option as outlined, advise the corporation on the following:

- The tax implications of each restructuring option for the transferring and receiving entities.
- How the book value and depreciation rules apply to the assets involved in each restructuring option.
- The conditions under which the reserves and provisions are carried over in each scenario.
- The potential tax exemptions available to the corporation during the restructuring process.

Provide a comprehensive analysis that includes the benefits and drawbacks of each option, taking into consideration the corporation's need to maintain operational continuity and minimize tax liabilities. Your advice should be based on the tax laws applicable to resident entities in Rwanda.

Exercise 7: Company Reorganisation and Tax Consequences

XYZ Corporation, a resident entity in Rwanda, is considering restructuring its business operations. The company has two divisions: Division A, which is a manufacturing unit with assets valued at Frw10Bn and liabilities of Frw4Bn, and Division B, which is a service unit with assets valued at Frw6Bn and liabilities of Frw2Bn. The book value of the assets and liabilities reflects their fair market value. XYZ Corporation has accumulated reserves and provisions amounting to Frw3bn, which are equally attributable to both divisions. The company is contemplating either a merger or a split.

The board of directors is considering two options:

1. Merge with ABC Corporation, a separate entity, where XYZ Corporation will transfer all its assets and liabilities to ABC Corporation and cease to exist as a separate legal person. ABC Corporation will carry over the reserves and provisions of XYZ Corporation.
2. Split XYZ Corporation into two new entities, X-Corp and Y-Corp, where each new entity will assume the rights and obligations of the respective divisions of XYZ Corporation. The reserves and provisions will be carried over to the new entities based on their attributable operations.

Assuming the tax rate for capital gains is 5%, and the depreciation rules allow for a straight-line depreciation over 10 years for the type of assets held by XYZ Corporation, advise the board of directors on the tax consequences and the impact on the book value of assets for both options. Provide numerical calculations to support your advice.

Exercise 8: Taxation of Corporate Ownership Changes and Business Liquidation

XYZ Corp, a privately-held manufacturing company, has been experiencing financial difficulties and is considering a change in ownership to improve its financial position. The company has accumulated tax losses of Frw500,000,000 which it has been carrying forward to offset future taxable income. In the current tax period, a potential investor is

interested in acquiring a 30% stake in XYZ Corp. The company is not listed on any recognized stock exchange.

1. Explain the tax implications of the change in ownership on XYZ Corp's ability to carry forward its accumulated tax losses. Include in your discussion the specific tax rules that apply to such a scenario and any exceptions that might allow the company to preserve its tax losses.
2. Assume instead that XYZ Corp decides to undergo an internal business reorganization that involves the reshuffling of shares among existing shareholders, who have all been part of the company for over five years. Discuss whether XYZ Corp would be able to retain its accumulated tax losses under this alternative scenario.
3. In a separate development, ABC Ltd, a competitor of XYZ Corp, has decided to dissolve its business. After settling all its debts, ABC Ltd has assets worth Frw200,000,000 to distribute to its shareholders. Explain the tax treatment of this distribution, and the obligations of the shareholders in the final tax period of ABC Ltd's operations.

Exercise 9: Lease Transactions and Tax Deductions under Income Tax Law No. 027/2022

XYZ Corporation has entered into a lease agreement for an office building on 1 January 2023. The lease term is 5 years, and the annual lease payment is Frw100,000,000 payable at the beginning of each year. The implicit interest rate in the lease is 5%. XYZ Corporation has determined that under IFRS 16, the lease is classified as an operating lease.

The initial recognition of the lease liability under IFRS 16 is Frw454,595,000 and the corresponding right-of-use asset also amounts to Frw454,595,000 because there is no initial direct costs.

Note: The right-of-use asset is initially measured at the same amount as the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred by the lessee.

Required:

1. Determine the tax-deductible amount for the year 2023, considering the tax legislation.
2. Explain the discrepancy between the accounting treatment under IFRS 16 and the tax treatment under Income Tax Law No. 027/2022.
3. Advise XYZ Corporation on the financial statement implications and the tax implications of the lease agreement.

Exercise 10: Leasing Vs Outright purchase

You are a tax advisor tasked with providing a recommendation to a client, XYZ Corp, which is considering acquiring a new piece of manufacturing equipment. The equipment has a useful life of 7 years and is critical for XYZ Corp's operations. The company is evaluating whether to lease the equipment under an operating lease or purchase it outright. XYZ Corp is particularly concerned with the tax implications, cash flow management, and the potential for obsolescence of the equipment.

Advise XYZ Corp on the following:

1. The tax implications of leasing versus purchasing the equipment, including the

impact on XYZ Corp's taxable income and potential tax benefits or disadvantages of each option.

2. How each option (leasing vs. purchasing) would affect XYZ Corp's cash flow, considering the upfront costs and the ongoing financial obligations.
3. The considerations XYZ Corp should consider regarding asset management and the risk of obsolescence, and how these considerations might influence the decision to lease or purchase.
4. Based on the above analysis, provide a recommendation on whether XYZ Corp should lease or purchase the equipment, justifying your advice with the financial and tax implications.

Exercise 11: Tax Implications of Asset and Share Disposals for Sellers and Buyers

XYZ Corporation, a VAT-registered company in Rwanda, is considering the disposal of some of its business components and is exploring two different options: the sale of certain company assets, including equipment and property, and the sale of its shares. The equipment was purchased three years ago and has been subject to an investment allowance of 50%. The property is fully depreciated and has a tax book value of zero. The shares have appreciated in value since their acquisition.

As a tax advisor, you are required to analyse the tax implications for both the seller and the buyer under each disposal option. Your analysis should include the following:

1. For the sale of assets:
 - Calculate the potential capital gains tax liability for XYZ Corporation if the equipment is sold for more than its tax book value.
 - Discuss the implications of the claw back tax on the investment allowance claimed by XYZ Corporation for the equipment if it is sold within three years of claiming the allowance.
 - Explain the potential for a balancing allowance if the proceeds from the sale of the property are less than its tax book value.
 - Assess the VAT implications for both the seller and the buyer.
2. For the sale of shares:
 - Calculate the capital gains tax liability for the shareholders of XYZ Corporation if the shares are sold at a gain.
 - Discuss the tax efficiency of selling shares from the seller's perspective, considering the recaptured depreciation on the company's assets.
 - Explain the implications for the buyer in terms of acquiring the company's liabilities and the lack of a step-up in the basis of the assets.
3. Provide a comparative analysis of the tax implications for both the seller and the buyer under each disposal option, considering their respective preferences for minimizing tax liability and maximizing future tax benefits.
4. Conclude with a recommendation on the most tax-efficient method of disposal for XYZ Corporation, considering the interests of both the seller and the buyer.

Exercise 12: Calculation of Tax Liability on Disposal of Assets

XYZ Ltd. is a company registered in Rwanda that specializes in manufacturing electronic components. On January 1, 2020, XYZ Ltd. purchased a piece of machinery for Frw100,000,000. The machinery is eligible for an annual depreciation rate of 25% on a straight-line basis and an investment allowance of 50%. On December 31, 2022, after claiming the investment allowance and annual depreciation for three years, XYZ Ltd. decides to sell the machinery for Frw80,000,000.

Calculate the tax liability arising from the disposal of the machinery, considering the following:

1. The capital gains tax rate on ordinary income is 28%.
2. The claw back tax applies to the investment allowance claimed if the asset is disposed of within three years after claiming the allowance.
3. The sale of the machinery is subject to Value Added Tax (VAT) at the rate of 18%.

Provide your answer with detailed workings, including the calculation of the tax book value of the asset at the time of sale, the balancing charge or allowance, the claw back of the investment allowance, and the VAT on the sale.

Exercise 13: Comparative Analysis of Tax Implications on Disposal of Company Assets vs. Shares

XYZ Corporation is considering disposing of some of its business components and has two options: selling certain company assets or selling a portion of its company shares. The following information is provided:

- XYZ Corporation owns a piece of equipment with a tax book value of Frw100,000,000. The equipment was purchased 2 years ago at a cost of Frw150,000,000. XYZ Corporation claimed an investment allowance of 50% in the year of purchase. The current market value of the equipment is Frw130,000,000.
- XYZ Corporation also owns shares in another company, ABC Ltd. These shares were purchased for Frw200,000,000 and are now worth Frw250,000,000.
- The capital gains tax rate on assets is 28% and on shares is 5%.
- The equipment is subject to a claw back tax due to the investment allowance claimed.
- The sale of the equipment would be subject to VAT at 18%, while the sale of shares is VAT exempt.
- Assume that the equipment would be sold at its market value and the shares would be sold at their current value.

Required:

Calculate the net tax liability for XYZ Corporation if it decides to:

1. Sell the equipment.
2. Sell the shares.

Exercise 14: Source of funding

You are an advisor at a CPA firm in Rwanda, and your client is a medium-sized enterprise looking to expand its operations. The company is considering two main sources of funding: debt financing through issuing corporate bonds and equity financing by selling additional shares of the company. The Chief Financial Officer (CFO) of the company has approached you for advice on the tax implications of each option.

Required:

1. Explain the tax treatment of the interest expense that the company would incur if it opts for debt financing through bonds. Discuss the potential benefits and risks associated with this option from a tax perspective.
2. Describe the tax treatment of dividends that shareholders would receive if the company chooses equity financing by selling additional shares. Include in your discussion the implications of the double taxation on dividends (taxed at the corporate level and then at the shareholder level) and how this might influence the company's decision.
3. Provide a comparative analysis of the tax advantages and disadvantages of debt versus equity financing for the company, considering the Rwandan tax environment. Your analysis should help the CFO understand which option might be more tax-efficient for the company's expansion plans.

Exercise 15: Tax implications of Source of funding

XYZ Corporation, a company resident in Rwanda, is considering raising capital for its expansion plans. The company has two options: issuing new shares or taking on a new loan. The following information is provided:

- The company plans to either issue 10,000 new shares at a price of Frw1,000 per share or take a loan of Frw10,000,000.
- The expected annual dividend per share is Frw50, and the company has a policy of distributing 80% of its profits as dividends.
- The annual interest rate on the potential loan is 10%.
- XYZ Corporation's current paid-up equity capital (excluding provisions, reserves, and retained earnings) is Frw15,000,000.
- The company is expected to make a profit before interest and tax of Frw5,000,000 in the next year.
- Withholding tax on dividends for residents of Rwanda or the East African Community is 5%, and the standard rate is 15%.
- Withholding tax on interest is 15%.
- The debt-to-equity ratio for thin capitalization purposes is set at 4:1.

Calculate the following for each financing option:

1. The immediate tax implications of raising capital through equity or debt.
2. The annual tax savings or cost for the company from the chosen financing option.
3. The net annual return to investors or lenders after tax.

Assume that there are no capital gains or other taxes to consider for this scenario and that all shareholders are residents of Rwanda or the East African Community.

Exercise 16: Ethical Tax Planning Advice

You are a tax adviser at a reputable firm in Rwanda, and you have been approached by a new corporate client, XYZ Ltd., which is looking to optimize its tax position. The company has recently expanded its operations and is involved in a variety of complex international transactions. The Chief Financial Officer (CFO) of XYZ Ltd. has expressed an interest in aggressive tax planning strategies that they have heard can significantly reduce the company's tax burden. The CFO insists that these strategies are merely "smart business practices" and has hinted at a willingness to push the boundaries of legal tax planning.

As a Certified Public Accountant (CPA) in Rwanda, you are aware of the ethical considerations and professional standards that must guide your tax advice.

Required:

1. Identify and explain the ethical principles that should govern your response to the CFO's request for aggressive tax planning strategies.
2. Discuss the steps you would take to provide ethical tax advice to XYZ Ltd., ensuring that the company benefits from tax planning opportunities while remaining compliant with Rwandan tax laws and international ethical standards.
3. Evaluate the risks associated with the CFO's suggested approach to tax planning and advise on how to communicate these risks to the CFO to ensure informed decision-making.
4. Outline the potential consequences for both you as the tax adviser and XYZ Ltd. if the company were to engage in tax planning strategies that are later deemed to be non-compliant or unethical.

Unit E: Solutions to the exercises

Answer to Exercise 1: Incentives

1. Fiscal Incentives:

Pan-African Innovations Ltd. is poised to benefit from a suite of fiscal incentives offered by the Investment law on promotion and facilitation Law no 006/2021, designed to encourage investment and support national development. These incentives are tailored to various sectors and activities and can significantly impact the company's tax liability and overall investment strategy.

Preferential Corporate Income Tax Rates:

- **Regional Headquarters:** Pan-African Innovations Ltd. is set to benefit from a 0% preferential corporate income tax rate due to its planned USD 15 million investment in Rwanda, which includes providing employment and training to the local workforce. To maintain this tax benefit, the company must uphold its investment and meet its employment and training obligations. Additionally, the company must meet the following criteria:
- **International Financial Transactions:** Conduct at least USD 5 million in international financial transactions annually through a licensed commercial bank in Rwanda.
- **Industry Experience:** Possess significant experience in its operational sector.
- **Local Expenditure:** Spend a minimum of USD 2 million annually within Rwanda.
- **Operational Administration:** Establish a substantial and effective administrative presence in Rwanda, including the coordination of operations.
- **Service Provision:** Perform at least three of the following services in Rwanda:
 1. Procurement of raw materials, components, or finished products.
 2. Strategic planning and business development.
 3. Marketing and sales promotion planning.
 4. Information and data management services.
 5. Treasury management services.
 6. Research and development activities.
 7. Training and personnel management.
 8. Provision of other shared services.

By meeting these requirements, Pan-African Innovations Ltd. will be able to take full advantage of the tax incentives offered for setting up a regional headquarters in Rwanda.

- **Energy Sector Investment:** If the company proceeds with solar power generation, a preferential rate of 15% applies, provided the company is a registered investor undertaking one of the following operations: energy generation, transmission, and distribution. This incentive excludes an investor having an engineering procurement contract executed on behalf of the Government of Rwanda;
- **Collective Investment Scheme:** Should the company establish a Collective Investment Scheme with a minimum fund size of USD 5 million, a preferential rate of

3% is available, subject to meeting additional requirements which include:

- a. Fund Size: Achieve a minimum fund size of USD 1 million within the first three years.
- b. Local Expenditure: Incur a minimum annual expenditure of USD 50,000 in Rwanda.
- c. Management: Ensure that the scheme's manager, custodian, and operator are based in Rwanda.
- d. Staffing: Employ at least 30% Rwandan professional staff.
- e. Director Residency: Have at least 25% of directors residing in Rwanda.
- f. Board Presence: Ensure that at least 50% of the Board of Directors are present in Rwanda for meetings, with provisions for remote participation if necessary.
- g. Strategic Meetings: Conduct Board of Directors meetings for strategic decisions within Rwanda.
- h. Record Keeping: Store Board of Directors resolutions in Rwanda for safekeeping.
- i. Board Composition: Include at least two professional or qualified Rwandan resident members on the Board of Directors.

2. Accelerated Depreciation Benefits:

For the solar power generation assets, the company can claim a 50% accelerated depreciation rate for the first year, given the investment per asset exceeds USD 50,000. This will allow for a substantial upfront deduction, reducing taxable income early in the asset's life. However, if assets are disposed of within three years, the company must inform the Rwanda Revenue Authority, in which case the benefit will be clawed back.

3. Value-Added Tax Implications:

- Standard VAT Rate: Goods and services acquired by Pan-African Innovation Ltd, whether locally sourced or imported, are subject to an 18% VAT. The company is entitled to claim a credit for the VAT paid on these purchases.
- Specialized Innovation Parks Incentives:
- Construction materials and finished goods used for projects within specialized innovation parks or industrial parks are zero-rated, meaning they are not subject to VAT.
- For professional and technical services obtained from outside Rwanda by developers of these parks, the Tax Administration offers a pre-approval process. This facilitates the avoidance of the VAT reverse charge and allows for prompt VAT refunds.

Additional Tax Deductions or Holidays:

Developers of specialized innovation parks are entitled to additional tax incentives to encourage their development activities. These incentives include:

- Property Tax Exemption: Developers are exempt from property tax for five years starting from the date the construction permit is issued.
- Land Transfer Fee Exemption: Developers are exempt from land transfer fees if the transferor retains shares equal to the value of the property transferred.
- Corporate Income Tax Holiday: A five-year exemption from corporate income tax is granted from the date of the construction permit issuance.

- **Tax Loss Carryforward:** Developers can carry forward tax losses for seven years from the first year the loss was recorded. If ownership changes during the construction phase or upon the first operationalization of the asset, and the change exceeds 25% of share capital or voting rights, the developer can still carry forward accumulated tax losses. However, this does not apply to subsequent ownership changes exceeding 25%.
- **Accelerated Depreciation:** Developers can claim an accelerated depreciation rate of 50% for capital expenditures in the first year after construction begins.
- **Domestic Tax Exemptions on Imports:** Developers are exempt from domestic taxes, including withholding tax and excise duty, on imported construction materials and finished goods.

These incentives are designed to support the growth and development of specialized innovation parks by reducing the financial burden during the critical phases of construction and initial operation.

Conclusion and Tax Strategy:

Pan-African Innovations Ltd. should leverage these fiscal incentives by ensuring compliance with investment, employment, and training requirements. The company should also structure its activities to maximize export turnover, maintain detailed records of asset depreciation, and plan for the tax implications of asset disposal. By strategically timing the procurement of goods and services, the company can optimize VAT benefits. Finally, the company should consider the long-term benefits of the tax holidays and deductions available for innovation park development and internationalization efforts. It is essential to maintain meticulous documentation and adhere to all regulatory requirements to fully capitalize on these incentives.

Answer to Example 2: ABC LTD – Manufacturing Sector

ABC Ltd can benefit from the following tax incentives:

- A preferential corporate income tax rate of zero per cent (0%) for a period of seven (7) years from the date of registration as an investor.
- A preferential withholding tax rate of zero per cent (0%) on dividends, interest and royalties paid by ABC Ltd to its shareholders, lenders and licensors.
- An exemption from customs taxes and duties on products used in export processing zones in accordance with the East African Community Customs Management Act.
- A 150% tax deduction of all qualifying expenditures relating to internationalization, such as market research, promotion, branding, certification and quality assurance.

To qualify for these incentives, ABC Ltd must meet the following conditions and requirements:

- It must operate in one of the priority economic sectors as determined by the Cabinet.
- It must invest at least USD 50 million in tangible or intangible assets and contribute at least 30% of equity.
- It must export at least 30% of its total turnover.
- It must register as an investor with the Rwanda Development Board and obtain a certificate of registration.

- It must comply with the relevant laws and regulations governing its sector and activities.
- It must submit annual reports and audited financial statements to the Rwanda Development Board and the Rwanda Revenue Authority.

Answer to Example 3: Film investor

Introduction

Considering the information provided regarding Akagera Productions' investment in the film industry, it is imperative to analyze the preferential tax incentives available and the conditions that must be met to benefit from these incentives. This advisory report will clarify the tax benefits, compliance requirements, and the strategic implications for Akagera Productions' financial planning.

Eligibility for Tax Incentives

Akagera Productions is eligible for the following tax incentives based on the activities and investment thresholds outlined in the scenario:

- **Value Added Tax (VAT) Incentive:** The company's local procurement of goods and services for the production and post-production of the animated series and feature film will be zero-rated for VAT purposes. This implies that Akagera Productions will not be charged VAT on these expenses or will be refunded which should be factored into the company's budgeting and pricing strategies.
- **Withholding Tax (WHT) Incentive:** For foreign specialized services procured, a preferential WHT rate of 0% is applicable. It is crucial to ensure that these services are included in the list approved by the Rwanda Film Office and the Rwanda Revenue Authority to qualify for this incentive.

Conditions for Incentive Qualification

To qualify for the incentives, Akagera Productions must adhere to the following conditions:

- **For the Animated Series (Post-Production):** The investment in post-production activities must be at least USD 150,000. Given that the budget is USD 200,000, this condition is satisfied.
- **For the Feature Film (Co-Production):** The co-production must receive majority funding from the foreign investor, which is the case with the Belgian film company's involvement.
- A minimum expenditure of USD 500,000 on activities within Rwanda is required. With a budget of USD 600,000, this criterion is met.
- At least 50% of the principal photography must be filmed in Rwanda for a minimum of four weeks. The six-week filming schedule with at least 50% taking place in Rwanda fulfills this requirement.

Qualifying Production and Post-Production Activities

The following are considered qualifying activities for the incentives:

- Costs of goods and services purchased in Rwanda related to production or post-production activities.

- Salaries and wages paid to Rwandan tax residents, both cast and crew, for services carried out in Rwanda.

Compliance and Documentation

To avail of these incentives, Akagera Productions must ensure proper documentation and compliance with the following:

- Registration with the Rwanda Development Board as an investor in the film industry.
- Certification from the Rwanda Film Office regarding the filming schedule and location.
- Maintenance of detailed records of all qualifying expenses and procurement of services.
- Inclusion of foreign specialized services in the approved list by the Rwanda Film Office and the Rwanda Revenue Authority.

Financial Planning and Tax Compliance Implications

The preferential tax incentives will have significant implications for Akagera Productions' financial planning and tax compliance:

- The zero-rating of VAT and WHT will reduce the overall cost of production and post-production, potentially increasing the profitability of the projects.
- The company must incorporate these tax benefits into its financial projections and cash flow management.
- Akagera Productions should establish robust accounting systems to track eligible expenses and ensure accurate tax reporting.
- Regular consultations with tax professionals are recommended to stay abreast of any changes in tax legislation that may affect the company's eligibility for these incentives.

Conclusion

Akagera Productions stands to benefit substantially from the preferential tax incentives offered to the film industry in Rwanda. By meeting the specified conditions and maintaining diligent compliance and documentation, the company can maximize its tax benefits, thereby enhancing its financial position and contributing to the growth of the Rwandan film industry.

Answer to Exercise 4

I. Sole Proprietorship Tax Implications:

- In Rwanda, a sole proprietorship is taxed under special tax regimes designed for micro-enterprises and other specific categories of taxpayers. The profits from the sole proprietorship are taxed as personal income of the owner, which simplifies tax reporting but also means that business income is subject to special tax rates.
- The entrepreneur must be aware that as a sole proprietor, they are responsible for reporting their business income on their personal tax return, and this income will be taxed at the applicable tax rates.

II. Partnership Tax Implications:

- Partnerships in Rwanda are considered 'tax transparent,' meaning they are not taxed at the entity level. Instead, the profits and losses are passed through to the individual partners who then report their share of the partnership's income or loss on their personal tax returns.
- Each partner's share is usually determined by the partnership agreement or, in the absence of such an agreement, by the proportion of their investment in the partnership.
- Partners must be prepared to pay tax on their share of the profits as they arise, regardless of whether the profits are distributed, and they can deduct their share of the partnership's business expenses to reduce their taxable income.

III. Company Tax Implications:

- Companies in Rwanda are subject to corporate tax on their profits, with the standard corporate income tax rate being 28%. This is separate from the personal income tax rates that apply to individuals who may be sole proprietors including partners.
- Dividends distributed to shareholders are subject to double taxation: first at the corporate level when profits are earned and again at the individual level when dividends are received. The effective tax rate on dividends can be calculated as 38.8% ($28 + ((100-28)*15\%)$), considering the corporate tax and the subsequent tax on dividends at the individual level.
- The entrepreneur should consider the implications of double taxation on dividends when deciding whether to incorporate, as this may influence the attractiveness of distributing profits versus reinvesting them in the company.

IV. Tax Considerations for Business Structure Choice:

- The entrepreneur should consider the simplicity and potential tax savings of a sole proprietorship against the benefits of tax transparency in a partnership, where income is only taxed once at the individual level.
- When considering a company, the entrepreneur must weigh the benefits of limited liability and perpetual existence against the corporate tax obligations and the potential for double taxation on dividends.
- It is essential for the entrepreneur to consider their long-term business goals, the expected profitability of the business, and their personal tax situation when choosing the most tax-efficient business structure.

Answer to Exercise 5: Non-Tax Considerations in Business Structure Decision-Making

i. Sole Proprietorship Non-Tax Implications:

- The entrepreneur must understand that a sole proprietorship offers complete control and autonomy over the business, which can be advantageous for quick decision-making and independence.
- However, a significant drawback is the unlimited personal liability, meaning the owner is personally responsible for all debts and obligations of the business, potentially putting personal assets at risk.

- Continuity is another concern, as the business does not have a separate legal existence and will cease to exist upon the owner's death, retirement, or decision to stop operating the business.

ii. Partnership Non-Tax Implications:

- In a partnership, liability can vary depending on the type of partnership formed. In a general partnership, all partners have unlimited liability, while in a limited partnership, liability is limited to the investment made by the limited partners.
- Control within a partnership is determined by the partnership agreement, which outlines how decisions are made and may assign certain partners to manage day-to-day operations.
- Continuity can be more complex in partnerships, as the partnership agreement should include provisions for the continuation of the business in the event of changes among the partners.

iii. Limited Liability Company Non-Tax Implications:

- A key advantage of a limited liability company is the limited liability protection for shareholders, which safeguards personal assets from the company's debts and obligations.
- Control of a company is typically vested in a board of directors, with shareholders having influence through voting rights. The company's management structure can be designed to suit the entrepreneur's business strategy.
- Companies enjoy perpetual existence, meaning the company can continue indefinitely, which provides stability and can be attractive to investors, employees, and customers.

iv. Recommendations for Balancing Non-Tax Considerations:

- The entrepreneur should carefully consider their willingness to accept personal liability and their desire for control when choosing a business structure. If personal asset protection is a priority, a limited liability company may be preferable.
- The need for autonomy versus collaboration should also be considered. A sole proprietorship offers the most control but also the most responsibility, while a partnership or company can allow for shared responsibility and potentially greater resources.
- The entrepreneur should also consider the long-term vision for the business, including plans for growth, attracting investment, and succession planning. A company structure may offer more options for expansion and continuity beyond the involvement of the original owners.
- Ultimately, the choice of business structure should align with the entrepreneur's business goals, management style, and risk tolerance, balancing these non-tax considerations to create a foundation for the business's success.

Answer to Exercise 6

Merger:

- **Tax Implications:** The transferring entities are exempt from capital gain tax on the transfer of assets and liabilities. The new entity assumes the rights and obligations without altering the book value of the transferred assets and liabilities.
- **Book Value and Depreciation:** Assets and liabilities are valued at their book value from the transferring entities, and the new entity continues to depreciate the business assets under the same rules as if the merger had not occurred.
- **Reserves and Provisions:** The new entity carries over the reserves and provisions of the transferring entities, subject to the original conditions.
- **Tax Exemptions:** Capital gain tax exemption on the transfer of assets and liabilities.

Acquisition/Takeover of Shares or Voting Rights:

- **Tax Implications:** Transferring shareholders are exempt from capital gain tax on the sale or transfer of shares or voting rights. The acquired entity remains a separate legal person without revaluation of its assets.
- **Book Value and Depreciation:** No depreciation of shares or voting rights as they are not considered business assets.
- **Reserves and Provisions:** Not applicable as the entity's structure remains unchanged.
- **Tax Exemptions:** Capital gain tax exemption on the transfer of shares or voting rights.

Acquisition/Transfer of Assets or Liabilities:

- **Tax Implications:** The transferring entity is exempt from capital gain tax on the transfer of assets or liabilities. The receiving entity values these at the book value of the transferring entity.
- **Book Value and Depreciation:** The receiving entity carries over the book value and continues depreciation under the same rules as the transferring entity.
- **Reserves and Provisions:** The receiving entity carries over related reserves and provisions, maintaining the same conditions.
- **Tax Exemptions:** Capital gain tax exemption on the transfer of assets or liabilities.

Acquisition/Transfer of the Entire Entity:

- **Tax Implications:** The transferring entity is exempt from capital gain tax on the transfer of shares, assets, and liabilities. The receiving entity becomes the new legal person.
- **Book Value and Depreciation:** The receiving entity values the transferred items at their book value and depreciates business assets according to the rules that would have applied to the transferring entity.
- **Reserves and Provisions:** The receiving entity carries over all reserves and provisions, subject to the original conditions.
- **Tax Exemptions:** Capital gain tax exemption on the transfer of the entire entity.

Splitting of an Entity:

- **Tax Implications:** The splitting entity is exempt from capital gain tax on the transfer of assets and liabilities to the new entities. The new entities assume the rights and obligations of the splitting entity.
- **Book Value and Depreciation:** The new entities value the assets and liabilities at their book value at the time of the split and continue depreciation under the same rules.
- **Reserves and Provisions:** The new entities carry over the reserves and provisions of the splitting entity, maintaining the same conditions.
- **Tax Exemptions:** Capital gain tax exemption on the transfer of assets and liabilities during the split.

In advising the corporation, it is essential to weigh the operational goals against the tax implications of each option. The choice should align with the corporation's strategic objectives while ensuring compliance with tax regulations and seeking to optimize tax efficiency. Each option presents unique benefits and drawbacks, and the decision should be made in the context of the corporation's specific circumstances and long-term plans.

Answer to Exercise 7: Company Reorganisation and Tax Consequences

To advise the board of directors on the tax consequences and the impact on the book value of assets for both options, we need to consider the tax exemptions, the valuation of assets and liabilities, and the treatment of reserves and provisions.

Option 1: Merger with ABC Corporation

- **Tax Consequences:** Since the transferring entities are exempt from capital gain tax on the transfer of their assets and liabilities, XYZ Corporation will not incur any capital gains tax from the merger.
- **Book Value of Assets:** The new entity, ABC Corporation, will value the assets and liabilities at their book value, which is Frw10Bn for assets and Frw4Bn for liabilities for Division A, and Frw6Bn for assets and Frw2Bn for liabilities for Division B. The total book value of assets will be Frw16Bn, and the total liabilities will be Frw6Bn.
- **Reserves and Provisions:** ABC Corporation will carry over the reserves and provisions of Frw3Bn from XYZ Corporation.
- **Depreciation:** ABC Corporation will depreciate the business assets over 10 years using the straight-line method. The annual depreciation expense will be Frw1.6Bn (Frw16Bn / 10 years).

Option 2: Split into X-Corp and Y-Corp

- **Tax Consequences:** Similar to the merger, the splitting entity is exempt from capital gain tax on the transfer of its assets and liabilities. Therefore, XYZ Corporation will not incur any capital gains tax from the split.
- **Book Value of Assets for X-Corp:** X-Corp will take over Division A with assets valued at Frw10Bn and liabilities of Frw4Bn. The book value of assets remains at Frw10Bn.
- **Book Value of Assets for Y-Corp:** Y-Corp will take over Division B with assets valued at Frw6Bn and liabilities of Frw2Bn. The book value of assets remains at Frw6Bn.
- **Reserves and Provisions:** X-Corp and Y-Corp will carry over the reserves and provisions based on their attributable operations. Since the reserves and provisions are equally

attributable, each new entity will carry over Frw1.5Bn.

- Depreciation for X-Corp: X-Corp will depreciate its assets over 10 years using the straight-line method. The annual depreciation expense will be Frw1Bn (Frw10Bn / 10 years).
- Depreciation for Y-Corp: Y-Corp will also depreciate its assets over 10 years using the straight-line method. The annual depreciation expense will be Frw600,000 (Frw6Bn / 10 years).

In conclusion, both options provide a tax exemption on capital gains for XYZ Corporation. The choice between a merger and a split should be based on strategic business considerations, such as the desired structure, control, and future plans for each division. The tax consequences are neutral in terms of capital gains tax; however, the depreciation expenses will differ, impacting the annual taxable income of the resulting entities. ABC Corporation will have a higher annual depreciation expense of Frw1.6Bn compared to the combined depreciation expense of Frw1.6Bn for X-Corp and Y-Corp. This could potentially lead to lower taxable income for ABC Corporation in the case of a merger, assuming all other factors remain constant.

Answer to Exercise 6: Taxation of Corporate Ownership Changes and Business Liquidation

1. Tax Implications of Change in Ownership: Under the specified tax rules, XYZ Corp's potential change in ownership would have significant tax implications regarding its accumulated tax losses. Since an investor is acquiring a 30% stake, which exceeds the 25% threshold for a change in ownership, XYZ Corp would forfeit its right to carry forward the Frw500,000,000 in tax losses. This forfeiture applies to the tax period during which the ownership change occurs and any preceding tax periods. The rationale behind this rule is to prevent companies from being acquired primarily for their tax losses without a genuine business purpose.
2. Internal Business Reorganization: If XYZ Corp opts for an internal business reorganization that does not alter the composition of the shareholders, the tax losses can be preserved. Since the existing shareholders have been part of the company for over three years, they meet the requirement for the exception to the forfeiture rule. This provision is designed to allow companies to restructure internally without losing their tax attributes, such as accumulated losses, as long as there is continuity of ownership. Therefore, in this scenario, XYZ Corp would retain its ability to carry forward the Frw500,000,000 in tax losses.
3. Tax Treatment of Business Liquidation: Regarding ABC Ltd's liquidation, the residual amount of Frw200,000,000 distributed to shareholders is classified as a dividend distribution. This distribution is taxable in the final tax period of the company's operations. Shareholders must recognize this final distribution as dividend income and report it on their tax returns. The tax treatment of this distribution ensures that the residual value of the liquidated assets is appropriately taxed as income to the shareholders, reflecting the economic benefit they receive from the dissolution of the business.

In conclusion, the tax implications of changes in corporate ownership and business liquidation are complex areas of tax law that require careful consideration of the specific rules and exceptions that apply. Companies and shareholders must be aware of these rules to ensure compliance and optimal tax planning.

Answer to Exercise 9: Lease Transactions and Tax Deductions under Income Tax Law No. 027/2022

1. Tax-Deductible Amount for 2023:

- Under Income Tax Law No. 027/2022, the tax deduction for an operating lease is based on the actual lease payments made during the year.
- Tax-Deductible Amount = Actual Lease Payment for 2023
- Tax-Deductible Amount = Frw100,000,000

2. Discrepancy Between Accounting and Tax Treatment:

- Under IFRS 16, XYZ Corporation recognizes a right-of-use asset and a lease liability on its balance sheet for the operating lease. This results in depreciation of the right-of-use asset and interest expense on the lease liability being recognized in the profit and loss account.
- However, for tax purposes, the lease is still treated as an operating lease, and the right-of-use asset and lease liability are not recognized. Instead, the actual lease payments are deductible for tax purposes.
- This creates a discrepancy where the financial statements reflect a higher asset base and liabilities, while for tax purposes, the expenses are recognized as they are paid, potentially leading to different timing of expense recognition and affecting the taxable income.

3. Financial and Tax Implications for XYZ Corporation:

- Financial Statement Implications: XYZ Corporation will show a higher asset and liability on its balance sheet, which may affect financial ratios and covenants. The profit and loss account will reflect depreciation and interest expense, which could lower the reported profit.
- Tax Implications: The corporation will not get a tax deduction for the depreciation of the right-of-use asset or the interest expense. Instead, the tax deduction is limited to the actual lease payments made, which could result in a higher taxable income compared to the accounting profit.
- XYZ Corporation should maintain separate calculations for accounting and tax purposes to ensure compliance with both IFRS 16 and Income Tax Law No. 027/2022. The company should also consider the impact of these differences on its tax planning and financial reporting processes.

Answer to Exercise 10: Leasing Vs Outright purchase

1. Tax Implications:

Leasing the equipment would allow XYZ Corp to deduct the lease payments as a business expense, which would reduce taxable income in the period the payments are made. If XYZ Corp opts for an operating lease, the entire lease payment is deductible. In the case of a finance lease, XYZ Corp could deduct both depreciation and interest expense. However, leasing does not provide ownership equity or the ability to claim depreciation deductions beyond the interest portion of a finance lease.

Purchasing the equipment outright would enable XYZ Corp to claim capital allowances on the asset, spreading the cost over the asset's useful life and reducing taxable profits each year. This provides a tax shield and can be a significant tax advantage. Additionally, if the asset appreciates and is sold for more than its depreciated value, XYZ Corp may benefit from capital gains treatment.

2. Cash Flow Considerations:

Leasing typically requires less upfront cash, which can be beneficial for cash flow management. The regular lease payments are predictable and can be budgeted for, but over the long term, leasing may result in higher costs due to the cumulative lease payments.

In contrast, purchasing the equipment requires a substantial upfront investment, which could impact XYZ Corp's cash flow. However, owning the equipment means that there are no ongoing lease payments, and the asset could potentially be sold in the future, possibly recouping some of the initial outlay.

3. Asset Management and Risk of Obsolescence:

Leasing offers flexibility and adaptability, as XYZ Corp can upgrade to new equipment at the end of the lease term without the hassle of selling old equipment. This is particularly advantageous for assets that depreciate quickly or become obsolete. The risk of obsolescence is borne by the lessor, not XYZ Corp.

Purchasing the equipment places the risk of obsolescence on XYZ Corp, which could result in being stuck with outdated equipment. However, ownership means XYZ Corp can build equity in the asset and use it as collateral or sell it, potentially at a gain.

4. Recommendation:

Considering the critical nature of the equipment for XYZ Corp's operations, the need for flexibility in the face of potential obsolescence, and the importance of managing cash flow, leasing may be the more prudent option. The immediate deductibility of lease payments can provide a tax benefit, and the off-balance-sheet financing can improve financial ratios. However, if XYZ Corp has sufficient cash reserves and prefers to build equity in the asset, purchasing could be considered, especially if the equipment is expected to have a long useful life beyond the 7 years and is not prone to rapid technological obsolescence.

Ultimately, the decision should align with XYZ Corp's financial strategy, tax planning objectives, and operational needs. If preserving cash flow and maintaining flexibility to adapt to technological changes are priorities, leasing is recommended. If XYZ Corp values the long-term financial benefits of ownership and the associated tax advantages

and is prepared to manage the risks of obsolescence and upfront costs, purchasing may be the better route.

Answer to Exercise 11: Tax Implications of Asset and Share Disposals for Sellers and Buyers

1. Sale of Assets:

- If XYZ Corporation sells the equipment for more than its tax book value, the excess amount will be subject to capital gains tax at the same rate as ordinary income. The exact tax liability would depend on the sale price and the tax book value at the time of sale.
- The claw back tax would apply to the investment allowance claimed on the equipment if sold within three years. This means that the 50% investment allowance previously claimed would be added back to XYZ Corporation's taxable income, taxed at the ordinary income rate.
- A balancing allowance would be available if the property is sold for less than its tax book value, which is zero in this case. Since the property cannot be sold for less than zero, no balancing allowance would apply.
- VAT implications for the seller would include charging VAT on the sale of the assets, which can be reclaimed by the buyer if they are VAT registered.

2. Sale of Shares:

- The capital gains tax liability for the shareholders would be 5% of the gain, which is the difference between the sale price and the acquisition cost of the shares.
- Selling shares may be more tax-efficient for the seller, especially if there is significant claw back tax on the assets, as the capital gains tax rate on shares is lower than the tax rate on ordinary income.
- The buyer would take over the company with all its liabilities, including potential hidden tax liabilities, and would not get a step-up in the basis of the assets, meaning no capital allowances can be claimed based on the purchase price of the shares.

3. Comparative Analysis:

- The sale of assets may result in a higher tax liability for the seller due to capital gains tax and potential claw back of investment allowances. However, the buyer may benefit from capital allowances on the purchased assets.
- The sale of shares is generally more tax-efficient for the seller due to the lower capital gains tax rate. However, the buyer does not benefit from a step-up in the basis of the assets and assumes all historical liabilities of the company.

4. Recommendation:

- The most tax-efficient method of disposal for XYZ Corporation would depend on the specific values involved in the transaction and the negotiation between the seller and the buyer. Generally, if minimizing tax liability is the primary concern for the seller and the capital gains on the shares are significant, selling the shares may be more advantageous. However, if the buyer is looking to maximize future tax benefits, purchasing the assets may be preferable. Negotiations will likely involve a trade-

off between these competing interests, and the final decision should align with the strategic objectives of both parties.

Answer to Exercise 12: Calculation of Tax Liability on Disposal of Assets

Description	Calculation	Amount (Frw)
Original Cost of Machinery		100,000,000
Investment Allowance (50%)	$100,000,000 * 50\%$	(50,000,000)
Net Book Value after Investment Allowance	$100,000,000 - 50,000,000$	50,000,000
Annual Depreciation (25%)	$100,000,000 * 25\%$	(25,000,000)
Depreciation for Year 1		(25,000,000)
Depreciation for Year 2		(25,000,000)
Depreciation for Year 3		(25,000,000)
Accumulated Depreciation (3 years)	$25,000,000 * 3$	(75,000,000)
Tax Book Value at Time of Sale	$50,000,000 - 75,000,000$	(25,000,000)
Sale Proceeds		80,000,000
Balancing Charge (Sale Proceeds - Tax Book Value)	$80,000,000 - (-25,000,000)$	105,000,000
Capital Gains Tax Liability (28%)	$105,000,000 * 28\%$	29,400,000
Claw Back of Investment Allowance	$50,000,000 * 28\%$	14,000,000
Total Tax Liability before VAT	$29,400,000 + 14,000,000$	43,400,000
VAT on Sale (18%)	$80,000,000 * 18\%$	14,400,000
Total Tax Liability	$43,400,000 + 14,400,000$	57,800,000

Explanation:

- The original cost of the machinery was Frw100,000,000.
- An investment allowance of 50% was claimed, reducing the net book value to Frw50,000,000.
- Annual depreciation of 25% was claimed for three years, totalling Frw75,000,000.
- The tax book value at the time of sale was negative Frw25,000,000 (indicating accumulated depreciation exceeded the net book value after the investment allowance).

- The sale proceeds were Frw 80,000,000, resulting in a balancing charge of Frw1 05,000,000.
- The capital gains tax liability on the balancing charge at 28% is Frw29,400,000.
- The claw back tax on the investment allowance is Frw14,000,000 (since the asset was sold within three years of claiming the allowance).
- The total tax liability before VAT is Frw43,400,000.
- VAT on the sale at 18% is Frw14,400,000.
- The total tax liability including VAT is Frw57,800,000.

XYZ Ltd. will have a total tax liability of Frw57,800,000 on the disposal of the machinery.

Answer to Exercise 11: Comparative Analysis of Tax Implications on Disposal of Company Assets vs. Shares

1. Sale of Equipment

Description	Amount (Frw)
Sale Proceeds	130,000,000
Tax Book Value	(100,000,000)
Capital Gain (Sale – Book)	30,000,000
Investment Allowance (50%*150,000,000)	75,000,000
Claw Back Tax (28% of 75,000,000)	21,000,000
Capital Gains Tax (28% of 30,000,000)	8,400,000
VAT on Sale (18%)	23,400,000
Total Tax Liability	52,800,000

2. Sale of Shares

Description	Amount (Frw)
Sale Proceeds	250,000,000
Acquisition Cost	200,000,000
Capital Gain (Sale - Cost)	50,000,000
Capital Gains Tax (5%)	2,500,000
VAT on Sale (Exempt)	0
Total Tax Liability	2,500,000

If XYZ Corporation decides to sell the equipment, the net tax liability would be Frw52,800,000 which includes the claw back tax on the investment allowance, capital gains tax, and VAT on the sale. If XYZ Corporation decides to sell the shares, the net tax liability would be Frw2,500,000 which is solely the capital gains tax, as the sale of shares is VAT exempt.

Conclusion:

From the calculations above, it is evident that selling the shares results in a significantly lower tax liability for XYZ Corporation compared to selling the equipment. This is due to the lower capital gains tax rate on shares, the absence of VAT, and the lack of claw back tax implications for the sale of shares.

Answer to Exercise 14: Source of funding

1. Tax Treatment of Interest Expense on Debt:

- When a company opts for debt financing, the interest expense incurred on the debt, such as bonds, is generally tax-deductible. This means that the company can reduce its taxable income by the amount of interest paid, leading to a lower tax liability. The benefit of this tax treatment is that it can make debt financing more attractive as it effectively lowers the cost of borrowing.
- However, the company must also consider the risks associated with increased leverage, such as the obligation to make interest payments regardless of business performance, which can strain cash flow. Additionally, excessive borrowing may lead to a higher debt-to-equity ratio, potentially affecting the company's credit rating and its ability to secure future financing.

2. Tax Treatment of Dividends on Equity:

- In the case of equity financing, shareholders may receive dividends from the profits of the company. These dividends are subject to taxation at the shareholder level. It is important to note that dividends are paid out of profits that have already been taxed at the corporate level at a rate of 28%. Subsequently, when dividends are distributed,

they are further taxed at the shareholder level at 15%, unless reduced tax rates or credits apply. This would result in an effective tax rate of 38.8% ($28\% + (100 - 28 \times 15\%)$)

- This double taxation of dividends (first at the corporate level and then at the shareholder level) can be a disadvantage as it may reduce the net return on investment for shareholders. The company must consider this when deciding whether to issue new shares, as the prospect of double taxation might make equity financing less attractive to potential investors.

3. Comparative Analysis of Tax Advantages and Disadvantages:

- Debt financing offers a clear tax advantage due to the deductibility of interest expenses, which can lower the overall cost of capital. However, the financial risk associated with debt must be carefully managed.
- Equity financing does not provide a tax deduction for the company, and the double taxation on dividends can be seen as a disadvantage. However, it does not increase the company's debt burden and provides no obligation to make periodic payments, which could be beneficial during periods of low profitability.
- In conclusion, the choice between debt and equity financing from a tax perspective depends on the company's current financial situation, future earnings expectations, and the overall tax strategy. While debt financing may offer immediate tax benefits, the implications of additional leverage and the cost of capital must be weighed. Equity financing may be more expensive after-tax but could provide a more stable capital base for the company's expansion.

The CFO should consider these tax implications alongside other financial and strategic factors to determine the most suitable financing option for the company's expansion.

Answer to Exercise 15: Tax implications of Source of funding

Description	Equity Financing (Issuing Shares)	Debt Financing (Taking a Loan)
Immediate Tax Implications	No immediate tax liability on issuance of shares.	No immediate tax liability on loan receipt.
Annual Profit Before Tax	Frw5,000,000	Frw5,000,000
Dividend/Interest Payment	Frw400,000 (Frw50 * 10,000 shares * 80%)	Frw1,000,000 (10% of Frw10,000,000 loan)
Tax Deductibility	Not applicable	Frw1,000,000 (Interest is tax-deductible)
Taxable Income After Deductions	Frw5,000,000	Frw4,000,000 (Frw5,000,000 - Frw1,000,000)
Withholding Tax Rate on Distribution	5% on dividends	15% on interest

Description	Equity Financing (Issuing Shares)	Debt Financing (Taking a Loan)
Withholding Tax Amount	Frw20,000 (5% of Frw400,000)	Frw150,000 (15% of Frw 1,000,000)
Net Distribution After Withholding Tax	Frw380,000 (Frw400,000 – Frw 20,000)	Frw850,000 (Frw1,000,000 – Frw 150,000)
Annual Tax Savings/Cost	Not applicable	Frw280,000 (Tax savings from interest deduction (1,000,000*28%))
Net Annual Return to Investors/Lenders	Frw380,000	Frw850,000

Notes:

- The immediate tax implications for both options are nil as the issuance of shares and the receipt of a loan do not incur immediate tax liabilities.
- The annual tax savings for the company in the debt financing option is the tax shield benefit from the interest deduction (Frw280,000), calculated as 28% of the interest payment.
- The net annual return to investors or lenders after tax takes into account the withholding tax on dividends or interest, respectively.
- The debt financing option appears to provide a higher net annual return to lenders after tax compared to the return to shareholders through dividends.
- The thin capitalization rules have not been breached in the debt financing option as the debt-to-equity ratio (i.e. Frw10m debt and Frw15m equity) remains within the 4:1 limit.

Answer to Exercise 16: Ethical Tax Planning Advice

1. Ethical Principles Governing Tax Advice:

- Client-Specific Advice: The advice provided to XYZ Ltd. must be tailored to the company's specific situation, ensuring relevance and compliance with tax laws.
- Legal Compliance: All recommended tax planning strategies must be grounded in current tax law, avoiding any aggressive interpretations that could be considered abusive.
- Full Disclosure: Transparency with tax authorities is crucial. The company should be encouraged to make all necessary disclosures and provide complete and accurate information.
- Risk Awareness: The company should be informed of the broader implications of their tax planning decisions, including potential economic, commercial, and reputational risks.
- Professional Standards: As a CPA, adherence to professional standards and codes of conduct is mandatory, including integrity, objectivity, and due care.

2. Steps for Providing Ethical Tax Advice:

- **Assess the Client's Situation:** Begin with a thorough understanding of XYZ Ltd.'s financial status and business activities.
- **Research and Analysis:** Conduct detailed research to identify applicable tax laws and opportunities that apply to the client's specific situation.
- **Develop Strategies:** Formulate tax planning strategies that are effective, legal, and do not exploit loopholes or rely on incomplete disclosures.
- **Evaluate Risks:** Consider the potential risks associated with each tax planning strategy, including scrutiny from tax authorities and reputational impact.
- **Present Options:** Clearly present various tax planning options to the CFO, outlining the benefits and risks, and provide a recommendation while allowing the client to make an informed decision.
- **Documentation:** Keep comprehensive records of all advice provided, including the rationale for recommendations and the client's decisions.
- **Continuous Education:** Stay informed about changes in tax laws and ethical standards to ensure that advice remains current and compliant.
- **Client Education:** Educate the CFO about tax obligations and the importance of ethical compliance, encouraging engagement in the tax planning process.

3. Risks Associated with Aggressive Tax Planning:

- The risks include increased scrutiny from tax authorities, potential fines and penalties if strategies are deemed non-compliant, and damage to the company's reputation. It is important to communicate these risks to the CFO, emphasizing the importance of sustainable and ethical tax practices over short-term gains.

4. Potential Consequences of Non-Compliant or Unethical Tax Planning:

- For the tax adviser, consequences could include professional disciplinary action, loss of license, damage to reputation, and legal repercussions.
- For XYZ Ltd., consequences could range from financial penalties and back taxes to reputational damage and loss of investor confidence. It is crucial to outline these potential outcomes to the CFO to ensure that the company's tax planning strategies align with ethical and legal standards.

References and further reading

1. LAW N° 027/2022 OF 20/10/2022 ESTABLISHING TAXES ON INCOME
2. LAW N° 049/2023 OF 05/09/2023 ESTABLISHING VALUE ADDED TAX
3. LAW N° 006/2021 OF 05/02/2021 ON INVESTMENT PROMOTION AND FACILITATION
4. LAW N° 050/2023 OF 05/09/2023 ESTABLISHING THE EXCISE DUTY
5. LAW N° 048/2023 OF 05/09/2023 DETERMINING THE SOURCES OF REVENUE AND PROPERTY OF DECENTRALIZED ENTITIES
6. LAW N° 020/2023 OF 31/03/2023 ON TAX PROCEDURES
7. THE EAST AFRICAN COMMUNITY CUSTOMS MANAGEMENT ACT (EACCMA)
8. THE EAST AFRICAN COMMUNITY COMMON EXTERNAL TARIFF (CET)
9. PRESIDENTIAL ORDER N° 086/01 OF 12/12/2024 DETERMINING THE CONTRIBUTION RATE TO MANDATORY PENSION SCHEME

Unit A Answers to the quizzes

Quiz 1: Answer – Determination of taxable income

Answer to Quiz 1.1 TechGlobal Inc

Under the Rwandan tax system, income from digital services provided to clients within Rwanda is recognized as a taxable source, even for non-resident companies like TechGlobal Inc. The source rules dictate that income perceived to originate from within the borders of Rwanda is subject to Rwandan tax. Since TechGlobal Inc. is earning income from Rwandan users, this income is considered to originate from Rwanda.

Therefore, TechGlobal Inc. would be liable to pay taxes on the Frw50,000,000 earned from its digital services in Rwanda. The fact that TechGlobal Inc. does not have a physical presence in the country does not exempt it from taxation on income generated from its Rwandan user base. This aligns with the international taxation principles that aim to prevent tax base erosion due to cross-border services and ensures that income from digital services is taxed where the economic activity occurs.

Answer to Quiz 1.2: TechNovation Solutions

General comment: Sourcing provisions are covered by Article 6 (Source of taxable income) of Law N° 027/2022 of 20/10/2022 establishing taxes on income. During the exams students will not be expected to provide citation for tax provision; however, students should read this e-learn along with the income tax law.

1. **Income from Digital Services:** The income from cloud services provided to a Rwandan bank by TechNovation Solutions is taxable in Rwanda. According to the source rules, income from digital services is recognized as a taxable source when it originates from within Rwanda. The fact that the services are delivered over the internet to a Rwandan entity establishes the source of income within Rwandan borders.
2. **Employment and Services:** The remuneration received by Rwandan residents working in TechNovation Solutions' customer support office in Rwanda is subject to Rwandan tax. This includes salaries, bonuses, and allowances, as they are considered income from services and employment under Rwandan tax law.
3. **Professional Activities:** The income derived from professional services provided by Rwandan artists contracted by TechNovation Solutions is taxable in Rwanda. Even though the digital content is sold to clients outside Rwanda, the services are performed in Rwanda, and thus the income is deemed to originate from within the country.
4. **Permanent Establishment:** The income generated by TechNovation Solutions through its permanent establishment in Rwanda, including the data center, is taxable in Rwanda. The source rules stipulate that non-residents operating through a permanent establishment in Rwanda are liable to tax on the income generated from such establishments.
5. **Investment Income:** The profit from the sale of shares in a Rwandan startup company by TechNovation Solutions is subject to tax in Rwanda. Investment income, including income from the sale or transfer of shares, is taxable under the source rules.
6. **Intellectual Property:** The income from the transfer, sale, and lease of the patent acquired by TechNovation Solutions is taxable in Rwanda. Income from intellectual

property rights, when such rights are utilized or registered in Rwanda, falls under the Rwandan tax jurisdiction.

Answer to Quiz 1.3: XYZ Corporation – Residence rules

Tax Residency Status: XYZ Corporation's tax residency status in Rwanda hinges on the criteria for corporate residency as outlined by Rwandan tax law. The key factors to consider are:

- **Incorporation:** XYZ Corporation is incorporated in Country A, not Rwanda, which does not automatically qualify it as a resident company under Rwandan law.
- **Management Location:** The effective management of the Rwandan branch is conducted within Rwanda by the country manager. This suggests that the company could be considered a resident for tax purposes, as the strategic decisions affecting the local operations are made in Rwanda.
- **Government Ownership:** There is no indication that the Rwandan Government owns XYZ Corporation, so this criterion is not applicable.

Given that the country manager, who is likely a key executive, is making strategic decisions within Rwanda and has a significant physical presence in the country, it is plausible that the effective management of the branch is taking place in Rwanda. This would likely qualify the Rwandan branch of XYZ Corporation as a resident entity for tax purposes.

Tax Liabilities: As a resident entity, XYZ Corporation's Rwandan branch would be liable for taxation on its worldwide income, not just the income sourced within Rwanda. This includes revenues from contracts with local businesses and possibly other income attributed to the operations of the Rwandan branch.

Additional Information Required: To make a definitive determination of XYZ Corporation's tax residency status, the following additional information would be necessary:

- The specific roles and responsibilities of the country manager and whether they have the authority to make decisions that are considered strategic and central to the management of the company.
- The location where the board of directors of XYZ Corporation exercises overall control and where the highest level of management decisions are made.
- The residency status of key shareholders and directors, which could influence the determination of where effective management is taking place.
- Details on the operation of the business, such as whether technological means like an online trading platform are used to conduct operations within Rwanda.

In conclusion, while the scenario suggests that XYZ Corporation's Rwandan branch could be considered a resident entity due to the effective management criterion, a definitive assessment would require further details about the company's management structure and decision-making processes.

Quiz 2: Answer –Special Tax Regimes Advisory

Answer to Quiz 2.1: XYZ Enterprises

1. Current Tax Regime for XYZ Enterprises

Given the current annual turnover of Frw11,500,000, XYZ Enterprises falls under the category of micro-enterprises. Therefore, they are subject to the 'flat tax' regime, where they would pay a flat amount of tax based on their turnover. Since their turnover does not exceed Frw12,000,000 but above Frw10,000,000 they would be liable to pay tax of Frw300,000.

2. Projected Turnover Increase and Tax Implications

With a projected 50% increase in turnover, XYZ Enterprises' turnover for the next financial year would be approximately Frw17,250,000. This would place them in the category of small businesses with a turnover between Frw12,000,001 and Frw20,000,000. Consequently, they would be subject to the 'turnover tax' regime, which calculates income tax liability at 3% of total turnover without deductions for expenses or allowances for assets.

3. Expansion into architectural services – Liberal professions.

If XYZ Enterprises expands into a line of business that qualifies as a liberal profession, they must operate under the 'real regime' as the turnover tax and flat tax systems do not apply to liberal professions. This means they would need to prepare financial statements in accordance with local GAAP and pay corporate income tax at 28% of their taxable income.

4. Opting Out of the Turnover Tax Regime

Opting out of the turnover tax regime and into the 'real regime' is an irrevocable decision for three years. XYZ Enterprises would need to prepare accounts in accordance with local GAAP unless they request and are granted a simplified method of accounting. While this could potentially allow for more deductions and a lower tax liability, it also requires more comprehensive record-keeping and could result in higher compliance costs.

5. Tax Implications of Planned Asset Investments

Investing in significant assets could impact XYZ Enterprises' tax liabilities, especially if they opt for the 'real regime'. Under this regime, they may be able to claim depreciation on assets, which could reduce their taxable income. However, this would require careful planning and consideration of the timing of asset purchases and the method of depreciation used.

In conclusion, XYZ Enterprises should carefully consider their current and projected financial situation, the nature of their business activities, and their willingness to comply with more complex accounting requirements before deciding on their tax regime. It is crucial to weigh the potential tax savings against the administrative burden and compliance costs associated with each regime.

Quiz 3: Answer – Complex personal income tax scenarios

Answer to Quiz 3.1 Rental income – Advisory on tax planning.

Ms. Jane Smith should consider the following tax implications and strategies:

Rental Income from Land and Buildings:

- Without repairs, her taxable income from the building would be Frw25,000,000 (Frw50,000,000 – 50% deemed expense).
- If she proceeds with the repairs, she cannot claim the actual expenses since the tax law provides a deemed expense of 50%. However, the repairs could be considered a capital improvement, potentially increasing the property's value and rental income in the future.

Rental Income from Machinery and Equipment:

- The current taxable income from machinery rental is Frw27,000,000 (Frw30,000,000 – 10% deemed expense of Frw3,000,000).
- If she purchases new machinery, she can reduce her taxable income by the interest paid on the loan and tax depreciation expenses. Assuming a 5% interest rate on a Frw20,000,000 loan, the annual interest would be Frw1,000,000. The tax depreciation expense would depend on the depreciation rate applicable to the new machinery.

Tax Planning Advice:

Ms. Smith should evaluate whether the repairs on the building qualify for capital improvement and consider the long-term benefits of such an investment.

For the machinery, taking out a loan to finance the purchase could be beneficial as the interest expense would reduce her taxable income. Additionally, the new machinery would likely qualify for tax depreciation, providing further tax relief.

Ms. Smith should also consider the timing of these expenses and purchases to align with her cash flow and to optimize tax benefits.

It is important to keep detailed records of all expenses and to consult with a tax professional to ensure compliance with local tax laws and to fully understand the tax benefits of capital improvements versus repairs.

In conclusion, Ms. Smith's decisions should be based on a careful analysis of the immediate tax savings versus the long-term investment benefits, as well as compliance with the tax regulations applicable to non-resident taxpayers.

Answer to Quiz 3.2: Rental income– Machinery and equipment

i) Taxable income

			Frw
Gross income			120,000,000
Less: Allowable expenses	$120,000,000 \times 10\%$	12,000,000	
Interest expenses	$25,000,000 \times 20\%$	5,000,000	
Depreciation	See Working 1 (W)	7,500,000	(24,500,000)
Taxable income			95,500,000

Working 1

Period	Depreciation (25%)	Acc. Depreciation	TWDV
1	$[\text{Cost } 40,000,000 \times 25\%]$ $=10,000,000$	10,000,000	30,000,000
2	$[\text{TWDV } 30,000,000 \times 25\%]$ $=7,500,000$	17,500,000	22,500,000

Quiz 4: Answer – Employed Vs Self-employed.

Answer to Quiz 4.1: Assessment of Employment Status

1. Assessment of Employment Status:

- Jane's situation suggests a mixture of factors that need to be carefully considered. The provision of a desk and the use of Artify Ltd.'s equipment, along with set working hours, indicate a degree of control and integration into the organisation, which are characteristics of an employed status. However, the lack of employee benefits, the method of invoicing for services, and the absence of close supervision suggest self-employment. Given the complexity of the situation, a more in-depth analysis of Jane's contract and working arrangements is necessary to determine her status definitively.

2. Tax Implications:

- If Jane is considered employed, her income would be subject to Pay As You Earn (PAYE) tax, and Artify Ltd. would be responsible for withholding taxes and paying employer's Social Security Contributions (RSSB). As an employee, Jane would be entitled to employment rights and benefits, such as sick pay and holiday pay.
- On the other hand, if Jane is self-employed, she would be responsible for paying her own Income Tax through Self-Assessment. She would be able to deduct allowable

business expenses before determining her taxable profit, which could potentially reduce her tax liability. However, she would not be entitled to employee benefits.

3. Compliance Steps:

Jane should:

- Obtain a professional review of her contract and working arrangements.
- Keep detailed records of all her income and expenses.
- Register for Self Assessment if she is self-employed or ensure that Artify Ltd. is handling her taxes correctly if she is an employee.
- Consider seeking a ruling from the tax authority if there is uncertainty about her status.
- Stay informed about changes in tax legislation that may affect her status and obligations.

Answer to Quiz 4.2: Deductible expenses for self-employed individuals

1. Identification of Deductible Expenses:

- The high-end computer and specialized software are deductible – as depreciation allowances – as they are necessary for John’s software development work. The travel and accommodation expenses related to the technology conference can also be deductible, provided they were solely for business purposes. The use of a home office that is used exclusively for work can qualify for a deduction based on the proportion of the home used for business.

2. Criteria for Deductibility:

- For an expense to be deductible, it must be:
 - incurred wholly and exclusively for the purpose of the business
 - must correspond to a real expense and be substantiated with proper documentation, such as electronic invoices or receipts that are accepted by the tax administration.
 - lead to a decrease in the net assets of the business.
 - be used for activities related to the tax period in which they are incurred.
- It should not be capital in nature, although capital allowances may be available on certain capital expenses. Personal or dual-purpose expenses are not deductible, and if an expense has both personal and business elements, only the business portion can be claimed.

3. Documentation and Reporting Advice:

John should:

- Keep all receipts and invoices related to his business expenses.
- Maintain a detailed log of his business use of the home office, including measurements and utility costs.

- Separate personal and business finances and use a dedicated business bank account for all transactions.
- Prepare and retain a detailed record of the business purpose for attending the conference.
- Report all deductible expenses accurately on his Self-Assessment tax return, ensuring that he claims only for allowable expenses.
- Consider using accounting software to track his income and expenses, which can simplify reporting and compliance.

Quiz 5: Answer– Employment income computations

Answer to Quiz 5.1: Employment income calculation

The computation of his taxable employment income is shown in the table below:

Particulars	Ref.	Workings	Amount in RWF
Salary	a	800,000 x 12	9,600,000
Add allowances:			
Communication allowance	b	100, 000 x 12	1,200,000
Overtime allowance	c	50,000 x 12	600,000
Total allowances			1,800,000
Employment income			11,400,000
Add benefits in kind:			
Company house	d	(11,400,000 x 20%)-1,200,000	1,080,000
A company car	e	11,400,000 x 10%	1,140,000
Domestic staff	f	80,000 x 2 x 12	1,920,000
Medical contribution	g&h	(80 000-50,000) x 12	360,000
Mission allowance	i	Not taxable	0
Medical expenses for wife	j	Benefit= cash paid by the company	2,000,000
Total benefits in kind			6,500,000
Total employment income			17,900,000

Quiz 6: Answer – Complex Corporate Tax Scenarios (tax of foreign income, Reliefs, and losses)

Quiz 6.1: Determination of Tax Liability for Resident Taxpayers

Correct Answer: C. Kigali Enterprises should report Frw150 million as taxable income in Rwanda and claim a foreign tax credit of Frw14 million, which is the limit of the Rwandan tax payable on the Burundian income. The foreign tax credit is limited to the amount of Rwandan tax payable on the foreign income, which in this case is 28% of Frw50 million, equating to Frw14 million.

Quiz 6.2: Tax Obligations of Non-Resident Taxpayers

Correct Answer: C. The Rwandan company must withhold corporate income tax at the source at a rate of 15% and remit Frw3 million to the Rwandan tax authorities on behalf of Nile Tech. Since Nile Tech does not have a permanent establishment in Rwanda and there is no DTA in place, the Rwandan company is required to withhold the tax at source and pay it to the tax authorities.

Quiz 7: Answer – Tax-Avoidance Provisions

Answer to Quiz 7.1: Thin Capitalisation Rule

Under the thin capitalisation rule, the deductibility of interest paid on loans between related persons is limited when the total loans exceed four times the paid-up equity. For XtraFin Ltd., the maximum allowable loan amount at four times the paid-up equity is Frw200 million ($4 \times \text{Frw}50 \text{ million}$). Therefore, the excess loan amount is Frw50 million ($\text{Frw}250 \text{ million} - \text{Frw}200 \text{ million}$).

The interest paid on the excess loan amount is not deductible for corporate income tax purposes. Assuming the interest rate is uniform across the entire loan, we can calculate the non-deductible interest proportionally. The non-deductible interest is Frw4 million ($\text{Frw}20 \text{ million} \times (\text{Frw}50 \text{ million} / \text{Frw}250 \text{ million})$).

Thus, the deductible interest for corporate income tax purposes is Frw16 million ($\text{Frw}20 \text{ million} - \text{Frw}4 \text{ million}$). The foreign exchange loss of Frw5 million arising from the excess loan ($\text{Frw}5 \times (\text{Frw}50 \text{ million} / \text{Frw}250 \text{ million})$) = Frw1m is also not deductible for corporate income tax purposes.

Answer Quiz 7. 2: Forfeiting of Losses Rule

According to the forfeiting of losses rule, AgriGrow Ltd. cannot carry forward its losses if there is a change in ownership or control of more than 25% in a tax period. Since 40% of the company's shares were acquired by a new investor, this exceeds the 25% threshold. Therefore the Frw30 million in losses would be forfeited. This means that the company would not be able to use these losses to offset against any future taxable income, potentially increasing its future tax liabilities.

Quiz 8: Answer – Calculation of VAT Payable

To calculate the VAT payable or refundable, we need to determine the output tax and input tax for XYZ Ltd.

Category	Details	Amount (Frw)
Output Tax		
Total sales		100,000,000
Exports (zero-rated)		(20,000,000)
Local sales subject to VAT	Total sales – Exports	80,000,000
VAT on local sales	18% of Frw80,000,000	14,400,000
Input Tax		
Imported raw materials	VAT inclusive market value	35,000,000
VAT on imported raw materials	$18/118 \times \text{Frw } 35,000,000$	5,305,085
Local raw materials	VAT on Frw10,000,000*18%	1,800,000
Marketing services	VAT on Frw5,000,000*18%	900,000
Total input tax	Sum of VAT on imports, local raw materials, and services	8,005,085
VAT Payable/Refundable		
	Output tax – Input tax: [Frw14,400,000 – Frw8,005,085]	6,394,915
Conclusion	XYZ Ltd has a VAT payable of	6,394,915

Quiz 9: Answer – VAT Treatment of Various Supplies

1. International transport services – These services are zero-rated. The rationale is that international transport is listed among the supplies that are zero-rated according to the VAT law in Rwanda.
2. Loan provided by a local bank – This transaction is exempt from VAT. Financial services, including the provision of loans, are exempt from VAT as per the law.
3. Professional development course – The supply of educational services is typically exempt from VAT. Education services are listed among the exempted supplies, provided they are offered by an educational institution recognized by the relevant authorities.
4. Sale of potatoes by a farmer – This transaction is likely to be exempt from VAT. Certain agricultural products are exempt from VAT, and it is common for basic food items like potatoes to be included in this category.

5. Sale of software to the government for public schools – The supply of software to whether to the government for use in public schools or to private entities is specifically exempt from VAT, by the VAT law.

For each of these transactions, the specific provisions of the Rwandan VAT law would need to be consulted to confirm the VAT treatment.

Quiz 10: Answer – VAT Treatment of International Trade

Quiz 10.1: Answer – VAT on Imports and Deductibility

1. The VAT payable at the customs point can be calculated as follows:
 - Customs value of the machinery: Frw100,000,000
 - VAT rate: 18%
 - VAT payable = Customs value × VAT rate
 - VAT payable = Frw100,000,000 × 18%
 - VAT payable = Frw18,000,000
2. ABC Ltd. can deduct the VAT paid on the import of the machinery as input tax since the machinery is imported for the purpose of making taxable supplies. The conditions for claiming input tax include:
 - The taxpayer must be a registered taxpayer.
 - The goods or services on which the VAT was paid must be used for making taxable supplies.
 - The taxpayer must have a customs receipt, which serves as a VAT invoice.

Quiz 10.2: Answer – VAT Treatment of Exports

- The VAT rate applicable to the coffee export is 0% because exports are subject to VAT at the rate of 0% in Rwanda. This is because the goods are supplied to a person outside Rwanda and are consumed or used outside Rwanda.
- XYZ Exporters should not charge any VAT to the German buyer as the VAT rate on exports is 0%.
- XYZ Exporters can deduct the input tax incurred on the acquisitions related to the coffee export. They can deduct the full amount of Frw5,000,000 as input tax, provided they have evidence of the exportation such as customs documents, transport documents, or foreign exchange receipts, and meet the other requirements for claiming input tax.

Quiz 10.3: Answer – VAT Treatment in Free Zones

- The goods sold by DEF Industries to the customer in another free zone are treated as exports and are subject to VAT at the rate of 0%. This is because goods or services supplied by a taxpayer in a free zone to a person who is outside Rwanda or in another free zone are treated as exports.
- The goods sold by DEF Industries to the customer located in Rwanda but outside the free zone are treated as imports and are subject to VAT at the rate of 18%. This is because goods or services supplied by a taxpayer in a free zone to a person who

is in Rwanda but outside the free zone are treated as imports for VAT purposes.

- The purchase of raw materials by DEF Industries from a supplier outside the free zone for Frw 20,000,000 is treated as an export to the free zone and is subject to VAT at the rate of 0%. This is because goods or services supplied by a taxpayer outside the free zone to a person who is in the free zone are treated as exports for VAT purposes.

Quiz 11: Answer Post-Sale Adjustments and VAT

Quiz 11.1: ABC Ltd. should adjust the value of the original supply by the amount of the rebate in its VAT account and VAT return for February, the tax period in which the rebate was granted. The output tax should be reduced to reflect the lower value of the taxable supply. XYZ Corp. should also adjust its input tax for the same period to reflect the reduced value of the purchase.

Journal entries for ABC Ltd. would be:

- Debit: Sales Rebates Account Frw1,000,000
- Credit: Accounts Receivable Frw1,000,000 (to record the granting of the rebate to XYZ Corp.)

To adjust the VAT:

- Debit: Output VAT Account (to reduce the output tax due to the rebate)
- Credit: VAT Payable Account (to reflect the reduction in VAT liability)

The exact amount debited and credited to the VAT accounts would depend on the applicable VAT rate.

Quiz 11.2: DEF Inc. should adjust the value of the original supply by the value of the returned goods in its VAT account and VAT return for April, the tax period in which the goods were returned. The output tax should be reduced accordingly. GHI Co. should also adjust its input tax for the same period to reflect the reduced value of the purchase.

Journal entries for DEF Inc. would be:

- Debit: Sales Returns Account Frw1,000,000
- Credit: Accounts Receivable Frw1,000,000 (to record the return of goods by GHI Co.)

To adjust the VAT:

- Debit: VAT Payable Account Frw180,000 (assuming a 18% VAT rate on the returned goods value of Frw1,000,000)
- Credit: Output VAT Account Frw180,000 (to reduce the output tax due to the return of goods)

Quiz 11.3: When LMN Ltd. writes off the debt as bad, it should reduce the value of the taxable supply by the amount of the bad debt in its VAT account and VAT return for the tax period in which the debt is written off. The output tax should be corrected accordingly.

Journal entries for the write-off would be:

- Debit: Bad Debts Expense Account Frw2,000,000
- Credit: Accounts Receivable Frw2,000,000 (to write off the debt as bad)

To adjust the VAT:

- Debit: VAT Payable Account Frw360,000 (assuming a 18% VAT rate on the bad debt)
- Credit: Output VAT Account Frw360,000 (to reduce the output tax due to the bad debt write-off)

Upon recovery of the debt, LMN Ltd. should increase the value of the taxable supply by the amount of the recovered debt in its VAT account and VAT return for the tax period in which the debt is recovered.

The output tax should be corrected accordingly.

Journal entries for the recovery would be:

- Debit: Accounts Receivable Frw2,000,000
- Credit: Bad Debts Recovered Account Frw2,000,000 (to record the recovery of the previously written-off debt)

To adjust the VAT:

- Debit: Output VAT Account Frw360,000
- Credit: VAT Payable Account Frw360,000 (to reflect the increase in VAT liability due to the recovery of the bad debt)

Unit B Answers to the quizzes

Quiz 1: Answer – Withholding tax on payment made to persons not registered with the tax administration.

- ABC Ltd is required to withhold and pay withholding tax on payments made to a person not registered with the tax administration or to a registered person who does not have recent income tax declaration, according to Article 60 of the Law. Therefore, ABC Ltd should withhold and pay 15% of the payments made to the non-resident company and the resident individual, which amounts to Frw 2,250,000 and Frw750,000 respectively.
- ABC Ltd should file a tax declaration and pay the withholding tax within 15 days following the end of June 2021, according to Article 64 of the Law.
- ABC Ltd is not required to withhold tax on the payment made to the resident company that is registered and has recent income tax declaration.
- The withholding tax paid by ABC Ltd is deductible from its income tax during its declaration and payment, according to Article 60 of the Law. Therefore, the withholding tax paid will reduce the corporate income tax due by ABC Ltd for the year 2021.

Quiz 2: Answer – Withholding tax on imported goods.

- XYZ Ltd is required to pay a withholding tax of 5% of the CIF value of the goods imported for commercial use, according to Article 62 of the Law. Therefore, XYZ Ltd should pay Frw2,500,000 as withholding tax at custom before the goods are cleared.
- The withholding tax paid by XYZ Ltd is deductible from its income tax when it is declared and paid, according to Article 62 of the Law. Therefore, the withholding tax paid will reduce the corporate income tax due by XYZ Ltd for the year 2021.

Quiz 3: Answer – Withholding tax on gaming activities

- PQR Ltd is required to withhold and pay withholding tax on winnings paid to its customers, according to Article 61 of the Law. The withholding tax rate is 15% of the winnings, according to Article 61 of the Law. Therefore, PQR Ltd should withhold and pay Frw2,000,000 as withholding tax on the winnings paid to its customers.
- PQR Ltd should file a tax declaration and pay the withholding tax within 15 days following the end of each month, according to Article 64 of the Law.
- PQR Ltd is also required to declare and pay corporate income tax of 28% on its net profit, according to Article 50 of the Law.
- The withholding tax paid by PQR Ltd is not deductible from its income tax, according to Article 61 of the Law. Therefore, the withholding tax paid will not reduce the corporate income tax due by PQR Ltd for the year 2021.

Quiz 4: Answer – Withholding tax on dividend income

- RST Ltd is required to withhold and pay withholding tax on dividends paid to its shareholders, according to Article 60 of the Law. The withholding tax rate is 5% of the dividends for companies listed on the capital market. Therefore, RST Ltd

should withhold and pay Frw500,000 as withholding tax on the dividends paid to its shareholders.

- RST Ltd should file a tax declaration and pay the withholding tax within 15 days following the end of each month, according to Article 64 of the Law.
- RST Ltd is also required to declare and pay corporate income tax on its net profit, according to Article 49 of the Law. However, since RST Ltd is a newly listed company on the capital market that sold 40% of its shares to the public in the year 2020, it is taxed at a reduced rate of 20% for the year 2021, according to Article 49 of the Law. Therefore, RST Ltd should pay Frw10,000,000 as corporate income tax for the year 2021.
- The withholding tax paid by RST Ltd is not deductible from its income tax, as RST is only acting as a collecting agent for the tax authority. Therefore, the withholding tax paid will not reduce the corporate income tax due by RST Ltd for the year 2021.

Unit C Answers to the quizzes

Quiz 1: Answer – Determination of Consumption Tax Rates

Correct Answer is 4 (A and D). Cigarettes are taxed at 36% of the retail price plus Frw130 per pack of 20 rods of cigarettes, which combines a specific rate and an ad valorem rate, while the tax on vehicles is specific, based on the engine size of the vehicle.

Quiz 2: Answer –Tax Base and Time of Taxation for Consumption Tax

Correct Answer is 2 (A and C). The tax base for imported products is calculated according to customs legislation and is payable when the product is under customs control, while the tax base for telephone communications is the selling price of the service and is payable at the time of sale.

Quiz 3: Answer –Consumption Tax Administrative Rules and Penalties

Quiz 3.1: Inventory Registers

Correct Answer is 4 (A and C)

Explanation: The daily inventory register must include the quantity and batch number of manufactured products, as well as details of exported products and those sold for consumption. Customer feedback is not mentioned as a requirement in Article 10.

Quiz 3.2: Registers for Raw Materials and Ongoing Activities

Correct Answer is 2: (A and B)

Explanation: Taxpayers are required to keep a raw materials register detailing the materials used in the production of taxable goods and ongoing activities register noting the daily status of factory equipment. The other options are not specified in Article 11.

Quiz 3.3: Mandatory Register for Tax Stamps Usage

Correct Answer is 2 (A, B, and C)

Explanation: The register for tax stamps must include tax stamps in stock at the end of the previous month, tax stamps received from the Authority, and tax stamps applied to manufactured or imported excise duty products. There is no mention of including damaged tax stamps in the register as per Article 12.

Quiz 3.4: Affixing Tax Stamps to Taxable Products

Correct Answer is 2 (A and B)

Explanation: Tax stamps must be affixed securely to prevent removal without damaging the product or packaging and must be visible, legible, and free from alterations or tampering. They should not be affixed in a manner that allows easy removal for reuse, and there is no requirement for them to be placed inside the product packaging as per Article 13.

Quiz 3.5: Reconciliation Statement Submission for Tax Stamps

Correct Answer: A

Explanation: Taxpayers are obligated to submit a reconciliation statement on tax stamps usage within fifteen days after each month's end, adhering to the form and manner prescribed by the Authority and containing information as required by Article 12.

Quiz 3.6: Maintenance of Books of Accounts

Correct Answer is 3 (A, B, and D)

Explanation: The books of accounts should be clear and orderly, reflect an accurate and complete account of the taxpayer's activities and income, and be preserved for five years from the end of the related tax period. The three-year preservation period is not mentioned in Article 15.

Quiz 3.7: Right to Self-Assessment

Correct Answer is 2 (A, B, and C)

Explanation: Taxpayers must declare and pay the excise duty within the prescribed period, use prescribed forms and methods, and attach supporting documents and the tax stamps reconciliation statement. There is no requirement for third-party verification as per Article 16.

Quiz 3.8 : Administrative Sanctions for Non-Compliance

Correct Answer is 3 (A, B, and C)

Explanation: Administrative sanctions for non-compliance may include seizure and destruction of products without tax stamps, suspension or revocation of the taxpayer's license, and fines up to 100% of the due excise duty. There is no mention of a seven-year imprisonment in Article 17.

Quiz 3.9: Criminal Penalties for Tax Stamps Offences

Correct Answer is 4 (All the above)

Explanation: Offences that can lead to criminal penalties include failing to affix tax stamps, incorrect affixing of tax stamps, overprinting or defacing tax stamps, submitting incorrect or incomplete tax stamp reconciliation statements, misusing tax stamps, and selling excise duty products without tax stamps, as outlined in Article 18.

Quiz 4: Answer – Social Security Contribution

Quiz 4.1: Correct Answer is 1 (A and B)

Quiz 4.2: Correct Answer is 4: (A and D)

Quiz 4 3: Correct Answer is 2: (A and C)

Quiz 4.4: Correct Answer 4: A and D

Quiz 4.5: Correct Answer 4: All the above

Quiz 5: Answer – Sources of taxation from gaming activities.

Quiz 5.1: Answer is 4 (B and D).

Explanation: Gaming tax and withholding tax are all levied on gaming activities in Rwanda. Personal income tax is not a source of taxation from gaming, as it is only applicable to individuals who earn income from employment, business, or investment, not from gaming. Gaming activities are specifically exempted from VAT.

Quiz 6: Answer – Capital Gains Tax

Quiz 6.1: Correct Answer is (A) Frw42,000,000 due by September 30th, 2022

Step	Calculation	Result
1. Calculate the capital gain	Sales proceeds – Tax written down value	Frw350,000,000 – Frw200,000,000 = Frw150,000,000
2. Calculate the tax on the capital gain	Capital gain * Tax rate	Frw150,000,000 * 28% = Frw42,000,000
3. Determine the payment deadline	Last day of the third month after the tax period concludes	September 30th, 2022

Detailed Explanation:

- **Step 1:** To calculate the capital gain, we subtract the tax written down value of the machinery (Frw200,000,000) from the sales proceeds (Frw350,000,000). This results in a capital gain/balancing charge of Frw150,000,000.
- **Step 2:** The capital gains tax rate which is the same as the CIT rate is 28%. Therefore, we multiply the capital gain by the tax rate: Frw150,000,000 * 28% = Frw42,000,000. This is the amount of tax due on the capital gain.
- **Step 3:** Since XYZ Corporation operates on a fiscal year that ends on June 30th, the tax period does not end on December 31st. Therefore, the capital gains tax must be paid by the last day of the third month after their tax period concludes. The third month after June is September, so the deadline for payment is September 30th, 2022.

The correct answer is A) Frw42,000,000 due by September 30th, 2022, as it is the only option that correctly combines both the calculated tax amount and the correct payment deadline.

Quiz 6.2: Answer is C: Capital gain of Frw50,000,000, no tax payable

Explanation: The tax base of the shares is the acquisition value. The tax base of the shares is Frw50,000,000. The capital gain is the difference between the disposal value

and the tax base, which is Frw50,000,000 (Frw100,000,000– Frw50,000,000). However, a registered investor is exempt from capital gains tax on the sale or transfer of shares in a local company to another registered investor as per the investment code. Therefore, DEF Ltd does not have to pay any capital gains tax on the sale of the shares.

Quiz 6.3: Answer

Description	Calculation	Amount (USD)
Acquisition Price per Share	Frw10,000	
Selling Price per Share	Frw15,000	
Number of Shares Sold	10,000	
Total Acquisition Price	10,000 shares * Frw10,000 per share	Frw100,000,000
Total Selling Price	10,000 shares * Frw15,000 per share	Frw150,000,000
1.Total Gain Realized	Total Selling Price – Total Acquisition Price	Frw50,000,000
CGT Rate	5%	
2.CGT Amount Due	Total Gain Realized x CGT Rate	Frw2,500,000
Sale Date	January 3, 2023	
3.CGT Payment Deadline	15 days after the month of sale	February 15, 2023

XYZ Corporation realized a total gain of Frw50,000,000 from the sale of ABC Ltd. shares. The CGT due on this gain, calculated at a rate of 5%, is Frw2,500,000. The deadline for remitting this amount to the tax authority is February 15, 2023, which is 15 days after the month in which the sale occurred.

Unit D Answers to the quizzes

Quiz 1: Answer– Objectives and Features of Economic Agreements

Correct Answer is 1 (A and B)

Quiz 2: Answer– Revenue Distribution and Policy Coordination

Correct Answer: A

Quiz 3: Answer– Examples of Regional Economic Integrations

Correct Answer is 4 (B and D)

Quiz 4: Answer – Impact of Common External Tariffs in Customs Unions

Correct Answers is 3 (A and C)

Quiz 5: Answer – Challenges and Mitigation in Free Trade Areas (FTAs)

Correct Answers is 1 (A and D)

Quiz 6: Answer – Subsidies and Their Effects in Trade Agreements

Correct Answers is 1 (A and B)

Quiz 7: Answer – Export Promotion Schemes and the National Export Strategy (NES) of Rwanda

Correct Answer is 2 (B and C)

Quiz 8: Answer –The Multifaceted Impact of Excise Taxes

Correct Answer: C. Excise taxes increase the cost of production for manufacturers, potentially leading to higher prices for their goods to maintain profit margins.

Explanation: Excise taxes are indirect taxes levied on the sale or production for sale of specific goods. When manufacturers are required to pay these taxes, it increases their cost of production. To maintain their profit margins, manufacturers may increase the price of their goods, which can affect the demand for these products. This can also impact the competitiveness of domestic products if the excise tax makes them more expensive than similar untaxed products from other countries.

Quiz 9: Answer – Excise Taxes and Government Policy Objectives

Correct Answer: C. The Rwandan government uses excise taxes to discourage the consumption of harmful products, such as tobacco and alcohol, thereby improving public health outcomes.

Explanation: Excise taxes serve as a tool for the Rwandan government to influence economic behaviour and achieve policy objectives. By imposing higher taxes on products that are considered harmful to health or the environment, such as tobacco and alcohol, the government aims to discourage their use. This can lead to improved public health outcomes and, potentially, lower healthcare costs in the long run. Excise taxes also contribute to government revenue, which can be used to fund public services and infrastructure development.

Quiz 10: Answer – VAT Treatment of Exported Goods and Services

Correct Answer: B. Exported goods and services are zero-rated, and exporters are entitled to claim a refund for the input VAT paid on purchases related to the exported goods or services.

Explanation: In Rwanda, exported goods and services are zero-rated for VAT purposes, which means that they are technically taxed at a rate of 0%. Exporters have the right to claim a refund for the input VAT paid on purchases that are directly related to the exported goods or services. This approach is designed to encourage exports by not imposing domestic taxes on them, thereby making them more competitive in international markets. Exporters must maintain proper documentation, such as customs clearance documents and export invoices, to support their claims for refund.

Quiz 11: Answer – VAT on Imported Goods and Services

Correct Answer: C. Businesses registered for VAT in Rwanda cannot claim a credit for the VAT paid on imports, even if the goods or services are used for making taxable supplies.

Explanation: The statement that businesses registered for VAT in Rwanda cannot claim a credit for the VAT paid on imports is incorrect. In fact, businesses that are registered for VAT can claim a credit for the VAT paid on imported goods and services, provided that these goods or services are used for making taxable supplies. This input VAT credit is an essential feature of the VAT system, as it prevents the cascading effect of taxes and ensures that VAT is only a tax on the final consumer. The other options correctly describe the VAT treatment of imported goods and services: VAT is applied at the standard rate based on the CIF value plus duties, VAT must be paid at customs clearance, and there is a deferred VAT payment scheme available for qualified taxpayers to aid with cash flow management.

Quiz 12: Answer – Eligibility and Authorization for the Reverse Charge Mechanism

Correct Answer: B. Entities must be VAT registered in Rwanda and must provide evidence of unsuccessful local sourcing through a tender to qualify for the reverse charge mechanism.

Explanation: The reverse charge mechanism is applicable only to VAT-registered entities in Rwanda when acquiring taxable services from non-resident companies. To qualify, these entities must submit a detailed request to the Minister of Finance, including evidence that substantiates the need for services from abroad, such as tender evidence

demonstrating unsuccessful attempts to source the services locally. A regulatory endorsement confirming the absence or inadequacy of local services is also required. NGOs, educational institutions, and banks are generally excluded as they are either exempt from VAT or supply exempt items and cannot reclaim VAT.

Quiz 13: Answer – Compliance and Reporting Obligations under the Reverse Charge Mechanism

Correct Answer: D. It is mandatory for businesses to maintain comprehensive documentation and records to substantiate VAT return entries for transactions under the reverse charge, including transactions where services are NOT available locally.

Explanation: Businesses in Rwanda must accurately identify transactions subject to the reverse charge and apply it correctly. They must report the reverse charge on their VAT returns with precision, ensuring both input and output VAT are accounted for when services are not available locally. If services are available locally, the input VAT becomes a cost, and only output VAT is reported. Maintaining comprehensive documentation and records is essential to substantiate the VAT return entries for transactions under the reverse charge. This ensures compliance with the regulations and allows for the potential recovery of VAT on imported services when authorized.

Quiz 14: Answer – Determining Eligibility and Calculating Foreign Tax Credits

Correct Answer: C. ABC Corporation can claim a foreign tax credit of Frw20 million, and will owe Frw5 million in additional taxes to the Rwandan Revenue Authority (RRA). The foreign tax credit is limited to the lesser of the foreign tax paid or the Rwandan tax attributable to the foreign income. Since the foreign tax paid (Frw20 million) is less than the Rwandan tax on that income (Frw25 million), ABC Corporation can claim the full amount of the foreign tax paid as a credit and will need to pay the difference to the RRA.

Quiz 15: Answer – Application and Carry Forward of Excess Foreign Tax Credits

Correct Answer: A. John can claim a foreign tax credit of Frw2.5 million, and he will need to pay the remaining Frw0.5 million to the RRA, with no amount to carry forward. The foreign tax credit is limited to the lesser of the foreign tax paid or the Rwandan tax attributable to the foreign income. Since the foreign tax paid (Frw2.5 million) is less than the Rwandan tax on that income (Frw3 million), John can claim the full amount of the foreign tax paid as a credit.

Quiz 16: Answer – Allocation of Taxing Rights and Relief Methods

Correct Answer: C. DTTs typically provide for reduced tax rates on investment income such as dividends, interest, and royalties, and include methods such as tax credits or exemptions to avoid double taxation. This reflects the key provisions in double tax treaties that aim to allocate taxing rights between contracting states and provide relief from double taxation through various methods.

Quiz 17: Answer – Application of Double Tax Treaties in Specific Scenarios

Correct Answer: C. Under the Rwanda-Mauritius DTT, the withholding tax rate on dividends paid to the Rwandan parent company may be reduced from the standard rate to a treaty rate, thereby lowering the overall tax burden on the dividends received. In the case of the Rwanda-South Africa DTT, the individual's employment income may only be taxed in South Africa, and Rwanda may provide a credit for the South African tax paid, preventing double taxation of that income. This reflects the application of DTTs for individuals and companies as outlined in the provided content.

Quiz 18: Answer – Determination of Tax Residence under Double Tax Treaties (DTTs)

Correct Answer: C. Residence is determined by where the individual or company is liable to tax by reason of domicile, residence, place of management, or any other criterion of a similar nature.

Explanation: The principle of residence is fundamental in the application of DTTs as it helps establish which country has the right to tax an individual or a company. In the context of Rwanda, as with many jurisdictions, residence for tax purposes is not solely based on physical presence or the location of primary business operations. Instead, it encompasses a broader set of criteria including domicile, residence, place of management, or other similar factors that determine tax liability in Rwanda. This principle ensures that taxation rights are appropriately allocated between countries to avoid double taxation.

Quiz 19: Answer – Application of Double Tax Treaties (DTTs) and Treaty Benefits

Correct Answer: B. ForestFibre Inc. must be the beneficial owner of the royalty income, have economic substance in the transaction, and comply with the tax laws of both jurisdictions.

Explanation: For a company to benefit from the provisions of a DTT, it must satisfy several conditions that ensure the proper application of the treaty and prevent abuse, such as treaty shopping or other forms of tax avoidance. ForestFibre Inc. must be the beneficial owner of the income, meaning it has the right to use and enjoy the income without being contractually or legally obligated to pass it on to another entity. The transaction must have economic substance, indicating that it has a genuine business purpose beyond merely obtaining a tax benefit. Additionally, the company must comply with the tax laws of both Rwanda and Singapore, which includes registration, filing, and payment requirements. Permanent establishment and substantive business activities are relevant for determining where the company may be taxed, but they are not conditions for the application of treaty benefits per se. Restructuring operations to focus on the form rather than substance would contravene the principles of DTTs and could lead to disqualification from treaty benefits.

Quiz 20: Application of Withholding Tax Rates under Double Tax Treaties

Correct Answer: B) The Rwandan company should apply a withholding tax rate of 8% on the royalty payment as per the DTT with Country Z.

Explanation: According to the provided content, when a DTT exists between Rwanda and another country, the withholding tax rates on certain types of income, including royalties, may be reduced as per the provisions of the respective DTT. In this case, the DTT between Rwanda and Country Z caps the withholding tax rate on royalties at 8%, which is lower than the domestic rate. Therefore, the Rwandan company should apply the reduced rate of 8% on the royalty payment to the company in Country Z.

Quiz 21: Answer – Compliance and Documentation for Withholding Tax

Correct Answer: B) A tax residency certificate from the bank in Country Y.

Explanation: Taxpayers in Rwanda, such as the Rwandan financial institution in this scenario, must maintain proper documentation to prove eligibility for the benefits under a DTT. A tax residency certificate is a common document required to establish that the recipient of the income is a resident of the treaty country and is therefore entitled to the benefits of the DTT, including the reduced withholding tax rate. In this case, the Rwandan financial institution would require a tax residency certificate from the bank in Country Y to apply the reduced withholding tax rate of 10% on the interest payment, as stipulated by the DTT between Rwanda and Country Y.

Unit E Answers to the quizzes

Quiz 1: Answer– Analysis of Preferential Corporate Income Tax Rates

The international company would be eligible for a preferential corporate income tax rate of 0% under the Rwandan fiscal incentive scheme. To qualify for this rate, the company must:

- invest at least USD 10 million in tangible or intangible assets and
- provide employment and training to Rwandans.

To maintain this preferential rate, the company must continue to meet these investment and employment conditions. Additionally, the company may benefit from other incentives such as accelerated depreciation, withholding tax exemptions, and value added tax exemptions, which could further enhance the financial attractiveness of their investment in Rwanda.

Quiz 2: Answer – Accelerated Depreciation Benefits

Accelerated depreciation is a tax deduction method that allows an investor to allocate the cost of an asset over its useful life at a faster rate than the normal straight-line method. In Rwanda, a registered investor can claim a flat accelerated depreciation rate of 50% for the first year for new or used assets. This enables the investor to deduct a larger amount of the asset's cost in the earlier years, thereby reducing taxable income and tax liability.

To benefit from the 50% accelerated depreciation rate in Rwanda, the investor must invest in business assets worth at least USD 50,000 per asset. Additionally, the investor is required to inform the Rwanda Revenue Authority if the business assets are disposed of before three years have elapsed. Compliance with these conditions will allow the investor to take advantage of the accelerated depreciation benefit, leading to significant tax savings in the initial years of the investment.

Quiz 3: Answer – Withholding Tax Exemptions for Specialized Park Developer

The specialized industrial park developer would be eligible for a preferential withholding tax rate of 0% on payments for foreign professional and technical services procured outside Rwanda. For dividends distributed to its foreign investors, a preferential withholding tax rate of 10% would apply.

To benefit from these preferential withholding tax rates, the developer must be benefiting from the preferential corporate income tax of 15% and 3%. The developer must also ensure compliance with all regulatory requirements and conditions set forth by the investment code. It is important for the developer to maintain accurate records and documentation to substantiate the eligibility for these preferential rates and to facilitate any required reporting to the Rwanda Revenue Authority.

Quiz 4: Answer – VAT Exemptions for Specific Sectors

The registered investor in the health sector would be exempt from value added tax (VAT) on the imported medical equipment and supplies. This exemption is part of the fiscal incentives offered by Rwanda to encourage investment in specific sectors, including health.

To be eligible for the VAT exemption, the investor must ensure that the goods and services are directly related to the health sector activities and are necessary for the operation of the hospital. The investor must also be registered with the Rwanda Revenue Authority and comply with all importation regulations and procedures. It is essential for the investor to provide accurate and complete documentation, such as import declarations and proof of sector registration, to the tax authorities to substantiate the eligibility for the VAT exemption. This will facilitate the smooth processing of the exemption and prevent any potential tax liabilities arising from non-compliance.

Quiz 5: Answer – Fiscal Incentives and corporate tax rates

Quiz 5.1 (B) An investor in a priority economic sector who invests at least USD 50 million and contributes at least 30% of equity is entitled to a preferential tax rate of 0% for seven years.

Explanation: The other options are incorrect because they either state the wrong tax rate, the wrong duration, or the wrong eligibility criterion for the preferential tax rate. Option B is correct as per section II paragraph 1 of Annex 1 of the Law.

Quiz 5.2: (B) An investor in the film industry who receives majority funding from a foreign investor and spends at least USD 500,000 on activities in Rwanda is exempted from paying value added tax on goods and services procured locally by the investor.

Explanation: The other options are incorrect because they either state the wrong tax exemption, the wrong eligibility criterion, or the wrong source of law for the tax exemption. Option B is correct as per section III paragraph 1 of Annex 1 of the Law.

Quiz 6: Answer– Tax Deductions for Philanthropic Activities

The philanthropic organization would be entitled to various tax deductions or holidays for its social impact activities in Rwanda. These incentives are designed to support entities that contribute to the national development through philanthropic efforts.

The organization would be exempt from value added tax (VAT) and corporate income tax on grants and funds transferred to the entity for financing its social impact activities. Additionally, the organization would benefit from an exemption on employment income tax for foreign nationals recruited by the entity who ordinarily reside in Rwanda.

To qualify for these tax exemptions, the organization must be registered as a philanthropic entity in Rwanda and must ensure that the funds and grants are used exclusively for the intended social impact activities. The organization must also comply with all reporting and documentation requirements set by the Rwandan tax authorities. It is important to note that these exemptions may have specific limitations or exclusions, and the organization should maintain accurate records to demonstrate the use of funds for qualifying activities to avoid any potential tax liabilities.

Quiz 7: Answer –Tax Implications of Business Structures

Correct Answer: C. Profits from the sole proprietorship are considered the personal income of the owner and taxed accordingly.

Quiz 8: Answer– Liability in Business Structures

Correct Answer: C. Sole proprietors have unlimited personal liability for debts and obligations of the business.

Quiz 9: Answer- Continuity of Business Structures

Correct Answer: B. A sole proprietorship does not have a separate legal existence from its owner and ceases to exist upon the owner's death, while a company enjoys perpetual existence.

Quiz 10: Answer- Tax Transparency of Partnerships

Correct Answer: B. Partnerships are considered tax transparent, meaning the partners are taxed directly on their share of the profits.

Quiz 11: Answer - Dividend Taxation in Companies

Correct Answer: C. Dividends are subject to double taxation: once at the corporate level when profits are earned and again at the individual level when dividends are received.

Quiz 12: Answer - Deductible Expenses for Partnerships

Correct Answer: B. Partnerships can deduct business expenses such as rent and utilities, which reduces the partnership's overall taxable income.

Quiz 13: Answer - Control in Business Structures

Correct Answer: B. A board of directors, elected by the shareholders, is responsible for making major decisions and overseeing the management of the company.

Quiz 14: Answer - Merger Tax Implications

Correct Answer: C. The new entity carries over the reserves and provisions of the transferring entities, subject to the original conditions.

Explanation: In a merger, the new entity assumes the rights and obligations of the merging entities, which cease to exist as separate legal persons. The transferring entities are exempt from capital gain tax, and the new entity values the assets and liabilities at their book value. The new entity also carries over the reserves and provisions of the transferring entities, subject to the same conditions that would have applied if the merger did not take place.

Quiz 15: Answer - Acquisition of Shares or Voting Rights

Correct Answer: C. Shareholders are exempt from capital gain tax on the sale or transfer of their shares or voting rights.

Explanation: When there is an acquisition or takeover of a majority of shares or voting rights in a resident entity, the transferring shareholders are exempt from capital gain tax on the sale or transfer. The acquired entity remains a separate legal person and does not change the value of its assets, liabilities, reserves, or provisions. The acquiring entity does not depreciate the shares or voting rights as they are not considered business assets.

Quiz 16 Answer - Asset or Liability Transfer Tax Consequences

Correct Answer: B. The receiving entity values the assets and liabilities at their book value in the hands of the transferring entity.

Explanation: When there is a transfer of a substantial part of the assets or liabilities of a resident entity, the receiving entity values these assets and liabilities at their book value as recorded by the transferring entity at the time of the acquisition or transfer. The receiving entity also carries over the reserves and provisions related to the transferred assets or liabilities and depreciates the business assets according to the rules that would have applied to the transferring entity if the transfer had not occurred.

Quiz 17: Answer – Complete Entity Transfer

Correct Answer: C. The receiving entity carries over the reserves and provisions, subject to the same conditions as before.

Explanation: In the event of a transfer of an entire entity's shares, assets, or liabilities, the receiving entity takes over the reserves and provisions of the transferring entity, maintaining the same conditions that would have applied if the acquisition or transfer had not taken place. The transferring entity is exempt from capital gain tax on the transfer, and the receiving entity values the shares, assets, and liabilities at their book value at the time of the transfer.

Quiz 18: Answer – Tax Implications for the Seller in Asset Disposal

Correct Answer is 4 (A and D)

Explanation: When a seller disposes of assets, they may face a capital gains tax liability if the assets are sold for more than their tax book value, which is indeed taxed at the current rate of 28% in Rwanda. This is a correct statement (A).

Additionally, the sale of certain assets may attract Value Added Tax at the rate of 18%, depending on the nature of the asset and the VAT status of the business, making statement (D) correct.

Statement (B) is incorrect because the seller can claim capital allowances, known as a balancing allowance, if the proceeds from the sale are less than the tax book value of the asset.

Statement (C) is incorrect because claw back tax does apply to depreciable assets when an investment allowance has been claimed and the asset is disposed of within three years.

Quiz 19: Capital Gains Tax (CGT) Implications in Corporate Restructuring

Correct Answer: C. The transferring company is exempt from CGT on capital assets involved in restructuring, provided the restructuring meets certain conditions such as mergers, acquisitions, or splitting of the entity.

Explanation: According to Article 53 of Law 027/2022, the transferring company is exempt from CGT on capital assets involved in restructuring if the restructuring meets specific conditions. These conditions include mergers, acquisitions of at least fifty percent of shares or voting rights, transfer or acquisition of at least fifty percent of the assets or liabilities, transfer or acquisition of an entire entity's shares, assets, or liabilities, or the splitting of a resident entity into multiple new entities. Therefore, option C is correct. Option A is incorrect because the law provides for an exemption under certain conditions. Option B is incorrect as it misstates the conditions under which the exemption applies. Option D is incorrect because the receiving company values the assets at their book value, not

market value, and continues to depreciate them according to the same rules that applied to the transferring company.

Quiz 20: Taxation of Liquidation Proceeds

Correct Answer: B. Liquidation proceeds distributed to shareholders are considered dividends and are subject to withholding tax (WHT) at 15%, and shareholders are subject to CGT on the difference between the liquidation proceeds and the cost of their shares.

Explanation: When a company is liquidated, the proceeds from the sale or transfer of capital assets are used to pay off liabilities and the remaining amounts are distributed to shareholders. These distributions are considered dividends and are subject to a 15% withholding tax. Additionally, shareholders are liable for CGT on the gain, which is the difference between the liquidation proceeds and the cost of their shares. Therefore, option B is correct. Option A is incorrect because liquidation proceeds are not exempt from taxation. Option C is incorrect because it does not consider the tax implications for shareholders. Option D is incorrect because it fails to account for the taxation of liquidation proceeds distributed to shareholders and the CGT implications for shareholders.

Quiz 21: Answer – Considerations in Disposal of Shares vs. Assets

Correct Answer is 3 (C and D)

Explanation: When considering the disposal of shares versus assets, the seller often prefers to sell shares because the capital gains tax rate on shares is lower at 5%, compared to the tax impact of selling assets, which includes capital gains tax at 28% and possibly other recapture taxes (A). This makes the sale of shares more tax-efficient for the seller. The buyer benefits from the purchase of shares not being subject to VAT, as shares are VAT exempt, which can lead to significant savings (D).

Statement (B) is incorrect because when purchasing shares, the buyer actually takes over the company with all its liabilities, including potential hidden liabilities such as historical tax liabilities.

Statement (C) is incorrect because the buyer does not get a step-up in the basis of the assets when purchasing shares and, therefore, cannot claim capital allowances based on the purchase price of the shares.

Quiz 22: Answer – Tax Treatment of Funding

Correct Answer is 2 (B and C)

Explanation:

- Option A is incorrect because it states that the interest expense on debt financing is not tax-deductible, which contradicts the tax rules. The interest expense on debt is typically tax-deductible, which can reduce the taxable income of the individual.
- Option B is correct as it aligns with the fact that equity financing can result in dividends that may be taxed differently than ordinary income and may benefit from reduced tax rates or credits.
- Option C is correct because it accurately reflects the debt financing tax treatment, including the tax-deductible nature of interest expenses on loans and bonds.

- Option D is incorrect because it suggests that dividends are always taxed at a standard rate. However, dividends may be subject to different tax rates and may benefit from reduced rates or credits, depending on the circumstances. Additionally, dividends are paid out of profits that have already been taxed at the corporate level, which is not acknowledged in this option.

Quiz 23: Answer – Investment Products and Their Tax Implications

Correct Answer is 3 (B and C)

Explanation:

- Scenario 1: Interest income from a fixed deposit held for more than one year is exempt from the standard withholding tax of 15%, making it tax-exempt.
- Scenario 2: Capital gains from the sale of listed shares on the securities exchange operating in Rwanda are exempt from capital gains tax.
- Scenario 3: Dividends on securities listed on the capital market, where the beneficiary is a resident taxpayer of Rwanda or of the East African Community, are subject to a reduced withholding tax of 5%.
- Scenario 4: Interest from treasury bonds with a maturity of at least three years is subject to a reduced withholding tax of 5%.
- Scenario 5: Income derived from collective investment schemes, such as mutual funds, is exempt from any form of tax.
- Scenario 6: Contributions to and withdrawals from pension funds like the Rwanda Social Security Board are tax-exempt.

Therefore, the correct combination is that scenarios 1, 2, and 5 are exempt from tax (A), and scenarios 3 and 4 are subject to a reduced withholding tax of 5% (B), while scenario 6 indicates that both the contributions and withdrawals are tax exempt (C). Scenarios 1 and 4 are not subject to a standard withholding tax of 15% (D), as scenario 1 is exempt and scenario 4 is subject to a reduced rate. Thus, the correct answer is B and C.

Quiz 24: Answer– Taxation Impact on Business Cashflows

Correct Answer is 3 (A and C, E)

Explanation:

A is correct because taxes on profits reduce the net income, which in turn decreases the cash available for other uses. This is a direct impact of taxation on cash flows.

B is incorrect as the timing of tax payments is crucial for liquidity and cash management. Businesses need to plan for these outflows to ensure they have sufficient funds when taxes are due.

C is correct because accelerated tax depreciation reduces taxable income in the early years of an asset's life, leading to tax savings and improved cash flows during those years.

D is incorrect because the choice of business structure has significant tax implications.

Different structures are subject to different tax rates and regulations, which can affect cash flows.

E is correct as loss carryforwards and carrybacks can indeed offset taxable income in other years, which can improve cash flow through tax refunds or reduced tax payments.

F is incorrect because strategic tax planning is crucial for businesses to reduce their tax burden and improve cash flows, which can provide a competitive advantage.

Tax Tables

Rates of PAYE – Permanent employees		
Bands of taxable income	Taxable income	Tax rate
Frw	Frw	%
0–60,000	60,000	0
60,001–100,000	40,000	10
100,001–200,000	100,000	20
200,001+		30

Rates of PAYE – Casual labourers		
Bands of taxable income	Taxable income	Tax rate
Frw	Frw	%
0–60,000	60,000	0
60,001+		15

Rates of PAYE – Employees with more than one employer		
Additional employers	30%	

RSSB contributions			
		Employee contribution	Employer contribution
Pension		3%	5%
Maternity		0.30%	0.30%
Medical			
RAMA		7.50%	7.50%
CBHIS		0.50%	0
Rates of personal income tax			
Bands of taxable income		Taxable income	Tax rate
Frw		Frw	%
0-720,000		720,000	0
720,001-1,200,000		480,000	10
1,200,001-2,400,000		1,200,000	20
2,400,001+			30
Rates of rental income tax			
Bands of taxable income	Taxable income	Tax rate	
Frw	Frw	%	
0-180,000	180,000	0%	
180,001-1,000,000	820,000	20%	
1,000,001+		30%	

Business tax regimes	
Annual turnover	Regime
Frw	
2,000,000-12,000,000	*Flat tax
12,000,001-20,000,000	Turnover tax (3% of turnover)
20,000,001+	**Real regime (taxation of profit)

*Flat tax amounts	
Annual turnover	Annual flat tax due
RWF	RWF
0-2,000,000	Nil
2,000,001-4,000,000	60,000
4,000,001-7,000,000	120,000
7,000,001-10,000,000	210,000
10,000,001-12,000,000	300,000

**Rates of corporate income tax under the real regime (taxation of profits)	
Normal rate	28%
Investment under below priority sectors of USD 50m whereas 30% of it is invested as equity:	

**Rates of corporate income tax under the real regime (taxation of profits)	
- energy sectors	0% for 7 years
- manufacturing	
- tourism	
- health	
- ICT, and	
- export related investment projects	
Specialised innovation park developer, specialised industrial park developer and licensed microfinance institutions	0% for 5 years
International company which has its headquarters or regional office in Rwanda upon meeting certain economic substance requirements	0%
Entity registered by a philanthropic investor, upon approval by the Private Investment Committee	0%
Entity registered as below provided they meet certain economic substance requirements:	3%
- a pure holding company	
- a special purpose vehicle registered for investment purpose	
- a collective investment scheme	
- a foreign sourced trading income of global/paper trading	
- a foreign sourced royalties of intellectual property company	
Investments under priority sector which are:	

**Rates of corporate income tax under the real regime (taxation of profits)	
- energy	15%
- transport	
- manufacturing	
- ICT	
- affordable housing	
- electric mobility	
- adventure and agriculture tourism	
Entity operate as a fund management entity, collective investment scheme, wealth management services, financial advisory commercial entity, family office services, fund administrator, financial technology commercial entity, Captive Insurance Schemes, private bank, mortgage finance institution, finance lease commercial entity, Asset Backed Securities, reinsurance company, trust and corporate service providers	15%
Newly listed companies are taxed for first five years after listing at the rate of:	
- if 40% of its shares is listed	20%
- if 30% of its shares is listed	25%

Rates of tax depreciation	Rate
Buildings, heavy industrial equipment, fixed machinery	5% straight line
Intangible assets	10% straight line
Information and communication systems with life > 10 years	10% straight line
Computer and accessories and information and communication systems with life < 10 years	50% reducing balance on pool
Other business assets	25% reducing balance on pool
Minimum depreciation basis value	RWF 500,000

Double tax agreement withholding tax rates				
Country	Dividends	Interest	Royalties	Technical fees
1.Belgium	0/15	10	10	10
2.China, the People's Republic of	7.5	8	10	10
3.Congo, Democratic Republic of the	10	10	10	14
4.Jersey	10	10	10	12
5.Luxembourg	10	10	10	10
6.Mauritius	10	10	10	12
7.Morocco	8	10	10	10
8.Qatar	5/10	10	10	10

9.Singapore	7.5	10	10	10
10.South Africa	10/20	10	10	10
11.Turkey	10	10	10	10
12.Barbados	7.5	10	10	15
13. United Arab Emirates	7.5	10	10	10

Trading licence fee

I. Profit-oriented activities basing on their tax on turnover

Turnover		Tax due	
From	To	Per year	Per quarter
50.000.000.000	And above	2.000.000	500.000
25.000.000.000	50.000.000.000	1.500.000	375.000
1.000.000.000	25.000.000.000	1.000.000	250.000
200.000.000	1.000.000.000	500.000	125.000
20.000.000	200.000.000	280.000	70.000
12.000.000	20.000.000	160.000	40.000
7.000.000	12.000.000	120.000	30.000
2.000.000	7.000.000	100.000	25.000

Trading licence fee

I. Profit-oriented activities basing on their tax on turnover

II. Other profit-oriented activities

Profit-oriented activities not registered on income tax, in urban zone	60.000	15.000
Profit-oriented activities not registered on income tax, in rural zone	30.000	7.500
Individual transport activities by vehicle	40.000	10.000
Transport activities by boat	20.000	5.000
Transport activities by motorcycle	8.000	2.000





Contact Us

Institute of Certified Public Accountants of Rwanda (ICPAR)

KG 686 ST, House #10, Kamutwa, Kacyiru

P.O. Box: 3213 Kigali

Tel: +250 784103930

Email: info@icparwanda.com

www.icparwanda.com