



Technical Level

Taxation (TA1.3)

Workbook

Institute of Certified Public Accountants of Rwanda
January 2026

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Overview of the Module

CPA level	Technical level
Title	Taxation
Guided learning hours	110
Exam length	3 hrs

Introduction to the Module

This e-learn program is crafted for students in preparing for the CPA Technical level taxation exam. This exam is an essential part of your professional journey, assessing candidates' knowledge and abilities in the field of taxation. The program carefully follows the exam syllabus, which outlines the necessary knowledge to succeed in the exam. The e-learn is structured into 11 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 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 Technical level taxation exam with confidence and a deep understanding of the subject matter.

Studying taxation

As the name suggests, this paper examines the basic principles of taxation. This is a very important area for certified accountants as many areas of practice involve a consideration of taxation issues. It also provides a foundation for the Advanced Taxation paper at the operational level.

What is taxation at the technical level about?

The purpose of this paper is to familiarise learners with the basics of taxation in Rwanda. It aims to impart essential knowledge of the fundamental concepts and key technical aspects of taxes as they relate to activities of both individuals and companies. The content is tailored to be suitable for individuals operating at a technician level.

What taxes are covered?

The syllabus covers the primary taxes relevant to individuals and businesses in Rwanda. The taxes that will be extensively covered include income tax and corporation tax, which are central to many of the examination questions. Additionally, value added tax (VAT) will be addressed, potentially within these questions or as a distinct question. Capital gains tax is also included in the syllabus. Questions on social security contributions may arise within the context of income or corporation tax discussions.

The latter part of the syllabus deals with taxpayers' compliance responsibilities. While this is not the primary focus of the course, it is expected to be an integral component of several exam questions. A comprehensive understanding of tax includes knowledge of the tax collection process.

Expectations of knowledge

Students are expected to possess a thorough understanding of these taxes. However, it is important to note that no prior knowledge is required before beginning the course.

Study approach

Students should focus on mastering the fundamental concepts and familiarise themselves with standard tax computations. Once the basics are understood, completing these computations becomes more manageable by incorporating specific figures from detailed calculations.

In addition to computing tax liabilities, students should be able to articulate the rationale behind these calculations. Furthermore, it is expected that students will learn strategies for reducing or postponing tax payments.

What skills are required?

- Be able to integrate knowledge and understanding from across the syllabus to enable you to complete detailed computations of tax liabilities.
- Be able to explain the underlying principles of taxation by providing a simple summary of the rules and how they apply to the situation.
- Be able to apply tax planning techniques by identifying available options and testing them to see which has the greater effect on tax liabilities.

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 provided is 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.

- 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.

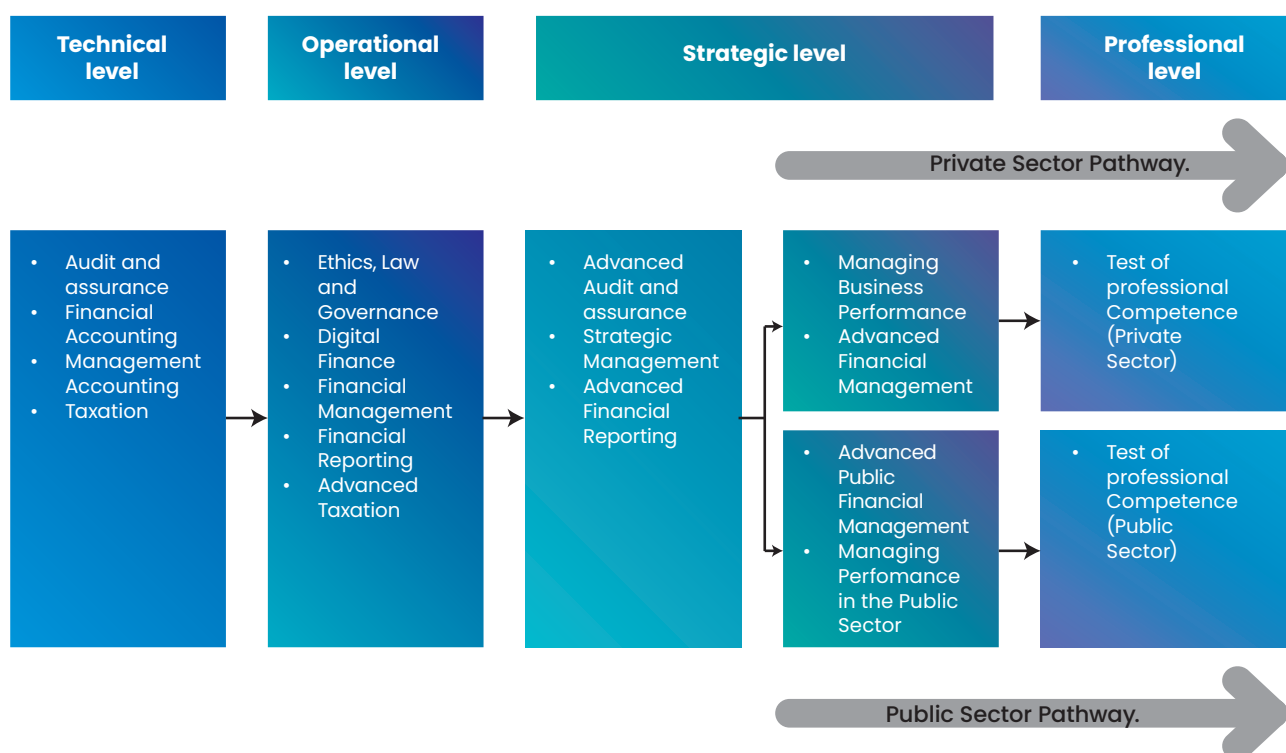
The Examination Paper

The course content will be evaluated through a three-hour examination that does not permit the use of textbooks or notes. To succeed, students must achieve a minimum score of 50%.

The examination will have 50 multichoice questions of 2 Marks each.

Syllabus

This module is one of four completed at the technical level of the CPA.



Objective

This course introduces taxation in Rwanda, covering fundamental principles and key technical aspects relevant to individuals and businesses. It is tailored for technician-level understanding.

Key competencies

- A. Demonstrate an understanding of legislation and procedures relating to direct tax.
- B. Demonstrate an understanding of the current taxation principles of income from employment.
- C. Demonstrate an understanding of the current taxation principles of income from business (commercial) activities.
- D. Demonstrate an understanding of the current taxation principles on investment income.
- E. Demonstrate an understanding of the current taxation principles on withholding tax.
- F. Demonstrate an understanding of tax law and its implications for corporate income tax.
- G. Calculate income from all employment sources accurately.
- H. Calculate accurately the tax payable on employment income.
- I. Prepare accurate computations and complete the relevant parts of the self-assessment tax returns correctly.
- J. Demonstrate an understanding of the impact of legislation and legislative changes.
- K. Demonstrate an understanding of tax law and its implications on income from business.
- L. Demonstrate an understanding of tax law and its implications for incorporated businesses.
- M. Prepare the relevant pages of a tax return for the business and accurately produce the computations to support this.
- N. Correctly complete corporation tax returns with all supporting computations for incorporated businesses.

Unit A: Introduction to the Rwanda taxation system

Learning outcomes

- A. Demonstrate an understanding of legislation and procedures relating to direct tax.
 - 1. Explain the main current legislation relating to direct taxation.
 - 2. Understand the following concepts for purposes of direct tax:
 - a. Tax period
 - b. Permanent establishment
 - c. Residence
 - d. Sources of income
 - e. Obligation of taxpayer
 - f. Double taxation agreements
 - 3. Identify categories of direct tax on income:
 - a. Personal income tax
 - b. Corporate income tax
 - c. Withholding tax
 - d. Capital gains tax.
 - 4. Identify sources of income for individuals (Personal income tax):
 - a. Employment income
 - b. Business profits
 - c. Investment income

Introduction to Unit A

Upon successful completion of this unit, students will have gained a comprehensive understanding of the key legislative frameworks that govern direct taxation. They will be able to articulate the main statutes that dictate how direct taxes are levied and enforced. Students will also develop a clear grasp of essential direct tax concepts, including the definition and implications of tax periods, the criteria for establishing a permanent establishment, the significance of taxpayer residence, the various sources of income that are subject to taxation, the responsibilities that taxpayers must fulfil, and the role and impact of double taxation agreements in mitigating the risk of being taxed twice on the same income in different jurisdictions.

Furthermore, learners will be able to identify and distinguish between the different categories of direct taxes on income. They will understand the nuances and applications of personal income tax, corporate income tax, withholding tax, and capital gains tax. This knowledge will enable them to analyse and apply tax regulations to a variety of income scenarios, ensuring a well-rounded comprehension of direct taxation principles and their practical implications in real-world financial and business contexts.

Unit list		Syllabus Reference
A1	Current legislation relating to direct taxation	A1
A2	Tax periods	A2. a
A3	Residence	A2. c
A4	Permanent establishment	A2. b
A5	Sources of income	A2. d
A6	Obligation of taxpayer	A2. e
A7	Double Taxation Agreements	A2. f
A8	Categories of direct tax on Income	A3

To be enforced, a charge to taxation must be enshrined in law.

A1. Current legislation relating to direct taxation.

The foundation of taxation within Rwanda is established by Article 165 of the Rwandan Constitution (2023). This article mandates that taxes can only be levied, altered, or annulled through legislative action. Similarly, any tax exemptions or reductions must also be legally sanctioned. Consequently, the imposition of taxes or the provision of tax exemptions necessitates the enactment of specific laws.

These legal requirements are operationalised through the income tax legislation, which is considered an Organic law. Additionally, Ministerial Orders and Directives from the Commissioner General play a crucial role in the practical application of these laws. Once these orders and rules are officially approved and published in the Gazette, they acquire the force of law.

The focus of this examination is on direct taxation. Direct taxation pertains to taxes levied on an individual's income or wealth, as opposed to indirect taxes, which target spending or consumption. The primary statute governing direct taxation in Rwanda is Law N° 027/2022 dated 20 October 2022 establishing taxes on income, and Law N° 020/2023 dated 31 March 2023 on tax procedures.

- **Direct Tax:** This type of tax is imposed on an individual's income or wealth. The collection of direct taxes is typically from the individual or entity based on existing tax laws. Income tax serves as a common example of direct taxation.

- **Indirect Tax:** In contrast, indirect taxes apply to the production, exchange, or consumption of goods and services. These taxes are incurred when a taxable transaction occurs, such as the purchase of a taxable good. Value Added Tax (VAT) is a typical instance of an indirect tax.

Understanding these distinctions and the legal framework is essential for students studying the taxation paper, as it forms the basis of the tax system in Rwanda.

A2. Tax periods

“Tax period” is the timeframe during which a taxpayer engages in taxable activities, and taxes are paid at the end of this period. The tax period is usually a calendar year, which refers to the 12-month period from January 1 to December 31. However, corporate entities can apply for a special tax period under certain circumstances.

A2.1 Tax period – Individuals

The term ‘tax period’ refers to the specific duration over which individuals are required to compute and remit their taxes. For both self-employed persons and those in employment, this duration aligns with the calendar year. Specifically, it spans from the 1 of January to the 31 of December. This duration is officially recognised as the tax period for individuals.

A2.2 Tax period – Companies & other entities

Typically, a company’s tax period aligns with the calendar year. However, there is an option for companies to request a different 12-month cycle for tax purposes. To do this, a company must submit a written request to the Minister of Finance and Economic Planning (MINECOFIN). The request will be considered if the company meets two key criteria:

- The company must adhere to the widely recognized accounting standards known as Generally Accepted Accounting Principles (GAAP).
- The company must provide a valid justification for the need to adopt an alternative tax period. A common reason might be to synchronise their financial reporting with that of their parent company.

Once permission for a different tax period is granted in writing, the company is responsible for notifying the Rwandan Revenue Authority (RRA). This step is essential for the RRA to update their systems with the new tax period dates. Failure to do so may lead to difficulties when submitting tax declarations, potentially resulting in fines and penalties.

It’s important to note that selecting a tax period end date other than December 31st will impact the deadlines for tax payments and filing tax declarations. The specific implications of these changes will be covered in detail in Unit K.

A3 Residence

A person or a company’s residence position determines their liability to pay Rwandan tax, especially on overseas income sources.

A3.1 The impact of residence

A Rwandan resident person is generally liable to Rwandan income tax on their worldwide taxable income, whereas non-resident persons are only liable to income tax on income generated in Rwanda.

The same principle applies to Rwandan resident companies; they are liable to Rwandan corporate income tax on their worldwide profits, whereas a non-resident company is only liable to Rwandan corporate income tax on any profits generated through Rwandan permanent establishments (see A4).

A3.2 Determining the residence of natural persons.

An individual is deemed to be a resident of Rwanda if any of the following conditions are met (Article 4):

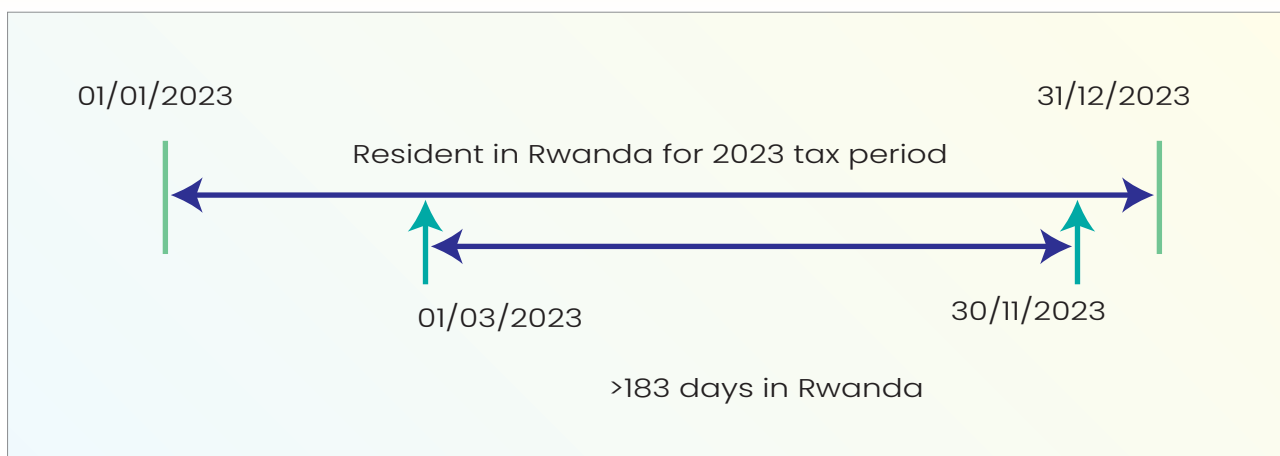
- a. Permanent residence: The person has a fixed home in Rwanda. A house, apartment, hotel or any living space that they usually stay is considered as a permanent residence for a natural person.
- b. Habitual living place: The individual spends most of their time in Rwanda. While Rwandan law does not provide a specific definition for this term, it typically means the place where one lives regularly.
- c. National representation: If the person is a Rwandan serving Rwanda in a foreign country, such as an ambassador, they are considered a resident.
- d. Physical presence: Spending a total of 183 days or more in Rwanda in a tax period makes a person a tax resident. This includes both continuous and sporadic stays. For tax purposes, if someone is in Rwanda at the end of any day (i.e. mid night), that day is included in the 183-day count.
- e. Consistent presence: If during the tax assessment period, the individual is in Rwanda and has been in the country for an average of more than 122 days in each of the previous two tax years, they are deemed a resident for tax purposes.

Exam Focus Point: Exam questions would probably test the issue of residence as narrative, written questions – the determination of an individual or a company's residence and/or its impact on the taxation of their income.

Example:

When an individual arrives in Rwanda to work on the 1st March 2023 and remains continuously until the 30th November 2023, they will have spent more than 183 days in the country. As a result, this individual is considered a resident of Rwanda for tax purposes for the year 2023. This means they must pay tax on all the income they earn from anywhere in the world (i.e., their worldwide income).

Determining residence for individuals – **illustration**



A3.3 Determining the residence of companies & other non-natural persons.

A company (and any other non-natural person, for example a co-operative) is deemed to be a resident of Rwanda if any of the following conditions are met:

- (a) It is a company or entity established according to Rwandan laws.
- (b) Its effective management takes place in Rwanda at any point in the tax period.

If an entity has a business in Rwanda, its effective management is determined by looking at factors such as:

- (a) The day-to-day control and management
- (b) Where shareholders' meetings are held
- (c) Where the accounting records are prepared and kept
- (d) The residence of the main shareholders and directors

A4. Permanent establishment

A non-resident company will only be liable to Rwandan corporate income tax if it is trading in Rwanda through a permanent establishment.

A4.1 Permanent establishment definition

Permanent establishment (PE) is a crucial concept in international taxation, as outlined in the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention. This concept determines the right of a country to tax profits generated by the activities of a foreign enterprise within its borders. The OECD's definition, as of 2017, describes a permanent establishment as a stable business location that enables a company to conduct its business fully or partially. Specifically, the term includes various forms of physical presence, such as: a headquarters or place of management, a branch, an office, a manufacturing site, like a factory, a workshop, a natural resource location, including mines, oil or gas wells, and quarries.

The presence of a permanent establishment means that the profits attributable to the activities carried out through this fixed place of business may be taxed in the country where it is located.

Article 5 of the income tax law generally aligns with the OECD definition of a permanent establishment but with slight modifications. According to Rwandan law, the following are considered permanent establishments:

- (a) A place of management
- (b) A branch
- (c) A factory or workshop
- (d) A mine, a quarry, or any other place for an exploitation of natural resources
- (e) A site set for construction, construction site, or a place where supervision or assembly works are carried out
- (f) A place for the provision of services, including consulting services, carried on by a person, with the support of employees or other personnel, for more than 90 days in a 12-month period, either continuously or intermittently.

A4.2 Activities not considered permanent establishments

The following shall not be deemed to be operations through permanent establishments:

- (a) The use of facilities solely for the purpose of storage of goods or merchandise belonging to the enterprise
- (b) The maintenance of an inventory (stock) of goods or merchandise belonging to the enterprise solely for the purpose of storage
- (c) The maintenance of an inventory (stock) of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise
- (d) The maintenance of a fixed place of business solely for the purpose of purchasing inventory (stock) of goods or merchandise or of collecting information, for the enterprise
- (e) The maintenance of a fixed place of business for the sole purpose of carrying on, on behalf of the enterprise, any other activity of a preparatory or auxiliary character
- (f) The maintenance of a fixed place of business solely for any combination of activities mentioned in subparagraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

A4.3 Agency PE

An important aspect of PE is the concept of an agency PE, which arises when a person acts on behalf of an enterprise and has, and habitually exercises, authority to conclude contracts in the name of the enterprise or plays the principal role leading to the conclusion of contracts. This can establish a PE for the foreign enterprise in Rwanda, even if it does not have a fixed place of business in the country.

A4.4 Exclusions from Agency PE

A person is not considered to have a permanent establishment if they conduct activities solely through an independent broker in the capital market, a general commissionaire agent, or any other private agent, provided that these activities are carried out in the ordinary course of the agent's business.

However, if the activities of the independent broker or agent are carried out wholly or almost wholly on behalf of the person and the conditions between that person and their agents differ from those that would be established between independent parties, the person is considered to have a permanent establishment.

A4.5 Insurance Companies

Special rules apply to insurance companies, where collecting premiums or insuring risks in Rwanda through a person other than an independent broker can constitute a PE.

A4.6 Controlled Foreign Companies

The mere fact that a company controls or is controlled by another company does not in itself create a PE for either company.

A5 Sources of income

Only income sources specified in the tax law are liable to Rwandan personal income tax. You will need to learn taxable and exempt income sources.

A5.1 Sources of income liable to income tax

The tax legislation delineates various sources of income that are subject to taxation. This comprehensive framework ensures that all economic activities contributing to the income of individuals and entities are appropriately taxed, thereby contributing to the nation's revenue. The tax system is designed to capture income from both domestic and international activities, particularly focusing on residents of Rwanda and the economic engagements of non-residents within the country.

Categories of taxable income

The Rwandan tax system identifies several categories of income that are subject to tax. These categories include a wide range of economic activities. According to Article 6 of Law 027/2022, income taxable in Rwanda includes the activities performed in Rwanda by any person and activities performed abroad by a resident of Rwanda. The categories are as follows:

- (a) **Services and Employment:** This includes all forms of remuneration received from employment such as salaries, wages, bonuses, and allowances. The taxation of employment income is progressive, with rates varying based on the income level.
- (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, 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, distribution of profits, direct or indirect 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. This also includes lending, deposits and other similar income-generating activities.
- (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.

A5.2 Taxation of services performed abroad

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.

Whereas the tax system's comprehensive approach to capturing income from a multitude of activities ensures a robust revenue stream for the government, which in turn supports national development, the source rules are structured to promote fairness and equity by taxing income from various sources.

Example:

When a Rwandan company enrolls its employees in a training program where the trainers are abroad and the trainees are in Rwanda, the training will be said to be performed abroad while consumed in Rwanda. However, if the company sends its employees abroad for the training, both the performance and consumption of the training will be said to occur abroad.

A6 Taxpayer obligations

Taxpayers must register with the Rwandan tax administration unless they have an exemption from doing so. Once registered they must file annual tax declarations and meet certain other administrative obligations.

A6.1 Relevant legislation

Taxpayer obligations are mainly governed by Law N° 020/2023 dated 31 March 2023 on tax procedures.

A6.2 Registration of a business

Article 11 of Law N° 020/2023 specifies that a person setting up a business must register with the Registrar General.

The Registrar General will then issue a person with a tax identification number (TIN), which a person will use when communicating with the tax authorities and submitting their tax returns. In particular, the taxpayer should quote their TIN on all returns and backing documentation submitted to the tax administration.

A6.3 Record-keeping

Taxpayers are obliged to keep records to support the information contained within their tax declaration.

The types of records that are required to be kept depend on the size of the business.

- A person who carries out taxable activities in Rwanda and has an annual turnover between RWF 2,000,000 and RWF 12,000,000 needs to only maintain basic records of sales. They need to maintain records of all sales transactions, including both cash and credit sales.
- A person who carries out taxable activities in Rwanda and has an annual turnover between RWF 12,000,000 and RWF 20,000,000 must keep detailed records as shown below:
 - Record of All Daily Sales: Includes cash and credit sales.
 - Record of All Daily Purchases: Details of goods or services acquired, paid for by cash or on credit.
 - Record of Financial Transactions: Documentation of all cash entries and expenditures.
 - Tax Liability: Calculations and Records of the amount of tax owed.
 - Withheld Tax: Documentation of taxes withheld from payments.
 - Declaration of Tax Withheld: Records related to the declaration of taxes that have been withheld.
- A person who carries out taxable activities in Rwanda and has an annual turnover exceeding RWF 20,000,000 must keep comprehensive as shown below:
 - Record of Assets and Liabilities: Detailed documentation of the company's financial position.
 - Record of Daily Income and Expenses: Comprehensive logs of all daily financial transactions related to business activities.
 - Record of Purchases and Sales of Goods and Services: Detailed accounts of all transactions involving goods and services.
 - Record of Stock Inventory: Inventory records at the end of each accounting period.
 - Information Related to Controlled Transactions: Records of transactions with related parties.
 - Lastly, persons under real regime are required to follow a double entry bookkeeping system and provide the below :
 - Financial statements : An annual tax declaration must be submitted along with complete and detailed financial statements on the day the tax period closes.
 - For those with related party transactions, the person must submit an annual tax declaration along with transfer pricing documentation prepared in accordance with relevant legislation.

Books of accounts and records are required to be kept for a period of ten years following the end of the tax period, and they must be kept either at the taxpayer's premises or somewhere else in Rwanda.

A6.4 Tax declarations

Articles 8 of Law 027/2022 outline the requirements for income tax declarations for both individuals and companies. The income tax is generally calculated for the calendar year, which starts on January 1st and ends on December 31st. Consequently, the standard deadline for submitting a tax declaration is March 31st of the year following the end of the calendar year. Although income tax is typically calculated for the calendar year (January 1st to December 31st), the Minister may grant permission to use a different twelve-month period upon written request. In case a special tax period is granted, the deadline for submitting the income tax declaration will be three months from the end of that special period, rather than March 31st.

For those taxpayers in Real Regime, the tax declaration must include financial statements such as a Statement of Financial Position, Statement of Profit or Loss, and any additional notes in compliance with local Generally Accepted Accounting Principles (GAAP). The tax administration may also request further documentation as part of the tax declaration process.

Individuals may not need to file a tax declaration if their income consists solely of employment or investments already subject to withholding tax. For a more detailed explanation of what is included in tax declarations, refer to Unit K of the course material.

A7. Double taxation agreements

In this topic we examine how individuals and companies can avoid being taxed twice in different countries on the same income.

A7.1 Understanding double taxation.

Double taxation occurs when the same income is taxed in two different countries. This can happen to individuals or businesses that are based in Rwanda but earn income from both Rwandan and international sources. When income from another country is taxed by that country and then again by Rwanda, or vice versa it results in double taxation.

To prevent this, there is a system in place called double taxation relief or unilateral relief. The double taxation relief mechanisms ensure that taxpayers don't pay tax on the same income twice, whether the relief is applied in Rwanda, the other country, or through a combination of both.

We will explore this topic in more detail in Unit J, where we'll discuss how this relief works and how to apply it to your tax calculations.

A7.2 Double taxation agreements

Double taxation agreements (DTAs) are essential tools for preventing individuals and companies from paying tax twice on the same income. These agreements are based on models provided by organizations like the Organisation for Economic Co-operation and Development (OECD) and the United Nations (UN), among others. These models serve

as a blueprint for countries to create their own DTAs. Rwanda, for instance, uses both the OECD and UN models as references when forming such agreements.

The core concepts of these model conventions include:

- (a) Total exemptions: Certain individuals, like foreign diplomats and exchange teachers, do not have to pay tax in the country where they earn their income.
- (b) Reduced withholding tax: Investment incomes such as dividends and interest may be taxed at a lower rate than usual.
- (c) Tax credits: Residents can offset taxes paid in another country against their domestic tax liabilities. This can apply to taxes withheld at source or even taxes paid on the profits from which dividends are distributed.
- (d) Information sharing: Countries exchange tax information to help track down and deal with tax evasion.
- (e) Residency rules: Clear guidelines are established to determine where a person is a resident for tax purposes, aiming to prevent someone from being considered a resident in two countries.
- (f) Exclusive taxing rights: Certain profits are taxable only in one of the two countries entering into a DTA.
- (g) Non-discrimination: Foreign nationals should not be taxed more heavily than residents, and tax relief is provided when the same income is taxed in two different countries.

Rwanda has established DTAs with several countries. These agreements typically offer lower withholding tax rates on Rwandan-source income like dividends, interest, management fees, and royalties paid to entities in these countries. For example, under the agreement with South Africa, a reduced withholding tax rate of 10% is applied instead of the standard 15% rate (See Unit E4.1 for detailed DTA network that Rwanda has with other jurisdictions). This is a practical application of the principles outlined in the model conventions and demonstrates how DTAs can benefit cross-border economic activities.

A8. Categories of direct tax on income

Rwanda's direct tax system is categorized into four main types, each applying to specific taxpayers. It is essential to understand these categories and the types of taxpayers subject to them.

A8.1 Categories of direct taxation

The four categories of direct taxation in Rwanda are:

- Personal income tax
 - Corporate income tax
 - Withholding tax
 - Capital gains tax

A8.2 Personal income tax (PIT)

Every individual must pay personal income tax on their eligible sources of income, as detailed in Unit A5. This tax can be collected in two main ways. Firstly, it can be withheld directly from one's salary by the employer through the Pay As You Earn (PAYE) system. Secondly, for other income streams like business profits, it is the responsibility of the individual to report these amounts on their tax return, as outlined in Unit A6. The various types of income subject to PAYE and the applicable rates will be examined further in Unit B.

A8.3 Corporate income tax (CIT)

Corporate Income Tax is applicable to resident companies, except those that are exempt from tax. Similar to individuals, companies must pay tax on their taxable income. The rules for determining taxable income and allowable deductions follow principles similar to those for individuals, but with specific differences for corporations, which will be explored in Unit J.

A8.4 Withholding tax (WHT)

Withholding tax is a type of tax that is deducted from specific kinds of income, such as dividends, interest, and royalties. The responsibility for paying this tax lies with the entity that distributes the income, as they are required to withhold the tax and remit it to the tax authorities. The various types of income subject to Withholding Tax and the applicable rates will be examined further in Unit E.

A8.5 Capital gains tax (CGT)

Capital Gains Tax is levied on the profit realized from the sale of business-related shares and property. The specific transactions that are subject to this tax and the methods used to calculate the tax liability will be covered in Unit D5.

Summary of Unit A and key learning outcomes

- **Legislative provision:** The primary statute governing direct taxation in Rwanda is Law N° 027/2022 dated 20 October 2022 establishing taxes on income, and Law N° 020/2023 dated 31 March 2023 on tax procedures. This law mandates that individuals and companies in Rwanda, as well as certain activities, are subject to direct taxation.
- **Tax period:** Taxes are declared annually, based on the calendar year, however special tax periods can be approved by the Minister of Finance.
- **Residence:** Residents of Rwanda must pay taxes on all income earned globally, while non-residents are taxed only on income earned within Rwanda. This includes the operations of any permanent establishments that non-resident companies may have in Rwanda.
- **Permanent establishment:** A non-resident company will only be liable to Rwandan corporate income tax if it is trading in Rwanda through a permanent establishment.
- **Source of income:** The Rwandan tax law clearly defines which types of income are taxable and which are not. It also clarifies what is considered Rwandan income, subjecting it to taxation for all taxpayers, not just those residing in Rwanda.

- **Obligations of taxpayers:** Those who earn taxable income in Rwanda must register for taxes, file their tax returns each year, pay any taxes due, and maintain accurate records to support their tax filings.
- **International tax agreements:** Tax obligations for income earned abroad by Rwandan residents or income earned within Rwanda by non-residents may be modified by double taxation agreements.
- **Double Taxation Relief:** When income is taxed in two different countries, relief is provided to prevent double taxation.
- **Record-Keeping:** Taxpayers are required to keep detailed records that validate their tax declarations.
- **Categories of direct taxes:** There are four primary types of direct taxes in Rwanda: personal income tax, corporate income tax, capital gains tax, and withholding tax.

These points summarise the essential elements of Unit A, providing a clear understanding of the direct taxation framework in Rwanda for students studying the taxation paper of CPA Rwanda. It is important for students to grasp these concepts as they form the foundation of tax compliance and planning in a professional setting.

Quiz questions

Quiz 1: Direct Taxes

Which TWO of these Rwandan taxes would be considered direct taxes?

1. Excise tax on alcohol
 2. Corporate income tax
 3. Import duties paid when acquiring goods from outside Rwanda.
 4. Capital gains tax on the sale of shares.
- A – 1 and 2
B – 2 and 4
C – 2 and 3
D – 3 and 4

Quiz 2: Special tax period

Which one of the following circumstances would the Minister permit a tax period other than

31 December?

- A. Claude Karera, an individual in business, whose trade is seasonal; he is very busy at the time when the tax return is required to be filed.
- B. Musoni Ltd, a small enterprise not required to prepare accounts under GAAP.
- C. AB Ltd, a large company preparing its accounts under GAAP, which wishes to prepare accounts to 30 June for commercial reasons.
- D. CD Ltd, a large company preparing its accounts under GAAP, which wishes to prepare accounts to 30 June to delay its tax liabilities.

Quiz 3: Residence

Which TWO of the following individuals would be treated as resident in Rwanda in the tax period 2019?

1. Solange Mukundanga, an individual whose habitual abode is in Rwanda but who is currently travelling around the world and will be away for the whole of 2019
2. Harry James, a UK citizen who has been seconded to Rwanda by his employer for the period 1 September 2019 to 30 April 2020 – he is staying in hotels while in Rwanda, and he has never visited Rwanda prior to his secondment.
3. Sophie Smith, a colleague of Harry James, who was seconded to Rwanda for the periods 1 December 2018 to 31 January 2019 and 15 April 2019 to 31 August 2019, but has now returned to the UK (her usual home)
4. Hank Azalea, a US citizen who owns a hotel as a business in Rwanda but has only visited Rwanda for two weeks in 2019; he does not have a Rwandan home.

A – 1 and 2

- B – 1 only
- C – 2 and 3
- D – 3 and 4

Quiz 4: Records

Ronald Kalisa has a business in Rwanda with annual turnover of Frw15,000,000. Which TWO of the following records is he NOT required to keep for tax purposes?

1. Record of all daily sales
2. Daily records of income and expenses
3. Records of closing trading stock
4. Withholding tax documentation

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

Unit B: Taxation of Employment Income

Learning outcomes

- B. Demonstrate an understanding of the current taxation principles of income from employment.
 - 1. Explain the main legislative features relating to income from employment.
 - 2. Describe sources of income from employment (including benefits in kind) and provide examples of which are, and which are not taxable.
 - 3. Identify employment incomes that are exempt from tax.
 - 4. Describe and provide examples of taxation relief which can be given on income from employment including deductible (allowable) expenses, pension and medical relief.
- G. Demonstrate an understanding of legislation and procedures relating to direct tax.
 - 1. Prepare accurate computations of emoluments, including benefits in kind from employment.
 - 2. Correctly identify employment incomes that are exempt from tax.
- H. Calculate accurately the tax payable on employment income.
 - 1. Apply allowances that can be set against employment income, including reliefs.
 - 2. Calculate income tax payable.

Introduction to Unit B

Upon successful completion of this Unit, students will have developed a comprehensive understanding of the taxation principles related to income from employment. They will be able to articulate the key legislative aspects that govern how employment income is taxed, including an in-depth explanation of the various sources of income that fall under this category. Students will be adept at distinguishing between taxable and non-taxable employment income, such as benefits in kind, and will be able to pinpoint specific types of employment income that are exempt from taxation. Furthermore, they will be conversant with the various forms of tax relief available for employment income, such as deductions for allowable expenses, and reliefs related to pensions and medical expenses.

In addition to these competencies, students will also gain proficiency in preparing precise computations of emoluments, which include benefits in kind, and will be able to accurately identify which forms of employment income are not subject to tax. This comprehensive skill set will enable students to navigate the complexities of employment income taxation

with confidence and precision.

Unit list		Syllabus Reference
B1	Legislative features	B1
B2	Taxable and exempt employment income	B2.
B3	Social Security contributions and reliefs for employment income	B3/4
B4	Calculation of employment income	G1
B5	Calculation of income tax on employment income	H2
B6	Administration of employment taxes	H1

B1 Legislative features

Employment income includes all payments made to an employee by his/her employer in cash or in kind in relation to the work performed.

The statutory framework governing taxation on employment income is segmented into four distinct Articles as per Law N° 027/2022 of 20/10/2022 Establishing taxes on income.

Article 15 – Components of employment income: This Article delineates the various elements that constitute employment income, which includes but is not limited to wages, salaries, sick pay, and bonuses.

Article 16 – Payments exempted from employment income tax: This article specifies the types of payments that are not subject to employment income tax. An example of such an exclusion is the reimbursement of expenses incurred by employees.

Article 17 – Persons exempted from employment income tax: Certain individuals are granted exemption from employment income tax under this Article. A notable example is a non-resident individual working at a foreign embassy within Rwanda.

Article 18 – Benefits in kind: This Article addresses the tax treatment of benefits in kind provided to employees, such as the use of a company car or employer-provided housing.

In the following sections, we will delve into the specifics of these rules with greater detail.

B2 Taxable and exempt employment income

B2.1 Taxable employment income

Employment income constitutes a significant component of the tax base for personal income tax. It includes the various forms of compensation that individuals receive as a result of their labour or services provided to an employer. The income tax law adopts an inclusive approach, ensuring a comprehensive capture of all forms of employee

remuneration within its scope.

The law stipulates that employment income includes, but is not limited to, the following elements:

- (a) **Regular compensation:** This category covers the traditional forms of remuneration such as wages, salaries, leave pay, sick pay, and medical allowances. It also includes payments made in lieu of leave for employees who cease working before utilising their entitled annual leave.
- (b) **Additional earnings:** Employees may receive supplementary payments such as sitting allowances, commissions, bonuses, and gratuity. These are considered part of employment income due to their direct association with the services rendered by the employee.
- (c) **Allowances:** Various allowances provided by the employer, such as those for cost of living, subsistence, housing, entertainment, or travel, are included in the employment income.
- (d) **Reimbursements and discharges:** Any reimbursements or discharges of expenses incurred by the employee or an associate, unless specifically excluded, fall under employment income.
- (e) **Special condition payments:** Compensation for employees working under exceptional conditions, redundancy payments, or any other payments related to the loss or termination of a contract are considered part of employment income.
- (f) **Pension payments:** Any pension payments made to an employee are included in the definition of employment income.
- (g) **Other payments:** The law also covers other miscellaneous payments made in respect of previous, current, or future employment.

B2.3 Exempt employment income

The income tax act delineates certain payments that are not to be included in the calculation of taxable employment income, providing clarity on non-taxable components:

The following components of employment income are exempt:

- (a) **Business expense reimbursements:** Payments made to discharge or reimburse expenses that are wholly for the employer's business activities, or those that would be deductible in calculating the employer's income from all business activities, are excluded.
- (b) **Social security contributions:** Contributions made by the employer to the public institution in charge of social security on behalf of the employee are not considered taxable employment income.
- (c) **Qualified pension payments:** Pension payments received from the public institution responsible for social security or from a qualified pension fund are exempt from being classified as taxable employment income.
- (d) **Income from international sources:** Employment income received by non-Rwandan citizens from foreign governments or non-governmental organisations under agreements with the Rwandan government, specifically for aid services performed in Rwanda, is not taxable.
- (e) **Non-resident income:** Employment income earned from a non-resident employer by a non-resident individual for services rendered in Rwanda is excluded unless

the services are related to a permanent establishment of the employer in Rwanda.

B3. Social Security contributions and reliefs for employment income

Both the employer and the employee must make contributions to the national social security institution, known as the Rwanda Social Security Board (RSSB)

B3.1 Social security contributions

Social Security contributions are paid by all employees and employers and these fund the social security schemes run by the government. The following schemes are examinable.

B3.1.1 Pension, Maternity Leave Benefit Scheme, Community Based Health Insurance Scheme – mandatory for all employers

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

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. This staged implementation is designed to give everyone time to adjust”.

*Other Contributors towards Community based health insurance scheme include: (as per Prime Minister's Order No. 105/03)

- 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.

B3.1.2 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

B3.2 Employee contributions

When the scheme is in effect, employers must deduct contributions from their employees' earnings and remit them directly to the Rwanda Social Security Board (RSSB). These contributions are not treated as deductible expenses when calculating taxable employment income. Under the Pay-As-You-Earn (PAYE) system, tax is applied to the employee's total taxable income before subtracting any social security contributions. In other words, PAYE is calculated on the full amount of income before RSSB deductions are taken into account.

B3.3 Employer contributions

For employees, the employer's contributions to social security are exempt from Pay-As-You-Earn (PAYE) taxation, meaning they are not considered part of the employee's taxable income. On the other hand, employers are allowed to deduct these contributions as business expenses when calculating their taxable business income. This distinction is important for understanding the tax implications of employment-related costs. Both employees and employers need to be aware of which expenses are tax-exempt for the employee and which can be deducted by the employer, as this affects their overall financial and tax strategy.

B4. Calculation of employment income

The computation of an individual's income from employment for taxation purposes involves aggregating all taxable monetary elements and taxable non-cash benefits. This total is then reduced by any allowable deductions.

B4.1 Cash elements

Cash components include the total monetary remuneration that includes salaries or wages, as well as any additional sums such as bonuses, commissions, gratuities, or other forms of cash compensation paid within the tax year.

In the context of taxation, the collective term for employment income and associated benefits is known as 'emoluments'.

B4.2 Motor vehicle benefit in kind

When an employer provides an employee with a motor vehicle for either business or personal use, the value of this benefit is calculated as follows:

- If the vehicle is owned by the employer, the value of the benefit is set at 10% of the employee's total emoluments, excluding any other benefits in kind.
- If the vehicle is leased by the employer, this actual amount is taxed as part of the employee's income, following the provisions in Article 15.

B4.3 Loan interest benefit in kind

When an employer extends a loan to an employee, or provides a salary advance that surpasses the amount of three months' wages, and the interest charged is minimal or the loan is interest free, the employee receives a taxable benefit in kind.

This benefit is calculated by the interest savings the employee gains. Specifically, it is the difference between the interest that would have been payable at a deemed rate and the actual interest paid by the employee on the loan.

For example, the benefit is calculated as follows:

Loan × deemed interest rate	X
Less: actual interest paid	(X)
Benefit in kind	X

Deemed interest rate is the rate of interest offered to commercial banks by the National Bank of Rwanda. (You will be given this in the question.)

B4.4 Accommodation benefit in kind

When an employer provides an employee with residential accommodation, the value of this benefit is calculated as follows:

- If the accommodation is owned by the employer, the value of the benefit is set at 20% of the employee's total emoluments, excluding any other benefits in kind.
- If the accommodation is rented by the employer, the actual amount is taxed as part of the employee's income, following the provisions in Article 15.

B4.5 Other benefits

When an employee is provided with any other benefit in kind, other than the benefits

listed above, the taxable value of this benefit is determined by its open market value. For instance, consider a scenario where an employer is renovating their office space. As part of this process, employees are allowed to take home the desk chairs that are being replaced. In such a case, the employees would be subject to tax based on the open market value of these second-hand chairs.

B5. Calculation of income tax on employment income

Exam focus Point: Expect to encounter at least one question in your examination that requires the computation of an individual's taxable income from employment, along with the corresponding income tax. It is crucial to have a thorough understanding of the valuation of each fringe benefit.

A question worth between 12 to 20 marks may require you to perform the entire procedure of determining taxable income from employment, computing the PAYE and RSSB contributions, as well as describing the employer's responsibilities regarding PAYE.

B5.1 Categories of employee

Income tax operates on a progressive scale, meaning that as an individual's income rises, the percentage of tax applied to their income also increases. This system ensures that taxpayers with higher earnings contribute a larger share of their income to taxes.

In the context of taxation, employees are categorized into three distinct groups:

- (a) Permanent employees: These individuals are those who do not fit into the subsequent categories. They are typically engaged in ongoing work arrangements and are considered the standard employment type for tax considerations.
- (b) Casual laborers: This group is characterised by employees who:
 - (i) Engage in manual, unskilled labour;
 - (ii) Operate without the use of machinery or specialized equipment; and
 - (iii) Are hired by an employer for an aggregate period not exceeding 30 days within a twelve (12) months period.
- (c) Employees with multiple employers: These are workers concurrently employed by more than one entity. The specifics are as follows:
 - (i) The primary employer, who provides a stable work environment or a contract of longer duration than other employers, is referred to as the "first employer."
 - (ii) This first employer recognizes the individual as a 'permanent employee' for tax purposes and processes their taxes accordingly.
 - (ii) Subsequent employers must adhere to different tax treatment protocols as outlined in Unit B5.6.

B5.2 Rates of income tax – Permanent employees

The income tax for permanent employees is calculated based on monthly taxable income and divided into specific income bands with different tax rates:

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

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

Example: Income Tax Calculation for Permanent Employees

For an employee with a monthly taxable income of Frw 350,000, the calculation of income tax is done as follows:

First Frw 60,000 taxed at 0% = Frw 0

Next Frw 40,000 (between 60,001 and 100,000) taxed at 10% = Frw 4,000

Next Frw 100,000 (between 100,001 and 200,000) taxed at 20% = Frw 20,000

Remaining Frw 150,000 (above 200,001) taxed at 30% = Frw 45,000

Total tax payable on Frw 350,000: Frw 0 + Frw 4,000 + Frw 20,000 + Frw 45,000 = Frw 69,000.

B5.3 Rates of income tax – Casual laborers

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

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

Example: Income Tax Calculation for Casual Laborers

For a casual laborer earning Frw 80,000 per month, the tax calculation is as follows:

First Frw 60,000 taxed at 0% = Frw 0

Remaining Frw 20,000 (above 60,001) taxed at 15% = Frw 3,000

Total tax payable on Frw 80,000: Frw 0 + Frw 3,000 = Frw 3,000.

B5.4 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 in Unit B5.2.
- Secondary employment: Subsequent employers are required to deduct tax at a flat rate of 30% from the employee's taxable earnings.

B6 Administration of employment taxes

Employers are required to withhold income tax from their employees' salaries under the Pay As You Earn (PAYE) system. Additionally, contributions to the Rwanda Social Security Board (RSSB) must be remitted directly by the employer. Consequently, employees are not responsible for reporting or paying additional taxes on their salary earnings. This process simplifies the tax obligations for individuals by placing the primary responsibility on the employer to manage and submit the necessary deductions to the relevant authorities

B6.1 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, for the quarter covering January to March, taxes 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.

B6.2 Declarations

In the past PAYE and RSSB contributions were declared separately; however, a unified declaration has been introduced and all newly registered employers are required to use this. Existing employers are strongly encouraged to use it.

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 laborers and individuals for whom this employer is their 'second' employer are recorded on separate tabs of the declaration.

Certain employers may be exempt from applying PAYE. If this is the case, an individual must compute PAYE themselves and remit it to the tax administration according to the usual monthly deadlines.

B6.3 Statement to employee

Employers are required, as per Article 57 of Law No. 027/2022, 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.

Summary of Unit B and key learning outcomes

- Components of taxable employment income: Taxable employment income includes both cash payments and non-cash benefits, known as benefits in kind (BIK). BIKs are non-cash rewards provided to employees.
- Tax-exempt employment income: Certain types of employment income are not subject to taxation and are thus exempt.
- RSSB contributions: Contributions made to the Rwanda Social Security Board (RSSB) for pensions, maternity leave, and medical schemes are subtracted from cash earnings and Pay-As-You-Earn (PAYE) tax calculations. However, these contributions do not reduce the taxable income.
- Private pension fund contributions: Employees are allowed to deduct their contributions to private, qualified pension funds from their taxable income, but there is a limit to this deduction.
- Motor Vehicle Benefit in Kind: The BIK for the use of a company-owned motor vehicle is valued at 10% of the employee's cash earnings.
- Loan interest Benefit in Kind: The BIK for loan interest is determined by the difference between the interest calculated at a prescribed rate and the actual interest paid by the employee.
- Accommodation Benefit in Kind: When an employee is provided with housing by the company, the BIK is valued at 20% of the employee's cash earnings.
- Employee Tax rate categories: There are three distinct categories of employees, each subject to different tax rates.
- PAYE and RSSB payment deadlines: Employers are typically required to pay and report PAYE and RSSB contributions by the 15th of the month following the conclusion of the tax period.
- Tax withholding for secondary employment: If an individual has a second employer, that employer is required to withhold tax at a rate of 30%.

This summary provides a concise overview of the key components and considerations regarding taxable employment income for students studying the taxation paper in the Certified Public Accountant (CPA) program. It is essential for students to understand the various elements that constitute taxable income, the exemptions available, the treatment of benefits in kind, and the deadlines for tax and social security contributions.

Quiz 1: Taxable and exempt employment income

Which one of the following examples of employment income is exempt?

- A. Francis has to take three days off work due to the flu and receives sick pay.
- B. Josine is reimbursed for the purchase of some stock she made on behalf of her employer.
- C. Immaculée receives a bonus for being the employee of the month.
- D. James is paid an extra month's salary as compensation for being made redundant.

Quiz 2: RSSB contributions

Dative Murebwayire is employed by Bella Umuhoza. She receives a basic salary of Frw65,000,000 a cash allowance for living accommodation of Frw3,000,000 and he is provided with a car giving rise to a benefit in kind of Frw6,800,000. Bella has not elected to use the medical scheme.

Calculate the amounts which Bella will pay over to the RSSB in employer and employee contributions to the applicable RSSB schemes.

Quiz 3: Motor vehicle

Olivier Nshizirungu is provided with a car owned by his employer and a driver as a perk of his job. The driver is employed separately by the employer and taxed under PAYE. Olivier receives a cash salary of Frw55,000,000 per annum.

Calculate Olivier's benefit in kind.

Quiz 4: Loan interest

Étienne Niyonsenga has borrowed Frw3,000,000 from his employer to pay for building work on his house. He is required to pay interest at 0.5% per annum. The National Bank of Rwanda is currently lending money to commercial banks at a rate of 5.5% per annum.

Calculate Étienne's benefit in kind.

Quiz 5: Accommodation benefit

Robert Ruzindana earns a salary of Frw60,000,000 per annum and receives a Frw600,000 bonus this tax period. He is also provided with a furnished house to live in which is owned by his employer.

Calculate Robert's benefit in kind.

Quiz 6: Income tax payable – permanent employee

Jean Claude Bernard Mucyo has an annual salary of Frw75,000,000. He is provided with unfurnished accommodation and a car for his private use, which are both owned by his

employer. Jean Claude Bernard has three children attending school and his employer provides an annual education allowance of RWF3,000,000 per child.

Calculate Jean Claude Bernard Mucyo's monthly income tax payable.

Quiz 7: Income tax payable – casual labourer

SérAPHINE employs Francis in an unskilled role on a temporary basis. Francis works for 25 days and SérAPHINE pays him Frw68,000. Calculate Francis's income tax payable.

Quiz 8: PAYE

Kevin Kanesa has just accepted a job working for Alphonse Mugabo as a shop assistant for Alphonse's retail business, which has a turnover of Frw30,000,000 per year. Alphonse has never previously employed anyone, and this is Kevin's first job since leaving school.

Explain briefly to Kevin how his tax liability on his employment income will be paid.

Unit C: Taxation of Business Income

Learning outcomes

- C. Demonstrate an understanding of the current taxation principles of income from business (commercial) activities.
 - C1. Identify the relevant tax authority legislation and guidance.
 - C2. Describe the main regulations relating to:
 - Business income exempt from tax
 - Accounting for small businesses
 - Income on assets in foreign currency
 - Long term contracts
 - Deductible and non-deductible expenses
 - Trading stock
 - Depreciation
 - Investment allowance
 - Training and research expenses
 - Bad debts
 - Carry forward of losses
 - Transfer pricing
 - Adjustment of profit
 - Capital expenditure Vs Revenue expenditure
 - Other adjustments

Introduction to Unit C

Upon successful completion of this unit, students will have developed a comprehensive understanding of the taxation principles pertaining to income derived from business activities. They will be able to identify and apply the relevant tax authority legislation and guidance, ensuring compliance with the law. Students will be able to describe the main regulations that govern various aspects of business taxation, including exemptions, accounting practices for small businesses, and the treatment of foreign currency income. They will also gain proficiency in recognizing the nuances of long-term contracts, distinguishing between deductible and non-deductible expenses, and understanding the implications of trading stock. Furthermore, students will be equipped to evaluate training and research expenses, address bad debts, and navigate the complexities of loss

carry forwards and transfer pricing. Mastery of these topics will enable students to make informed decisions regarding the adjustment of profits and discern between capital and revenue expenditure, along with other necessary adjustments, to optimize tax obligations.

Unit list		Syllabus Reference
C1	Legislative features	C1
C2	Exemptions and non-exempt business income	C2
C3	Accounting for small businesses	C2.1
C4	Adjustment of profit	M1/C2.4
C5	Capital expenditure Vs Revenue expenditure	M2
C6	Foreign currency assets	C2.2
C7	Long Term Contracts	C2.3
C8	Trading stock	C2.5
C9	Training and Research expenses	C2.7
C10	Bad Debts	C2.8
C11	Transfer Pricing	C2.10

C1. Relevant legislation and guidance

The taxation of business profits is a complex area. The rules concerning what constitutes taxable and

exempt business income, and what expenses can and cannot be deducted from turnover for tax purposes, are very similar for sole traders, partnerships and companies, and are all dealt with in this

unit. Where a rule applies for personal income tax or corporate income tax only, this will be noted.

The relevant legislation is Section 3 of Law 027/2022. This encompasses Articles 19–33 of the law. The

taxation of small businesses is covered in Article 14 (tax rate).

C2. Taxable and exempt business income

Certain types of business activities are exempt from income taxes; however, most business activities are taxable.

taxable.

C2.1 What are business activities.

The Rwandan tax law does not define business activities, however if we refer to decided tax cases on this subject, business activities refer to the actions or operations that a company or individual engages in with the intent of earning income or profit. These activities can include a wide range of actions such as selling goods, providing services, manufacturing products, or any other endeavours that are carried out with a profit motive.

Decided tax cases often help to clarify what constitutes a business activity by setting precedents based on the facts and circumstances of each case. Courts look at various factors to determine whether an activity qualifies as a business, including:

- The nature of the activity: Is it commercial in nature? Does it involve the sale of goods or services?
- The frequency and regularity of the activity: Is the activity carried out in a manner similar to other entities in the same industry?
- The intention of the taxpayer: Was the primary purpose of the activity to make a profit?
- The level of activity: Is there a significant amount of time and effort invested in the activity?
- The profitability of the activity: Does the activity actually result in a profit, or is there a reasonable expectation of profit in the future?

The complexity of determining whether an activity is a business for tax purposes lies in the subjective nature of the criteria. Each case is unique, and the interpretation of the factors can vary. While tax law provides general guidelines, the application of these guidelines to specific situations often requires a nuanced understanding of both the law and the facts of the case.

In conclusion, business activities as defined by decided tax cases are those actions undertaken with the intent to earn a profit, and they are subject to specific tax treatment. The determination of whether an activity is a business involves a careful analysis of various factors, and the outcomes of tax cases contribute to the evolving understanding of what constitutes a business activity in the eyes of the law.

C2.2 Business income.

In Rwanda, the concept of business income is intricately linked to the notion of business profits as outlined by the tax law. The law itself does not explicitly define 'business income' but rather focuses on the characterisation of 'business profits.' These profits are essentially the financial gains that result from all forms of business activities after the deduction of all related business expenses. This comprehensive approach to determining business profits includes not only the regular operational revenues but also the proceeds from the sale of any business assets and any income derived from asset sharing within the relevant tax period.

To ensure a standardised and fair assessment of what constitutes business profits, the tax law mandates that these profits be calculated based on the profit or loss account that is prepared in accordance with Generally Accepted Accounting Principles (GAAP). This adherence to GAAP ensures that the financial statements reflect a true and fair view of the business's financial performance and position.

The Tax Administration is also empowered to employ alternative accounting methods or to draw upon other sources of information as deemed necessary under the law. This is to verify and corroborate the accuracy of the reported profits by the taxpayer. Through these measures, the Rwandan tax system aims to maintain a robust and equitable framework for the taxation of business profits, which by extension, serves as the de facto definition of business income (Article 19).

C2.3 Exempt business income.

In the field of taxation, certain types of income are granted exemption status, thereby providing relief to individuals and entities from the burden of tax. Such income include:

- Income accrued from savings in a collective investment scheme and employees' shares within a company (Article 20).

This exemption pertains to the income that accrues from two specific sources: savings placed in collective investment schemes and the shares owned by employees in the company that employs them. The rationale behind this exemption is to encourage savings and investment among the citizen, as well as to foster a sense of ownership and partnership between employees and their employers.

It is important to note, however, that this exemption is not without its limitations. Specifically, it does not extend to employees who hold a significant stake in their company. If an employee's shareholding exceeds 10% of the company's share capital, the income derived from those shares will not be eligible for the tax exemption. This clause ensures that the tax relief is targeted towards the broader base of employees and prevents it from being disproportionately advantageous to those in positions to accumulate substantial equity in a company.

- Profit on agricultural and livestock activities (Article 21)

Income generated from agricultural, or livestock activities is exempt from income tax, provided the turnover from such activities does not exceed Frw12 million within a tax period. This exemption is designed to support small-scale farmers and pastoralists, recognizing the vital role they play in the economy and the challenges they face. Should their turnover exceed the specified threshold, the exemption still applies to the initial Frw12 million, with only the excess being subject to taxation.

The flat, turnover or real tax systems (see Unit C3) may apply to the amounts more than Frw12,000,000.

C3. The taxation of small businesses

Small businesses and micro-enterprises have a simplified method for calculating the income tax due. They are, however, allowed to opt out of the simplified method and use the 'real regime'.

C3.1 Micro-enterprises – ‘flat tax’ regime

A micro-enterprise is one whose business activities generate turnover of up to Frw12,000,000 per tax period.

A micro-enterprise pays a flat tax. 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
2,000,000–4,000,000	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

C3.2 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 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 local 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 (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 flat, turnover or real tax regime.

C3.3 Liberal professions

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.

Important point to note: The turnover tax and flat tax systems do not apply to businesses carrying on liberal professions; they must use the real regime.

A liberal profession is defined in Article 3 (26) Law N° 027/2022 as: a profession practiced on the basis of special skills in an independent manner in offering services to the clients.

C4 Adjustment of profit for tax

For businesses under the real regime, the amount of tax is based on taxable profits, which differ from accounting profits. Accounting profits must be adjusted to align with tax regulations, as accounting principles often conflict with tax legislation. To determine taxable business profit, various adjustments are made to the accounting profit, ensuring that the final figure complies with the relevant tax laws.

C4.1 The need to adjust profits

The Tax Administration will normally accept profits which are determined in accordance with accounting principles if there is no conflict between the accounting principles and tax legislation. However, there is often a conflict, and the accounting profits may require several adjustments to be made to them to determine the taxable profits. Taxable profits are required to be determined in accordance with the requirements of tax legislation.

Expenses that are allowed for tax purposes do not require any adjustment if accounts have already been prepared reflecting such expenses. Some expenses which are charged in the accounts are not recognised as expenses for tax purposes. Expenses that are not allowed for the purposes of taxation should be added back to the net profit figure. Most expenses are specifically non-deductible per the requirements of tax legislation while other expenses are non-deductible because they do not meet the general criteria for allowing them as expenses for tax purposes. Similarly, some income which is credited to the profits is not taxable as business receipts or is entirely exempt from income tax.

C4.2 Computation of taxable business profits

	Frw'000	Frw'000
Net profit as per accounts (A/Cs)		X
Add:		
(a) Expenses charged in the A/Cs but not deductible for tax purposes	X	
(b) Taxable income not credited to A/Cs	<u>X</u>	<u>XX</u>
		XX
Less:		
(c) Income credited to A/Cs but not taxable	X	
(d) Expenses for tax purposes not deducted in the A/Cs	<u>X</u>	<u>(XX)</u>
Adjusted business profits		XX
Less tax depreciation (Unit F)		<u>(XX)</u>
Taxable business profits		<u>XX</u>

C4.3 General rule for the deduction of expenses

Article 24 of Law 027/2022 sets out the conditions for an expense to be deductible for tax purposes. Expenses must fulfil the following conditions:

- Firstly, the expenses must be incurred wholly and exclusively for the purpose of the business, meaning that there must be a direct connection between the expense and the income-generating activities of the business. This ensures that only legitimate business expenses are considered, rather than personal expenses or costs unrelated to the business operations (Article 24 (1)).
- Secondly, the expenses 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. This requirement is crucial for maintaining transparency and providing verifiable proof that the expenses were indeed incurred and are not fictitious or exaggerated claims (Article 24 (2)).
- Thirdly, the expenses must lead to a decrease in the net assets of the business. This condition is based on the principle that deductible expenses should reflect actual economic outflows that reduce the company's wealth. It prevents businesses from claiming deductions for expenses that do not diminish the overall value of the business's assets (Article 24 (3)).
- Lastly, the expenses must be used for activities related to the tax period in which they are incurred. This temporal alignment ensures that the expenses are relevant

to the revenue generated within the same fiscal period, allowing for an accurate assessment of the business's taxable income for that specific year (Article 24(4)).

If expenses that do not meet all the necessary criteria have been charged to the profit and loss account, they must be added back when calculating taxable profits. Additionally, certain specific expenses are not deductible from trading income and must be disallowed. These are explained below. C4.4 Non-deductible expenses from taxable income

Non-deductible expenses are those costs that cannot be subtracted from taxable income when calculating the amount of tax owed to the government. Here, we will explore the various categories of non-deductible expenses as stipulated by Rwandan tax law (Article 25).

- **Dividends and Profit Distributions:** When a company distributes dividends or profits to its shareholders or beneficiaries, these distributions are not deductible from the company's taxable income. This is because dividends are considered a distribution of after-tax profits.
- **Reserve Allowances and Special Funds:** Contributions to reserve allowances, savings, and other special-purpose funds are generally not deductible unless there is a specific provision in the law that allows for such deductions. This means that setting aside money for future use or contingencies does not reduce current taxable income.
- **Fines and Penalties:** Any fines or similar penalties incurred by a taxpayer are not deductible. This includes penalties for late payments or violations of regulations. This includes, for instance, traffic fines incurred by company vehicles or penalties for late payment of bills.
- **Donations:** Donations made to entities are not deductible, except for those given to non-profit making organizations. Even then, the deduction is limited to an amount that does not exceed one percent (1%) of the taxpayer's turnover. For example, if a business donates to a local charity, it can only deduct the donation from its taxable income if the charity is a qualified non-profit and the donation is within the 1% limit.
- **Taxes and Recoverable VAT:** Income tax paid, whether in Rwanda or abroad, on business profits, and recoverable value-added tax (VAT) are not deductible expenses. This is because they are payments to the government and not expenses incurred in the production of income. This prevents a double benefit where a tax expense reduces taxable income on which the tax is calculated.
- **Personal Consumption:** Expenses related to personal consumption are not deductible as they do not relate to the generation of business income. This includes any goods or services consumed by the business owners or their families that are not strictly for business purposes.
- **Entertainment Expenses:** Costs incurred for entertainment are generally non-deductible, except for expenses on general sporting activities for employees, which are seen as contributing to employee welfare and productivity.
- **Mixed-Use Expenses:** A portion of expenses for overheads such as telephone, water, electricity, and fuel, which are used for both private and business purposes and cannot be practically separated, are non-deductible. Specifically, twenty percent (20%) of such expenses are not deductible.
- **Payments to Non-Resident Related Persons:** The total of management activities, technical services, and royalty fees paid to a non-resident related person that exceed two percent (2%) of the taxpayer's turnover are non-deductible. This is to

prevent profit shifting to related parties in lower-tax jurisdictions (See Unit C11.2).

- **Interest on Excessive Related-Party Loans:** Interest on loans between related persons is non-deductible if the total loans exceed four times the amount of paid-up equity, excluding provisions, reserves, and retained earnings as per the balance sheet prepared according to generally accepted accounting principles. This rule is designed to limit thin capitalization, which can erode the tax base (See Unit C11.3).
- **Foreign Exchange Losses:** Realized foreign exchange losses on loans between related persons that exceed the threshold of four times the paid-up equity are non-deductible. This is to prevent the manipulation of expenses through currency fluctuations.

It is important to note that the provisions regarding interest and foreign exchange losses do not apply to commercial banks, insurance companies, and other financial institutions. These entities are subject to different regulatory frameworks.

- **Unrealised Foreign Exchange Losses:** Unrealised foreign exchange losses arise when there are changes in the exchange rate of foreign currencies in which a company holds assets or liabilities, but no actual transaction has occurred. These losses are recorded in the accounts to reflect the change in value, but since the foreign currency has not been converted or settled, the loss is not yet realized. For tax purposes, unrealised losses are non-deductible, meaning they cannot reduce taxable income until the actual transaction takes place.
- **Mandatory Contributions:** Despite the restrictions on deductions, it is worth mentioning that mandatory contributions paid by a taxpayer – for example employer social security contributions – are allowed as a deductible expense. This provides some relief for taxpayers who are required to make certain compulsory payments.

C5. Capital vs revenue expenditure

The distinction between capital and revenue expenditure is crucial for tax purposes. This distinction directly affects the computation of taxable profits for businesses, as it determines which expenses can be deducted from the company's income to reduce its tax liability.

Expenditure that is capital in nature, such as the purchase of fixed assets, is not eligible for immediate tax relief in the period it is incurred. Instead, capital expenses are usually spread over time through depreciation or capital allowances. It is essential to differentiate between capital expenditure, which relates to the acquisition or improvement of long-term assets, and revenue expenditure, which covers day-to-day operating costs, as only revenue expenditure qualifies for tax deductions in the period incurred.

C5.1 Capital expenditure

Capital expenditure refers to the funds used by a company to acquire, upgrade, and maintain physical assets such as property, industrial buildings, or equipment. This type of expenditure is considered an investment in the business and is meant to benefit the company over a long period, typically more than one accounting period and would qualify for tax depreciation/capital allowance. (see Unit F3).

Therefore, capital expenditure includes costs associated with the acquisition or improvement of fixed assets. For example, if a company purchases a new piece of machinery for its manufacturing process or incurs expenses in enhancing the functionality of an existing asset, these costs are considered capital in nature. Such expenses are not immediately deductible for tax purposes. (Article 28).

C5.2 Revenue expenditure

On the other hand, revenue expenditure is the spending that is incurred during the day-to-day running of the business. This includes routine expenses that are necessary for the maintenance of the income-generating activities of the business. Revenue expenses are typically short-term and are deducted from the company's income in the period they are incurred.

Examples of revenue expenditure include wages, utilities, and routine maintenance. For instance, if a company spends money on repainting its office or replacing a worn-out part of a machine, these expenses are considered revenue in nature. As such, they reduce the net assets of the business and qualify for immediate tax relief.

C5.3 Practical considerations

The distinction between capital and revenue expenditure can sometimes be complex. For example, if a factory replaces a chimney, it is considered a repair, and the cost is a revenue expense, which is deductible. However, if the business is a power station and the chimney itself is the main asset, replacing it would be a capital expense, which is not immediately deductible, but would qualify for tax depreciation (see Unit F3).

Furthermore, when a business acquires an asset that requires significant expenditure to make it operational, such as making a vehicle roadworthy, this is typically considered capital expenditure. But costs incurred to address normal wear and tear on recently acquired assets are treated as revenue expenditure and are therefore deductible.

C6. Foreign currency assets

Gains or losses on translation of assets are reflected as part of taxable income.

C6.1 How exchange differences arise

The Rwandan economy, being open to international trade and investment, necessitates the use of various currencies to conduct business operations. This multi-currency environment gives rise to exchange differences due to the fluctuation of foreign currency exchange rates against the Rwandan franc (Frw). Exchange differences can have significant implications for the preparation of financial accounts and the computation of taxable income.

Translation of Foreign Currency Transactions

When a Rwandan entity engages in transactions denominated in a foreign currency, it must eventually translate the value of these transactions into Rwandan francs for accounting and tax purposes. This translation process is where exchange differences typically arise. The value of foreign currency assets and liabilities can change when converted to Frw due to fluctuations in exchange rates over time.

Examples of Exchange Differences

- **Sales to Overseas Customers:** Consider a Rwandan exporter that sells goods to a customer in Europe, invoicing the customer in euros (EUR). If the customer has not paid by the end of the tax period, the outstanding receivable amount must be translated into Frw using the exchange rate at that date. If the EUR/RWF exchange rate has changed since the invoice date, the translated value of the receivable will differ, resulting in an exchange gain or loss.
- **Outstanding Creditors:** If a Rwandan business owes money to a foreign supplier, and the payment is to be made in a foreign currency, the amount of the liability in Frw will vary with exchange rate movements. For instance, if a liability to a supplier is denominated in Kenyan shillings (KES) and the KES appreciates against the Frw, the Rwandan business will incur an exchange loss upon settlement of the liability.

Re-translation Using Closing Exchange Rates

At the end of the tax period, all foreign currency-denominated assets and liabilities must be re-translated using the closing exchange rates published by the National Bank of Rwanda. This re-translation process ensures that the financial statements reflect the current value of these items in Frw. The difference between the original translated amount and the re-translated amount at the closing rate constitutes the exchange gain or loss.

C6.2 Tax treatment of exchange differences

The tax treatment of exchange differences generally depends on whether the gains or losses are realized or unrealized:

- **Realized Exchange Differences:** These occur when the actual conversion of one currency to another takes place, or when a transaction is settled. According to the income tax law realized exchange gains or losses are included in the calculation of taxable income. Realised gains are typically taxed as ordinary income, while realised losses are deductible, subject to certain conditions and limitations (See Unit C4.3 of this unit).
- **Unrealized Exchange Differences:** These represent paper gains or losses on foreign currency monetary items that are still held by the company. According to the Article 25 (12) and Article 47, the treatment of unrealised exchange differences is to defer recognition until they are realised.

Illustration

A Rwandan company imports goods from Japan, agreeing to pay 1,000,000 Japanese Yen (JPY) when the exchange rate is 1 JPY = 8 Frw. At the time of the transaction, the amounts recorded in the company's accounts would be:

- Purchase (in Frw): $1,000,000 \text{ JPY} \times 8 \text{ Frw/JPY} = 8,000,000 \text{ Frw}$
- Accounts Payable (in JPY): 1,000,000 JPY

Later, when the company pays for the goods, the exchange rate changes to 1 JPY = 7.5 Frw. The payment would be recorded as:

- Accounts Payable (in JPY): 1,000,000 JPY
- Cash Paid (in Frw): $1,000,000 \text{ JPY} \times 7.5 \text{ Frw/JPY} = 7,500,000 \text{ Frw}$
- Exchange Gain (in Frw): $8,000,000 \text{ Frw} - 7,500,000 \text{ Frw} = 500,000 \text{ Frw}$

In this case, the company recognizes an exchange gain of 500,000 Frw because it paid less in Rwandan Francs than originally expected. This gain will be taxable in the period when the payment for the goods is made, as it reflects a realized foreign exchange gain.

C7. Long-term contracts

Long-term contracts must be taxed according to the accruals concept. Losses on long-term contracts are treated in a special way.

C7.1 What is a long-term contract?

Long-term contracts are contracts that involve large-scale projects that span multiple accounting periods. These contracts are typically associated with sectors such as construction, shipbuilding, aerospace, defense, and large-scale manufacturing, among others. The essence of a long-term contract lies in its duration; it extends beyond the tax period in which it was initiated, often taking years to fulfil.

Accounting for Long-Term Contracts

The accounting for these contracts is guided by the accruals concept, which is a fundamental principle in accounting. This concept dictates that income and expenses should be recognized as they are earned or incurred, not necessarily when the cash is received or paid. In the context of long-term contracts, this means that revenue and costs are recorded based on the progress of the project, rather than on the schedule of cash flows.

To apply this concept, accountants use the percentage-of-completion method, which allows for the recognition of revenue and expenses in proportion to the degree of completion of the contract at the end of an accounting period. This method provides a more accurate reflection of the company's financial position and performance during the period.

C7.2 The taxation of long-term contracts

The accounting and taxation for long-term contracts are guided by the accruals concept, ensuring that revenue and expenses are recognized based on the progress of the contract, rather than the timing of cash flows. According to Article 23 of the tax law, the profits for long-term contracts are computed based on the percentage of activities completed during the tax period. This percentage is determined by comparing the total expenses incurred up to the end of the tax period with the estimated total contract expenses, including any variations or fluctuations.

This method, known as the percentage-of-completion approach, ensures that income and expenses are recognized proportionally to the contract's progress. Additionally, if a loss occurs in the tax period when the contract is completed, it may be carried back to offset previously taxed business profits from that contract, ensuring proper tax alignment.

Example

A company enters into a contract with a total agreed price of Frw 2,000,000 and estimates that fulfilling the contract will cost Frw 1,500,000, resulting in an estimated overall profit of Frw 500,000.

At the end of the tax period, the contract is still in progress, and the company has incurred costs of Frw 1,050,000 to date. To calculate the taxable income for this period:

- The percentage of the contract completed is calculated as:
 $\text{Frw } 1,050,000 / \text{Frw } 1,500,000 = 70\%$
- Based on this, the income to be recognized for tax purposes will be:
 $70\% \times \text{Frw } 2,000,000 = \text{Frw } 1,400,000$
- The taxable profit for the current period will be:
 $\text{Frw } 1,400,000 - \text{Frw } 1,050,000 = \text{Frw } 350,000$

If this is not the profit amount reflected in the company's accounts, an adjustment should be made in the tax computations to align with the tax requirements.

C7.3 Losses on long-term contracts

If, in the subsequent period where a long-term contract is completed, there are unexpected costs incurred by the business in order to complete the contract, this may result in a loss being incurred, where in previous tax periods the taxpayer may have paid income tax based on anticipated contract profits.

This loss will reduce the taxable profit of the subsequent period (as the expenses recognised in the profit and loss account will be higher than the associated income). To the extent that a loss cannot be absorbed by other profits of the period where the contract is completed, the excess loss may be 'carried back' and used against profits previously recognised on that contract. This will be looked at in more detail in Unit I.

C8. Trading stock and Work in progress

C8.1 Valuation of Trading stock

It is crucial for businesses to accurately value their trading stock to reflect the true financial health of the company. The valuation of trading stock, which includes any goods or materials that a business holds for the purpose of selling in the ordinary course of business, is typically done at the cost price of its acquisition. This cost price encompasses the purchase price of the stock, as well as any additional costs that are directly attributable to bringing the stock to its current location and condition, such as freight and handling fees.

However, not all stock retains its original value over time. Degraded or damaged stock must be assessed to determine whether its value has diminished. In such cases, businesses must compare the cost price of the stock with its current market price on the last day of the tax period. The lower of these two values is then used for valuation purposes. This approach ensures that the inventory is not overvalued on the balance sheet, which could otherwise inflate the company's perceived assets and profitability.

Example

For instance, imagine a retailer who purchased a batch of electronics at a cost price of Frw20,000,000. By the end of the tax period, some items have become obsolete or slightly damaged, causing the market price to drop to Frw15,000,000. In this scenario, the retailer must value this degraded stock at Frw15,000,000 for tax purposes, as it is the lower value between the cost price and the market price.

C8.2 Valuation of Work in Progress

When it comes to work in progress (WIP), which refers to the goods that are partially completed, the valuation is based on the cost price incurred up to the valuation date. This includes the cost of raw materials, labour, and any overheads that can be directly attributed to the production of these goods. The valuation of WIP is important for businesses that have long production cycles or engage in the construction of large projects, as it allows for the recognition of expenses and value addition even before the final product is completed and sold.

Example of Work in Progress Valuation

Consider a construction company building a residential complex. The project is halfway through at the end of the tax period. The company has incurred costs for materials, labour, and various overheads amounting to Frw500,000,000. This figure represents the cost price incurred for the work in progress and is the value at which the WIP should be recorded in the company's financial records.

All training and research costs are specifically allowable as deductible business expenses by law.

C9. Training and research expenditure

Training and research expenses are important for businesses aiming to enhance their operations through skill development and innovation. These costs can involve a wide range of activities, from attending educational events like seminars and workshops to acquiring specialized equipment for research purposes. The significance of these expenses is recognised in tax legislation, specifically under Article 29 of Law 027/2022, which allows businesses to deduct such costs from their taxable income, provided they adhere to certain criteria.

Eligibility for Deduction

To qualify for this deduction, the expenses must be directly related to the business's trade and must be incurred with the intent to improve the business's income-generating activities. They should be verifiable with proper documentation, such as system generated invoices/receipts, and must result in a reduction of the business's net assets (Article 24). Importantly, these costs must be relevant to the tax period in which they are claimed and should be included in the business's activity plan for that period (Article 29).

Exclusions and Capital Expenditures

It's crucial to note that not all expenses fall under the umbrella of training and research costs. The purchase of immovable properties like land and buildings, as well as asset exploration expenses, are excluded. These are treated as capital expenditures, which are subject to depreciation and amortisation rules, rather than immediate deductions.

Practical Application and Accounting Treatment

In practice, when a business incurs training and research expenses that align with the stipulated conditions, these costs are typically recorded in the profit and loss account.

This direct recording means that no further adjustments are necessary when calculating taxable income. However, if these expenses are capitalised as 'development expenditure' in line with International Accounting Standards, they are not immediately recognized as an expense. In such cases, a deduction from profit is required to determine the taxable amount.

Examples

For instance, if a company invests Frw10,000,000 in an employee training program that is part of its planned activities for the year, this amount can be deducted from its taxable income for that year, assuming all other conditions are met (Article 24 and 29). Conversely, if the same company purchases land for Frw50,000,000 to build a research centre, this cost cannot be deducted as it is considered a capital expense. However, the company may later claim depreciation on the building's construction costs, depending on its nature and usage.

For relief to be available for a bad debt, certain conditions must be met by the taxpayer who is owed the money.

C10. Bad debts

Bad debts are debts that are irrecoverable or doubtful of recovery from customers or clients who have purchased goods or services on credit. Bad debts reduce the income of the business and may affect its liquidity and profitability. Therefore, the tax law allows a deduction for bad debts in the computation of business income, subject to certain conditions.

The conditions for deducting bad debts are as follows:

- The amount corresponding to the debt was previously included in the income of the taxpayer;
- The debt is written off in the books of accounts of the taxpayer;
- The taxpayer has taken all possible steps in pursuing payment and has shown a court decision declaring the insolvency of his/her debtor.

However, for an individual whose debt is less than Frw3,000,000, the taxpayer must provide proof that he has taken all reasonable steps over a period of three years to recover the debt, in addition to the first two conditions.

This means, no court insolvency decision needs to have been made for such debts, but there will be a significant delay between the debt becoming bad and the tax relief becoming available.

If the above conditions are not met, the bad debt cannot yet qualify for tax relief. Therefore, if charged to the profit and loss account, the bad debt must be added back in the calculation of taxable profit, and a deduction can then be made in a later tax period when the conditions are satisfied.

Note that licensed financial institutions and leasing entities are allowed to deduct any increase in their mandatory reserves for non-performing loans; they do not need to meet the above conditions.

Any provisions made for doubtful debts, whether general or specific in nature, are not allowable expenses. They fail to satisfy neither the above conditions nor the general conditions for deductibility set out in Unit C4.3. An increase in a provision must be added back in the adjustment of profit; conversely, a reduction in a provision may be deducted from the accounting profit.

C11. Transfer pricing

Adjustments to taxable income and deductible expenses may be required if transactions between related parties do not take place on an arm's-length basis.

C11.1 Transfer pricing principles

Transfer pricing is the term used to describe the pricing of transactions between related parties, such as parent and subsidiary companies, or companies under common control or influence. Transfer pricing affects the allocation of income and expenses among different tax jurisdictions and may have an impact on the tax liability of the related parties.

The tax law of Rwanda requires that transactions between related parties are conducted at arm's length, meaning that the price and terms of the transaction are consistent with what independent parties would agree under similar circumstances. This is to ensure that the taxable profit of each related party reflects its economic contribution and that the tax base of Rwanda is not eroded by artificial or manipulated prices.

To determine the arm's length price of a transaction, the tax administration may use one of the following methods, depending on the availability and reliability of the data and the nature of the transaction:

- The comparable uncontrolled price method, which compares the price of the transaction with the price of a similar transaction between independent parties;
- The resale price method, which subtracts an appropriate gross margin from the resale price of a product purchased from a related party and resold to an independent party;
- The cost plus method, which adds an appropriate gross profit mark-up to the cost of a product or service provided by a related party to another related party;
- The transactional net margin method, which compares the net profit margin of a related party with the net profit margin of an independent party engaged in a similar transaction;
- The transactional profit split method, which divides the combined profit of related parties from a transaction according to the relative contribution of each party;
- Any other method that is consistent with the arm's length principle and is acceptable to the tax administration.

The taxpayer who engages in transactions with related parties is required to keep and provide adequate documentation to support the transfer pricing method and the arm's

length price used. The documentation should include information such as:

- The identity and relationship of the related parties;
- The nature, terms and conditions of the transaction;
- The functions performed, assets used and risks assumed by each party;
- The transfer pricing method and the basis for its selection;
- The comparable data and analysis used to determine the arm's length price;
- The adjustments made to account for any differences between the transaction and the comparables;
- Any other relevant information or explanation.

The tax administration has the power to audit the transactions between related parties and to adjust the transfer price if it is not in accordance with the arm's length principle. The taxpayer has the right to challenge the adjustment and to request for a confirmation of receipt of the information.

C11.2 Anti avoidance measure

The income tax law has an anti-avoidance measure (Article 25 (9)) to curb tax evasion practices, particularly those involving transfer pricing. Because of the potential for cross-border profit shifting, the Rwandan tax authority has set restrictions on the deductibility of certain types of payments made to related persons who are non-residents.

Specifically, the restriction applies to the total sum of management fees, technical service fees, and royalty fees paid to a non-resident related person. If these payments exceed two percent (2%) of the taxpayer's turnover, the excess amount is considered non-deductible for tax purposes. This measure is designed to prevent companies from artificially inflating their expenses through payments to related entities, thereby reducing their taxable income in Rwanda.

Example

Consider a Rwandan company that has a turnover of Frw100 million. It pays a royalty fee of Frw3 million to a related company registered in a country with a lower tax rate. According to Rwandan tax regulations, only Frw2 million (which is 2% of Frw100 million) of this payment is deductible. The remaining Frw1 million is non-deductible and must be added back to the Rwandan company's taxable income.

This measure serves as a deterrent against the practice of profit shifting, where multinational companies allocate profits to related entities in jurisdictions with more favourable tax rates. By limiting the deductibility of such payments, Rwanda ensures that its tax base is protected and that multinational companies contribute a fair share of taxes on the income generated within the country.

C11.3 Thin capitalisation

Internationally, most tax jurisdictions (including Rwanda) provide that taxable income may be reduced by amounts paid as interest on loans to related parties. By contrast,

most do not provide tax relief for distributions to owners made to shareholders by way of dividends. As a result, multinational enterprises

are motivated to finance their foreign subsidiary companies through loans rather than share capital. When the subsidiary is financed heavily by debt finance, its taxable profits would be substantially reduced by interest payments.

To prevent huge reductions of taxable profits by way of interest deductions, thin capitalisation rules apply. These rules limit the amount of interest that would be allowed as a deduction when computing taxable business profits. This is done by not allowing as an expense the amount of interest paid on related party loans when the company's debt to equity ratio exceeds a certain limit.

In Rwanda, this limit is a ratio of four to one (4:1): where debt is more than four times equity (share capital on the balance sheet), a company is said to be 'thinly capitalised' and interest payable on loans to related persons will not be given tax relief (and must therefore be added back) (Article 25(10) (11)).

Example

GH Ltd, a Rwandan company, has the following capital structure:

Share capital Frw50,000,000

Reserves Frw150,000,000

Debt Frw300,000,000 (of which Frw100,000,000 is an intra-group loan)

Whereas the company is thinly capitalised, as debt (Frw300m) is six times the equity share capital (Frw50m), only Frw100,000,000 are from related party and the balance is from unrelated persons. Therefore, the debt from related party (Frw100m) is two times the equity share capital (Frw50m)

The implications of this are that the interest on the intra-group loan would be fully allowable because it is within the threshold of 4:1.

Summary of Unit C and key learning outcomes

- Tax Liability for Business Profits: Both individuals operating as sole traders or partners in a partnership and companies are subject to income tax on their business profits. The term 'business' includes both trades and professional activities.
- Tax Exemptions for Farming: Income derived from agricultural activities up to Frw12,000,000 annually is not subject to income tax, providing a significant exemption for those in the farming sector.
- Taxation of Small Businesses: Small businesses may have their income tax calculated differently, with options including a percentage of their turnover or a flat tax rate for micro-enterprises. This is in contrast to larger businesses, which are taxed based on their actual profits.
- Adjustments to Accounting Profit: For taxation purposes, the reported accounting profit must be adjusted. This ensures that the profit is accurately assessed for tax.

- **Non-deductible Capital Items:** Expenses of a capital nature cannot be deducted from business profits directly. Instead, they are accounted for through tax depreciation, allowing for relief over time.
- **GAAP Compliance and Adjustments:** The general rule is that the tax treatment of items such as inventory, long-term contracts, and foreign exchange differences will align with Generally Accepted Accounting Principles (GAAP). Adjustments are only necessary if the financial accounts do not adhere to GAAP standards.
- **Arm's-Length Principle for Related Parties:** Transactions between related parties must be treated as if they were conducted between unrelated parties, ensuring fair market value is used for tax purposes.
- **Non-deductible Expenses:** Certain expenses reported in the profit and loss account, like entertainment costs, may not qualify for tax relief. Therefore, the profit figure may require adjustments to exclude these non-deductible items.

Quiz questions

Quiz 1. Flat and turnover taxes

Calculate the amount of flat tax or turnover tax that the following businesses would pay, assuming that they had not opted out of the small business regime. If flat tax or turnover tax are not applicable, state why.

- (a) Eustache Manzi, a clothing manufacturer with annual turnover of Frw18,000,000 and expenses of frw4,000,000 per tax year
- (b) Josiane Mukamusinga, a lawyer with annual turnover of Frw15,000,000 per tax year
- (c) Karemera Ltd, a company specialising in the tourist industry, with turnover of FrwF25,000,000 and expenses of Frw6,000,000 per tax year.
- (d) Christella Kayitesi, a crop farmer with annual turnover of Frw17,000,000

Quiz 2. Capital expenditure

Which TWO of the following items would be considered capital, and therefore not deductible from business profits?

- 1. Repair of a large piece of machinery following a breakdown – the repair cost Frw600,000
 - 2. A computer maintenance costing Frw300,000
 - 3. A building extension costing Frw15,000,000
 - 4. The purchase of a second-hand delivery van costing Frw1,000,000
- A. 1 and 3
B. 2 and 3
C. 3 and 4
D. 1 and 4

Quiz 3. Exchange gains and losses

Philomène Mukanyarwaya, a sole trader, has purchased some goods from a French supplier, and has received an invoice for €5,000. She has not settled this invoice at the end of the tax period. Relevant exchange rates are as follows (Frw per €):

Date of purchase: 1,020.85

End of tax period: 1,051.25

Complete the following sentence:

Philomène will record an exchange (gain/loss) of Frw_____ in the tax year, and this will be treated as (taxable income/a deductible expense).

Quiz 4. Bad debts

Nadine Uwase, a business owner, is owed the sum of Frw2,500,000 by Christine Umutoni, a customer. The original sale was recorded in Nadine's books on 31 July 2016, with credit terms of 60 days, and declared as part of business profits in Nadine's tax declaration for that year. Nadine has been trying to recover this amount from Christine since then. She wrote the debt off as a bad debt in the 2018 accounts. Nadine has regularly tried to contact Christine and has employed debt collectors but has been unsuccessful in recovering the money.

What is the correct treatment of this debt in Nadine's tax declaration for the tax period to 31 December 2019?

- A. Add back a disallowed expense of Frw2,500,000
- B. Deduct bad debt relief of Frw2,500,000
- C. Do nothing

Quiz 5. Transfer pricing

A plc is a registered commercial bank in Rwanda. The bank pays its French parent company a management services charge of Frw50,000,000 per year. This figure is 25% higher than what other banks in Rwanda pay for the same services to their parent's companies. In addition, this is higher than the other group subsidiaries' pay even though the services provided by the parent to all of its subsidiaries in Africa are similar in scope.

What transfer pricing adjustment, if any, would be made by the Rwandan tax administration?

- A. Adjust A plc's taxable income upwards by Frw10,000,000
- B. Adjust A plc's taxable income downwards by Frw10,000,000
- C. Adjust the French parent company's taxable income downwards by Frw10,000,000
- D. Adjust A plc's taxable income upwards by Frw50,000,000

Quiz 6. Allowable and disallowable expenses

Categorise the following expenses as either allowable or disallowable in the tax computation for G Ltd, a Rwandan corporate business with turnover of Frw150,000,000 in the tax period. If an expense is partially disallowed, state the amount that would be added back to profit.

Expense	Allow in full	Disallow in full	Disallow part	Amount to add back (Frw'000)
Accounting depreciation of Frw2,000,000				
Staff entertaining at a party costing Frw200,000				
Charitable donation of Frw2,000,000				

Expense	Allow in full	Disallow in full	Disallow part	Amount to add back (Frw'000)
Staff bonuses of Frw20,000 each (20 staff)				
Royalty paid to overseas parent company, totalling Frw4,500,000				
Interest paid to overseas parent company on intra-group loan. The interest totals Frw25,000,000 and G Ltd's debt to equity ratio is 5 to 1				
A bad debt with a value of Frw1,000,000 where the sale was recognised in income in the immediately preceding year and the amount written off in the books in the current year				

Quiz 7. Adjustment of profit

Here is the statement of profit or loss of Dative, a trader, for the tax period ended 31 December.

	Frw'000	Frw'000
Gross profit (turnover less cost of sales)		90,000
<i>Other income</i>		
Profit on sale of a fixed asset		<u>860</u>
		<u>90,860</u>
<i>Expenses</i>		
Wages and salaries	59,000	

	Frw'000	Frw'000
Electricity and fuel	5,000	
Depreciation	1,500	
Bad debts	3,150	
Entertainment expenses for customers	350	
Patent royalties paid (to third parties)	3,200	
Legal expenses on acquisition of new office premises	650	
		(72,850)
<i>Finance costs</i>		
Bank interest paid		(300)
Net Profit		<u>17,710</u>

Salaries include Frw15,000,000 paid to Dative to cover her personal expenses. Electricity costs include the cost of lighting and heating Dative's home (where she regularly carried on her business before acquiring a purpose-built office during the year).

The bad debt cost was written off due to the court insolvency of a customer during the year; this income was recorded in the accounts in the immediately preceding tax period, and Dative spent considerable effort attempting to recover the debt prior to the insolvency.

Compute the adjusted taxable trade profit (before tax depreciation). You should start with the net profit figure of Frw17,710,000.

Unit D: Taxation of Investment Income

Learning outcomes

- D. Demonstrate an understanding of the current taxation principles on investment income.
- D1. Explain the main legislative features relating to investment income.
- D2. Describe, with examples, investment income which is subject to taxation and that which is not.
 - a. Interest
 - b. Dividend Income
 - c. Royalty income
 - d. Rental Income
 - e. Services and management fees
 - f. Capital gains

Introduction to Unit D

Upon successful completion of this unit, students will have developed a comprehensive understanding of the taxation principles that apply to various forms of investment income within the current legislative framework. They will be able to articulate the key legislative provisions that govern the taxation of investment income, ensuring a solid foundation for interpreting and applying tax laws. Students will be proficient in distinguishing between different types of investment income, such as interest, dividend income, royalty income, rental income, services and management fees, and capital gains, and will be adept at identifying which forms of income are taxable and which are exempt.

Through practical examples, students will demonstrate their ability to analyse and categorize investment income for tax purposes, enhancing their ability to advise on tax liabilities and planning opportunities. They will also be equipped to navigate the complexities of tax legislation, enabling them to make informed decisions and provide accurate tax-related advice. This knowledge is crucial for aspiring Certified Public Accountants (CPAs) in Rwanda, as it directly impacts financial planning, investment strategy, and compliance with tax obligations. The skills acquired in this unit will be indispensable for students as they progress in their professional careers, ensuring they are well-prepared to meet the challenges of the dynamic field of taxation.

Unit list		Syllabus Reference
D1	Legislative features	D1
D2	Interest	D2a
D3	Dividend Income	D2b
D4	Royalty Income	D2c
D5	Rental Income	D2d
D6	Services and management fees	D2e
D7	Capital gains tax	N4

D1. Legislative features

Article 34 of Law N° 027/2022 states that investment income includes any payments in cash or in kind to a person in the form of:

- (1) Financial interest
- (2) Dividends
- (3) Royalties
- (4) Proceeds from sale or transfer of shares, debentures, bonds, other intangibles.
- (5) Rent (which has not been taxed as business income)

D1.1 Financial interest

Financial interest includes income from loans, deposits, guarantees as well as from bonds and securities. For example, the interest an individual will receive from a bank is a type of financial interest. Interest income is generally subject to a withholding tax on the gross amount. However, there are specific circumstances under which interest income may be either exempt from withholding tax or subjected to a reduced rate as stipulated by the law **(See Unit E)**.

D1.2 Dividend income

Dividend income is the payment of profits to shareholders, and is derived from the owning of shares in

any societies. Because the profits of Rwandan resident companies suffer corporate income tax, the only

further tax that may be payable by a Rwandan taxpayer on dividends received from a Rwandan company is withholding tax (See Unit E). This also includes the outstanding

balance after taxation of

income from any transfer pricing corrections made by the tax administration (see Unit E).

D1.3 Royalties

Royalty income encompasses all forms of payments received or to be received for the following (Article 41):

- Copyright usage: This includes payments for the utilisation or the entitlement to utilise any copyrighted literary, artistic, or scientific works. This category also covers cinematographic films and recordings for radio or television broadcasts.
- Trademark and Intellectual property: Payments received for the use, or the right to use, trademarks or trade names, designs or models, computer programs, software, and patents fall under this category.
- Industrial, Commercial, or Scientific equipment use: This pertains to payments received as compensation for the use, or the right to use, equipment in the industrial, commercial, or scientific sectors, or for the use of knowledge or formulas related to these areas.
- Natural resource exploitation: Payments received for the rights to exploit or explore natural resources are also considered royalty income.

Royalty income is typically subject to a withholding tax, which is levied on the total amount of the royalty payment. For further details on this tax, please refer to Unit E of your study materials.

D1.4 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. For more detail, see D3 below.

D2 Exempt income

D2.1 Exempt income

Exempt income is any income which is not chargeable to income tax on the individual.

The following components of income are exempt:

- (a) Income accruing to registered collective investment schemes and employee share schemes;
- (b) Income derived from agricultural and livestock activities if the proceeds from these activities do not exceed Frw12,000,000 in a tax period (see Unit F)
- (c) Pension payments from the state social security system; and
- (d) Capital gains from secondary market transactions in listed securities.

D3 Rental income

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.

D3.1 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. Consequently, when determining the taxable income for rental income tax, the following formula is applied:

$$\text{Taxable Income} = \text{Rental Income} - (\text{Rental Income} \times 50\%)$$

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.

D3.2 Rental income from machinery and equipment

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

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

D4 Calculation of tax on rental income

D4.1 Rates of rental income tax

Annual taxable rental income of an entity is taxable at a prevailing rate of 28%. However, for individuals, the following rates will apply:

(a) Of immovable property (land and buildings) as per Law No. 048/2023,

<i>Bands of taxable income</i>	<i>Tax rate</i>
Frw	%
0 – 180,000	0%
180,001-1,000,000	20%
1,000,000+	30%

(b) Of movable property (machinery and equipment) as per Law No. 027/2022. The band of taxable income will be based on total income earned by the individual in the Financial year.

<i>Bands of taxable income</i>	<i>Tax rate</i>
Frw	%
0-720,000	0%
720,001-1,200,000	10%
1,200,001-2,400,000	20%
2,400,001+	30%

D5 Capital gains

Capital gains tax applies to the sale of shares and immovable property used for business purposes.

D5.1 Capital gains tax on shares

Capital Gains Tax (CGT) is levied at a rate of 5% on the profit gained from the direct or indirect sale or transfer of shares, either within Rwanda or abroad, as per Article 35 and Article 36 of the Law 027/2022. The taxable gain is calculated as the difference between the acquisition value of the shares—the price at which the shares were originally purchased—and their selling or transfer price.

According to Article 37 of Law 027/2022, the responsibility for withholding and remitting the CGT lies with the resident company whose shareholding structure has been affected by the sale or transfer of shares. This means that when shareholders sell or transfer their shares, the resident company must withhold the applicable CGT and declare it to the tax authorities. The CGT must be declared and paid to the tax administration within 15 days after the month in which the sale or transfer occurred.

However, there are specific exemptions outlined in Article 38 of Law 027/2022. Capital gains derived from the sale or transfer of listed shares and other securities on the securities exchange operating in Rwanda, as well as from the sale or transfer of shares or units in collective investment schemes, are exempt from CGT. This exemption applies exclusively to transactions in the secondary market that involve these listed shares and securities.

D5.2 Capital gains tax on immovable property

Capital gains tax is levied on the profit realised from the sale of immovable business property. The gain is incorporated into the business income and is taxed at a rate of 28%. To calculate the capital gain, one must subtract the tax written down value of the property from the sales proceeds, which may lead to a balancing charge. This gain is then reported as part of the company's taxable income.

The deadline for paying capital gains tax is typically the 31st of March of the year following the tax period in which the property was sold. However, if a company operates on a tax period that does not end on December 31st, the capital gains tax must be paid by the last day of the third month after their tax period concludes.

Summary of Unit D and key learning outcomes

1. Investment income components: Investment income for an individual typically includes several types of earnings. These are:
 - Interest: Money earned from various forms of savings or lending.
 - Dividends: Payments received by shareholders from company profits.
 - Royalties: Payments made to individuals for the use of intellectual property or natural resources.
 - Rental Income: Earnings from leasing out property.
2. Exemptions and conditions: Certain sources of income are not subject to tax, although specific conditions must be met for these exemptions to apply. These sources include:
 - Income derived from collective investment schemes and employee share schemes.
 - Earnings from agricultural activities.
 - Pension income.
3. Profits from the sale of certain shares.
4. Rental income taxation: The method for calculating taxable rental income varies based on the type of property being rented. Furthermore, rental income tax is structured progressively, meaning that different portions of income are taxed at varying rates.

5. Capital Gains Tax: Capital gains tax applies to the profit made from selling assets. The rates are:

- A 5% tax on the increased value of shares, with an exception for sales of listed shares on secondary markets.
- A 30% tax on the net selling price of commercial property, after accounting for any tax base that has not been relieved, when the property is used in a business.

This summary provided the key points and learning outcomes from Unit D, providing a clear understanding of the various types of investment income and their respective tax treatments.

Quiz questions

Quiz 1: Land and buildings rental income calculation

Christella Kayitesi owns an investment property which she has let out this year for Frw4,500,000. She incurs letting expenses of RWF1,500,000 per year.

Calculate the taxable rental income.

Quiz 2: Machinery rental income calculation

David Maniraguha owns some heavy industrial machinery which cost him Frw10,000,000. He has rented the machinery out this year for Frw1,200,000. David borrowed money to buy the machinery and has paid interest of Frw50,000 this year. The relevant tax depreciation rate is 5% on cost.

Calculate his taxable rental income.

Quiz 3: Rental income tax calculation

Angello rents a house out to tenants. He receives Frw6,800,000 per annum. Calculate Angello's taxable rental income and his rental income tax payable.

Unit E: Withholding Tax Principles

Learning outcomes

- E. Demonstrate an understanding of the current taxation principles on withholding tax.
1. Identify the main features of Withholding tax.
 2. Explain how the PAYE (Pay As You Earn) system works.
 3. Explain how withholding tax on imports and public tenders is done.
 4. Explain how withholding tax on other payments is done.
 5. Declaration of withholding taxes
 6. Exemptions from withholding taxes

Introduction to Unit E

Upon successful completion of this Unit, students will have developed a comprehensive understanding of the principles and practical applications of withholding tax as it currently stands. They will be able to articulate the fundamental characteristics of withholding tax, ensuring a clear grasp of its role within the broader tax system. Students will delve into the intricacies of the PAYE system, gaining the ability to explain its operational mechanisms and its significance for both employers and employees in the context of tax compliance. Furthermore, they will acquire the knowledge to explain the specific procedures for withholding tax on imports and public tenders, a critical aspect for businesses engaged in these areas.

In addition to these competencies, students will be able to detail the processes involved in withholding tax on various other payments, an essential skill for financial professionals managing diverse transactions. The ability to explain the declarations process of withholding taxes will be another key outcome of this Unit, equipping students with the practical know-how to fulfil statutory requirements. Lastly, students will be conversant with the conditions and categories under which exemptions from withholding taxes are granted, enabling them to provide informed guidance on tax planning and compliance. This comprehensive skill set will empower students to navigate the complexities of withholding tax with confidence.

Unit list		Syllabus Reference
E1	Understanding Withholding Tax	E1
E2	Withholding tax on employment income	E2
E3	Withholding tax on board member allowances	E4
E4	Withholding tax on various payments	E4
E5	Withholding tax on gaming activities	E4
E6	Withholding tax on imports	E3
E7	Withholding tax on public tenders	E4
E8	Declaration of withholding taxes	E4
E9	Exemptions from withholding taxes	E4

Withholding taxes are required to be deducted from certain payments and remitted to the tax administration.

E1. Main features of withholding tax.

In Rwanda, withholding tax (WHT) is a key part of the tax system, serving as an early tax collection method. It ensures taxes are collected from the source of income, helping to prevent tax evasion and improve tax compliance. Withholding tax applies to specific types of payments, and the person or entity making the payment must deduct the tax and send it to the tax authorities, acting on behalf of the recipient.

The deducted tax must be paid to the tax administration by the 15th day of the month following the month in which the payment was made. Sometimes, withholding tax is the only tax the income recipient needs to pay, especially when it's considered a 'final tax'. This often affects non-residents or Rwandans who earn solely from employment, as detailed in Unit J of the e-learning module.

However, unless specified by law as a 'final tax', withholding tax is usually an 'advance tax'. In these cases, the recipient must report their entire income on their tax return, including the income before tax was deducted. They can then subtract the withholding tax from their total tax due. It's important to note that most withholding tax in Rwanda is treated as 'advance tax', requiring residents to declare their full income and claim a credit for any withholding tax paid.

Example: Withholding tax

If withholding tax of 15% is deducted on an interest payment of Frw 100,000, the recipient would receive Frw85,000 after the 15% withholding tax is deducted by the payer. This Frw 15,000 is paid to the tax administration.

If the withholding tax is considered as the final tax, the interest would not feature on the recipient's tax declaration. They would keep the Frw 85,000 with no further tax obligations.

However, If the withholding tax is not the final tax, the recipient must declare the income on their tax declaration. In this case, the recipient needs to report the gross amount before withholding, which is calculated as: $\text{Frw}85,000 \times 100/85 = \text{Frw}100,000$.

The income tax would then be calculated at the applicable rate of 28%: $\text{Frw}100,000 \times 28\% = \text{Frw}28,000$.

Finally, the Frw15,000 withholding tax already paid can be deducted from the Frw28,000, leaving the recipient with a tax payable of Frw 13,000 ($\text{Frw}28,000 - \text{Frw}15,000 = \text{Frw}13,000$).

E2. Withholding tax on employment income

Employers in Rwanda are mandated to withhold tax from their employees' income, whether paid in cash or in kind. Employers must remit the withheld tax to the tax authorities within fifteen (15) days following the end of each month or quarter, as specified by the relevant laws. In cases where an individual has multiple employers, the secondary employer is required to withhold tax at a rate of thirty percent (30%). (See Unit B)

E3. 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 of companies or other entities in Rwanda.

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 payer of the board member allowances is responsible for withholding and remitting the tax to the Rwanda Revenue Authority (RRA) within 15 days following the end of the month in which the payment is made. The payer must also issue a withholding tax certificate to the board member, indicating the amount of income paid and the tax withheld.

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.

To illustrate the application of the withholding tax on board member allowances, consider the following example:

Example: Withholding tax on board member allowances

John Kamau is a resident of Kenya and a board member of ABC Ltd, a company registered in Rwanda. He receives a monthly allowance of Frw1,000,000 for attending board meetings and performing other duties. How much withholding tax will he pay and what will be his net income?

Solution: John's withholding tax rate is 30% of the gross amount paid, regardless of his residency status. Therefore, he will pay Frw300,000 ($1,000,000 \times 30\%$) as withholding tax on his board member allowance. His net income will be Frw700,000 ($1,000,000 - 300,000$). ABC Ltd will withhold and remit the tax to the RRA within 15 days following the end of the month and issue a withholding tax certificate to John. John will not have to pay any further tax on his board member allowance in Rwanda, but he will have to report it, and the tax withheld in his annual income tax return.

E4. 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 or repatriated from Rwanda.
8. Profits repatriated from Rwanda.
9. Payments on behalf of non-resident contracted persons.
10. Reinsurance premiums, with certain exceptions.

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%	Intercompany dividends are exempted from withholding (Article 47 (2))	Exempt
		Distributions to holders of shares or units in collective investment schemes (article 20)	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 (3)(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
Financial Interest	15%	Interest paid by financial institutions (banks) on long-term (>1 year) Deposits (Article 60 (2) (a))	Exempt
		Interest paid to a foreign development financial institution where the interest is exempt from tax under the overseas jurisdiction (Article 60 (2) (b))	Exempt
		interests that banks or deposit-taking microfinance institutions operating in Rwanda pay to banks or other foreign financial institutions (Article 60 (2) (c))	Exempt
		Interest on securities listed on the Rwanda capital market, where the recipient is resident in Rwanda or the EAC (Article 60 (3)(1))	5%
		Interest on treasury bonds with a maturity of at least three years Article 60 (3)(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

Type of payment	WHT Standard rate	Exceptions subject to a reduced rate or nil WHT	Special Rates/ exempt status
Service fees, including management and technical services	15%	Registered transport services (Article 60 1(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 craftspeople, 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
Goods sold in Rwanda	15%	Goods sold by registered suppliers	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 1(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

Type of payment	WHT Standard rate	Exceptions subject to a reduced rate or nil WHT	Special Rates/ exempt status
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 Africa Re).	Exempt
		Where Rwanda has a DTA with the country of the recipient that reduces the tax rate	Reduced rate per DTA

Example: withholding tax on other payments

1. Withholding tax on sales of goods in Rwanda

Cyprian, a Rwandan furniture merchant with an annual revenue of Frw50 million, operates without tax registration. When Balo Hotel, a tax-registered entity with an annual turnover of 600 million Frw, purchases Frw20 million worth of furniture from Cyprian, it is obligated to perform certain tax-related actions.

- Firstly, Balo Hotel must deduct 15% (Frw3 million) from the payment to Cyprian as a withholding tax and submit this amount to the RRA within 15 days following the month of the transaction. Additionally, Balo Hotel is required to provide Cyprian with a withholding tax certificate that details the tax deducted and the specifics of the purchase.
- For Cyprian to utilize the Frw3 million tax withheld as a credit against his annual income tax, he must register with the tax administration. If Cyprian has received similar tax certificates from other transactions, he can accumulate these credits to offset his income tax up to the amount he owes. Should the sum of the withheld taxes surpass his tax liability, Cyprian has the right to request a refund from the RRA.

2. Withholding tax on Profits converted into shares.

Company A, after reporting a Frw500 million profit and holding Frw500 million in retained earnings, opted to convert these earnings into additional share capital for existing shareholders, a process known as a "Dividend in specie." This action increased shareholder equity without a cash exchange. Subsequently, the company distributed Frw200 million in cash dividends.

Withholding Tax Treatment: The total dividends, both in shares and cash (Frw1 billion), attracts a withholding tax of Frw150 million (15%), which Company A is obliged to remit to tax authorities. Consequently, shareholders receive Frw50 million in net cash dividends, while the share capital conversion increases their equity stake without immediate cash benefit.

Special Case for Financial Institutions: Had Company A been a financial institution mandated by the National Bank of Rwanda to increase its capital, the tax treatment would differ. The Frw800 million share capital conversion would be exempt from withholding tax, leaving only the Frw200 million cash dividends taxable. This would result in a Frw30 million

withholding tax, with shareholders receiving Frw170 million in net dividends.

3. Withholding on profits repatriated from Rwanda.

Kigali Koffee Ltd. has had a successful year and generated a profit of Frw100m. In December 202X, the company decides to transfer these profits to its parent company, Brussels Brews SA, in Belgium.

Without a DTA, Kigali Koffee Ltd is required to withhold tax at the rate of 15% on the profits to be repatriated. This amounts to Frw15m (15% X 100m)

However, Rwanda and Belgium have a DTA in place to prevent double taxation and encourage cross-border trade and investment. According to this agreement, the withholding tax rate on profits repatriated from Rwanda to Belgium is set at ten percent (10%). Therefore, the withholding tax to be deducted would reduce to Frw10m (10% X 100m)

4. Withholding tax on Payments on behalf of non-resident contracted persons.

BankCo Plc, a Rwandan company, has contracted a US firm for software installation at a cost of USD 200,000. Additional expenses for the US consultants' in-country stay, including airfare, local transport, accommodation, and per diems, total USD 20,000. Consequently, BankCo Plc's total payment is USD 220,000.

Under Rwandan law, BankCo Plc must withhold a 15% tax on the entire payment to the US entity. The withholding tax is calculated as follows:

- Total Payment: USD 200,000 (installation) + USD 20,000 (expenses) = USD 220,000
- Withholding Tax Calculation: 15% of USD 220,000 = USD 33,000

BankCo Plc is thus obligated to withhold USD 33,000 from the payment due to the US company and pay it to the Rwandan tax authorities.

5. Withholding tax on reinsurance premiums.

ABC Insurance Company, operating within Rwanda, has an insurance policy with XYZ Ltd to protect against fire damage at their factory. To mitigate its risk exposure, ABC opts to re-insure 50% of this policy with DEF Insurance Company, which is based in Mauritius.

The original insurance premium is set at Frw100,000,000, while the reinsurance premium amounts to Frw40,000,000. Under normal circumstances, a 15% withholding tax would be applicable to payments made to a non-resident insurer like DEF. However, due to the Double Taxation Agreement (DTA) between Rwanda and Mauritius, the rate is reduced to 10%. Consequently, ABC Insurance Company is required to withhold Frw4,000,000 from the reinsurance premium paid to DEF Insurance Company.

It is important to note that if DEF Insurance Company had an established agreement with the Rwandan government, the reinsurance premium would be exempt from withholding tax altogether. This exemption would provide a tax advantage to DEF, potentially influencing the cost and structure of reinsurance transactions between the two companies.

E4.1 Double taxation agreements

As pointed out in the table above, a double taxation agreement (DTA) can override the normal 15% rate of WHT. The following rates of WHT apply under existing Rwandan DTAs:

	Country	Dividend	Interest	Royalties	Management and technical fees
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%

The DTAs contain conditions to be complied with for the preferential rates to apply; consequently, it is recommended that one review the DTA's before their application.

Exam Focus Point: The DTA rates of withholding tax are likely to be given to you in the exam; you just need to identify that there is a DTA between Rwanda and the country of the recipient and use the correct rate for the type of payment being made.

E5. 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.

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.

Example Withholding tax on gaming activities.

If a player bets Frw1,000,000 on a football match and wins Frw1,500,000, the taxable income is Frw500,000 and the withholding tax is Frw75,000 (15% X Frw500,000).

E6. 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 of them in Rwanda. The tax rate is five percent (5%) of the cost, insurance, and freight (CIF) value of the goods, and it is paid at the customs before the goods are released by the customs authorities.

This is an advance tax, meaning it can be deducted from the importer's taxable income at the end of the year. However, certain taxpayers who are deemed compliant may be exempt from this withholding tax.

Example: Withholding tax on imported goods for commercial use.

To illustrate how the withholding tax on imported goods for commercial use is calculated, consider the following example:

On 5 October 202X, ABC Ltd, a company registered in Rwanda, imported 100 computers from China for commercial use. The invoice from the supplier showed the following details:

- Unit price: USD 500 per computer
- Insurance: USD 1,000
- Freight: USD 2,000
- Import duty rate: 25%
- Excise duty rate: 10%
- Withholding tax rate: 5%
- Exchange rate on 5 October 202X: USD 1 = Frw900

The withholding tax on imported goods for commercial use that ABC Ltd has to pay is computed as follows:

- CIF value of the goods: $(500 \times 100) + 1,000 + 2,000 = \text{USD } 53,000$
- CIF value in Frw: $53,000 \times 900 = \text{Frw}47,700,000$
- Import duty: $47,700,000 \times 25\% = \text{Frw}11,925,000$
- Excise duty: $(47,700,000 + 11,925,000) \times 10\% = \text{Frw}5,962,500$

- Withholding tax: $47,700,000 \times 5\% = \text{Frw}2,385,000$

Therefore, the total amount of taxes that ABC Ltd has to pay at the customs is Frw20,272,500, which is the sum of import duty, excise duty, and withholding tax.

E7. 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.

Example: Withholding tax on public tenders

Imagine a local contractor, already on the Tax Administration's records and up-to-date with income tax filings, secures a government contract to provide office supplies for Frw100,000,000, not including VAT. The government agency will deduct a 3% withholding tax from the contract amount, which amounts to Frw3,000,000, and forward this to the Tax Administration. Consequently, the contractor will be paid Frw97,000,000. This income and the tax withheld must be reported on the contractor's yearly tax return. If the contractor's only income is from this contract and expenses amount to 70% of the contract's value, with an income tax rate of 28%, the contractor's tax due would be calculated as follows:

- Income after expenses: $\text{Frw}100,000,000 - (\text{Frw}100,000,000 \times 70\%) = \text{Frw}30,000,000$.
- Tax liability before withholding: $\text{Frw}30,000,000 \times 28\% = \text{Frw}8,400,000$.
- Balance of tax payable after accounting for withholding tax: $\text{Frw}8,400,000 - \text{Frw}3,000,000 = \text{Frw}5,400,000$.

Therefore, after deducting the withholding tax, the contractor must pay an additional Frw5,400,000 in income tax.

E8. Exemptions from withholding taxes

Certain taxpayers are exempt from withholding taxes, including those with business profits exempt from taxation, those possessing a tax clearance certificate, and newly registered taxpayers within the concerned annual tax period. However, the Tax Administration reserves the right to revoke a tax clearance certificate if the required conditions are not met.

The Law provides some exemptions for certain categories of taxpayers, as follows:

- Those whose business profit is exempted from taxation. This includes taxpayers who are engaged in activities that are considered to be of public interest or social benefit, such as education, health, culture, sports, and scientific research, as long as they meet certain conditions specified by the Law.
- Those who have a tax clearance certificate issued by the Tax Administration. This is a document that certifies that a taxpayer has no outstanding tax liabilities or obligations, and that he or she has complied with all the tax laws and regulations. A taxpayer who has a tax clearance certificate can present it to the payer of the income and request not to have any withholding tax deducted from the payment. However, the Tax Administration may revoke a tax clearance certificate at any time if the conditions required by the tax administration are not fulfilled, such as filing tax returns, paying taxes on time, and keeping proper records.
- Those who are newly registered during the concerned annual tax period. This means that taxpayers who have registered for the first time with the Tax Administration in a given year are exempted from withholding taxes for that year. This is to encourage new businesses and entrepreneurs to join the formal sector and comply with the tax system. However, this exemption does not apply to withholding taxes on imports, which are paid at customs on the value of goods imported for commercial use.

Example: Exemptions from withholding taxes

Suppose that John is a consultant who provides services to a company and charges Frw1,000,000 for his work. The company is required to withhold 15% of the payment as withholding tax and remit it to the Tax Administration unless John falls under one of the exempted categories.

- If John is a newly registered taxpayer in the current year, he can claim the exemption and receive the full payment of Frw1,000,000.
- If John has a valid tax clearance certificate, he can also claim the exemption and present the certificate to the company.

However, if John is engaged in an activity that is exempted from business profit tax, such as education, he must still prove that he meets the conditions for the exemption, such as being registered as a non-profit organization, having a board of directors, and reinvesting the profits in the activity.

E9. Consequence for failure to withhold tax.

Failure to withhold tax is a serious offence under the Rwandan tax law, as it deprives the Tax Administration of its due revenue and imposes a burden on the taxpayer who should have received the payment net of tax. The person who is required to withhold tax, such as an employer, a payer of dividends, interest, royalties, or rent, or a purchaser of goods or services from a non-resident, is personally liable to pay the amount of tax that has not been withheld to the Tax Administration, regardless of whether the payment has been made or not.

In addition to the principal tax, the person who fails to withhold tax is also liable to pay penalties and interest on arrears. The penalties are prescribed by the law and vary depending on the nature and extent of the failure.

Summary of Unit E and key learning outcomes

- Taxes that are withheld at source are remitted to tax authorities based on specific conditions, which hinge on the identity of the payer, the payee, and the nature of the transaction.
- Importation of goods is subject to a withholding tax rate of 5%.
- Public bodies typically impose a 3% withholding tax on service fees, although this rate can escalate to 15% contingent upon the tax status of the service provider.
- Taxes withheld on import transactions and public contracts serve as preliminary tax payments and are eligible for deduction against the income tax obligations of individuals and corporations within the same fiscal period.
- Exemptions from withholding tax on imports and public contracts are granted to businesses that are not subject to tax or possess a valid tax clearance certificate. It is important to note that Pay-As-You-Earn (PAYE) taxes do not qualify for such exemptions.
- Accrued amounts that remain unpaid for six months subsequent to the tax period's conclusion are subject to withholding tax.
- A 15% withholding tax is levied on payments to entities that are not registered, although numerous exceptions to this rule exist.
- Rwanda has established Double Taxation Agreements (DTAs) with select nations, which may result in a reduced withholding tax rate for cross-border payments.
- Individuals participating in gaming activities are taxed at a rate of 15% on their net winnings through withholding tax.
- The process for declaring withholding taxes and the criteria for exemptions from these taxes are also covered in this unit.

Quiz questions

Quiz 1: Withholding Taxes

Which TWO of the following statements are true in relation to withholding taxes?

- A. Withholding taxes are paid to the tax administration by the recipient of a payment.
- B. If a withholding tax is a final tax, no further tax is due from the recipient.
- C. Income that has suffered withholding tax will never be required to be included in a tax declaration.
- D. Withholding taxes at 15% are deducted from taxable income in preparing the income tax declaration.
- E. Withholding taxes at 15% may be deducted from the tax payable for a tax period.

Quiz 2: Withholding tax – other payments

To which TWO of the following payments would a withholding tax rate of 15% apply?

- 1. A patent royalty payable to an overseas resident parent company by a Rwandan resident subsidiary where the parent company is in a country where Rwanda has no DTA.
 - 2. A dividend payable to a Rwandan individual by a company whose shares are listed on the Rwandan capital market.
 - 3. Interest payable by a Rwandan bank to Agnes Umulisa, a Rwandan resident individual, on her five-year long-term bank deposit
 - 4. An appearance fee payable by the organisers of a Rwandan concert to an Australian resident pop singer. The singer is not registered with the Rwandan tax administration, and there is no DTA between Australia and Rwanda.
- A. 1 and 4
 - B. 2 and 3
 - C. 2 and 4
 - D. 1 and 3

Unit F: Tax Depreciation

Learning outcomes

F.1. K (3) Explain the availability and types of capital allowances (depreciation).

Introduction to Unit F

In this unit we will be looking at how tax relief is given for capital expenditure via tax depreciation. Specific types of expenditure qualify for relief at different rates; this replaces accounting depreciation, which, as we saw in Unit C, is not deductible for tax purposes.

	Unit list	Syllabus Reference
F1	Tax depreciation types	K3
F2	Investment allowance	K3
F3	Computing tax depreciation	K3

F1. The availability and types of tax depreciation

Tax depreciation can be claimed on a wide variety of fixed assets. However, the rate of depreciation varies depending on the type of the asset in question.

F1.1 Nature of tax depreciation and its availability

Depreciation is the systematic allocation of the cost of a fixed asset over its useful life. Depreciation reflects the wear and tear or obsolescence of the asset due to its use in the business. Depreciation is not an actual cash outflow, but an accounting expense that reduces the book value of the asset and the taxable profit of the business.

Article 27 of Law 027/2022 provides that, in the determination of business profit, depreciation for business assets is deducted from taxable income. However, the depreciation must follow the rates and methods prescribed by the law, and not the accounting policies of the business. The law specifies different rates and methods of depreciation for different categories of assets. The qualifying expenditure includes expenditure on:

- Buildings, heavy industrial equipment and machinery – the eligible expenditure includes the costs of acquisition, construction, improvement, renovation, and reconstruction of such assets.

- Purchased intangible assets, including purchased goodwill
- Information and communication systems – there are different rates of allowances for these assets depending on whether their estimated useful life is more than or less than 10 years
- Other qualifying business assets

Assets that do not qualify for tax depreciation are those that are not subject to wear and tear or obsolescence – for example, land, antiques, and jewelry. No tax depreciation is available for internally generated intangible fixed assets, such as customer loyalty.

F1.2 Allowances applied to individual assets

Of the categories of qualifying assets set out in Unit F1.1 above, the following assets are each treated separately for the calculation of the applicable tax depreciation:

- Buildings, heavy industrial equipment and machinery are depreciated annually on an individual basis, using a straight-line method at a depreciation rate of five percent (5%) per year. This rate is applied to the total cost, which includes acquisition, construction, refinement, rehabilitation, or reconstruction. The depreciation amount remains constant each year, calculated as 5% of the asset's cost, and continues until the asset is fully depreciated over 20 years or until it is sold.
- Intangible assets, including goodwill purchased from a third party, are depreciated annually on an individual basis using the straight-line method at a depreciation rate of ten percent (10%) per year. This rate is applied to the total cost or value addition. The depreciation amount remains fixed each year, calculated as 10% of the asset's cost, and continues until the asset is fully depreciated over 10 years or until it is sold.
- Information and communication systems with a useful life of more than ten (10) years are depreciated on a straight-line basis at an annual rate of ten percent (10%) of their acquisition cost. This means that each year, 10% of the initial cost is deducted from the asset's value until it is fully depreciated or disposed of.

F1.3 Tax depreciation applied to pools of assets

The remaining qualifying expenditures are grouped into a 'pool,' and tax depreciation is applied collectively to this group of assets rather than individually. The applicable rates are as follows:

- Computers & accessories, and information & communication systems with a useful life of no more than 10 years are depreciated at 50% on a reducing balance basis.
- Other qualifying business assets are depreciated at 25% on a reducing balance basis.

Important: Note that the calculation of the tax depreciation on a pool is on a reducing balance basis; it is a percentage of the brought forward eligible expenditure (known as the 'tax written down value' (TWDV)) as adjusted for acquisitions and disposals that have taken place in the year. We will look at the calculation of these allowances in Unit F3.2

F2 Investment allowance

Investment in Rwanda is encouraged by awarding a higher rate of tax relief (capital allowance) in the year of purchase.

F2.1 Conditions for the investment allowance to apply

To encourage investment in Rwanda, a higher rate of tax relief is available if a taxpayer makes significant investment in fixed assets in the tax period. This is known as a 'capital allowance' rather than tax depreciation. For the investment allowance to be claimed, the following conditions need to be met (Law 006/2021 relating to investment promotion and facilitation):

- (a) The assets purchased are not motor vehicles that carry less than nine persons – unless the vehicles in question are used exclusively for a tourism business;
- (b) The taxpayer has invested at least US\$50,000 in each new asset in the tax period;
- (c) The assets must be retained by the business for at least three tax periods following the period of the claim; and
- (d) The taxpayer must have applied for, and hold, a valid investment certificate issued by the Rwanda Development Board, specifying the incentives to which the taxpayer is entitled.
- (e) Note that the assets do not have to be new; secondhand assets can qualify for the relief. Assets costing less than US\$50,000 do not qualify for the investment allowance.

F2.2 The rate of investment allowance

The investment allowance is 50% of the acquisition cost of the asset.

F2.3 The impact on tax depreciation

When an investment allowance is claimed on an asset, it reduces the cost eligible for standard tax depreciation. After the capital allowance is computed and deducted, the remaining qualifying expenditure will be depreciated either on a straight-line basis or added to a depreciation pool, depending on the asset type.

F2.4 Assets sold within three years

If a taxpayer claims the investment allowance on an asset, but subsequently disposes of it within three years, the investment allowance is revoked. The taxpayer must repay the tax savings obtained through the allowance to the tax administration, along with any applicable interest and penalties for underpayment of tax. However, a taxpayer is not liable to pay any amount if it is determined that the disposal was the effect of natural calamities, hazards or any other involuntary reason.

F3 Computing tax depreciation

You will need to be able to compute tax depreciation amounts accurately on any given asset or pool of assets.

F3.1 Calculation of tax depreciation on individual assets – Straight Line Basis

The calculation of tax depreciation for individual assets follows a straightforward process: the applicable percentage is applied to the eligible cost of each asset. For assets depreciated using the straight-line method, each asset is treated individually rather than as part of a pool, necessitating a separate depreciation calculation for each one.

A full year's depreciation is applied in the tax period in which the asset is acquired, regardless of when the purchase occurs within the period. However, no depreciation is provided in the period when the asset is sold.

When an asset is sold, the taxable income or expense is calculated by subtracting the asset's value at the time of sale from the sales proceeds. This ensures that any gain or loss from the sale of the asset is accurately reflected in the tax computation for that period. This approach aligns with the principles outlined in Law 027/2022 Article 6, items 5 and 6, ensuring that only the net difference is subject to tax.

F3.2 Tax depreciation on Pool of assets

Exam Focus Point: An exam question concerning a sole trader or company is likely to give you the balances brought forward on the asset pools, together with information on asset acquisitions and disposals in the period. Your task will be to compute the available tax depreciation, and usually to then deduct this figure from business profits.

For assets depreciated under the pooling system, tax depreciation is applied to the balance of expenditure carried forward from the previous tax period. This balance is adjusted as follows:

1. Increase in the depreciation basis: The balance is increased by the cost of assets acquired or created during the tax period, along with the cost of refining, rehabilitation, or reconstruction of existing assets.
2. Decrease in the depreciation basis: The balance is reduced by the sale price of assets sold, as well as compensation received for asset loss due to natural calamities or other events during the tax period.

If the depreciation basis falls below zero, the negative balance is added to the business profit, and the depreciation basis resets to zero. Additionally, if the depreciation basis does not exceed Frw500,000, the entire amount is considered a deductible expense for the tax period.

This system applies a tax depreciation rate of 50% for computers & accessories, and information & communication systems with a life of no more than 10 years, and 25% for other qualifying assets, on a reducing balance basis.

The following proforma should be used when computing these allowances:

Tax period to xx/xx/xx	Computer equipment pool	Other business assets pool
	Frw'000	Frw'000
TWDV brought forward	A	B
Add: Acquisitions (net of investment allowance)	C	D
Less: Proceeds on disposal	E	F
Balance to depreciate	$G = A + C - E$	$H = B + D - F$
Tax depreciation	$I = (G \times 50\%)$	$J = (H \times 25\%)$
TWDV carried forward	$X = G - I$	$X = H - J$

Notes

1. If either G or H above are negative (due to the sale proceeds on assets sold in the year being greater than the balance in the pool), a 'balancing charge' arises: the negative balance increases taxable profit for the year and the pool becomes zero.
2. If either G or H are a positive value of less than Frw500,000, the entire balance is deducted from profits as a balancing allowance (rather than multiplying by 50% or 25%). Again, the pool will be reset to zero.

Example

Balancing allowances and charges

The TWDV brought forward on a computer equipment pool at the beginning of a tax period is Frw1,000,000. There are no new acquisitions of computer equipment during the period.

- (a) If computer equipment is sold during the year for Frw1,200,000, the pool would stand at a negative balance of Frw (200,000). This Frw200,000 would be added to taxable profit:

Description	Computer Equipment pool	
TWDV brought forward	1,000,000	
Less: proceeds on disposal	(1,200,000)	
Balance	(200,000)	

Description	Computer Equipment pool	
Balance charge	200,000	
Pool c/f	NIL	

- (b) If computer equipment was sold for Frw600,000, the pool would stand at Frw400,000. Instead of a 50% allowance, the full Frw400,000 would be deducted from taxable profit.

	Computer equipment pool
TWDV brought forward	1,000,000
Less: proceeds on disposal	(600,000)
Balance	400,000
Balance allowance	(400,000)
Pool c/f	NIL

Summary of Unit F and key learning outcomes

- Tax Depreciation and Asset Qualification: Businesses can claim tax depreciation on most assets used in their trade, which helps to reduce taxable income by accounting for the asset's wear and tear or obsolescence over time. However, assets that do not deteriorate or become obsolete, such as land, do not qualify for tax depreciation.
- Depreciation Methods and Asset Categories: Different assets are depreciated differently for tax purposes. Buildings, heavy industrial equipment & machinery, intangible assets, and information and communication system with a lifespan exceeding 10 years are depreciated using the straight-line method, where a fixed percentage of the asset's cost is deducted each year. Other qualifying assets are grouped into pools and depreciated on a reducing balance basis, which means a fixed percentage is applied to the diminishing value of the assets each year.
- Investment Allowance: An investment allowance is available for significant investments, providing enhanced tax relief in the year of purchase for investors spending at least US\$50,000. However, this relief must be repaid if the asset is sold within three years.
- Minor Capital Items: When the tax written down value of the pool drops below Frw500,000, it can be fully expensed.

Quiz Questions

Quiz 1: Individual asset capital allowances

What rates of tax depreciation, if any, apply to the following items of expenditure?

- (a) Production line machinery built into a factory.
- (b) A piece of telephone equipment with an expected life of 15 years, acquired under an operating lease
- (c) The extension of a residential home
- (d) The purchase of patent rights

Quiz 2: Investment allowance

A building is constructed in Kigali for use in the trade of M Ltd, a Rwandan resident trading company. The building cost Frw200,000,000 and was paid for on 30 November 2019. M Ltd has a tax period to 31 December each year. M Ltd holds a valid investment certificate for this expenditure.

Which of the following statements is correct concerning the tax relief available for M Ltd on the cost of the building? (Assume US\$ 1 equals Frw1,000)

- A. The investment allowance will be Frw100,000,000 and the balance of Frw100,000,000 will qualify for straight-line depreciation at 5% per year.
- B. The investment allowance will be Frw100,000,000 and the remaining Frw100,000,000 will qualify for straight-line depreciation at 10% per year.
- C. The investment allowance will be Frw100,000,000 and the Frw200,000,000 will also qualify for straight-line depreciation at 5% per year.
- D. The building will only be eligible for standard tax depreciation at 5% per year.

Quiz 3: Calculation of single asset capital allowances

K Ltd acquired a piece of telecommunications equipment at a cost of Frw20,000,000 on 1 July 2019. The expected life of the equipment was 20 years. The equipment was then disposed of on 1 March 2021 for Frw9,000,000.

K Ltd did not purchase any other assets in the tax period to 31 December 2019. Compute the tax depreciation available on this asset for the three years to 31 December 2021.

Quiz 4: Tax depreciation on asset pools

Josiane Ishema has run a business publishing magazine as a sole trader for many years. She has the following balances brought forward on her tax depreciation pools:

- Computer equipment Frw5,000,000
- Other business assets Frw10,000,000

During the current tax year, Josiane made a significant investment in new assets in order to expand her business. She applied for and obtained an investment certificate from the Rwanda Development Board. She purchased the following items:

- Printing equipment Frw52,000,000
- Delivery vans Frw20,000,000

Josiane intends to retain each of the above assets for a minimum of five years. Josiane also disposed of two old laptop computers for proceeds of Frw600,000.

Calculate the maximum investment allowance and tax depreciation that Josiane may claim in the current year ending 31 December. (Assume US\$ 1 equals Frw1,000)

Unit G: Basis of Assessment for Sole Traders and Partnerships

Learning outcomes

- K. Demonstrate an understanding of tax law and its implications on income from business.
- 2. Explain the basis of assessment for sole traders, partnerships, and incorporated businesses for income from business profits.
- 5. Explain the basic allocation of trading profits between partners.

Upon successful completion of this Unit, students will have developed a comprehensive understanding of the fundamental principles governing the taxation of different business entities. They will be able to articulate the criteria used to assess income from business profits for sole traders, partnerships, and incorporated businesses. Specifically, students will gain insights into how personal income tax applies to sole traders, who are taxed on their individual income, including profits derived from their business activities. In contrast, students will learn that partnerships, while registered as separate legal entities, are subject to corporate income tax on their business profits. Furthermore, the Unit will delve into the mechanisms of profit distribution within partnerships, elucidating how trading profits are allocated among partners. This knowledge will empower students to analyse and explain the tax implications for various business structures, enhancing their proficiency in the field of business taxation.

Unit list		Syllabus Reference
G1	Basis of assessment for sole traders	K3
G2	Basis of assessment for partnerships and distribution of partnership profits to partners	K5

G1 Basis of assessment for sole traders

When an individual starts to trade, they are required to register with the tax administration in order to pay personal income tax on their business profits and any other income they may receive. Business income is taxed as it is earned.

G1.1 Basis of assessment for sole traders

All types of business are required to register with the tax administration within seven days after the commencement of business activities. They register as enterprises. Registration is done online and when this is done, a tax identification number (TIN) is generated for the taxpayer which is used to pay taxes.

The basis of assessment for a sole trader is the same as for companies. Each tax period, a resident taxpayer is liable to personal income tax from all domestic and foreign sources (as seen in Unit A).

Tax declarations (returns) are prepared for specific tax periods. For individuals, the tax period is always the calendar year. Business income is assessed based on when it is earned, not when it is received, meaning income is recognized in the period in which it is generated, regardless of actual payment.

G2 Basis of assessment for partnerships and distribution of partnership profits to partners

A partnership is registered as an enterprise in Rwanda, and it is taxed at the level of each partner.

G2.1 Basis of assessment for partnerships

In the context of Rwanda's partnership law, a partnership is established when two or more entities come together to conduct business with the collective aim of generating profit. This formal arrangement, known as a partnership agreement, can include individuals, companies, or trustees as the participating members.

Types of Partnerships

Rwandan legislation recognizes three primary forms of partnerships, each with distinct characteristics and implications for the partners involved:

1. **General Partnership (GP)** A General Partnership is a traditional business structure where all partners share equal responsibility for the management of the business and are equally accountable for the debts and obligations incurred. In this arrangement, the personal assets of the partners can be used to satisfy the partnership's liabilities.
2. **Limited Partnership (LP)** The Limited Partnership model introduces a differentiation in the roles and liabilities of the partners:
 - **General Partners:** These partners manage the business operations and are fully liable for the partnership's debts and obligations.
 - **Limited Partners:** Their involvement is primarily financial, and their liability is restricted to the extent of their investment in the partnership. They typically do not partake in the management of the business.
3. **Limited Liability Partnership (LLP)** An LLP is a modern and flexible business entity that combines the characteristics of partnerships and corporations. It operates as a separate legal entity, meaning that the partnership itself, not the individual

members, is responsible for debts and obligations. The partners' liability is limited to their investment in the LLP, protecting their personal assets from the partnership's liabilities.

Key considerations

Each partnership type offers different levels of liability protection and management roles, which can influence the decision-making process when establishing a business under Rwandan law. It is crucial for potential partners to understand these differences to choose the most suitable structure for their business objectives and risk tolerance.

Tax Transparency in Partnerships

When it comes to the taxation of partnerships, the concept of "Tax Transparency" is pivotal. Unlike corporations, partnerships are not subject to income tax at the entity level. Instead, the tax obligations are passed directly to the partners. This means that any profits generated by the partnership are not taxed as a single entity; rather, they are allocated to each partner who then reports this income on their individual tax returns. This pass-through mechanism ensures that the profits are taxed only once, maintaining the integrity of the tax system by avoiding double taxation.

Despite the partnership's non-taxable status (partnerships are not subject to income tax at the entity level), it is still required to maintain financial records. The taxable business profits are calculated in the same way as we saw in Unit E, and the rules for tax depreciation that we saw in Unit F are also identical. The partnership must calculate the share of taxable profit attributable to each partner. It is also responsible for withholding the appropriate amount of tax from each partner's share of the profits and subsequently remitting these funds to the Tax Administration. This process ensures that the tax liabilities are settled in accordance with the law.

The tax treatment of partners within the partnership depends on the nature of the partner. A corporate partner will be subject to corporate income tax rates, while an individual partner will be liable for personal income tax on their share of the profits. It is important to note that in the case of non-compliance or tax default, both the partnership and the individual partners may be held jointly accountable for any outstanding tax liabilities.

G2.2 Allocation of partnership profits

The allocation of profits in a partnership is governed by the partnership agreement, which should specify how profits are to be divided among the partners. If the agreement does not specify, profits are typically divided equally among the partners.

Example 1: Equal Profit Sharing

Let's consider a simple partnership with two partners, Partner A and Partner B, who have agreed to share profits equally. The partnership earns an accounting profit of Frw200,000,000. However, after adjusting for tax purposes (adding back non-deductible expenses, deducting tax-allowable expenses, etc.), the taxable profit is determined to be Frw150,000,000.

Partner A's share: $\text{Frw}150,000,000 \times 1/2 = \text{Frw}75,000,000$

Partner B's share: $\text{Frw}150,000,000 \times 1/2 = \text{Frw}75,000,000$

Each partner would report Frw75,000,000 as their share of the partnership's income on

their individual tax returns and pay taxes, accordingly, based on their personal tax rates and any other individual circumstances.

Example 2: Unequal Profit Sharing with Special Allocations

In a more complex scenario, a partnership consists of three partners, Partner X, Partner Y, and Partner Z, with an agreement to share profits in the ratio of 50%, 30%, and 20%, respectively. The partnership's accounting profit is Frw300,000,000 but after-tax adjustments, the taxable profit is Frw220,000,000

Partner X's share: $\text{Frw}220,000,000 \times 50\% = \text{Frw}110,000,000$

Partner Y's share: $\text{Frw}220,000,000 \times 30\% = \text{Frw}66,000,000$

Partner Z's share: $\text{Frw}220,000,000 \times 20\% = \text{Frw}44,000,000$

Each partner would then report their respective share on their tax returns. Additionally, suppose Partner Z contributed a piece of equipment to the partnership and the agreement states that Partner Z should receive additional income equal to the depreciation of the equipment for tax purposes. If the tax depreciation for the year is Frw10,000,000 the profit allocation might be adjusted to give Partner Z an additional Frw10,000,000 reducing the other partners' shares proportionally.

Partner X's adjusted share: $\text{Frw}110,000,000 - (\text{Frw}10,000,000 \times 50\%) = \text{Frw}105,000,000$

Partner Y's adjusted share: $\text{Frw}66,000,000 - (\text{Frw}10,000,000 \times 30\%) = \text{Frw}63,000,000$

Partner Z's adjusted share: $\text{Frw}44,000,000 + \text{Frw}10,000,000 = \text{Frw}54,000,000$

These examples illustrate the basic principles of profit allocation under tax transparency arrangements for partnerships. The actual allocation can become quite complex depending on the specific terms of the partnership agreement and the various tax adjustments that may apply. The complexity of these arrangements is often beyond the examinable areas of this syllabus.

G2.3 Computing partnership taxable profits

Taxable business profits of partnerships are computed in the same way as for companies. The net profit figure appearing in the accounts is adjusted using the same rules for adjustments of profits as for companies. Revenue expenses, which are incurred wholly and exclusively for the purposes of the trade, profession or vocation, are allowed as business expenses. If a partner incurs an expense that is partly for the purposes of the business and partly for private purposes, only the business proportion would be allowed for tax purposes.

Partners' appropriations of profits are not deductible in the computation of the taxable business profits which are available for appropriations. The partners' appropriations are, in fact, part of the taxable income of the individual partners. Partners' appropriations generally include partnership salaries and interest on capital account balances.

After the profits have been adjusted, tax depreciation on all assets which are owned by the partnership should be deducted after any adjustment is made for any private use.

Example

Alpha, Beta and Gamma are in partnership sharing profits and losses in the ratio of 1:2:3 after allowing for annual partnership salaries of Frw15,000,000 for Alpha, Frw12,500,000 for Beta and Frw11,000,000 for Gamma.

The partnership made taxable profits for the two accounting periods as follows:

Year ended 31 December 2023 Profit Frw75,000,000

Year ended 31 December 2024 Profit Frw70,250,000

Show how the partnership profit will be shared between the partners.

Answer

There were no changes in the partnership agreement during the two-year period. The partners will therefore share the profits and losses based on the existing partnership agreement. The procedure is as follows:

Step 1: Allocate to each partner their entitlements such as partnership salaries and interest on capital.

Step 2: Deduct the total of the partners' entitlements from the total taxable profit to arrive at the balance to be shared according to the partnership profit and loss sharing ratios.

Step 3: Divide the balance among the partners in their profit and loss sharing ratio.

Alpha, Beta and Gamma

Division of Partnership Profits

	Total	Alpha	Beta	Gamma
Y/e 31 December 2023	Frw'000	Frw'000	Frw'000	Frw'000
Partnership salaries	38,500	15,000	12,500	11,000
Share of balance (1:2:3)	<u>36,500</u>	<u>6,083</u>	<u>12,167</u>	<u>18,250</u>
Total	<u>75,000</u>	<u>21,083</u>	<u>24,667</u>	<u>29,250</u>
Y/e 31 December 2024				
Partnership salaries	38,500	15,000	12,500	11,000
Share of balance (1:2:3)	<u>31,750</u>	<u>5,292</u>	<u>10,583</u>	<u>15,875</u>
Total	<u>70,250</u>	<u>20,292</u>	<u>23,083</u>	<u>26,875</u>

The final taxable profit of a partnership is divided between the partners in the partnership agreement that is in force during the accounting period when the profit was made. Each individual partner would then declare their proportion of the taxable profit on their tax declaration, not as dividend income, but as business (trading) income.

It is possible that a Rwandan resident individual could be a partner in an overseas partnership; if this is the case, we would treat their share of the partnership profits as taxable business income in the PIT calculation (see Unit J).

Example

Cleo is resident in Rwanda but is a partner in a Kenyan non-corporate partnership. Her share of the profits is 25%. The partnership generated taxable profits equivalent to Frw400,000,000 in the year.

The partnership itself would not pay any tax on the profits. Cleo's share is Frw100,000,000. This may suffer taxes in Kenya (depending on the Kenyan tax rules).

Cleo would declare the Frw100,000,000 as business income on her Rwandan tax declaration and would be liable to PIT on this. Any Kenyan tax may be deductible from her Rwandan PIT as double taxation relief (DTR).

Summary of Unit G and key learning outcomes

- Establishing a business as a sole proprietor necessitates the registration of the enterprise and the remittance of taxes on the profits accrued.
- The assessment of taxes for sole proprietors is anchored in the tax period, with income being taxed in the period it is generated.
- Tax transparency of partnership, in Rwanda, partnerships are often considered "pass-through" entities. This means that the partnership itself does not pay income taxes. Instead, 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.
- Partnerships based outside of Rwanda may not constitute separate legal entities. Consequently, partners are individually taxed on their portion of the partnership's taxable profits, which are considered business income.
- A Rwandan resident who is a partner in an overseas partnership that is not incorporated is obligated to report their portion of the partnership's profits on their personal income tax returns.

Quiz questions

Quiz 1. Taxable income

Which of the following scenarios does NOT constitute taxable income for PIT in Rwanda?

- A. Murekatete, a Rwanda resident not registered for tax purposes, won a singing contest in Nairobi, Kenya and was paid Frw30,000,000.
- B. Bella is involved in the business of selling bread in Rwanda. She received Frw2,000,000 as a donation to increase sales.
- C. Kayonga is a farmer in Rwanda and won the 2019 trade fair organised in Kenya as the best exhibitor of poultry products. He was paid Frw30,000,000 and a return ticket from Kenya.
- D. Muhoza is a student in Rwanda. He received Frw2,000,000 from a charity in the UK to pay his school fees.

Quiz 2. Taxation of non-resident partners

Two individuals entered a partnership and established a General Partnership in Rwanda called A GP which assembles three-wheeled motorcycles. The registered share capital of the partnership with the Rwanda Development Board (RDB) is Frw1,000,000, and the partnership is owned equally by the two partners. A GP made a profit after tax of Frw2,000,000 in the year 202X. A GP decided to pay drawings to the two partners who are not tax residents of Rwanda and are based in India. They were each paid 50% of the taxable profits.

Calculate withholding tax applicable to the each of the partners and indicate how this tax is paid to the tax administration.

Unit H: Taxable Profits for Companies

Learning outcomes

- E. Demonstrate an understanding of tax law and its implications for corporate income tax.
 - 1. Identify relevant tax authority legislation and guidance.
 - 2. Identify entities that are subject to corporate income tax and those that are exempt.
 - 3. Identify the various provisions of the tax law that determine the tax rate for corporate income tax.

Introduction to Unit H

Upon the successful completion of this unit, students will have developed a comprehensive understanding of the intricacies involved in calculating taxable profits for corporations. They will be equipped with the knowledge to navigate through the complex landscape of tax law, ensuring they can accurately identify the legislative sources and authoritative guidance that govern corporate income tax. Students will be able to determine which entities are liable for corporate income tax and which are granted exemptions under the current tax framework. Furthermore, they will be able to pinpoint and interpret the various provisions within the tax law that dictate the applicable tax rates for corporate income.

Unit list		Syllabus Reference
H1	Legislative features	F1
H2	Chargeable and exempt bodies	F2
H3	Taxable trading profits for companies	F3
H4	Other income for companies	L2
H5	The calculation of total taxable income for companies	L3
H6	Corporate restructuring and tax on liquidation	L3

H1 Relevant legislation and guidance

The legislation relating to income tax is set out in law number 027/2022 of 20/10/2022. The legislation

covers both personal income tax (PIT) and corporate income tax (CIT). In this unit we focus on the calculation of corporate income tax which is covered within Chapter III of the legislation. The processes relating to the calculation of both personal income tax and corporate income tax – including how the taxes are declared and paid – are very similar, and certain aspects of this unit you will have seen in Units C and F.

Any company which receives taxable income will be required to register for and pay corporate income tax unless the company is exempt.

H2 Chargeable and exempt bodies

The following entities are subject to corporate income tax:

1. a company established in accordance with Rwandan law and a foreign company registered in Rwanda;
2. a cooperative society;
3. a State-owned company;
4. trustee, enforcer or protector of a trust;
5. a foundation;
6. a protected cell company or a cell of a protected cell company depending on the choice of the investor at the time of company registration;
7. a non-resident in Rwanda person with a permanent establishment;
8. an entity established by a District or the City of Kigali if that entity performs an income generating activity;
9. an association or entity that is established to realise profits regardless of its nature.

The following entities are exempted from corporate income tax:

1. the Government of Rwanda;
2. the City of Kigali;
3. the districts;
4. the National Bank of Rwanda;
5. organisations that carry out only faith-oriented activities, humanitarian, charitable, scientific or educational character unless the revenue received exceeds the corresponding expenses or if those entities conduct a business;
6. international organisations or agencies of technical cooperation if such exemption is provided for by international agreements or an agreement concluded between these organisations and the Government of Rwanda;
7. qualified pension funds;
8. public institution in charge of social security;

9. Development Bank of Rwanda;
10. Agaciro Development Fund Corporate Trust;
11. Business Development Fund limited, "BDF Ltd";
12. special purpose vehicle, unless the revenue received exceeds the corresponding expenses;
13. common benefit foundations;
14. resident trustee for income earned by a foreign trust.

Entities exempt from corporate income tax are still required to submit to the tax administration their

financial statements not later than 31 March following the tax period or three months from the end of their special tax period. A special declaration is made by these entities, which shows any excess income that was not used by them. This excess is taxable at 28%.

As covered in Unit C, in addition to certain types of company being exempt from corporate income tax,

if a company receives income from agricultural or livestock activities then the first Frw12,000,000 of

agricultural income is exempt from corporate income tax. Income above the threshold will remain taxable.

Entities resident in Rwanda will be liable to corporate income tax on their worldwide business profits. However, dividends paid between resident companies are not included in corporate taxable income. This is because the paying company would have already paid the relevant amount of Rwandan CIT on the profits out of which the dividend is paid.

Non-resident entities are liable to corporate income tax on the profits of any permanent establishment in Rwanda. You have seen the definition of a resident company and permanent establishment in Unit A.

H3 Taxable trading profits for companies

Important Note: Dividends from overseas companies (for example a foreign subsidiary of a Rwandan parent company) are liable to CIT in Rwanda; the amount gross of overseas taxes should be included in taxable profit and then the overseas tax suffered can be deducted from the CIT liability (as double taxation relief).

Different income tax regimes apply to calculate corporate income tax for companies dependent on their level of turnover. For companies with turnover exceeding Frw20,000,000 the real regime applies which means that companies will need to calculate their taxable trading profits. This is done by adjusting the accounting profits in the same way as we saw for a sole trader.

H3.1 The income tax regimes

As you will have seen in Unit C, income tax has three regimes for taxpayers based on their level of annual turnover. These rules apply equally to corporate taxpayers. The calculation of corporate income tax under the flat tax and turnover tax/lump sum regimes are summarised in Unit J.

Companies with annual turnover more than Frw20,000,000 must use the real regime and will pay corporate income tax at a rate of 28% on their taxable income. The calculation of taxable income is covered in this unit.

H3.2 Taxable income

The taxable income is the amount on which a company will be liable to corporate income tax.

Taxable income for companies is calculated as:

	Frw'000
Taxable trading profits (see Unit H3.3)	X
Investment income (see Unit H4.2)	X
Rental income (see Unit H4.3)	X
Less losses carried forward from previous five tax periods (see Unit J)	(X)
Taxable income	XX

In this unit we look at the calculation of taxable trading profits. The other income to be included is covered in H4 and losses are covered in Unit J.

H3.3 Taxable trading profits

In the same way as for a sole trader business, the accounting profit of the company must be adjusted for tax purposes to give the taxable trading profits. The adjustments made for companies are identical to those for a sole trader and are covered in Unit C.

	Frw'000	Frw'000
Net profit as per accounts (A/Cs)		X
Add:		
(a) Expenses charged in the A/Cs but not deductible for tax purposes	X	
(b) Taxable income not credited to A/Cs	X	XX
		XX
Less:		

	Frw'000	Frw'000
(c) Income credited to A/Cs but not taxable	X	
(d) Expenses for tax purposes not deducted in the A/Cs	<u>X</u>	<u>(XX)</u>
Adjusted business profits		XX
Less tax depreciation (Unit F)		<u>(XX)</u>
Taxable business profits		<u>XX</u>

Companies are entitled to the same tax depreciation as we saw in Unit F and the same adjustment is made for the difference between the amount charged as depreciation in the accounts and the amount of tax depreciation which is deductible.

H4 Other income for companies

In addition to the taxable trading profits, companies will also be taxed on their investment income and rental income receivable during the year.

H4.1 Taxable income

Once the taxable trading profits have been calculated other income must be brought in to calculate the company's taxable income.

Important focus: All investment income in the form of interest, dividends and royalties must be included unless these are non-taxable. These may have been received net of withholding tax, but the gross amount must be declared in taxable income and then the tax withheld will be accounted for when calculating the tax due (see [Unit K](#)).

H4.2 Investment income

Dividends received by Rwandan companies from another Rwandan entity will be non-taxable and should be excluded from the taxable income calculation. Only overseas dividends would be included in the calculation of taxable profits.

From the investment income any investment expenses can be deducted. This will include any carrying charges and interest expense.

The net investment income is then included in the taxable income calculation although when submitting a corporate income tax declaration, the investment income and investment expenses will actually be entered in different rows of the declaration.

Important Focus: Whereas rental income for personal income taxpayers (i.e. individuals) is declared separately to business profits, for a company the rental income is included within the calculation of taxable income. This covers rental income from rent or leasing of machinery, equipment, land, buildings, and livestock. The special rules relating to calculating amounts liable to rental income tax on buildings do not apply to companies.

H4.3 Rental income

Rental income from buildings is included in taxable income. Related expenses are allowable, including tax depreciation on the building and any related interest on loans to acquire/improve the building. A deduction can be made for rental income from machinery, agriculture and livestock equipment.

The deduction can include:

- 10% of the rental income as wear-and-tear expense
- Interest paid on loans to purchase the rented items
- Tax depreciation according to the usual rules (as per Unit F)

H5. The calculation of total taxable income for companies

To summarise the above rules, the taxable income is calculated by bringing together all the sources of

taxable income as below:

	Frw'000
Taxable trading profits	X
Net proceeds from disposal of immovable business	X
Net proceeds from disposal of immovable business	
Investment income	X
Rental income	X
Less losses carried forward from previous five tax periods (see Unit J)	(X)
Taxable income	XX

We will consider how the taxable income is taxed in Unit J.

H6. Corporate restructuring and tax on liquidation

Exam Focus Point: Learning the above proforma will help you to construct a company's corporate income tax (CIT) computation, a key skill for the exam.

H6.1 Definition of restructuring

Business entities often undergo significant transformations to adapt to the evolving market conditions, strategic objectives, or regulatory requirements. Restructuring is a complex process that can take various forms, each with distinct legal, financial, and tax implications. This section aims to explain the concept of restructuring within business entities, focusing on the forms it can take and the taxation consequences associated with such reorganizations.

Forms of business entity restructuring

Restructuring of business entities can manifest in several configurations, each with specific characteristics and outcomes. The primary forms of restructuring include:

- **Merger:** This involves the fusion of two or more entities into a new, separate entity. The merging entities cease to exist as independent legal entities, and their assets, liabilities, and operations are consolidated into the newly formed entity.
- **Acquisition or Takeover:** This occurs when an entity acquires fifty percent (50%) or more of the shares or voting rights, by number or value, in a resident entity. The acquiring entity gains control over the target entity, influencing its strategic direction and operations.
- **Asset or Liability Transfer:** This form of restructuring involves the transfer of fifty percent (50%) or more of the assets or liabilities of a resident entity to another entity. This transfer can significantly alter the financial and operational profile of the involved entities.
- **Entity Replacement:** In this scenario, an entity's entire shares, assets, or liabilities are acquired or transferred, resulting in the original entity's existence being replaced by the purchasing or receiving entity.
- **Entity Splitting:** This entails dividing a resident entity in Rwanda into two or more separate resident entities. The original entity's operations are segregated, leading to the creation of new, independent entities.

H6.2: Taxation of restructured business entities

In the context of restructuring, the transferring business entity is granted an exemption from tax on capital gains and losses realized during the restructuring process. This exemption is important in facilitating the smooth transition of assets and liabilities without the immediate tax burden that would otherwise arise from such capital transactions.

The receiving business entity is required to value the transferred assets and liabilities at their book value as recorded in the transferring company's accounts at the time of restructuring. This valuation approach ensures continuity and consistency in the financial reporting of the assets and liabilities involved.

Furthermore, the receiving business entity is permitted to depreciate the business assets

in accordance with the rules that would have applied to the transferring business entity, as if the restructuring had not occurred. This provision allows for the preservation of the tax depreciation schedule and the associated tax benefits.

The receiving business entity is also entitled to carry over the reserves and provisions created by the transferring business entity. This carryover is subject to the same conditions that would have applied to the transferring entity, maintaining the fiscal continuity of the reserves and provisions. Consequently, the receiving entity assumes the rights and obligations of the transferring entity concerning such reserves and provisions.

H6.3 Implications of liquidation

If a company is liquidated, its assets are sold and the money is used to settle all the company's debts and share buyback.

Any excess distribution to shareholders is then treated as a dividend (for the purpose of personal income tax and withholding taxes) in the final tax period of the company's existence.

H6.4 Impact on losses

A restructuring is likely to lead to a transfer of over 25% of a company's share capital, in this case losses

being carried forward may no longer be permitted to be offset against profits unless the restructuring maintains all the shareholders, and those shareholders have been in the shareholding structure for a period not less than three (3) years (See Unit I).

Summary of Unit H and key learning outcomes

- Law: Law number 027/2022 of 20/10/2022 sets out the rules relating to corporate income tax.
- Corporate Income Tax Registration and Payment: The law mandates that all companies receiving taxable income must register for and pay corporate income tax, except for those companies that are specifically exempted from this requirement.
- Tax Regimes Based on Turnover: Companies are subject to different tax regimes for the calculation of corporate income tax, which are contingent upon their annual turnover. This differentiation ensures that the tax system is scalable and adaptable to the size of the company.
- Real Regime for High Turnover Companies: For companies with a turnover that exceeds Frw20,000,000, the 'real regime' is applicable. Under this regime, companies are required to calculate their taxable trading profits. This calculation process involves adjusting the accounting profits, a method that parallels the process used for sole traders.
- Calculation of Taxable Income: The calculation of taxable income is a critical process that involves consolidating all sources of taxable income. This ensures a comprehensive assessment of the company's tax obligations.

Quiz questions

Quiz 1: Taxable or exempt bodies

Tick to show whether the following are taxable or exempt for the purposes of corporate income tax:

	Taxable	Exempt
X Ltd, a Rwandan registered company		
National Bank of Rwanda		
Y Ltd, a company registered in Kenya which operates a permanent establishment in Kigali		
The United Nations Economic Commission for Africa (UNECA), an inter-governmental organisation which has exemption under an international agreement		
Z Ltd, an Ethiopian company which is managed in Rwanda		

Quiz 2: Taxable trading profits

Which of the following statements are true?

1. None of the interest paid on loans will be given tax relief where a company is thinly capitalised. This is where debt is more than four times equity.
2. P Ltd has written off a debt of Frw10,000,000 in its accounts for the year to 31 December which had been charged to tax in the previous year. P Ltd has made every attempt to recover the debt and the debtor has now been declared insolvent by a court decision. P Ltd can claim bad debt relief for this debt.
3. U Ltd is allowed a tax deduction for the full depreciation basis amount of Frw490,000.
4. T Ltd has paid dividends of Frw12,000,000 during the year to 31 December. These dividends are tax deductible.

	1	2	3	4
A	False	False	True	False
B	True	True	True	False
C	False	True	True	False
D	True	True	False	False

Quiz 3: Investment income

M Ltd prepares its accounts to the year ended 31 December. In the year its financial statements show the following:

- Interest income of Frw680,000, which is received net of 15% withholding tax
- Royalty income of Frw595,000, also received net of 15% withholding tax
- Expenses of managing the investments at Frw50,000

Calculate the investment income which will be included in M Ltd's taxable income.

Quiz 4: Rental income

N Ltd bought a tractor for Frw1,000,000 in the year ended 31 December 202X which it rents out.

During the year ended 31 December 202X it received monthly rental income of Frw20,000. When it

bought the tractor N Ltd took out a Frw800,000 loan to help purchase the tractor and it pays interest on this loan at a rate of 4% per annum.

What is N Ltd's rental income to be included in its taxable income calculation?

- A. Frw134,000
- B. Frw240,000
- C. Frw184,000
- D. Frw158,000

Quiz 5: Total taxable profits

F Ltd is a Rwandan company registered with the tax administration and trading in furniture manufacturing. Its audited profit and loss account for the tax period is shown below:

	Note	Frw'000	Frw'000
Gross profit (Sales – Cost of goods sold)			360,000
Rental income	1		40,000
Bank interest income	2		5,000
			405,000
Operating expenses:			
Depreciation	3	60,000	
Bad debts	4	4,500	

General provision for warranties	5	2,500	
Wages and salaries	6	120,000	
Legal and professional fees	7	4,000	
Interest payable	8	1,500	
Other allowable expenses		50,000	
			(242,500)
Profit for the period			162,500

Notes

1. Rental income was earned by letting out spare items of machinery that cost Frw150,000. These items are included in the other plant and machinery pool (see Note 3).
2. This interest did not suffer withholding tax as it was derived from a long-term bank deposit.
3. There were no acquisitions or disposals of assets in the period. Tax written down values of fixed assets at 1 January are as follows:

Buildings: Frw300,000,000 (original cost Frw500,000,000)

Other plant and machinery pool: Frw60,000,000

4. This bad debt was written off in the period after the customer was declared insolvent by a court. The income was taxed in the previous accounting period.
5. This represents a proportion of the value of all goods sold.
6. The company has paid the correct PAYE on all amounts included as wages and salaries.
7. Legal and professional fees include a fine for breaching safety regulations of Frw1,500,000. The remaining Frw2,500,000 relates to accountancy and debt collection services.
8. Interest payable is on a business loan used to invest in working capital.

Compute the total income chargeable to corporate income tax on F Ltd for the tax period.

Quiz 6: Implications of restructuring

FS Ltd, a Rwandan company, transfers its trade and all its assets to GY Ltd, an unconnected Rwandan company, in exchange for shares in GY Ltd on 30 November 202X.

One of the assets transferred was a factory used in the trade that originally cost Frw40,000,000 six years ago and had a written down value of Frw28,000,000 for tax purposes. Its market value was Frw50,000,000 on 30 November 202X.

Which one of the following statements is TRUE in relation to the tax treatment of the transfer of the building?

- A. The building will be transferred at its market value of Frw50,000,000 and FS Ltd will pay corporate income tax on the gain of Frw22,000,000.
- B. The building will be transferred at its original cost of Frw40,000,000 and GY Ltd will claim 5% tax depreciation on the Frw40,000,000.
- C. The building will be transferred at its written down value of Frw28,000,000 and GY Ltd will claim 5% tax depreciation on the original cost of Frw40,000,000.
- D. The building will be transferred at its written down value of Frw28,000,000 and GY Ltd will claim 5% tax depreciation on the Frw28,000,000.

Unit I: Business losses

Learning outcomes

- K. Demonstrate an understanding of tax law and its implications on income from business.
- 4. Identify alternative loss reliefs, demonstrating how best to utilise that relief.

Introduction to Unit I

Upon successful completion of this unit, students will have developed a comprehensive understanding of the intricacies of tax law as it pertains to business losses. They will be equipped with the knowledge to identify various loss relief options available to businesses and will possess the analytical skills necessary to determine the most advantageous application of such reliefs. Recognizing that not all businesses maintain a consistent profit, students will learn the strategic use of business losses to mitigate income tax liabilities. Furthermore, the unit will delve into the specific regulations governing losses incurred from long-term contracts, providing students with the expertise to navigate these complex scenarios and effectively leverage losses to achieve tax savings.

Unit list		Syllabus Reference
I1	Business loss reliefs	K4
I2	Losses on long-term contracts	K4

I1. Business loss reliefs

A business makes a loss when its accounting profit or loss is adjusted for tax purposes and the resultant figure is a loss. The taxable profits for the business for the period of the loss will be nil and the loss is carried forward to be offset against future taxable business profits in the next five tax periods.

Where a business makes a loss, Article 31 of Law 027/2022 sets out the rules as to how that loss can be

utilised to save future income tax. The rules are the same whether the business in question is a sole trader,

partnership or company.

11.1 When does a business loss arise?

A business loss is recognised when the profits subject to tax, after all adjustments and allowances for tax depreciation, are determined to be negative. The initial financial position depicted in the accounts—whether profitable or not—is immaterial to this determination. The critical factor is the resulting figure after the comprehensive application of tax adjustments. If this adjusted figure is negative, it is then classified as a loss for taxation purposes. This adjusted loss reflects the amount by which allowable deductions exceed taxable income and serves as a pivotal consideration in the computation of taxable income.

	Frw'000	Frw'000
Net profit as per accounts (A/Cs)		X
Add:		
(a) Expenses charged in the A/Cs but not deductible for tax purposes	X	
(b) Taxable income not credited to A/Cs	<u>X</u>	<u>XX</u>
		XX
Less:		
(c) Income credited to A/Cs but not taxable	X	
(d) Expenses for tax purposes not deducted in the A/Cs	<u>X</u>	<u>(XX)</u>
Adjusted business profits/loss		(XX)
Less tax depreciation (including investment allowance))		(XX)
Other taxable income for the tax period		<u>X</u>
Business loss for the period		(XX)
Losses brought forward from earlier years		<u>(XX)</u>
Revised taxable business loss to carry forward		<u>(XX)</u>

11.2 What can be done with a business loss?

If a business generates a loss, this negative figure will be reflected in the taxable income calculation (as taxable income will be lower than deductible costs).

The legislation states that the business loss is carried forward and used to offset against business profits within the next five tax periods.

Important focus point: Note that while the law states that the loss is offset against business income, the offset is against the total taxable income that the individual or company receives, as all income will be reflected on their (personal or corporate) income tax declaration. A business loss is the loss derived from all the taxable activities of the individual or company, not just their trade. However, if the loss arose from a foreign source this loss cannot be used to offset against Rwandan sourced business profits.

11.3 Exceptions to the normal loss carried forward rule

In certain situations, the normal carried forward relief rules are adapted. These are set out below.

Important focus point: If there are losses incurred in more than one period, the legislation states that the losses of earlier periods must be deducted first.

11.3.1 Application for longer carry forward period

A taxpayer can apply to the tax administration to be able to carry their trading loss forward for a period of longer than five years. This may be authorised if certain requirements are fulfilled. The business would need a good reason to extend the carry forward period, for example, the acquisition of large

amounts of fixed assets giving rise to significant capital allowances, making the tax loss particularly large.

A Ministerial Order No. 006/19/10/TC sets out the conditions under which a longer carry forward period would be permitted. They are that the taxpayer must:

- Apply in writing to the tax administration
- Present sound reasons that have caused the loss and reliable strategies to overcome it
- Prove that the loss derived from the investments carried out
- Be a credible taxpayer who has declared and paid all taxes on time and has not committed tax evasion within the last five years
- Not have distributed any profit in the last five years

11.3.2 Changes in share ownership for a company during the tax period

If, during a tax period, there is a change in the direct or indirect ownership of more than 25% of a company's shares or voting rights (for companies not listed on a stock exchange), the company will lose the right to carry forward any accumulated tax losses from the current or previous tax periods.

However, it is important to note that the entitlement to carry forward tax losses is preserved in instances where the ownership change is attributable to an internal restructuring of the business. This exception is contingent upon the condition that the restructuring does not alter the composition of the shareholders and that these shareholders have been part of the ownership structure for a minimum duration of three (3) years.

12 Losses on long-term contracts

12.1 Carry back of losses on long-term contracts.

A loss incurred on a long-term contract can be offset against previous profit recognised on that same contract if it cannot be used against other business profits of the period.

As seen in Unit E, the income and expenses relating to a long-term contract are charged to the accounts based on the proportion of costs actually incurred relative to the total expected costs of the project. If a project is expected to be profitable, this will mean that a percentage of the profit will be recognised

each period relating to the percentage completion of the project.

It is possible that the contract could then incur some unexpected costs. This could result in the contract becoming loss-making despite having had profit taxed in earlier periods.

The loss incurred will reduce the taxable profits of the business in the relevant year. Where the loss

incurred is large enough that it cannot be absorbed by other profits of the period in which the contract is completed, the excess loss can be 'carried back' and used against profits previously recognised on that

contract. While the legislation does not specify an order of offset, it is assumed that losses would be offset against the most recent contract profits first.

Any remaining losses are then carried forward in the normal way.

A long-term contract, as defined by tax law, refers to a contract that spans more than twelve (12) months from the date when work under the contract begins. This type of contract typically involves activities such as manufacturing, installation, or construction, as well as related services. Importantly, a long-term contract is one that is not completed within the same tax period in which the work commenced, meaning the project extends across multiple tax periods. This distinction is important for the treatment of income and expenses for tax purposes.

Summary of Unit I and key learning outcomes

- A business loss arises when the accounting profit/loss of a business as adjusted for tax purposes and after deduction of tax depreciation results in a negative figure.
- In the year of the loss the taxable business profits will be negative but will be offset by other taxable income of that year.
- The unrelieved loss is carried forward to be offset against taxable business profits (total income) of the next five tax periods, with losses of earlier years used in priority to losses of later years.
- The loss carried forward relief can be adapted in certain circumstances.
- A loss on a long-term contract is first offset against other business profits, and then any excess may be offset against any previous profits recognised on that contract.

Quiz questions

Quiz 1: Business loss carried forward

L Ltd incurred a Frw80,000,000 business loss in the year ended 31 December 2022. In the year ended 31 December 2023 it makes taxable trading profits of Frw120,000,000 and has investment income (gross) of Frw2,500,000 and taxable rental income of Frw5,000,000.

Calculate L Ltd's taxable income for the year ended 31 December 2023.

Quiz 2: Business loss expiry

PM Ltd, a Rwandan company, incurred a business loss of Frw300,000,000 in its year ended 31 December 2018 due to an investment allowance claim on a large, fixed asset. The company has made modest profits since the year ended 31 December 2019, and has used up most of the loss, however, Frw45,000,000 remained as of 31 December 2023.

During the year ended 31 December 2023, a large customer of PM Ltd went into liquidation, owing substantial sums to PM Ltd and the resulting loss of business led to further business losses being incurred.

State the period to which the losses of PM Ltd would usually be allowed to be carried forward. Outline

the steps that PM Ltd would have to take to be allowed to extend the carry forward of the loss incurred in the year ended 31 December 2018.

State the order in which the brought forward losses will be used.

Quiz 3: Losses on long-term contracts

K Ltd had initially agreed a contract for Frw20,000,000 and had estimated the costs to fulfil the contract at Frw15,000,000. At the end of Year 1, the contract was still in progress and costs incurred to date were Frw10,500,000. Accordingly, the contract was deemed 70% complete and Frw3,500,000 of profit was recognised and taxed during that year. The company generated Frw3,000,000 of taxable profit on its other business activities in Year 1.

In Year 2 the contract was completed, and K Ltd incurred some unexpected costs it had not initially anticipated. The total costs actually incurred were Frw22,000,000. This gave an overall loss of Frw2,000,000.

The project was accounted for correctly, and a loss of Frw5,500,000 on this contract was recognised in Year 2.

K Ltd has other business profits for Year 2 of Frw2,750,000 plus investment income of Frw250,000.

If K Ltd wants to claim relief for the contract loss as early as possible, how will the loss of Frw5,500,000 be used?

- A. It will be offset in full against total business profits of Frw6,500,000 in Year 1.
- B. It will be offset against total income in Year 2 of RWF3,000,000, and then the remaining Frw2,500,000 will be offset against the contract profit in Year 1.
- C. It will be carried forward and used against future business profits.
- D. It will be offset against business profit in Year 2 of RWF2,750,000, and then the remaining Frw2,750,000 will be offset against the contract profit in Year 1.

Unit J: Calculation of Income Tax Liabilities

Learning outcomes

- J.1. Calculation of corporate income tax liabilities 1.6.3, 3.2.2, 3.3.1, 4.2.6
- J.2. Calculation of personal income tax liabilities 1.4.2, 2.3.1

Introduction to Unit J

Having looked at the types of income which are taxable in earlier units, in this unit we look at how the income is brought together and charged either to corporate income tax or personal income tax depending on the taxpayer.

Unit list		Syllabus Reference
J1	Calculation of corporate income tax liabilities	N1.6.3, 3.2.2, 3.3.1, 4.2.6
J2	Calculation of personal income tax liabilities	N1.4.2, 2.3.1

J1: Calculation of corporate income tax liabilities

Companies liable to corporate income tax will pay tax at varying rates, depending on their size and activities. Once the rate of corporate income tax has been determined, it is applied to the company's taxable income to calculate the corporate income tax payable.

J1.1 Determining the rate of corporate income tax

As seen in Unit C there are three income tax regimes available based on the annual turnover of taxpayers (including companies).

Annual turnover	Regime
Frw2,000,000–12,000,000	Flat tax
Frw12,000,001–20,000,000	Turnover tax/ Lumpsum regime

Frw20,000,001+	Real regime
----------------	-------------

The flat tax and turnover tax regimes are aimed at simplifying the calculation process for smaller companies. However, smaller companies can choose to use the real regime if they would prefer. The real regime calculates corporate income tax based on taxable income rather than turnover and thus allows deductions for costs to be considered. Once a company has elected to use the real regime it cannot then change for a period of three years from the date that the RRA is informed of this choice.

J1.1.1 Flat tax

The flat tax regime is a simplified regime available to companies with annual turnover of between

Frw2,000,000 and Frw12,000,000. Corporate income tax will be a specific 'flat' amount of annual tax based on the level of turnover.

The flat tax due will be as follows:

Annual turnover (Frw)	Annual flat tax due (Frw)
Up to 2,000,000	Nil
2,000,000–4,000,000	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

The idea is that for small companies this simplifies the calculation of corporate income tax and

encourages compliance. Companies using the flat tax regime can declare their corporate income tax using M-Declaration (via a mobile phone platform) or E-Tax (online filing via the RRA website).

J1.1.2 Turnover tax

The turnover tax regime is another simplified regime available to companies with annual turnover of between Frw12,000,001 and Frw20,000,000. Corporate income tax will be a lump sum of 3% of annual turnover.

For companies with annual turnover of between Frw12,000,001 and Frw20,000,000, the turnover tax regime will be used, and corporate income tax will be calculated based on 3% of the annual turnover. There is no deduction for any expenses incurred.

Companies using the turnover tax regime can declare their corporate income tax using M-Declaration or E-Tax.

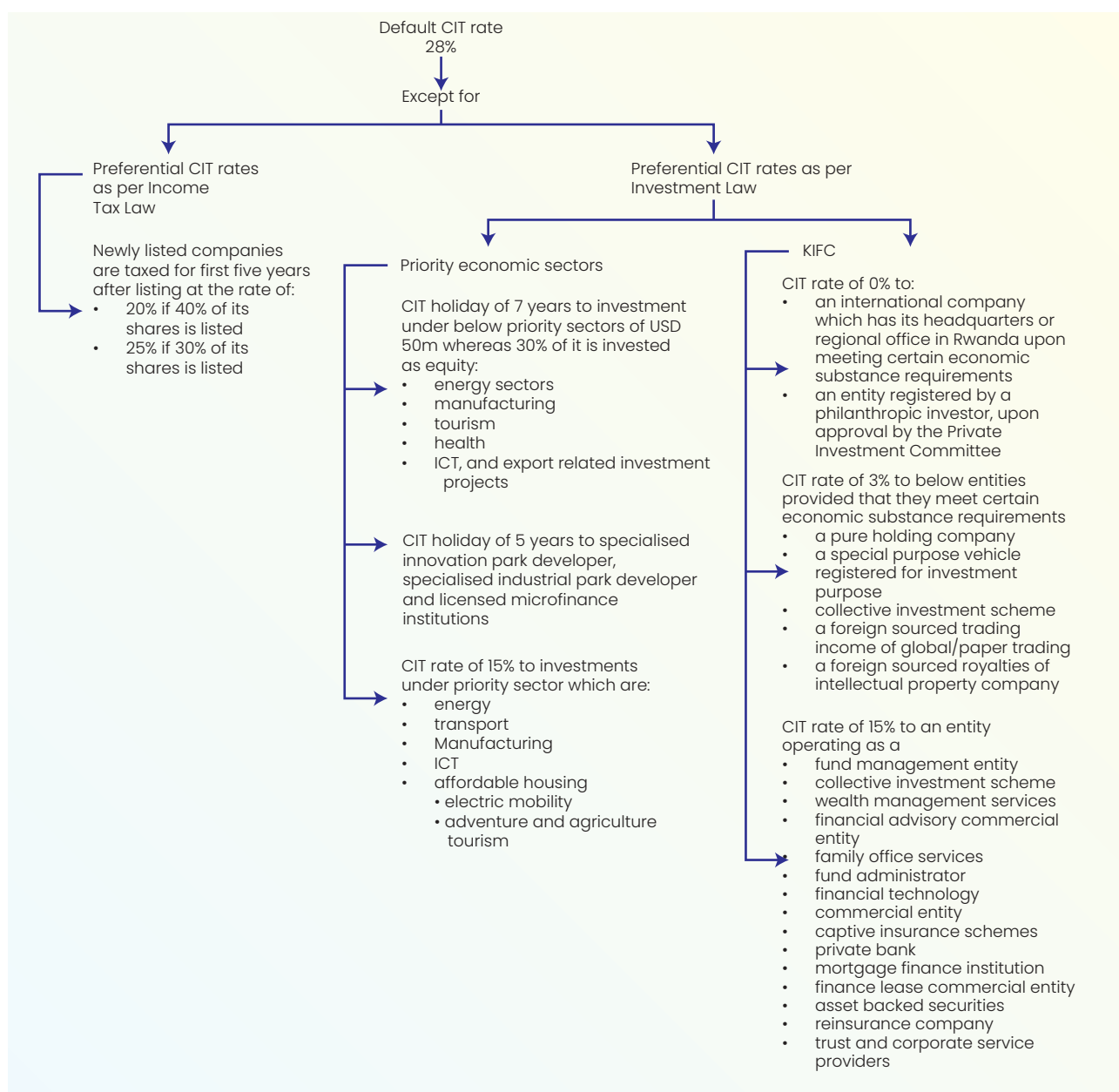
J1.1.3 Real regime

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 will be used, and financial statements should be prepared. The corporate income tax calculation will be based on 28% of the taxable income of the company and the taxable income of the company is calculated as set out in Unit H.

Companies using the real regime can only declare their corporate income tax using E-Tax. See Unit K for details.

Important Note: The 28% rate of corporate income tax under the real regime can be reduced in certain situations:



J1.2 Calculation of corporate income tax liabilities

J1.2.1 Proforma

The corporate income tax payable is calculated as follows:

	Frw
Taxable income	XX
Corporate income tax liability (taxable income × CIT rate)	X
Foreign tax credits	(X)
Quarterly prepayments	(X)
All deductible withholdings	(X)
Overpayments from previous period	(X)
Net tax due	X

The deductions to calculate the net tax due from the corporate income tax liability are covered in Unit K.

J2 Calculation of personal income tax

Once an individual has determined their taxable income for a tax period, they must then compute their personal income tax (PIT) liability on this income.

J2.1 Taxable income

An individual's tax declaration will detail all their taxable income for the tax period. This will include:

- Employment income from all employments (Unit B). Note that for individuals with Rwandan resident employers, tax will have been paid via PAYE on this income, and so there is no obligation for taxpayers who are employees of Rwandan companies to complete a tax declaration unless they have other income sources on which PIT is due.
- Investment income (Unit D) – remember that this must be grossed up for withholding tax (WHT) if WHT was deducted by the payer (Unit E). Also remember that dividends from Rwandan companies do not need to be included.
- Business profits (Units C and G)
- Any other sources of taxable income (Unit A)

These items will be combined on the income tax declaration, and any deductible expenses (and business losses) will be netted off to arrive at 'taxable income'. It is this figure on which the PIT liability will be calculated.

J2.2 Calculation of personal income tax (PIT) liability

The system of personal income tax in Rwanda is called a progressive system. A progressive system taxes those with higher incomes at higher rates of tax.

Personal income tax is calculated in 'tax bands', with the correct rate applying to the income within that band. It is important to note that these tax rates are marginal. Only the income more than a threshold

will suffer the higher rate of tax.

The relevant rates and thresholds for annual taxable income are:

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%

The following working is suggested for personal income tax calculations (based on an annual taxable income figure of Frw2,500,000):

Frw	Frw
720,000 x 0%	0
480,000 x 10%	48,000
1,200,000 x 20%	240,000
100,000 x 30% (Balancing figure)	30,000
Total tax on Frw2,500,000	318,000

J2.3 Tax payable or repayable

Once a PIT liability has been calculated at the correct rate, it is necessary to deduct any amounts already paid, to arrive at tax payable or repayable for the period.

The following amounts are deductible from the PIT liability:

- (a) Foreign tax credits – if the taxable income includes overseas income which has already suffered tax paid to overseas tax authorities, and the taxpayer can provide proof of the overseas tax, this will reduce the Rwandan tax liability on that income. The amount of double taxation relief is capped at the Rwandan tax on that income.

- (b) Quarterly prepayments (see Unit K)
- (c) WHT at 5% on imports (see Unit E)
- (d) WHT at 3% on public tenders (see Unit E)
- (e) WHT at 15% on other payments (see Unit E)
- (f) PAYE deducted from employment income (if the employment income is declared – see Unit J2.1).

The result of these deductions may lead to an additional amount to pay (tax payable) or there may have been an overpayment if the deduction results in a negative number. If a repayment is due, the taxpayer may apply for a refund from the tax administration. This refund will only be issued if the tax administration is satisfied that all prior tax obligations have been settled.

J2.4 Proforma personal income tax computation

We suggest the following proforma should be used to calculate PIT payable:

	Frw'000
Business profits (net of tax depreciation)	X
Employment income (if not charged PAYE)	X
Investment income	X
Taxable income	XX
Income tax at:	
0%	X
10%	X
20%	X
30%	X
Income tax liability	X
Less taxes already paid (list)	(X)
Income tax payable	X

Summary of Unit J and key learning outcomes

Exam Focus Point: A sole trader question may ask you for the adjusted profit for the period, or you may have to go further and calculate the PIT liability. Make sure you read the question requirements carefully!

- Corporate entities face varying corporate income tax rates based on their operational scale and specific business activities, with a standard rate set at 28%.
- The applicable corporate income tax rate is applied to the entity's taxable income to ascertain its tax obligation.
- The total corporate tax due is adjusted by subtracting taxes already withheld at source or prepaid via the quarterly prepayment system, resulting in the final tax amount due.
- Personal income tax (PIT) is levied on individuals' taxable income using a sliding scale of rates that increase progressively.
- To determine the net PIT due, any tax previously withheld at the source, such as withholding tax, is deducted from the calculated PIT liability.

Quiz questions

Quiz 1: Flat tax

X Ltd has annual turnover of Frw4,320,000 for the year ended 31 December 2019 giving a profit of RWF1,250,000.

Calculate the corporate income tax due for X Ltd for the year ended 31 December 2019.

Quiz 2: Turnover tax

N Ltd, a company in the tourism trade, has turnover of Frw19,500,000 for the year ended 31 December 2019, resulting in profit of Frw10,200,000.

Calculate the corporate income tax due for N Ltd for the year ended 31 December 2019.

Quiz 3: Real regime – rates of corporate income tax

State whether the following statements are true or false.

- A. P Ltd, a two-year old micro-finance company, pays corporate income tax at a rate of 28%.
- B. Q Ltd, an unlisted company which exports US\$6 million to Kenya, will be entitled to a 5% discount from their corporate income tax liability.
- C. R Ltd listed on the Rwanda Stock Exchange last year and sold 38% of its shares publicly. It will pay corporate income tax at a rate of 25%.
- D. S Ltd listed on the Rwanda Stock Exchange six years ago and sold 48% of its shares publicly. It will pay corporate income tax at a rate of 20%.

Quiz 4: Personal income tax liability

Kamanzi is a tour guide in Musanze district. His annual profit is Frw23,000,000 after deducting all related expenses. Kamanzi has no other sources of income.

Calculate Kamanzi's personal income tax for the year 2019.

Quiz 5: Deductions from PIT liability

Alphonse is a wealthy Rwandan resident who works as the managing director of a Rwandan company.

PAYE is deducted from his employment income in Rwanda. He has significant investments in cash deposits and shares, both in Rwanda and overseas, resulting in dividend and interest income.

Which of the following items would you expect to see deducted from Alphonse's personal income tax liability on his PIT return?

1. PAYE
2. Foreign tax credits
3. Withholding tax on interest

4. Withholding tax on imports

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

Quiz 6: PIT payable

Cissy Mukakigeli is a sole trader with an annual profit of Frw60,000,000 after the deduction of tax depreciation. She also owns intellectual property and has received royalty income of Frw5,000,000 in the tax period. Cissy has been registered with the tax administration for many years and her tax declarations are up to date; therefore, no withholding tax has been deducted from the royalties.

Part of Cissy's trading income was derived from winning a public tender, and the public body deducted 3% withholding tax on a payment of Frw1,500,000.

Cissy has paid Frw18,000,000 in quarterly prepayments in relation to the current tax period.

Calculate Cissy's personal income tax payable or repayable for the tax period.

Unit K: Declarations and administration

Learning outcomes

- K.1. Tax declarations 2.3.1, 3.2.6, 4.1.6, 4.2.7
- K.2. Payment of tax due, arrears and refunds 2.3.2, 3.2.6, 3.2.7, 3.3.3, 4.2.6
- K.3. Penalties and interest 3.1.2

Introduction to Unit K

Upon successful completion of this unit, students will have developed a comprehensive understanding of the Rwandan tax system's administrative processes. They will be able to articulate the procedural steps a taxpayer must follow to accurately declare and remit taxes to the relevant authorities. Students will gain insights into the various types of penalties that the Rwandan tax administration imposes for non-compliance, including fixed fines, administrative penalties, and understatement penalties. Additionally, they will learn about the circumstances under which each penalty is applied, and the calculation methods used to determine the amount due. The unit will also delve into the interest charges that may accrue on unpaid taxes, providing students with the knowledge to calculate these charges and understand their impact on overall tax liability. By the end of this unit, students will be equipped with the skills to navigate the Rwandan tax system, ensuring compliance, and understanding the financial consequences of non-compliance. This foundational knowledge will prepare students for further studies in tax law and administration or for practical application in the field of accounting and finance.

Unit list		Syllabus Reference
K1	Tax declarations	K2.3.1, 3.2.6, 4.1.6, 4.2.7
K2	Payment of tax due, arrears and refunds	K2.3.2, 3.2.6, 3.2.7, 3.3.3, 4.2.6
K3	Penalties and interest	K3.1.2

K1. Tax declarations

A registered taxpayer must prepare an annual tax declaration and submit it to the tax administration, along with the relevant accompanying documents (annexures), no later than 31 March of the following tax period. The taxpayer must choose the relevant declaration from the tax administration website in order not to confuse it with other types of tax declarations. If there are no activities during the tax period, a nil return is submitted to the tax administration.

K1.1 Obligation to file tax declaration

According to Article 9 of Law 027/2022, a taxpayer who receives taxable business profit prepares an annual tax declaration in accordance with the procedure determined by the tax administration and

presents it, at the same time, with the accounting balance sheet, profit and loss statement for the tax period, the annexures thereto, as well as any other relevant document required by the tax administration, no later than 31 March of the following tax period.

Taxpayers must submit a tax 'declaration' each tax period for which they are registered. Declaring taxes is also referred to as 'tax filing'. The tax declaration contains all the information, including annexures and declaration forms, required by the tax administration to determine the amount of tax due for that tax period. After submitting a tax declaration, the taxpayer must then pay tax due to the correct tax administration account. The tax administration reference number is received automatically after declaration submission, and this helps in paying taxes to the correct account.

K1.2 Preparation of corporate tax declarations

The online tax declaration for a company contains all the relevant categories of income and deductions to arrive at taxable profit or loss, and then follows the calculation of the tax and the deduction of taxes already paid. There is also guidance on the form itself to instruct a company representative what figures to enter in each box.

The structure is shown below:

	CIT-CORP. INCOME TAX Declaration Details	
	TIN: XXXXX Business Name: XXXXX DOCNO: XXXX TaxPeriod: 2024	
Line Number	Description	Amount
5	Sales/Annual sales	0
6	Opening Stock	0
7	Purchases supported by EBM/DMC/WOP	0

	CIT-CORP. INCOME TAX Declaration Details	
8	Closing Stock	0
10	Cost of Good/Services Sold	0
15	Gross Profit	0
16	Operating Expenses with EBM/DMC/WOP	0
17	Expenses related to the Salaries and Wages	0
18	Expenses supported by the Withholding	0
19	Expenses not requiring EBM or DMC as Supporting Document	0
20	Operating Expenses (Excluding Rental Expenses) (Line 16+17+18+19)	0
25	Depreciation	0
30	Total Expenses and Depreciation (Line 20+ Line 25)	0
35	Net Operating Income (Deduct line 30 from Line 15)	0
40	Investment Incomes	0
45	Non Operating and Extra Ordinary Income	0
46	Revenue Surplus for Specified Entities Exempted from CIT	0
50	Rental Income	0
55	Total Income (Add Line 35 through 50)	0
60	Investment Expenses	0
65	Non Operating and Extra Ordinary Expenses	0
70	Training and Research Expenses	0
75	Accelerated depreciation (Investment Allowance)	0
80	Bad Debts	0
85	Rental Expenses (\leq 10% of Line 50)	0
88	Tax paid on Export of Minerals	0
90	Total Deductions (Sum of Line 60 through 88)	0

	CIT-CORP. INCOME TAX Declaration Details	
95	Net Income (Subtract Line 90 from Line 55)	0
100	Reintegration of Non Deductible Expenses	0
101	Capital Gains realized on Restructuring	0
102	Capital Losses realized on Restructuring	0
105	Depreciation adjustments (+)	0
106	Depreciation adjustments (-)	0
110	Loss carried Forward from Previous periods	0
115	Non Taxable Dividend Received	0
116	Agricultural and Livestock Activities Exempted Turnover (≤12,000,000)	0
117	Income Accrued from Saving and Employees Share Scheme	0
120	Taxable Income or Loss [(Line 95 and Line 100 and +/- Line105) Minus (Line 110+Line 115+Line116)]	0
125	Corporate Income Tax to Pay (Line 120*28%)	0
168	RDB domestic tax investment incentives (investment code) & RRA discount (Income tax law)	0
170	Foreign Tax Credit	0
175	Corporate Income Tax Payable [Line 125-(Line 168+Line 170)]	0
180	Quarterly Prepayments	0
185	Withholding on Imports	0
190	Withholding on Public Supplies	0
191	Tax on sale of immovable property	0
195	Withholding on Other Payments	0
200	Total Credits (Sum Line 180 through 195)	0
205	Over payment from Previous IQP	0

	CIT-CORP. INCOME TAX Declaration Details	
210	Net Tax Due/Credit (subtract Line 200 and line 205 from Line 175)	0
215	Credit Claimed	0
216	Credit Approved	0
217	Credit Used	0
218	Credit added back	0
220	Balance	0

The tax return can be amended any time to include or exclude some items. It is not mandatory to fill all the spaces. If the space does not concern your business, you leave it blank.

Important Note: Note that in your exam, you will not be expected to complete this return; however, you should be aware of the appropriate figures to enable you to complete it.

K1.3 Preparation of personal tax declarations

Individual taxpayers must submit a personal tax declaration each tax period for which they are registered. The PIT declaration will have slightly different headings (for example, overseas employment income may need to be declared if PAYE has not been applied); however, the procedures for preparation and submission of the declaration are the same.

As indicated in Unit B, the first Frw720,000 per year of income is taxed at 0%, and a return is not necessary for individuals with income up to this amount.

K1.4 Categories of taxpayers

The tax administration categorises taxpayers into small and large taxpayers. If the taxpayer's annual turnover is above Frw600,000,000, they are considered a large taxpayer.

Taxpayers below this threshold are considered either medium or small. The tax authority may designate a taxpayer as large even if the level of turnover is below Frw600,000,000 – this would depend on the complexity of the taxpayer's affairs. This means that the income tax department is divided into two departments of Large taxpayer department (LTD) and Small and Medium taxpayers' department (SMTD).

K1.5 Accompanying documents to the return

K1.5.1 All business taxpayers

According to Article 9 of the income tax Law 027/2022, the tax return must be accompanied by the accounting balance sheet, profit and loss statement for the tax period as well as any other relevant document required by the tax administration.

K1.5.2 Additional requirement for large taxpayers

For Large taxpayers, there is an additional requirement of attaching the 'certified financial statements'.

Certified financial statements means financial statements that have been audited by an auditor who is a practitioner and registered with ICPAR. If the business is a multinational business or a branch of a group of companies, it must also attach transfer pricing documentation showing how it is trading within the group.

K1.5.3 Additional requirements for companies

For corporate income tax (CIT), the company representative form is also annexed to the tax return. The representative form is needed for contact purposes because the tax administration may need to contact the company for any information. The form has details such as telephone number and email of the company representative who may be a managing director or any other officer of the company.

In addition, related entities must retain documents that show that the prices charged on transactions between themselves were carried out on an arm's-length basis.

If a taxpayer fails to retain such documentation, the tax administration has the power to adjust taxable profits accordingly. For example, if the sale price for goods was below an arm's-length price, the tax administration would increase taxable income by the difference between the actual price and the arm's-length price.

K1.6 Due date for submission of returns

K1.6.1 Tax periods ending 31 December

Income tax is required to be declared and paid on an annual basis. The tax period is the calendar year, from 1 January until 31 December. The deadline to declare and pay income tax is 31 March of the following year. This refers to the date that tax declarations and payments must be submitted in order to avoid penalties and fines. Taxes can be declared and paid at any time between the end of the period and the tax deadline. This is referred to as the 'filing period'.

K1.6.2 Taxpayers with non-standard tax periods

As seen in Unit A, if they have strong reasons, a CIT registered taxpayer may request to change their tax period to any other 12-month period. The taxpayer must continue to declare and pay as normal until the request is approved by the Minister of Finance. If a date other than 31 December is used, the due filing and payment date will also be amended to three months after the end of the relevant tax period.

For example, if the Minister approves a company to use the year to 30 September as their tax period, the relevant filing deadline for the declaration would be 31 December each year.

K1.7 Submission procedure

The tax administration has designed all forms of declarations, and these are available to view on the tax administration website. To submit a tax return, there is a step-by-step guide in the tax return. The declaration form is accessed by entering the TIN of taxpayer and a passcode given by the tax administration.

After annexing all documents indicated in Unit K1.5 above, the taxpayer must make a declaration that all the information to be submitted on this declaration is true and correct and confirm understanding that a false declaration may result in prosecution. After clicking on 'Accept', the preparer clicks 'Submit' and the process is completed.

K1.8 Amendment of a submitted return

The tax return can be amended any time to include or exclude items. In the event the taxpayer amends the tax return after the filing deadline and there is additional tax to pay, the additional payment will be charged penalties and interest for late payment. If the amendment of the tax return results in a reduction of tax already paid, the taxpayer will request a refund from the tax administration. A refund is usually given after verification or audit by the tax administration.

K1.9 Rwanda Revenue Authority – powers to estimate income

The Rwanda Revenue Authority (RRA) has the authority to estimate the income of taxpayers who:

- Have not submitted a tax declaration;
- Have not kept required books of accounts; or
- Have not co-operated with a tax audit.

K2. Payment of tax due, arrears and refunds

K2.1 Due date of payment

As noted in Unit K1.6, the normal deadline for payment of tax coincides with the filing deadline, which is 31 March after the end of the tax period, unless a non-standard tax period is used.

K2.2 Deduction of credits

Taxpayers are permitted to deduct certain items from the tax liability to arrive at tax payable. The following credits are deducted from the tax computed before submitting the tax return:

- The tax withheld on taxable income; with the exception of the tax withheld on income to which turnover tax or flat tax are applied
- The tax prepayments made in the period (see Unit K2.3)
- Any tax that was paid in error

Remaining (net) tax is paid to the tax administration on the date the tax declaration is submitted. If a withheld or prepaid tax exceeds the amount of tax liability, it is considered by the tax administration as liquidation of tax arrears or as the payment of any future tax obligations. A taxpayer may request a refund of the excess amount withheld or prepaid. The request must be in writing and if the tax administration is satisfied, especially after-tax audit, a refund is given by the tax administration within 30 days from the date the request was received.

K2.3 Instalment quarterly prepayments (IQPs)

K2.3.1 Tax periods ending 31 December

When a taxpayer is not in losses and has paid tax for a tax period, instalment quarterly prepayments (IQPs) are required to be declared and paid for the following tax period.

Due dates of income tax payments

Type of payment	Deadline*
Personal/Corporate income tax	31 March
1st IQP	30 June
2nd IQP	30 September
3rd IQP	31 December

*When a tax deadline falls on a public holiday or weekend, the next working day will be considered

as the tax deadline. However, when the last day for declaration and payment of tax at the end of the budget year falls on a public holiday or a day of weekend the obligation for declaration and payment of tax is executed on the working day prior to the holiday or a day of weekend.

K2.3.2 Taxpayers with non-standard tax periods

Taxpayers with special calendar periods (ie those who do not use 31 December as their tax period) pay taxes on the last day of the third month following the tax period. For example, if the tax period is 1 May to 30 April, the deadline for submission of the tax return is 31 July. Quarterly prepayments will then be 31 October, 31 January, and 30 April.

K2.3.3 Calculation of amounts payable under IQPs

Under the previous law, quarterly tax prepayments paid during the year were determined/calculated as 25% of previous year's the tax liability.

However, during the COVID-19 period, in order to support businesses that had been affected by the pandemic, the government announced a special tax measure for quarterly tax prepayments that required taxpayers to make such payments based on the revenue that businesses made during that quarter rather than using the previous tax period's tax liability.

Law no/ 027/2022 therefore to legitimise this practice that had been adopted by taxpayers for the last three (3) years. Under the law, quarterly tax prepayments are calculated by determining the tax paid in the previous period as a percentage of the previous period's turnover and applying this percentage to the quarterly turnover in the current period. This treatment attempts to address the seasonality of business, so that businesses do not have to impact their cash flows despite not having revenues during a particular quarter.

For businesses that started their operations during the previous tax period and did not operate for the entire 12 months, they need to extrapolate the turnover percentage to 12 months and then apply it to the current period's quarterly revenues.

For businesses that start during the tax period of concern, these are not expected to file quarterly prepayment, since they don't have previous periods as a basis to calculate the tax payable.

All IQP income tax that is paid can then be claimed back as a tax credit in annual income tax declaration for the relevant tax period, as indicated in Unit K2.2.

IQP declarations can be declared using mobile money transfers for small taxpayers or E-Tax for large taxpayers. No cash is accepted by the tax administration.

K2.4 Administration of tax arrears

Tax arrears refer to any amount owed by taxpayers to the tax administration. This includes any unpaid taxes after the deadline, and unpaid penalties, fines and interest.

There are many enforcement actions legally available to the tax administration for the collection of unpaid tax arrears. The typical process is in three steps. Firstly, the taxpayer receives a warning letter from the tax administration, requesting they visit tax offices to discuss the arrears situation and repayment options.

If there is no response within 15 days, the tax administration may begin 'garnishment'. This means that the tax administration may work with third parties, such as banks, to freeze the taxpayers' accounts.

Finally, the tax administration may begin search and seizure of movable and immovable assets and may sell these at public auction within eight days of notification to the taxpayer.

K2.5 Administration of tax refunds

Tax refund refers to any amount owed by tax administration to taxpayers. These are also referred to as 'tax credits'. 'Refunds' can be received by taxpayers in the form of 'credit notes' that can be deducted against future taxes, or cash.

Refunds may occur due to:

- IQPs paid by the taxpayer and the withholding taxes withheld and paid on behalf of the taxpayer exceeding the income tax due
- The taxpayer over declaring and overpaying.
- Waiver of tax assessments
- Any accidental overpayment

The taxpayer must write a letter addressed to the Deputy Commissioner of their respective tax office. The letter must:

- Identify the taxpayer's name and TIN
- Identify the tax period and tax type(s) concerned
- State the reason(s) for the refund request
- State the amount of refund claimed
- Be signed by the taxpayer or legal representative

The tax administration may accept the refund or deny it if it is not satisfied.

K3. Fines, interest, and penalties

Rwanda's tax system enforces compliance through a structured penalty regime, summarised within Articles 80 to 92 of the Tax procedures law. These articles delineate a comprehensive list of 13 distinct fines, interest charges, and penalties, each designed to address specific violations of tax regulations. The penalties serve as a deterrent and a corrective measure to ensure that taxpayers fulfil their obligations accurately and punctually.

The scope of these fines, interest and penalties includes:

	Violation	New law
1	Interest for late payments	Article 80 Interest rate for late payments will be: <ul style="list-style-type: none"> • 0.5% of the tax due for a delay of up to 6 months • 1% of the tax due for a delay of 6 to 12 months • 1.5% of the tax due for a delay of more than 12 months
2	Wrongful acts punished with fixed administrative fines	Article 81

	Violation	New law
	Failure to submit a tax declaration on time	<p>Administrative fine is set at:</p> <ul style="list-style-type: none"> • 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 • FRW300,000 if the taxpayer's annual turnover exceeds FRW20m or if the taxpayer is a public institution or a non-profit-making organisation • FRW500,000 if the taxpayer is considered by the tax administration to be in the category of large taxpayers <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 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	New 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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	New law
4	Administrative fine for understatement of tax	Article 83: Administrative fine is: <ul style="list-style-type: none"> • 10% of the understatement if the understatement is at least 10% but not more than 20% • 20% of the understatement if the understatement is more than 20%. 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.
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	<ul style="list-style-type: none"> • Administrative fine is two times the value of the transaction
	Issuance of an invoice with undervalued price or quantity by a VAT unregistered person	<ul style="list-style-type: none"> • Administrative fine is two times the value of the undervalued transaction
	Repetition of any of the above offences	<ul style="list-style-type: none"> • 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	Article 85: Administrative fine equals to that imposed to a taxpayer
7	Administrative fine for failure to provide information related to Controlled Transactions	Article 86: 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
8	VAT violations	Article 87

	Violation	New law
	Non-registration when mandatory registration was required	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Administrative fine is 100% of the VAT payable
9	Failure to use the electronic invoicing system by a person registered for VAT	Article 88: <ul style="list-style-type: none"> 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
	Noncompliance with the obligations of the user of electronic invoicing system	<ul style="list-style-type: none"> 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 in two years, the fine is 20 times the evaded VAT
11	Tax evasion	Article 90

	Violation	New law
	Use of forged documents in one's accounts	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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	<p>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:</p> <ul style="list-style-type: none"> 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

K3.1 Calculation of interest

Understatement of tax means paying less tax than ought to have been paid in accordance with the tax law. If an audit or investigation shows that the amount on a tax declaration is less than the tax liability the taxpayer ought to have paid, the taxpayer must pay the unpaid tax plus the interest.

Interest is charged from the first day after the tax should have been paid until the day of payment, which is included. A single day of delay is counted as a full month and the interest of full month applies.

Interest is non-compounding. This means that interest is always on the principal amount, ie the tax due; there is no interest charged on interest. The interest cannot exceed 100% of the original tax due.

Example

B Ltd did not pay income tax for the period 2016. The company was supposed to pay Frw100,000,000 on 31 March 2017. The tax was instead paid on 15 December 2018 after a tax audit.

In the above case, interest on late payment is calculated as $1.5\% \times 21 \text{ months} \times \text{Frw}100,000,000$. Interest charged will be Frw31,500,000.

K3.1 Waiver of Taxes

The authority to grant relief from certain financial obligations related to tax, such as interests on delayed payments and administrative penalties, is vested in the Minister. Taxpayers facing significant financial hardship, which impedes their ability to settle outstanding tax liabilities, are entitled to submit a formal request for leniency to the Commissioner General. This request must articulate the taxpayer's financial predicament and their consequent incapacity to fulfil their tax obligations.

Upon receipt of such a petition, the Commissioner General undertakes a thorough evaluation to ascertain the merit of the claims presented. Should the findings corroborate the taxpayer's assertions of financial distress, the Commissioner General proceeds to draft a detailed report. This report is then presented to the Minister for deliberation over the remission of administrative penalties and interests accrued from late payments. This step involves a consultative process with the Tax Policy Committee to ensure a judicious decision-making process. In instances where the petition extends to the principal tax amount, the Minister is obligated to escalate the matter to the Cabinet, which will then render the final decision.

It is imperative to note that the waiver provision delineated in this section explicitly excludes individuals who have been implicated in acts of tax evasion. The rationale behind this exclusion is to maintain the integrity of the tax system and to deter willful non-compliance.

K3.2 Waiver of penalties

Taxpayers who proactively disclose their tax liabilities and settle their dues before being notified of an impending audit are rewarded with a waiver of interest and penalties that would typically accrue due to late payment and non-declaration. This waiver is particularly available to two categories of taxpayers: those not registered with the tax administration and those registered but disclosing for periods either no longer subject to

audit or previously audited.

Despite the good intentions, the effectiveness of this provision is questionable as it excludes a significant portion of taxpayers who may not see the benefit in disclosing past obligations for non-auditable periods. To address this gap, the Minister of Finance has the authority to introduce a tax amnesty scheme, extending the opportunity for voluntary disclosure to a broader taxpayer base. This scheme, detailed in a Ministerial Order, outlines the conditions under which taxpayers can come forward, including the process for disclosure, decision-making timelines by the Tax Administration, payment terms, and the criteria for revocation of the incentives.

Summary of Unit K and key learning outcomes

- Classification of taxpayers into three groups: small, medium, and large.
- Deadline for filing personal and corporate income tax returns and payment is 31 March post the tax year ending 31 December.
- Mandatory submission of audited financial statements for large taxpayers with annual turnovers exceeding Frw600,000,000.
- Quarterly Interim Quarterly Payments (IQPs) are calculated based on the quarter's turnover, applying the previous year's effective tax rate.
- IQP deadlines are set for 30 June, 30 September, and 31 December, with variations if the tax year-end differs from 31 December.
- Tax refund claims are initiated by submitting a letter to the Deputy Commissioner of the Rwanda Revenue Authority.
- Tax penalties and interest for late payments are governed by the tax procedure law.
- Distinction between fixed fines and administrative penalties based on the tax offence committed.
- Non-compounding late payment interest charged at 1.5% per month, capped at 100% of the main tax owed.
- No fines for understatement of tax when a taxpayer voluntarily corrects a return unless a tax audit notification has been received.
- A 10% late payment penalty is enforced for delayed declarations, even prior to a tax audit.
- Tax evasion can lead to prosecution and imprisonment.
- Additional administrative actions against tax defaulters include business closure, denial of tax clearance, and public naming in the press.
- Informants exposing tax fraud may receive a reward.

Quiz questions

Quiz 1: Tax returns

Ihema Trading Ltd was acquired by a French registered business enterprise. Ihema deals in solar distribution in rural areas of Rwanda and the tax administration has informed them that Ihema is a large taxpayer.

Which mandatory documents should Ihema Trading Ltd attach when filing the tax return?

Quiz 2: Tax credits

Which of the following is not deducted from tax payable when filing a tax return?

- A. 3% withholding tax retained by the government on public tender
- B. 15% withholding tax paid on imported software
- C. 15% withholding tax retained by commercial banks on investment income
- D. 5% withholding tax on imported materials when a taxpayer has no tax clearance certificate (quitus fiscal)

Quiz 3: Tax deadline and IQP dates

Kalisimbi Ltd has a tax period of 1 February to 31 January. What will be the deadline for submitting its corporate income tax return and when will quarterly prepayments be paid?

Quiz 4: Penalties

What is the maximum penalty as a percentage of the tax originally due that may apply to the late declaration of tax by a large taxpayer who files three days after the deadline?

- 1. 60%
 - 2. 71.5%
 - 3. 10%
 - 4. 50%
- A. 1 and 3
 - B. 2 and 3
 - C. 3 and 4
 - D. 2 only

Quiz 5 Waiver of Taxes

Which of the following may lead to the hardship waiver of penalties of a company?

- A. Sudden death of the owner of the company
- B. Significant delays by the tax administration to refund the company input value added tax (VAT) so that the company can use the refund to pay taxes

- C. The company has requested for amicable settlement with the tax administration and is waiting for the decision.
- D. None of the above

Summary of Module and key learning

The taxation module of the CPA Rwanda program covers the essential aspects of direct taxation in Rwanda, including the legislative framework, the tax obligations of different types of taxpayers, the computation of taxable income and tax liability, the treatment of various sources of income and expenses, the relief available for double taxation, and the procedures and deadlines for tax compliance and administration. The module consists of 11 units, each focusing on a specific topic or category of direct taxation.

- Unit A: Introduction to the Rwanda taxation system. This unit provides an overview of the principles, objectives, and sources of direct taxation in Rwanda, as well as the roles and responsibilities of taxpayers and tax authorities.
- Unit B: Taxation of Employment Income: This unit explains how employment income is defined, calculated, and taxed for individuals, as well as the obligations of employers and employees regarding withholding tax and filing returns.
- Unit C: Taxation of Business Income. This unit examines how business profits are taxed for both individuals operating as sole traders or partners in a partnership and companies, and how small businesses may have their income tax calculated differently.
- Unit D: Taxation of Investment Income. This unit explores the various types of investment income, such as dividends, interest, royalties, and rental income, and their respective tax treatments for individuals and companies.
- Unit E: Withholding Tax Principles. This unit discusses the concept and application of withholding tax, which is a tax that is deducted at source from certain payments and remitted to tax authorities based on specific conditions.
- Unit F: Tax Depreciation: This unit introduces the notion of tax depreciation, which is a deduction that businesses can claim on most assets used in their trade, and the criteria for asset qualification and classification.
- Unit G: Basis of Assessment for Sole Traders and Partnerships: reviews the tax transparency of partnerships, which are considered “pass-through” entities in Rwanda. This means that the partnership itself does not pay income taxes, but rather passes through its profits and losses to the individual partners, who then report their share of the partnership’s income or loss on their personal tax returns. It also discusses the tax implications of partnerships based outside of Rwanda, which may not constitute separate legal entities.
- Unit H: Taxable Profits for Companies. compares the tax treatment of companies and sole proprietors, highlighting the advantages and disadvantages of each form of business. It explains how to establish a business as a sole proprietor, and how to remit taxes on the profits accrued. It also describes how to calculate the corporate income tax liability, considering the applicable tax rate, the taxes withheld at source, and the quarterly interim payment.

- Unit I: Business Losses: This unit analyses the rules and procedures for carrying forward and offsetting tax losses, which are negative taxable income that can be used to reduce future tax liability.
- Unit J: Calculation of Income Tax Liabilities. This unit identifies the different corporate income tax rates that apply to various corporate entities based on their operational scale and specific business activities, with a standard rate set at 28%.
- Unit K: Declarations and administration. Summarizes the procedures and deadlines for tax compliance and administration in Rwanda, such as the registration of taxpayers, the filing of tax returns, the payment of taxes, the maintenance of records, the refund of taxes, and the penalties for non-compliance. It also specifies the mandatory submission of audited financial statements for large taxpayers with annual turnovers exceeding Frw600,000,000.

Unit A: Exercises

1. What constitutes an indirect tax?
 - A. A tax that is levied on companies rather than individuals.
 - B. A tax that is included in the price of goods or services.
 - C. A tax that is imposed on the income or property of an entity.
 - D. A tax that is collected at the time of income or wealth generation.(2 marks)

2. Under which TWO circumstances is a taxpayer allowed to adopt a tax period different from the standard fiscal year-end?
 1. The taxpayer must be a corporation.
 2. The taxpayer must seek approval from the national tax authority.
 3. The taxpayer must be part of a multinational group with a foreign parent company.
 4. The taxpayer must inform the local tax authority of their intention to change their tax period.
 - A. 1 and 2
 - B. 2 and 3
 - C. 1 and 4
 - D. 3 and 4(2 marks)

3. Which TWO of the following individuals would be considered tax residents of Rwanda for the fiscal year 2020?
 - A. Maria Garcia, a citizen of Rwanda, who has been living abroad for the past three years but maintains a permanent home in Rwanda and visits for two months every year.
 - B. John Miller, a foreign national who has been assigned to work in Rwanda from January 1, 2020, to December 31, 2020, by his overseas employer and rents an apartment in Rwanda during this period.
 - C. Li Wei, a citizen of Rwanda who has taken a sabbatical year and is traveling through Asia for the entirety of 2020, with no fixed abode in Rwanda.
 - D. Fatima Al Mansouri, a citizen of Rwanda who works for an international organization and is stationed abroad for a two-year assignment, from July 2019 to June 2021, without maintaining a permanent home in Rwanda.(2 marks)

4. Which TWO of the following individuals would be deemed tax residents of Rwanda during the tax year 2021?
 - A. Aisha Patel, a citizen of Rwanda who has been working on a cruise ship that

travels internationally for the entire year of 2021, and she has a home in Rwanda where her family resides.

- B. David Kim, a citizen of another country who has come to Rwanda to study at a university for a course lasting from August 2021 to July 2022, living in a dormitory on campus.
- C. Elena Rodriguez, a citizen of Rwanda who accepted a job in another country starting from March 2021 and has rented out her apartment in Rwanda for the duration of her contract abroad.
- D. Takashi Sato, a businessperson from another country who has made multiple short trips to Rwanda for business negotiations, totalling 90 days in the year 2021, but maintains his permanent home and family life in his home country.

(2 marks)

5. Which of the following would be recognised as a permanent establishment for a foreign company in Rwanda?

- A. A warehouse used for storing goods.
- B. A liaison office used for gathering market intelligence.
- C. A local agent acting independently.
- D. A production site where goods are manufactured for sale.

(2 marks)

Unit A Solutions to the Exercises

1. Indirect tax definition.

An indirect tax is a type of tax that is not directly levied on the income or wealth of individuals or entities but is instead included in the price of goods or services. When a consumer purchases a product or service, the indirect tax is collected at that point of sale. Therefore, the correct answer to what constitutes an indirect tax is:

- B. A tax that is included in the price of goods or services.

2. Adoption of a Non-Standard Tax Period

Taxpayers may be allowed to adopt a tax period that differs from the standard fiscal year-end under certain conditions. These conditions typically involve obtaining approval from the relevant tax authorities and may be influenced by the taxpayer's corporate structure or affiliation with a multinational group. The two valid conditions from the options provided are:

B. 2 and 3

- The taxpayer must seek approval from the national tax authority.
- The taxpayer must be part of a multinational group with a foreign parent company.

3. The individuals who would likely be considered tax residents in Rwanda for the fiscal year 2020 are Maria Garcia and John Miller.

- Maria, despite living abroad, maintains a permanent home and returns to Rwanda, indicating a strong personal and economic relationship with the country.
 - John Miller is physically present in Rwanda for the entire tax year due to his work assignment, which typically meets the physical presence test for tax residency.
4. The individuals who would likely be considered tax residents of Rwanda during the tax year 2021 are Aisha Patel and David Kim.
- Aisha, although working internationally, has a home and family in Rwanda, which suggests she has not severed her residential ties with Rwanda.
 - David Kim's presence in Rwanda for educational purposes and his stay in a university dormitory for nearly a year could qualify him as a tax resident.

5. Permanent Establishment in Rwanda

In Rwanda, a permanent establishment refers to a fixed place of business through which a foreign company conducts its business activities. This could include a place of management, a branch, an office, a factory, or a workshop. Among the options provided, the one that would qualify as a permanent establishment for a foreign entity in Rwanda is:

- D. A production site where goods are manufactured for sale.

Unit B: Exercises

1. Employees may pay into up to three RSSB schemes – pension, maternity leave and medical.

The percentages relating to the employee contributions for the three schemes are:

- A. Pension 5%, Maternity leave 0.3%, Medical 7.5%
- B. Pension 8%, Maternity leave 0.6%, Medical 15%
- C. Pension 3%, Maternity leave 0.3%, Medical 7.5%
- D. Pension 0.3%, Maternity leave 3%, Medical 7.5%

(2 marks)

2. If an employee is provided with the use of a car owned by their employer, the benefit is calculated as:
- A. 10% of their emoluments less benefits in kind
 - B. 20% of their emoluments less benefits in kind
 - C. 10% of the cost of the car
 - D. 20% of the cost of the car

(2 marks)

3. An employee has borrowed RWF2,500,000 from her employer to pay for a long family holiday. She is required to pay interest at 0.2% per annum. The National Bank

of Rwanda is currently lending money to commercial banks at a rate of 5.0% per annum. The employee's benefit in kind is:

- A. Frw125,000
 - B. Frw5,000
 - C. Frw120,000
 - D. Frw75,000
- (2 marks)

4. If an employee is provided with free accommodation owned by their employer, the benefit is calculated as:

- A. 10% of their emoluments less benefits in kind
 - B. 20% of their emoluments less benefits in kind
 - C. 10% of the cost of the accommodation
 - D. 20% of the cost of the accommodation
- (2 marks)

5. An employee is paid an annual salary of Frw85,000,000. They also have the use of a company car which is rented by their employer at a cost of Frw6,000,000 per year. They have worked fulltime for their employer for several years. Their annual income tax payable is:

- A. Frw25,308,000
 - B. Frw26,868,000
 - C. Frw26,580,000
 - D. Frw13,596,000
- (2 marks)

Unit B: Solutions to the exercises

- 1. C Pension 3%, Maternity leave 0.3%, Medical 7.5%
- 2. A 10% of their emoluments less benefits in kind
- 3. C Frw120,000

			Frw
Loan deemed interest rate			
Frw2,500,000 x 5.0%			125,000
Less: Actual interest paid			
Frw2,500,000 x 0.2%		-	5,000

Benefit in Kind		120,000
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4. B 20% of their emoluments less benefits in kind

5. B Frw26,868,000

60,000 X 12 X 0%		Nil
40,000 (100,000-60,000) X 12 X 10%		48,000
100,000 (200,000-100,000) X 12 X 20%		240,000
76,600,000(85,000,000+6,000,000 -2,400,000) X 30%		26,580,000
Total income tax payable on employment income		26,868,000

Unit C: Exercises

1. A Rwandan business has turnover of Frw3,000,000 the tax period, resulting in profit of Frw1,300,000. Which of the following statements are TRUE?

1. The income tax will be calculated based on business profits unless the taxpayer elects for the flat tax regime to apply.

2. If the flat tax regime is used, the income tax will be Frw60,000.

A. 1 is true, 2 is false.

B. 2 is true, 1 is false.

C. Both are true.

D. Both are false.

(2 marks)

2. Which of the following expenses would fail the general conditions for an expense to be deductible from business profits in the tax period 2019?

A. An accrual for an electricity bill with an invoice dated 28 December 2019, relating to the period 1 October 2019 to 31 December 2019

B. A provision for warranties calculated as a percentage of all sales.

C. Rent paid in the year on business premises.

D. Contractual bonuses for sales staff accrued at the year-end

(2 marks)

3. Which TWO of the following statements are TRUE in relation to the taxation of long-term contracts and stock?

1. The tax treatment of long-term contracts generally follows GAAP.
2. Income to be taxed will depend on the amount invoiced to a customer in the year.
3. The percentage of a contract that was completed during the year will determine the level of profit to be taxed.
4. Stock is always valued for tax purposes at its market value at the end of the tax period.

A 1 and 4

B 2 and 3

C 1 and 3

D 2 and 4

(2 marks)

4. A customer owes Évelyne an amount of Frw1,500,000. This was invoiced and taxed in Évelyne's accounts for the tax period to 31 December 2016. The customer has informed Évelyne that she is unable to pay. Which of the following further conditions need to be met for Évelyne to claim relief for this bad debt?

1. Évelyne must have written the amount off as a bad debt in her accounts.
2. The customer must have been declared insolvent by a court.
3. Évelyne must have taken steps to recover the debt for a period of at least three years.

A 3 only

B 1 and 2

C 1 and 3

D All three conditions must be met

(2 marks)

5. Transactions between which of the following parties could be subject to transfer pricing adjustments?

1. Unmarried individuals in a long-term relationship
2. A parent company and its subsidiaries
3. A company and the bank with which the company's deposits are held
4. A company and its controlling shareholder who is an individual

A 1 and 4

B 2 and 3

C 1 and 3

D 2 and 4

(2 marks)

6. Which of the following expenses, all paid during a tax period and charged to the

profit and loss account, would be disallowed for tax purposes?

1. The creation of a special purpose fund for future research expenditure
2. A fine for underpayment of taxes in a previous period
3. An employee sports day
4. A management fee totalling 1% of turnover

A 1 and 2

B 3 and 4

C 2 and 3

D 1 and 4

(2 marks)

7. H Ltd, a Rwandan resident company, has turnover of Frw500,000,000 and an accounting profit of Frw 120,000,000 in the tax period, after accounting for the following items as expenses:

1. Accounting depreciation Frw1,500,000
2. Client entertaining Frw300,000
3. Rent of premises that are used partly as staff living accommodation and no employment income tax is accounted for the same Frw2,000,000
4. Dividend paid Frw3,000,000
5. Donations to a charitable organisation Frw2,500,000
6. Research expenditure for developing new manufacturing materials Frw1,000,000

The research expenditure was included in the management strategy plans for the period. Compute the adjusted business profit before tax depreciation for the period. Start with the profit of Frw120,000,000 and show your treatment of each item listed above.

(6 marks)

Unit C: Solutions to the exercises

1. B 2 is true, 1 is false (the default is for flat tax to apply, and the real regime is by election)
2. B A provision for warranties calculated as a percentage of all sales (it would fail the general condition of being a real expense incurred able to be substantiated with a document or receipt)
3. C 1 and 3
4. C 1 and 3 (as the debt is for less than RWF3,000,000, an insolvency declaration is not required)
5. D 2 and 4

6. A 1 and 2

7.

	Frw
Accounting profit	120,000,000
Add: Disallowed expenses:	
Accounting depreciation	1,500,000
Client entertaining	300,000
Private use of rented premises (20%)	400,000
Dividend paid	3,000,000
Charitable donations (<1% of turnover)	0
Research expenditure	0
Adjusted profit before tax depreciation	125,200,000

Unit D: Exercise

- Article 34 of Law N° 027/2022 states that investment income includes any payment in cash or in kind in the form of which of the following types of income?
 - Interest, dividends, trading and rent.
 - Interest, dividends, royalties and rent.
 - Dividends, royalties, trading and rent.
 - Interest, employment, royalties and rent.(2 marks)
- Which of the following types of income is chargeable to income tax on an individual?
 - Pension payments from the state social security system.
 - Income accruing to employee share schemes.
 - Rental income from land and buildings.
 - Capital gains from secondary market transactions in listed securities.(2 marks)
- René Gatera has let out his investment property for Frw5,150,000 this year. He took out a bank loan to fund the purchase of the property and paid interest of Frw950,000 in the year. René's taxable rental income for the year will be:

A. Frw1,625,000

B. Frw2,575,000

C. Frw4,200,000

D. Frw5,150,000

(2 marks)

4. Olive Nyirantagorama owns some IT equipment which she let out for Frw1,750,000 this year. It had cost her Frw9,500,000, and the relevant tax depreciation rate is 10% on cost. Olive had to borrow money to fund the purchase of the equipment and pays interest of Frw75,000 each year. Olive's taxable rental income for the year will be:

A. Frw1,750,000

B. Frw1,575,000

C. Frw1,500,000

D. Frw550,000

(2 marks)

5. Which of the following transactions is liable to capital gains tax in Rwanda?

A. The sale of shares via secondary capital markets.

B. The sale of an antique necklace at auction.

C. The sale of a residential home.

D. The sale of a factory used in the trade of a sole trader.

(2 marks)

Unit D Solutions to the exercises

1. B Interest, dividends, royalties and rent

2. C Rental income from land and buildings

3. B Frw2,575,000

Taxable income = Gross rental X 50%

Taxable income = Frw5,150,000 X 50% = Frw2,575,000

Actual expenses incurred on renting immovable property, including interest, are not given tax relief.

4. D Frw550,000

Taxable rental income = Gross rental less 10%, loan interest and depreciation

Taxable rental income = Frw1,750,000 – 175,000 – 75,000 – 950,000 = Frw550,000

5. D The sale of a factory used in the trade of a sole trader

Unit E Exercise

1. Which of the following statements are true in relation to withholding taxes?

1. If a withholding tax is a final tax, the relevant income must be declared on an individual's Rwandan tax declaration.

2. When declaration of income subject to withholding tax is required, it is the net amount that will feature on the tax declaration.

A. 1 is true, 2 is false.

B. 2 is true, 1 is false.

C. Both are true.

D. Both are false.

(2 marks)

2. A Rwandan business purchases goods with a basic value of Frw1,300,000 from an overseas supplier. The insurance and freight costs are a further Frw200,000. The business purchasing the goods does not hold a quitus fiscal.

What amount of import withholding taxes must be deducted by the purchaser?

A. Frw0

B. Frw45,000

C. Frw65,000

D. Frw75,000

(2 marks)

3. Which of the following payments by government bodies under public tenders would be liable to WHT at 3%?

A. Payment to an overseas business that is not registered with the tax administration.

B. Payment to a Rwandan registered business that does not hold a tax clearance certificate (quitus fiscal)

C. Payment to a Rwandan business that is new and not yet registered with the tax administration.

D. Payment to a Rwandan registered company that holds a quitus fiscal.

(2 marks)

4. What is the rate of withholding tax on royalty payments made by Rwandan taxpayers to countries where a double taxation agreement is in place?

A. 0%

- B. 5%
 - C. 10%
 - D. 15%
- (2 marks)

5. Which TWO of the following interest payments would NOT incur withholding tax at 15%?

- 1. Interest paid to a Rwandan resident individual on a short-term bank deposit; the individual does not hold a tax clearance certificate.
- 2. Interest paid to a Rwandan individual on a four-year Rwandan treasury bond.
- 3. Interest paid by a Rwandan bank to a company resident in Mauritius.
- 4. Interest paid by a Rwandan bank to a French individual on a short-term bank deposit.

- A. 1 and 4
 - B. 2 and 3
 - C. 1 and 3
 - D. 2 and 4
- (2 marks)

- a. You work for a large Rwandan company with many Rwandan and overseas shareholders. The company is listed on the Rwandan capital market and has recently declared a dividend to its shareholders. List the factors you need to consider when determining the rate of withholding tax to deduct on the dividends, and how these will impact the withholding tax rate.

(5 marks)

Unit E Solutions to the exercises

- 1. D Both are false.
- 2. D RWF75,000 ($5\% \times \text{CIF value}$)
- 3. B Payment to a Rwandan registered business that does not hold a tax clearance certificate

A and C would be charged at a rate of 15% not 3%, and a holder of a quitus fiscal is exempt from WHT on public tender income.

- 4. C 10%
- 5. B 2 and 3 – these would incur rates of 5% and 10% respectively.
- 6. (i) The location of the shareholder.

If resident in Rwanda or elsewhere in the EAC, the standard withholding tax rate is 5%.

If resident in a country with which Rwanda has a DTA, the rate could be 7.5% (Barbados or Singapore), 10% (Mauritius, South Africa or Jersey) or 15% (Belgium). If the shareholder is resident anywhere else in the world, the rate would be 15%.

- (2) Does the shareholder have a tax identification number (TIN) with the Rwandan Revenue Authority? If so, no withholding tax is required.

Unit F: Exercise

1. Tax depreciation in Rwanda is either given on assets separately or on asset 'pools'. On which of the following assets will tax depreciation be calculated separately?

1. Lorries
2. Goodwill
3. Computer systems with an expected life of eight years
4. Production line machinery

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

(2 marks)

2. S plc, a Rwandan company, purchased a machine for use in its trade in the year ended 31 December 2019 at a cost of Frw50,000,000. S plc has applied for and obtained a valid investment certificate in relation to this machine. The machine is classed as heavy industrial machinery. What is the maximum tax deduction S plc can claim in respect of this machine in the year 2019?

- A. Frw25,000,000
- B. Frw2,500,000
- C. Frw27,500,000
- D. Frw26,250,000

(2 marks)

3. Étienne is a sole trader. The balance on his 'other business assets' pool at the start of the year was Frw 1,500,000. During the year he bought two cars at a cost of Frw6,000,000 each and sold three old cars and some office equipment for total proceeds of Frw7,200,000.

What is the maximum tax depreciation that Étienne can claim in the year?

- A. Frw1,575,000
- B. Frw6,300,000
- C. Frw3,375,000
- D. Frw3,150,000

(2 marks)

4. Goodwill was purchased by G Ltd, a Rwandan resident company, for a price of Frw150,000,000. Which of the following statements is true in relation to the tax relief available on this purchase?

- A. G Ltd must have obtained a valid investment certificate in order to claim 10% tax depreciation.
- B. No tax depreciation is available as this is an intangible asset.
- C. The tax depreciation rate is 10% on a reducing balance basis.
- D. An investment allowance of Frw75,000,000 could be available to G Ltd.

(2 marks)

5. Dancille is a sole trader. In 2016, she purchased a piece of computer equipment with an expected useful life of 15 years for a price of Frw25,000,000. In 2019, she sold the equipment for Frw14,000,000.

Which TWO of the following statements are TRUE in relation to the disposal of the equipment?

- 1. The disposal proceeds of Frw14,000,000 will be allocated to the computer equipment pool.
- 2. The disposal proceeds will be charged to income tax as part of business profits.
- 3. The written down value of the equipment may be claimed as an expense in 2019.
- 4. The written down value of the equipment at the date of disposal is Frw15,000,000.

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

(2 marks)

6. Y Ltd purchased a building during the tax period for a price of Frw50,000,000. No investment certificate was applied for by Y Ltd. The building is mainly used as retail premises by Y Ltd, but there is living accommodation above the shop which is used by one of the directors.

What is the maximum annual tax depreciation that can be claimed by Y Ltd in relation to this building?

- A. Frw2,500,000
- B. Frw500,000
- C. Frw2,000,000
- D. Frw21,000,000

(2 marks)

7. M Ltd, a Rwandan resident company, has the following brought forward balances on its assets that qualify for tax depreciation:

	Information	TWDV b/f (Frw)
Business premises	Cost Frw100,000,000, Investment allowance at 50% claimed on acquisition	40,000,000
Computer server equipment	Useful life 12 years, Original cost Frw6,000,000	4,200,000
Computer equipment pool	All assets life under 10 years	3,500,000
Other assets pool		8,600,000
Car (used privately by a company employee)		3,000,000

During the year, the following transactions took place:

Purchases

Office furniture costing Frw600,000

Disposals

Computer equipment – proceeds Frw3,100,000

Compute the total tax depreciation available to M Ltd in the tax period. Clearly show the balances to

carry forward for each pool or individual asset.

(9 marks)

Unit F: Solutions to the exercises

1. B 2 and 4
2. D Frw26,250,000 (investment allowance of Frw25,000,000 plus 5% straight-line depreciation of the balance of Frw25,000,000)
3. A Frw1,575,000
 $25\% \times (1,500,000 + 12,000,000 - 7,200,000)$
4. D An investment allowance of Frw75,000,000 could be available to G Ltd (if G Ltd had successfully applied for an investment certificate).
5. C 2 and 3

As the expected useful life is over 10 years, this equipment would have been treated as a separate asset, not allocated to a pool. It would be written down at 10% straight-line and had been owned for three tax periods before it was sold. The written down value is

therefore Frw25,000,000 – (3 x 2,500,000) = Frw17,500,000.

6. C Frw2,000,000

Frw50,000,000 x 5% = Frw2,500,000 per year. Assumed private use is 20% so depreciation claim = 80% x 2,500,000 = Frw2,000,000. There is no investment certificate so no investment allowance.

	Business Premises Frw	Computer Server Frw	Computer Equipment Frw	Other business assets Frw	Tax Depreciation Frw
TWDV b/f	40,000,000	4,200,000	3,500,000	8,600,000	
Additions				600,000	
Disposals			(3,100,000)		
Balance	40,000,000	4,200,000	400,000	9,200,000	
Tax depreciation Rate	5% on 50,000,000 (cost, net of investment allowance)	10% on 6,000,000	100% (balance under 500,000)	25%	
Tax depreciation	(2,500,000)	(600,000)	(400,000)	(2,300,000)	5,800,000
TWDV c/f	37,500,000	3,600,000	NIL	6,900,000	
Total tax depreciation					5,800,000

Unit G: Exercises

1. To what taxes are Rwandan partnerships liable?

1. Corporate income tax on profits
 2. Personal income tax on profits
 3. None
 4. PAYE for employees of the partnership
 - A. 1 only
 - B. 2 and 4 only
 - C. 3 only
 - D. 1, 2 and 4
- (2 marks)

2. A Rwandan partnership consists of Jimmy, a US citizen, and Jean, who is Rwandan resident. The partnership has taxable profit after tax depreciation of Frw60,000,000 for the year. Jimmy and Jean own shares in the partnership in the ratio 30:70 and have agreed to distribute all the profits after tax.

- (a) Calculate the corporate income tax due on the partnership profit.
- (b) Calculate the distribution payable to each partner.
- (c) Explain whether any further taxes are due to the Rwandan tax administration on these distributions.

(2 marks)

Unit G: Solutions to the exercises

- 1. C. Rwandan partnerships are tax transparent, they are not liable to any taxes, it is the individual partners that are taxable.
- 2. a. $30\% \times \text{Frw}60,000,000 = \text{Frw}18,000,000$
b. Profit distributable to partners: Frw42,000,000
Jimmy: $70\% \times \text{Frw}42,000,000 = \text{Frw}29,400,000$
Jean: $30\% \times \text{Frw}42,000,000 = \text{Frw}12,600,000$
c. The below taxes are payable.
 - Jimmy is a non-resident partner: Hence, WHT at 15% will be due on the dividend: Frw4,410,000 ($\text{Frw}29,400,000 \times 15\%$)
 - Jean will declare his profit share of Frw12,600,000 on his PIT declaration for the tax period and pay personal income tax.

Unit H: Exercises

- 1. Which of the following statements is false?
 - A. A partnership is liable to corporate income tax.
 - B. U Ltd, a Rwandan company, is liable to corporate income tax.
 - C. Exempt entities do not need to submit their financial statements to the tax administration.
 - D. The National Bank of Rwanda is not liable to corporate income tax.

(2 marks)

- 2. Which of the following statements is TRUE?
 - A. If a company receives income from agricultural or livestock activities then the first Frw12,000,000 of its income is exempt from corporate income tax.
 - B. V Ltd, a Rwandan resident company, will not need to pay corporate income tax on profits from its business profits in Kenya.
 - C. W Ltd, a Ugandan resident company, will be liable to corporate income tax on the profits of its Rwandan permanent establishment.
 - D. X Ltd, a Rwandan resident company, will need to pay corporate income tax

on dividends that it receives from Y Ltd, another Rwandan resident company.
(2 marks)

3. Which of the following correctly states the adjustments to be made to a company's trading profits for tax purposes? (Tick one column for each item.)

Item	Do nothing	Add back	Deduct
Depreciation of Frw22,000,000			
Frw8,000,000 of agricultural income			
Dividends paid of Frw12,000,000 which have been deducted from the profit figure			
Frw2,000,000 of client entertaining			
Frw5,000,000 of rental income			
Tax depreciation of Frw20,000,000			
Frw20,000,000 of staff salaries			

(2 marks)

4. Y Ltd records the following income in its financial statements for the year ended 31 December:

- Royalty income of Frw1,870,000 received net of 15% WHT
- Interest income of Frw3,800,000 received net of 5% WHT from bonds in a listed company
- Interest income of Frw6,000,000 from a five-year deposit at a bank.

Expenses of managing the investments are Frw1,000,000.

What is the investment income to be shown in Y Ltd's corporate income tax declaration (to the nearest Frw'000)?

- A. Frw12,259,000
- B. Frw12,200,000
- C. Frw10,670,000
- D. Frw11,200,000

(2 marks)

5. F Ltd is a small Rwandan company which sells scrap metal. The company prepares its accounts annually to 31 December.

For the year ended 31 December 2019, the company's net profit in the profit and loss

account was Frw74,500,000. This was arrived at after accounting for the following items:

- (a) Frw6,000,000 incurred on repairs to their warehouse was charged as an expense. The warehouse was purchased in March 2019 after it had been damaged in a flood and could not have been used in the state it was in at the time of purchase.
- (b) Depreciation on fixed assets of Frw13,000,000.
- (c) Entertainment expenditure charged to the accounts was as follows:

	Frw'000
Christmas party for staff	2,000
Entertaining customers	7,200
Costs of an all-staff football tournament	<u>2,300</u>
	<u>11,500</u>

- (d) Bad debts charged to the profit and loss account were:

	Frw'000
Bad debts written off	5,500
Increase in provision for bad debts	<u>2,000</u>
	<u>7,500</u>

The bad debt relates to a sale which had been taxed in the year ended 31 December 2018 and

was written off during the year. This was due to the debtor being declared insolvent and F Ltd

has taken all reasonable steps to recover the debt.

- (e) The amount of dividend received from G Ltd, a fellow Rwandan company, recorded in the profit and loss account was Frw5,200,000. F Ltd paid dividends of Frw2,000,000 which had been deducted in arriving at the net profit of Frw74,500,000.
- (f) F Ltd received royalty income of Frw4,250,000 during the year. This was the amount received during the year. It also received Frw1,200,000 during the year from renting out spare warehouse space.

Tax depreciation for the year end has been correctly calculated at Frw7,000,000.

Calculate F Ltd's taxable income for the year ended 31 December 2019.

(10 marks)

Unit H: Solutions to the exercises

1. C. Entities exempt from corporate income tax still need to submit their financial statements to the tax administration no later than 31 March following the tax period.
2. C. C is true – W Ltd, a Ugandan resident company, will be liable to corporate income tax on the profits of its Rwandan permanent establishment. – True as non-resident companies pay Rwandan CIT on their PE profits.
 - A. If a company receives income from agricultural or livestock activities then the first Frw12,000,000 of their income is exempt from corporate income tax – False; the exemption is for the first Frw12,000,000 of their agricultural income, not all their income.
 - B. V Ltd, a Rwandan resident company, will not need to pay corporate income tax on profits from its business profits in Kenya. – False; a Rwandan resident company must pay corporate income tax on its worldwide business profits.
 - D. X Ltd, a Rwandan resident company, will need to pay corporate income tax on dividends that it receives from Y Ltd, another Rwandan resident company. – False; dividends received by a Rwandan resident company will not form part of their taxable income.
- 3.

Item	Do nothing	Add back	Deduct
Depreciation of Frw22,000,000		X	
Frw8,000,000 of agricultural income			X
Dividends paid of Frw12,000,000 which have been deducted from the profit figure		X	
Frw2,000,000 of client entertaining		X	
Frw5,000,000 of rental income			X
Tax depreciation of Frw20,000,000			X
Frw20,000,000 of staff salaries	X		

4. D Frw11,200,000

	Frw'000
Royalty income (Frw1,870 X 100/85)	2,200

Interest income (RWF3,800 X 100/95)	4,000
Interest from bank on long-term deposit	6,000
Less expenses of managing the investments	(1,000)
Investment income	11,200

	Frw'000
Adjusted trade profits (W)	96,050
Less tax depreciation	(7,000)
Royalty income (Frw4,250 X 100/85)	5,000
Rental income	1,200
Taxable income	95,250

Working: Adjusted trade profits

	Frw'000
Profit per accounts	74,500
Add: disallowed expenses:	
Repairs (capital)	6,000
Depreciation	13,000
Entertaining – except football (2,000 + 7,200)	9,200
Increase in provision for bad debts	2,000
Dividends paid	2,000
Less: non-trading income:	
Dividend income (not taxable)	(5,200)
Royalty income	(4,250)
Rental income	(1,200)
Adjusted profit before tax depreciation	96,050

Unit I: Exercises

1. A business incurs a loss of Frw30,000,000 in the tax period to 31 December 2019 due to the loss of a major customer. How long can this loss be carried forward?
 - A. Until the tax period to 31 December 2020
 - B. Until the tax period to 31 December 2024, unless the tax administration permits an extension
 - C. Until the tax period to 31 December 2023, unless the tax administration permits an extension
 - D. It cannot be carried forward

(2 marks)

2. P Ltd is owned in equal shares by two brothers, Robert and Claude. During the year ended 31 December 2018, it incurs a trading loss of Frw40,000,000. In the year ended 31 December 2019 its business profits total Frw25,000,000.

On 30 November 2019, Claude sells all of his shares to his friend.

What amount of loss may be carried forward to the year ended 31 December 2020?

- A. Frw0
- B. Frw40,000,000
- C. Frw15,000,000
- D. Frw7,500,000

(2 marks)

3. Determine whether the following statements are true or false in relation to losses incurred on long-term contracts:

- (1) A loss carried back may be offset against total business profits of the previous periods where the contract was under way
- (2) A loss on a long-term contract may be carried back in priority to using it against current period business profit

- A. Both statements are true.
- B. Both statements are false.
- C. Statement 1 is true and statement 2 is false.
- D. Statement 2 is true and statement 1 is false.

(2 marks)

4. R Ltd, a building company, recorded the following profits and losses on its two ongoing long-term contracts, both of which were completed in the year ended 31 December 2019:

	<i>Year ended 31 December 2018</i>	<i>Year ended 31 December 2019</i>
	Frw'000	Frw'000
Contract A	40,000	(70,000)
Contract B	20,000	20,000

What amount of the contract A loss may be carried back and offset against profits in the year ended 31 December 2018?

- A. Frw40,000,000
 - B. Frw50,000,000
 - C. Frw60,000,000
 - D. Frw0
- (2 marks)
5. U Ltd has incurred the following business profits and losses over the last four tax periods:

Year ended 31 December 2016; Loss Frw (500,000,000)

Year ended 31 December 2017; Loss Frw (200,000,000)

Year ended 31 December 2018; Profit Frw150,000,000

Year ended 31 December 2019; Profit Frw400,000,000

No shares in U Ltd have been bought or sold over this period.

Show how the losses are used against profits, compute the remaining losses to carry forward at 1 January 2020, and state to which year they may be carried forward.

(6 marks)

Unit I: Solutions to the exercises

1. B. Until the tax period to 31 December 2024, unless the tax administration permit an extension
2. A. Frw0 (as more than 25% of the shares in P Ltd have changed hands, losses may no longer be carried forward)
3. B. Both statements are false. Carried back losses may only be offset against previously recognised contract profits, not total business profits. The loss must also be used against current period business profits before being carried back.
4. A. Frw40,000,000

The loss is first offset against current period profit, leaving Frw50,000,000 to carry back. This can only be offset against the contract A profit of Frw40,000,000.

5. Loss utilisation:

	Year ended 31 December 2018 Frw'000	Year ended 31 December 2019 Frw'000
Business profit	150,000	400,000
Loss brought forward – year ended 31 December 2016	(150,000)	(350,000)
Loss brought forward – year ended 31 December 2017	0	(50,000)
Taxable business profit	0	0

Losses to carry forward:

	Year ended 31 December 2016 Frw'000	Year ended 31 December 2017 Frw'000
Loss incurred	500,000	200,000
Used in year ended 31 December 2018	(150,000)	
Used in year ended 31 December 2019	(350,000)	(50,000)
Loss carried forward	0	150,000

The loss of the year ended 31 December 2017 may be carried forward to the year ended 31 December 2022, unless the company is granted permission to extend this period or there is a change of 25% or more in the company's shareholders.

Unit J: Exercises

1. M Ltd mines and sells gold. The company has been expanding rapidly and listed on the Rwandan Stock Exchange two years ago issuing 25% of its shares to the public. In the year ended 31 December 2019 it exported US\$4.4 million of gold, of which US\$1.8 million was to countries within the East African Community. The company does not operate in a sector which qualifies for a reduced rate of corporate income tax.

What is the effective rate of corporate income tax that will apply to M Ltd for the year ended 31 December 2019?

- A. 30%
- B. 28%
- C. 29.1%
- D. 27.16%

(2 marks)

2. N Ltd, a long-established unlisted travel business, operates in the large-scale transportation of passengers, which qualifies as a strategic sector giving a reduced rate of corporate income tax. In the year ended 31 December 2019 it had the following income:

- Taxable trade profits (after a deduction for tax depreciation) of Frw24,000,000
- Investment income of Frw2,125,000 (received net of 15% WHT)
- Dividend income from a Rwandan company of Frw4,000,000

It paid dividends of Frw5,000,000.

What is N Ltd's corporate income tax liability (before deduction of withholding tax) for the year ended 31 December 2019?

(4 marks)

3. Didier is a Rwandan resident individual. He is a trader and performs in a musical group. His income for the tax period is Frw43,500,000, consisting of business profits of Frw39,500,000 and performance fees of Frw4,000,000. Because Didier is registered with the Rwandan tax administration, no withholding tax was deducted from the performance fees.

What is Didier's PIT liability for the tax period?

- A. Frw13,050,000
- B. Frw11,850,000
- C. Frw12,618,000
- D. Frw11,658,000

(2 marks)

4. Which of the following may be deducted from a PIT liability to arrive at tax payable?

1. Withholding tax suffered on interest
2. Corporate income tax paid by the individual's employer
3. Income tax paid by the individual's spouse
4. Foreign tax credits

- A. 1 and 4
 - B. 2 and 3
 - C. 1 and 3
 - D. 2 and 4
- (2 marks)

5. Immaculée is a Rwandan resident lawyer, who runs her own law firm providing legal services to Rwandan individuals.

Her income for the tax period is as follows:

- (1) Taxable business profit of Frw120,000,000, derived from turnover of Frw150,000,000
- (2) Income accruing in collective investment schemes of Frw10,000,000
- (3) Interest of Frw85,000 (received net of WHT at 15%)

Immaculée has paid quarterly prepayments totalling Frw32,000,000.

- (a) Give TWO reasons why Immaculée must use the real regime for taxation of her business profits.
 - (b) Calculate Immaculée's personal income tax payable for the tax period.
- (6 marks)

Unit J: Solutions to the exercises

1. B- M Ltd's exports outside the EAC are US\$2.6 million so no discount for exporting applies. As the company is newly listed and issued $\geq 20\%$ of its shares to the public the 28% rate of CIT applies.

2.

	Frw'000
Trade profits	24,000
Dividend from Rwandan company (exempt)	0
Investment income (2,125 X 100/85)	2,500
Taxable income	26,500
CIT liability (26,500 X 15%)	3,975

3. C Frw12,618,000

	Frw
Business profits	39,500,000
Performance fees	4,000,000
Taxable income	43,500,000
PIT liability:	
Frw	Frw
720,000 x 0%	0
480,000 x 10%	48,000
1,200,000 x 20%	240,000
41,100,000 x 30% (Balancing figure)	12,330,000
43,500,000	
Personal income tax liability for the period	12,618,000

4. A - 1 and 4

(a) Immaculée's business turnover is above the threshold for using the lump sum regime (>Frw20,000,000). Immaculée is in a liberal profession (legal practitioner).

(b) Calculation of PIT Payable

	Frw
Business profits	120,000,000
Interest: $85,000 \times 100/85$	100,000
Collective investment scheme – exempt	0
Taxable income	120,100,000
PIT liability:	
Frw	Frw
$720,000 \times 0\%$	0
$480,000 \times 10\%$	48,000
$1,200,000 \times 20\%$	240,000
$117,700,000 \times 30\%$ (Balancing figure)	35,310,000
120,100,000	
Personal income tax liability for the period	35,598,000
Less: quarterly prepayments	(32,000,000)
WHT on public tender ($100,000 \times 15\%$)	(15,000)
PIT payable	3,583,000

Unit K: Exercises

1. List the penalties that are applicable when a taxpayer fails to withhold tax and pay it on time.
2. Nyagatare Business Group Ltd had an annual turnover of Frw720,000,000. In June 2018, it did not withhold tax on imported services. In October 2018, the company was audited by the tax administration and charged penalties. In December 2018, the company repeated the same offence. What are the penalties and fixed penalty fine applicable to the second offence?
3. Which penalty is removed when a taxpayer pays tax arrears on a self-assessment basis?
4. Which of the following are NOT measures applied by the tax administration to deter or punish tax defaulters?
 1. Closure of business
 2. Prosecution
 3. Denial of trade facilitation
 4. Stopping the business from importing goods
 - A. 1 and 2 only
 - B. 1, 2, 3 and 4
 - C. 3 only
 - D. 4 only
5. Which of the following could be a valid reason for the waiver of penalties?
 - A. There was a fire in the factory which destroyed all goods.
 - B. The chief executive officer of the company resigned and sales went down.
 - C. The gross domestic product (GDP) of the country has fallen this year; thus there was no business growth.
 - D. There was an unexpected increase in the customs tariff on imported raw materials.
6. Bagabo is a sole trader. On 31 March 2014, he did not pay personal income tax due totalling Frw1,000,000 relating to the previous tax period. His annual turnover for 2013 was Frw 100,000,000. He was audited by the tax administration in 2018, and on 31 December 2018, taxes and penalties were paid in full. Calculate the taxes, fines and penalties he paid.

Unit K: Solutions to the exercises

1. Failure to withhold tax and pay it on time
 - 100% of taxes due
 - 10% late payment fines
 - 1.5% interest per month; interest is not compounding and cannot exceed the principal tax
 - Fixed penalty fine for non filing
2. Nyagatare Business Group penalties:
 - 100% of taxes due
 - 10% late payment fines
 - 1.5% interest per month; interest is not compounding and cannot exceed the principal tax
 - Fixed penalty fine for non filing totalling RWF500,000 + RWF500,000 because of repeating the offence in the same period. It is a large taxpayer because the turnover is above Frw600,000,000.
3. Penalties for understatement of tax are removed if a taxpayer corrects on a self-assessment basis.
4. Option D : 4 only, because an importer cannot be prevented from importing goods by the tax administration.
5. Option A : There was a fire in the factory which destroyed all goods – this is a force majeure.
6. Bagabo taxes and penalties:

Principal tax: Frw1,000,000

Fixed penalty fine for failure to pay taxes on time: Frw300,000 (as turnover is above Frw20,000,000 but not 'large')

Failure to declare: 60% (Frw1,000,000) = Frw600,000

Late payment penalties: 10% (Frw1,000,000) = Frw100,000

Interest on late payment 1.5% × 57months × Frw1,000,000 = Frw855,000

References and further reading.

1. LAW N° 027/2022 OF 20/10/2022 ESTABLISHING TAXES ON INCOME
2. LAW N° 048/2023 OF 05/09/2023 DETERMINING THE SOURCES OF REVENUE AND PROPERTY OF DECENTRALIZED ENTITIES
3. LAW N° 020/2023 OF 31/03/2023 ON TAX PROCEDURES

Unit A – Answers to the Quizzes

Quiz 1: Direct and indirect taxes

B 2 and 4

Direct taxes are those that are levied on the income or wealth of individuals or organizations. In Rwanda, direct taxes include taxes on income, profits, and capital gains. Based on the options provided:

Corporate income tax is a direct tax as it is imposed directly on the income of corporations.

Capital gains tax on the sale of shares is also a direct tax because it is levied on the profit realized from the sale of assets like shares.

Therefore, the two taxes from the list that would be considered direct taxes in Rwanda are:

B 2 and 4

- Corporate income tax
- Capital gains tax on the sale of shares

Quiz 2: Tax periods

Option C AB Ltd – this is a company preparing its accounts under GAAP which has a commercial reason for using an accounting date that is not 31 December. Therefore the Minister may permit it to use a different tax period.

Option A is incorrect because individuals are required to use 31 December as the year-end date for tax purposes. Option B is also incorrect since this company does not prepare its accounts in accordance with GAAP. Lastly, option D is incorrect as the choice of a different year-end date is driven by tax reasons rather than commercial considerations.

Quiz 3: Residence of individuals

B 1 only

1. Solange Mukundanga is described as having her habitual abode in Rwanda, which suggests a permanent home or a place she regularly lives in when not travelling. Despite travelling for the whole year of 2019, her habitual abode remains in Rwanda, which typically would make her a tax resident as Rwanda's tax laws recognize the concept of habitual abode as a determinant for tax residency.
2. Harry James is a UK citizen who has been seconded to Rwanda for work for a period that spans two tax years. For the tax period of 2019, he is present in Rwanda from 1 September 2019 to 31 December 2019. The duration of his stay in Rwanda during 2019 and the purpose of his stay (work) could make him a tax resident, depending on the specific rules regarding the minimum number of days required to be present in Rwanda to be considered a tax resident.
3. Sophie Smith has had two separate periods of stay in Rwanda, both for work, and one of these periods falls within the tax year 2019. The cumulative time she spent in Rwanda during 2019 is less than 183 days hence could not make her a tax resident.
4. Hank Azalea owns a hotel in Rwanda, indicating economic interests in the country, but his physical presence in Rwanda is limited to only two weeks in 2019. This short duration is unlikely to qualify him for tax residency unless Rwandan tax law has

provisions that consider economic interests or business ownership as a basis for tax residency without the need for physical presence.

Quiz 4: Records

C 2 and 3 – these records are only required for businesses with turnover in excess of Frw20,000,000.

Unit B Answers to the Quizzes

Quiz 1: Taxable and exempt employment income

B Josine is reimbursed for the purchase of some stock she made on behalf of her employer. The reimbursement of expenses incurred by an employee wholly for business activities of the employer is exempt.

Quiz 2: RSSB contributions

Dative's contribution (Employee)					Bella's Contribution (Employer)				
		Frw '000'	Frw '000'	Frw '000'		Frw '000'	Frw '000'	Frw '000'	Total '000'
Pension (SSC)	3%	68,000	(65,000+3,000)	2,040	5%	68,000	(65,000+3,000)	3,400	5,440
MLB	0.3%	68,000	(65,000+3,000)	204	0.3%	68,000	(65,000+3,000)	204	408
CBHIS	0.5%	67,200	(60,000+8,000 x 90%)	336	NA				336
				2,580				3,604	6,184

Quiz 3: Motor vehicle

Frw5,500,000

Olivier's benefit in kind for the provision of the car and driver is calculated as 10% of his cash emoluments.

$$10\% \times \text{Frw}55,000,000 = \text{Frw}5,500,000$$

Quiz 4: Loan interest

Frw150,000

Étienne's benefit in kind for the low interest loan is calculated as follows:

		Frw
Loan deemed interest rate		
Frw3,000,000 x 5.5%		165,000
Less: Actual interest paid		
Frw3,000,000 x 0.5%		(15,000)
Benefit in Kind		150,000

Quiz 5: Accommodation benefit

Frw 12,120,000

Robert's benefit in kind for the provision of the accommodation is calculated as 20% of his cash emoluments.

$$20\% \times \text{Frw}(60,000,000 + 600,000) = \text{Frw}12,120,000$$

Quiz 6: Income tax payable – permanent employee

Frw2,694,000

		Monthly Frw
Salary (Frw75,000,000/12)		6,250,000
Education allowance ((Frw3,000,000 x3)/12)		750,000
Total Cash emoluments		7,000,000
Add Benefits in Kind		
Accommodation (20% X Frw7,000,000)		1,400,000
Car (10% X 7,000,000)		700,000
Monthly Taxable employment income		9,100,000
60,000 X 0%		Nil
40,000 (100,000–60,000) X 10%		4,000
100,000 (200,000–100,000) X 20%		20,000

8,900,000(9,100,000–200,000) X 30%	2,670,000
Total income tax payable on employment income	2,694,000

Quiz 7: Income tax payable – casual labourer

Frw1,200

As Francis works for Séraphine for less than 30 days in an unskilled capacity, he is classed as a casual labourer.

			Monthly Frw
60,000 X 0%			Nil
8,000 X 15% (balancing figure)			1,200
68,000			
Total income tax payable on employment income			1,200

Quiz 8: PAYE

Kevin

You will not be personally required to pay your personal income tax on your employment income. Your

employer Alphonse will be responsible for deducting the correct tax from your employment income and

for paying this to the tax administration. This is called pay as you earn, or PAYE.

Alphonse will pay this tax 15 days after the end of the tax period. Usually, tax periods for employment

income is one month, but as Alphonse's business has a turnover under Frw200,000,000, he may apply to the tax administration to file and pay his PAYE liabilities quarterly.

Alphonse will also provide you with the relevant details of your taxable pay, and the tax he has deducted and paid on your behalf.

Unit C Answers to the Quizzes

Quiz 1. Flat and turnover taxes

1. Eustache Manzi, a clothing manufacturer with annual turnover of Frw18,000,000 and expenses of Frw4,000,000 per tax year

Small enterprise (turnover Frw12–20m). Turnover tax at 3% = Frw540,000

2. Josiane Mukamusinga, a lawyer with annual turnover of Frw15,000,000 per tax year

Turnover and flat taxes not applicable – liberal profession. Must be taxed on profits

3. Karemera Ltd, a company specialising in the tourist industry, which has turnover of Frw25,000,000 and expenses of Frw6,000,000 per tax year

Turnover above Frw20 million. Not within small businesses regime, so must be taxed on profits.

4. Christella Kayitesi, a crop farmer with annual turnover of Frw17,000,000

Taxable income (agriculture) = Frw17,000,000 – Frw12,000,000 = Frw5,000,000

Micro-enterprise: flat tax (Frw4,000,001 – Frw7,000,000) = Frw120,000

Quiz 2. Capital expenditure

C 3 and 4

Repairs and maintenance, irrespective of their cost, are revenue in nature and therefore allowable business expenditure.

Quiz 3 Exchange gains and losses

Philomène will record an exchange loss of Frw152,000 in the tax year, and this will be treated as nondeductible expense.

Original liability: $\text{Frw}5,000 \times 1,020.85 = \text{Frw}5,104,250$

Retranslated at year-end exchange rate: $\text{Frw}5,000 \times 1,051.25 = \text{Frw}5,256,250$

Difference = Increased liability of Frw152,000 (an exchange loss)

Quiz 4. Bad debts

B Deduct bad debt relief of Frw2,500,000

The debt was written off in 2018. The expense would not have been allowed in 2018 as the debt was less than three years old at 31 December 2018. As Nadine would have been chasing

the debt since 30 September 2016, three years have now passed and Nadine will be permitted to claim tax relief in the 2019 tax period.

Note. As the debt was for a value of less than Frw3,000,000, no court insolvency decision is required for bad debt relief to be claimed.

Quiz 5. Transfer pricing

A Adjust A plc's taxable income upwards by Frw10,000,000

A plc's taxable income is understated due to the high price charges by the French parent company. The difference between an arm's-length price (taken to be the amount charged to other subsidiaries, $\text{Frw}50,000,000 \times 100/125 = \text{Frw}40,000,000$) and the actual price charged of

Frw50,000,000 must be added on to A plc's profit.

Quiz 6. Allowable and disallowable expenses

Expense	Allow in full	Disallow in full	Disallow part	Amount to add back (Frw'000)
Accounting depreciation of Frw2,000,000		X		
Staff entertaining at a party costing Frw200,000		X (not a sporting activity)		
Charitable donation of Frw2,000,000			X	500,000 (>1% of turnover)
Staff bonuses of Frw20,000 each (20 staff)	X			
Royalty paid to overseas parent company, totalling Frw4,500,000			X	1,500,000 (>2% of turnover)
Interest paid to overseas parent company on intra-group loan. The interest totals Frw25,000,000 and G Ltd's debt to equity ratio is 5 to 1			X	5,000,000 (in excess of debt-to-equity ratio of 4 to 1)

Expense	Allow in full	Disallow in full	Disallow part	Amount to add back (Frw'000)
A bad debt with a value of Frw1,000,000 where the sale was recognised in income in the immediately preceding year and the amount written off in the books in the current year		X (debt <Frw3m. not yet three years old)		

Quiz 7. Adjustment of profit

DATIVE

ADJUSTED TAXABLE TRADING PROFIT FOR THE YEAR ENDED 31 DECEMBER

	Frw'000	Frw'000
Net Profit		17,710
ADD:		
wages and salaries (sole trader personal expenses)	15,000	
rent and rates (20% deemed private proportion)	1,000	
depreciation	1,500	
bad debt – allowable as relevant conditions met	0	
entertainment expenses for customers	350	
patent royalties (no cap as not related party)	0	
legal expenses (capital)	650	
bank interest paid	0	
		18,500

	Frw'000	Frw'000
		36,210
Less profit on disposal of fixed asset		(860)
Profit adjusted for tax purposes		35,350

Unit D Answers to the Quizzes

Quiz 1: Land and buildings rental income calculation

$\text{Frw}4,500,000 \times 50\% = \text{Frw}2,250,000$

Note that the actual expenses incurred are not deducted – there is a deemed expense of 50% of rental income instead

Quiz 2: Machinery rental income calculation

Frw530,000

	Frw
Gross rental income	1,200,000
Less 10% deemed expense	(120,000)
Interest	(50,000)
Depreciation (5% X 10,000,000)	(500,000)
Taxable rental income	530,000

Quiz 3: Rental income tax calculation

Workings:

Frw588,000

Taxable income = Gross rental income X 50%

$\text{Frw}6,800,000 \times 50\% = \text{Frw}3,400,000$

		Frw
720,000 X 0%		Nil
480,000 (1,200,000-720,000) X 10%		48,000
1,200,000 (2,400,000-1,200,000) X 20%		240,000

1,000,000(3,400,000-2,400,000) X 30%		300,000
Total rental income tax payable		588,000

Unit E Answers to the Quizzes

Quiz 1 Withholding taxes

- (B) If a withholding tax is a final tax, no further tax is due from the recipient
- (E) Withholding taxes at 15% may be deducted from the tax payable for a tax period

Statement A is false, as withholding taxes are paid by the payer, not the recipient. Statement C is false,

because if any withholding tax is not final tax, the income will be required to be included on the tax declaration. Statement D is false, as WHT at 15% is deducted from a tax liability and not the taxable

income.

Quiz 2 Withholding tax – other payments

A 1 and 4 – the dividends have 5% WHT and the interest has no WHT as it is on a long-term deposit.

Unit F Answers to the Quizzes

Quiz 1: Individual asset capital allowances

- (1) Production line machinery built into a factory – 5% straight line (fixed/heavy machinery)
- (2) A piece of telephone equipment with an expected life of 15 years, acquired under an operating lease – none (leased asset – needs to be a finance lease to qualify)
- (3) The extension of a residential home – none (not used in a business)
- (4) The purchase of patent rights – 10% straight line (purchased intangible asset)

Quiz 2: Investment allowance

- A. The investment allowance will be Frw100,000,000 and the balance of Frw100,000,000 will qualify for straight-line depreciation at 5% per year.

Quiz 3: Calculation of single asset capital allowances

Year ended 31 December 2019	Telecommunications equipment	Tax depreciation available
	Frw'000	Frw'000
Cost	20,000	

Year ended 31 December 2019	Telecommunications equipment	Tax depreciation available
Tax depreciation at 10%	(2,000)	2,000
TWDV c/f	18,000	
Year ended 31 December 2020		
Tax depreciation	(2,000)	2,000
TWDV c/f	16,000	
Year ended 31 December 2021		
Asset sold – balance of TWDV	(16,000)	16,000
TWDV c/f	0	

Note that the Frw9,000,000 disposal proceeds would be included in the taxable income of K Ltd in the year ended 31 December 2021. The overall impact on taxable income in the year ended 31 December 2021 is a deduction of $\text{Frw}(9,000,000 - 16,000,000) = \text{Frw}7,000,000$; this gives total tax relief of Frw11,000,000 over the three years, and this is equal to the economic loss on this asset suffered by K Ltd.

Quiz 4: Tax depreciation on asset pools

Maximum investment allowance:

Printing equipment $50\% \times 52,000,000 = \text{Frw}26,000,000$

Note vans do not qualify for the investment allowance as they are motor vehicles carrying fewer than eight passengers.

Tax Period 31 December	Computer equipment pool	Other business assets pool	Tax depreciation claimed
	Frw	Frw	Frw
TWDV b/f	5,000,000	10,000,000	
Add: acquisitions (net of investment allowance): Printing equipment (52,000,000 – 26,000,000)		26,000,000	
Vans		20,000,000	
Less	(600,000)		

Tax Period 31 December	Computer equipment pool	Other business assets pool	Tax depreciation claimed
Balance to depreciate	4,400,000	56,000,000	
Tax depreciation (50%/25%)	(2,200,000)	(14,000,000)	16,200,000
TWDV c/f	2,200,000	42,000,000	

Unit G Answers to the Quizzes

Quiz 1: Taxable income

D The first three income sources are taxable whereas the payment of school fees by an overseas

NGO is not – see the list of taxable income in Unit A.

Quiz 2: Taxation of non-resident partners

Frw2,000,000 × 50% = Frw1,000,000 to be paid as dividends to each partner

Withholding tax (as partners are not Rwandan resident): Frw1,000,000 × 15% = Frw150,000 per

Partner

Withholding tax will be retained and paid by A GP to the tax administration on the 15th day of the

following month.

Unit H Answers to the Quizzes

Quiz 1: Taxable or exempt bodies

	Taxable	Exempt
X Ltd, a Rwandan registered company	X	
National Bank of Rwanda		X
Y Ltd, a company registered in Kenya which operates a permanent establishment in Kigali	X	
The United Nations Economic Commission for Africa (UNECA), an inter-governmental organisation which has exemption under an international agreement		X

	Taxable	Exempt
Z Ltd, an Ethiopian company which is managed in Rwanda	X	

Quiz 2: Taxable trading profits

The correct answer is C – False, True, True, False.

1. None of the interest paid on loans will be given tax relief where a company is thinly capitalised. This is where debt is more than four times paid up equity.

False – it is correct that a company is thinly capitalised where debt is more than four times paid up equity; however, it is only interest payable on loans to related persons that will not be given tax relief rather than interest on all loans as implied in the statement.

2. P Ltd has written off a debt of Frw10,000,000 in its accounts for the year to 31 December which had been charged to tax in the previous year. P Ltd has made every attempt to recover the debt and the debtor has now been declared insolvent by a court decision. P Ltd can claim bad debt relief for this debt.

True – these are the correct conditions for bad debt relief to be claimed.

3. U Ltd is allowed a tax deduction for the full depreciation basis amount of Frw490,000.

True – as the depreciation basis is less than Frw500,000 a full deduction of the same is allowed.

4. T Ltd has paid dividends of Frw12,000,000 during the year to 31 December. These dividends are tax deductible.

False – dividends paid by a company are not tax deductible and must be disallowed in the calculation of taxable trading profits.

Quiz 3: Investment income

	Frw'000
Interest income (Frw680 X100/85)	800
Royalty income (RWF595 X 100/85)	700
Less expenses of managing the investments	(50)
Investment income	1,450

Quiz 4: Rental income

A. Frw134,000

	Frw'000
Rental income (Frw20 X12)	240
10% wear and tear expense (10% X Frw240)	(24)
Interest paid on loan to purchase (Frw800 X 4%)	(32)
Depreciation expense (5% X RWF1,000)	<u>(50)</u>
Rental income	134

Quiz 5: Total taxable profits

	Working	Frw'000
Adjusted trade profits	1	181,500
Less tax depreciation	2	(40,000)
Add Rental income	<u>3</u>	<u>36,000</u>
Total taxable profits		177,500

Working

1. Adjusted trade profits

	Frw'000
Profit per accounts	162,500
Add: disallowed expenses:	
Depreciation	60,000
Bad debts	0
General provision	2,500
Wages and salaries	0
Legal and professional fees – fine	1,500
Interest payable	0

Less: non-trading income:	
Rental income	(40,000)
Interest	(5,000)
Adjusted profit before tax depreciation	181,500

2. Tax depreciation

	Frw'000
Buildings: 5% straight line = $5\% \times 500,000 =$	25,000
Other assets pool: $25\% \times 60,000 =$	<u>15,000</u>
Total tax depreciation	40,000

3. Rental income

	Frw'000
Rental income	40,000
Wear and tear (10%)	<u>(4,000)</u>
Taxable amount	36,000

Note. Tax depreciation is reflected in the amount calculated in Working 2.

Quiz 6: Implications of restructuring

C.The building will be transferred at its written down value of Frw28,000,000 and GY Ltd will claim 5% tax depreciation on the original cost of Frw40,000,000.

Assets are acquired at their book values (in this case Frw28,000,000). However, tax depreciation is claimed by the receiving company (GY Ltd) as if the transfer never occurred – so the depreciation allowable will be $5\% \times \text{Frw}40,000,000$ per annum.

Unit I Answers to the Quizzes

Quiz 1: Business loss carried forward

Year ended 31 December 2023	Frw'000
Taxable trading profits	120,000
Investment income	2,500

Rental income	5,000
Less: loss carried forward	(80,000)
Taxable income	47,500

Quiz 2: Business loss expiry

PM Ltd's losses may usually be carried forward as follows:

- Year ended 31 December 2018 to year ended 31 December 2023
- Year ended 31 December 2023 to year ended 31 December 2028

There are no business profits in the year ended 31 December 2023 against which to offset the

remaining losses of Frw45,000,000 that arose in 2018. Therefore, PM Ltd would have to apply to the

tax administration to extend the loss relief for this loss, presenting the reason for the loss and linking it to the investment made (the investment allowance claim) and have paid all its taxes and not distributed any profit for the last five years. If the extension is permitted, the remaining 2018 loss would be used in priority to the 2023 loss in 2024 and beyond.

Quiz 3: Losses on long-term contracts

- B. It will be offset against total income in Year 2 of Frw3,000,000, and then the remaining Frw2,500,000 will be offset against the contract profit in Year 1.

The offset of the loss can be shown thus:

	Year 1 Frw	Year 2 Frw
Contract profit		
Loss carried back Frw(5.5m – 3m)	(2,500,000)	
Other business profits	3,000,000	2,750,000
Investment income	0	250,000
Contract loss		(3,000,000)
Taxable income	4,000,000	0

Unit J Answers to the Quizzes

Quiz 1: Flat tax

Based on X Ltd's annual turnover the flat tax regime will apply giving flat tax due of Frw120,000 for the year ended 31 December 2019.

Quiz 2: Turnover tax

Based on N Ltd's annual turnover the lump sum regime will apply meaning corporate income tax will be due at 3% of turnover.

Corporate income tax due = $3\% \times \text{Frw}19,500,000 = \text{Frw}585,000$

Quiz 3: Real regime – rates of corporate income tax

A P Ltd, a two-year old micro-finance company, pays corporate income tax at a rate of 28%

FALSE – a micro-finance company is entitled to a 0% corporate income tax rate for the first five years.

B Q Ltd, an unlisted company which exports US\$6 million to Kenya, will be entitled to a 5% discount from its corporate income tax liability

FALSE – while a company exporting over US\$5 million is entitled to a 5% discount, the exports need to be outside the East African Community. Kenya is within the EAC and so the exports do not qualify.

C R Ltd listed on the Rwanda Stock Exchange last year and sold 38% of its shares publicly. It will pay corporate income tax at a rate of 25%.

TRUE

D S Ltd listed on the Rwanda Stock Exchange six years ago and sold 48% of its shares publicly. It will pay corporate income tax at a rate of 20%.

FALSE – the reduced rates only apply for a period of five years after the company becomes listed.

Quiz 4: Personal income tax liability

Frw	Frw
$720,000 \times 0\%$	0
$480,000 \times 10\%$	48,000
$1,200,000 \times 20\%$	240,000
$20,600,000 \times 30\%$ (Balancing figure)	6,180,000
23,000,000	6,468,000

Quiz 5: Deductions from PIT liability

B 2 and 3 only

Alphonse would not declare his employment income on his PIT return as it was paid by a Rwandan company and has had PIT applied. Alphonse has foreign income, and so foreign tax credits would probably be due, and withholding tax is always deducted from interest payments made by Rwandan financial institutions. Alphonse is unlikely to be carrying out business imports, as he is not a trader.

Quiz 6: Personal income tax payable

	Frw
Business profits	60,000,000
Royalty income	5,000,000
Taxable income	65,000,000
PIT liability:	
Frw	Frw
720,000 x 0%	0
480,000 x 10%	48,000
1,200,000 x 20%	240,000
62,600,000 x 30% (Balancing figure)	18,780,000
65,000,000	
Personal income tax liability for the period	19,068,000
Less: quarterly prepayments	(18,000,000)
WHT on public tender	(45,000)
PIT payable	1,023,000

Unit K Answers to the Quizzes

Quiz 1: Tax returns

Ihema Trading Ltd, mandatory documents to attach to the tax return:

- Balance sheet
- Profit and loss account
- Transfer pricing document

- Certified (audited) financial statements
- Company representative form

Quiz 2: Tax credits

B 15% withholding tax on imported software is a final tax – it does not relate to taxable income.

Quiz 3: Tax deadline and IQP dates

The deadline is 30 April. IQPs will therefore be paid on 31 July, 31 October, 31 January.

Quiz 4: Penalties

D The maximum percentage is 71.5%, being 60% for non filing and non payment, 10% for late payment and 1.5% interest.

Quiz 5: Waiver of penalties

D is the answer because taxes cannot be waived due to the death of the owner. The company and the owner are separate. Also, delays in refund cannot be an excuse for payment hardship. An appeal cannot also stop enforcement.

Tax Tables

Rates of PAYE – Permanent employees		
<i>Bands of taxable income</i>	<i>Taxable income</i>	<i>Tax rate</i>
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		
<i>Bands of taxable income</i>	<i>Taxable income</i>	<i>Tax rate</i>
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			
		<i>Employee contribution</i>	<i>Employer contribution</i>
Pension		3%	5%
Maternity		0.30%	0.30%
Medical			
RAMA		7.50%	7.50%
CBHIS		0.50%	0
Rates of personal income tax			
<i>Bands of taxable income</i>		<i>Taxable income</i>	<i>Tax rate</i>
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			
<i>Bands of taxable income</i>	<i>Taxable income</i>	<i>Tax rate</i>	
Frw	Frw	%	
0-180,000	180,000	0%	
180,001-1,000,000	820,000	20%	
1,000,001+		30%	

Business tax regimes	
<i>Annual turnover</i>	<i>Regime</i>
<i>Frw</i>	
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	
<i>Annual turnover</i>	<i>Annual flat tax due</i>
<i>RWF</i>	<i>RWF</i>
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:	
– 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:	
- a pure holding company	3%
- 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:	
- 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				
<i>Country</i>	<i>Dividends</i>	<i>Interest</i>	<i>Royalties</i>	<i>Technical fees</i>
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









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