CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.3 ADVANCED TAXATION

DATE: TUESDAY, 26 MAY 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking guide

Description	Marks
Business Reporting	0.5
Add not allowable Expenses	
Accrued salary	1
Office partitioning	1
Depreciation	0.5
Capital expenditure	1
Reserve allowance	1
Provision for bad debts	1
Withholding tax on public tender	1
Training and research	1
Quarterly prepayment for the last 3 quarters	1
Communication cost	1
Billboard	1
Less allowable Expenses	
VAT on Sales	1
Capital allowance	1
Insurance	1
Less non-taxable Income	
Interest	1
Agriculture Income	1
Add other taxable Income	
Agriculture Income	1
Dividend	1
Branch Income	1
Adjusted Taxable Income	
Working 1- Agriculture Income	
Agriculture Income (Gross)	
Less Exempted Income (12M)	1
Less allowable Expenses	
Cost of seeds	1
Cost of fertilizers	1
Subtotal (a)	**22**
(b)	
Tax Implication	
Tax Implication on Registering on the Rwanda Stock Exchange- 5%	1
Tax Implication on Exporting at least 50% of total sales- 15%	1
Applicable CIT rate- 10%	1
Sub Total (b)	**3**
(c)	
Tax liability	
Taxable Income	
Tax @10%	1

Less Relief	
Withholding tax on public tender	1
Quarterly prepayment for the last 3 quarters	1
WHT on dividend	1
Income Tax (Mozambique)@30% (No DTR) Because absence of treaties	1
Tax payable	1
Sub Total (c)	**6**
(d)	
i)Rejection of transaction value	2
ii) Customs duties - transaction value of identical goods method	
CIF customs value correctly converted	1
Import duty	1
VAT base	1
Iii) Transfer pricing - cost plus method	
Arm's length price correctly computed	1
Correct conclusion	1
iv) Double taxation risk and mitigation	
If RRA adjusts PharmaRw's profits upward and Country X does not make a corresponding downward (correlative) adjustment to PharmaCo Inc, the same USD 18,000 is taxed in both jurisdictions - economic double taxation correctly explained	1
One mitigation mechanism correctly stated	1
Sub Total (d)	**9**

Model answers

(a)

ICL			
Taxable Income for the year ended 31st December 2023			
Description	**Working**	**FRW'000'**	**FRW'000'**
Business Reporting			3,440,000
Add not allowable Expenses			
Accrued salary		70,000	
Office partitioning		80,000	
Depreciation		200,000	
Capital expenditure		370,000	
Reserve allowance		172,000	
Provision for bad debts		2,000	
Withholding tax on public tender		12,000	
Training and research		89,000	
Quarterly prepayment for the last 3 quarters		45,000	
Communication cost		Allowed	
Billboard-Marketing cost		3,500	
			1,043,500
Less allowable Expenses			
VAT on Sales	6,500,000*18/118	991,525	
Capital allowance		123,000	
Insurance	500,000/5	100,000	

			(1,214,525)
Less non-taxable Income			
Interest	Exempted as per article 20 of income tax law of 2018	300,000	
Agriculture Income	W1	55,000	
			(355,000)
Add other taxable Income			
Agriculture Income	W1	22,500	
Dividend	67,000*100/92	72,826	
Branch Income	340,000*100/65	523,077	
			618,403
Adjusted Taxable Income			**3,532,378**

Working 1- Agriculture Income	**FRW'000'**
Agriculture Income (Gross)	55,000
Less Exempted Income (12M)	12,000
	43,000
Less allowable Expenses	
Cost of seeds	12,000
Cost of fertilizers	8500
Taxable Income from agriculture	**22,500**

(b)

1. Registering on the Rwanda Stock Exchange, where 35% of shares are traded to the public, will result in a 5% reduction in the Corporate Income Tax (CIT) rate (from 30% to 25%).
2. Exporting at least 50% of total sales will result in a 15% reduction in the CIT rate (from 30% to 15%).
3. Therefore, the applicable CIT rate is 10% (30% − 5% − 15%).

(c)

Tax liability	**FRW'000'**
Taxable Income	3,532,378
Tax @10%	353,238
Less Relief	
Withholding tax on public tender	12,000
Quarterly prepayment for the last 3 quarters	45,000
WHT on dividend	5,826
Income Tax (Mozambique)@30%	No DTR
Tax Payable	**290,412**

d) i) Rejection of transaction value

Under the EAC Customs Valuation rules (based on the WTO Valuation Agreement), the primary basis for customs value is the transaction value (the price actually paid or payable). However, where buyer and seller are related persons, the customs authority may scrutinise whether the relationship influenced the price.

PharmaRw Ltd is 100% owned by PharmaCo Inc, making them related parties. The transfer price of USD 180,000 is USD 40,000 below the identical-goods market price of USD 220,000 CIF, providing RRA with grounds to conclude that the relationship influenced the price downward, thereby reducing the customs duty base. RRA is therefore entitled to reject the transaction value and substitute the transaction value of identical goods.

ii) Customs duties - identical goods method

CIF customs value (identical goods benchmark)	USD 220,000
Convert to RWF (x 1,200)	FRW 264,000,000
Import duty (25% x 264,000,000)	FRW **66,000,000**
Excise duty base (264,000,000 + 66,000,000)	FRW 330,000,000
Excise duty (10% x 330,000,000)	FRW **33,000,000**
Port handling charges (500 kg x RWF 10)	FRW 5,000
VAT base (264,000,000 + 66,000,000 + 33,000,000 + 5,000)	FRW 363,005,000
VAT (18% x 363,005,000)	FRW **65,340,900**
Total customs duties and taxes	FRW **164,345,900**

iii) Transfer pricing - cost plus method

PharmaCo Inc cost of goods manufactured	USD 120,000
Arm's length mark-up (35% on cost: 35% x 120,000)	USD 42,000
Arm's length transfer price	**USD 162,000**
Actual transfer price charged	USD 180,000
Variance (overcharge above arm's length)	**USD 18,000**

Conclusion: The actual price of USD 180,000 exceeds the arm's length price of USD 162,000 by USD 18,000. PharmaRw has been overcharged by the parent company, inflating its deductible costs and reducing its Rwandan taxable income - a profit-shifting concern. RRA may make a downward adjustment to PharmaRw's costs (disallowing USD 18,000), thereby increasing its taxable profits.

iv) Double taxation risk and mitigation

Risk: If RRA adjusts PharmaRw's taxable profit upward by disallowing USD 18,000 of cost, PharmaRw pays additional corporate income tax in Rwanda on that amount. If Japan's tax authority does not make a corresponding downward (correlative) adjustment to PharmaCo Inc's profits, PharmaCo will also be taxed on the same USD 18,000 in Japan resulting in economic double taxation on the same income.

Mitigation: A Double Taxation Agreement (DTA) between Rwanda and Japan may require Japan's authority to make a corresponding adjustment (Article 9(2) of the OECD Model Convention), eliminating the double tax. Alternatively, a Mutual Agreement Procedure (MAP) under the DTA allows the competent authorities of both countries to negotiate and relieve the double tax.

SECTION B

QUESTION TWO

Marking guide

Description	Marks
(a)	
Basic Salary	1
Transport Allowance	1
Housing Allowance	1
13^{th} Month Salary	1
Bonus	1
Other Income	
Mission Allowance	0.5
Benefit on kind-Interest on loan	1.5
Pension payment from Teganya	0.5
Contribution to study loan	0.5
Interest from collective investment scheme	0.5
5% of medical contribution	0.5
Total Taxable Income	
PAYE	
0-360,000	0.5
360,001-1,200,000	0.5
Above 1,200,001	0.5
Statutory Deduction	
1. RSSB	
Employer Contribution (TWCL)	1
Employee Contribution (Peter Sadiki)	1
2. Maternity Leave	
Employer Contribution (TWCL)	1
Employee Contribution (Peter Sadiki)	1
3. CBHI	
Gross Total Taxable Income	
Less	
PAYE	

RSSB	
Maternity Leave	
Study Loan	1
Medical Insurance (5%*33.6M)	1
CBHI figure	0.5
Sub Total (a)	**17**
(b)	
Award 1 mark for each responsibility, Max 3 marks	3
Total	**20**

Model answers

(a)

Peter Sakidi		
PAYE and statutory deductions for the year ended 31st December 2025		
Description	**FRW (Monthly)**	**FRW (Annual)**
Basic Salary	2,800,000	33,600,000
Transport Allowance	196,000	2,352,000
Housing Allowance	224,000	2,688,000
		38,640,000
13th Month Salary		3,220,000
Bonus		5,600,000
Other Income		
Mission Allowance		Exempted
Benefit in kind-Interest on loan	W1	1,000,000
Pension payment from Teganya		Exempted
Contribution to study loan		Exempted
Interest from collective investment scheme		Exempted
5% of medical contribution		Exempted
Total Taxable Income		**48,460,000**
Working 1: Interest Income		
Loan	15,000,000	
Interbank interest rate	16%	
Months	5	
Interest	**1,000,000**	
PAYE		
0-360,000	0%	-
360,001-1,200,000	20%	168,000
Above 1,200,001	30%	14,178,000
		14,346,000

Statutory Deduction	**Rate**	**Base**	**Contribution**
1. RSSB			
Employer Contribution (TWCL)	5.00%	48,460,000-2,352,000	2,305,400

Employee Contribution (Peter Sadiki)	3.00%	48,460,000-2,352,000	1,383,240
2. Maternity Leave			
Employer Contribution (TWCL)	0.30%	48,460,000-2,352,000	138,324
Employee Contribution (Peter Sadiki)	0.30%	48,460,000-2,352,000	138,324
3. CBHI			
Employee Contribution (TWCL)	0.05%		
Base -Partial net			
Gross Total Taxable Income	48,460,000		
Less			
PAYE	14,346,000		
RSSB	1,383,240		
Maternity Leave	138,324		
Study Loan	1,800,000		
Medical Insurance (5%*33.6M)	1,680,000		
Base		**29,112,436**	145,562

(b)

Three key responsibilities of an employer regarding the management and taxation of employees' employment income are:

1. Withholding income tax (PAYE) and other statutory deductions from employees' salaries and other taxable benefits.
2. Remitting the withheld tax to the relevant tax authority within the required deadlines.
3. Maintaining accurate payroll records and providing employees with pay slips or statements showing salary, allowances, deductions, and taxes withheld.

QUESTION THREE

Marking guide

Input VAT		
Date	**Description**	**Marks**
02/03/2026	Import (W1)	0.5
03/03/2026	Local products	0.5
04/03/2026	Rent expenses	0.5
04/03/2026	Electricity expenses	0.5
06/03/2026	Salaries	0.5
10/03/2026	Purchase of computers	0.5
11/03/2026	Purchase of shelters	0.5
Sub-Total		**3.5**

Output VAT	

Date	Description	Marks
03/03/2026	Sales of cosmetics	0.5
07/03/2027	Sales of wear to coop.	0.5
08/03/2026	Order from Hotel	0.5
15/03/2026	Shoes invoice to his friend	0.5
20/03/2026	Consultant fees Reverse charge)	0.5
25/03/2026	Returned shoes	0.5
23/03/2026	Gift to his sisters	0.5
Sub Total		**3.5**

Working 1- VAT on import	**Marks**
Initial cost	
Undervaluation adjustment	
Adjusted cost	1
Transport	1
Insurance	0.5
CIF	
Import duty (ID)	0.5
Excise duty (ED)	1
VAT	1
Sub total	**5**

(b)(i)	
Award 1 mark for each condition (Maximum 5 marks)	5
(b)(ii)	
1 mark for each Input VAT treated (Maximum 3 marks)	3
Sub total	**8**

Model answers

VAT Computation			
Input VAT			
Date	**Description**	**Amount**	**VAT**
02/03/2026	Import (W1)		10,335,600
03/03/2026	Local products	12,000,000	2,160,000
04/03/2026	Rent expenses	1,000,000	180,000
04/03/2026	Electricity expenses	800,000	144,000
06/03/2026	Salaries		No VAT
10/03/2026	Purchase of computers	1,200,000	Exempted
11/03/2026	Purchase of shelters		No VAT (personal use)
Total			**12,819,600**

Output VAT			
Date	**Description**	**Amount**	**VAT**
03/03/2026	Sales of cosmetics	15,000,000	2,700,000
07/03/2027	Sales of wear to coop.	7,600,000	1,368,000

08/03/2026	Order from Hotel	25,000,000	4,500,000
15/03/2026	Shoes invoice to his friend	15,000,000	2,700,000
20/03/2026	consultant fees Reverse charge)	6,000,000	1,080,000
25/03/2026	returned shoes	2,500,000	- 450,000
23/03/2026	Gift to his sisters	650,000	117,000
Total			**12,015,000**

VAT Refundable= 12,015,000-12,819,600= - 804,600

Working 1- VAT on import	USD	Exch. Rate	FRW
Initial cost	20,000		
Undervaluation adjustment	8,000		
Adjusted cost	28,000	1,450	40,600,000
Transport	1,900	1,450	2,755,000
Insurance	100	1,450	145,000
CIF	30,000	1,450	43,500,000
Import duty (ID)	CIF*Rate	20%	8,700,000
Excise duty (ED)	(CIF + ID)*Rate	10%	5,220,000
VAT	(CIF+ID+ED)*Rate	18%	10,335,600

(b)(i)

Conditions for claiming pre-registration input VAT

Mukundwa can claim input VAT on goods and services incurred before VAT registration only if the following conditions are met:

For Goods:

1. The goods were acquired for the purpose of the business.
2. The goods were not sold or fully consumed before the date of VAT registration (they must still be in stock).
3. The VAT was incurred within four (4) years before the date of registration.

For Services:

1. The services were acquired for business purposes.
2. The services were supplied within six (6) months prior to VAT registration.

(ii)

Computation of Input VAT claimable

1) Raw materials purchased in January 2020

- Amount: FRW 30,000,000
- Status: **Fully consumed by May 2023**

Not claimable as goods were consumed before VAT registration.

2) Goods purchased in September 2023

- Total purchase: FRW 120,000,000
- Remaining stock (Jan 2025): FRW 50,000,000 should be **claimable only on remaining stock**

Input VAT: 50,000,000 × 18%= FRW 9,000,000

3) Consultancy services (October 2024)

- Amount: FRW 6,000,000

Condition:

Services should have been supplied within six (6) months prior to VAT registration 2025, then here from October 2024 to January 2025, about 3 months.

Then, Input VAT to claim is FRW 9,000,000*18%=FRW 1,080,000

Total Input VAT Claimable= FRW 9,000,000 +FRW 1,080,000= FRW 10,080,000

QUESTION FOUR

Marking guide

Description	**Marks**
Part (a)(i)	
Option 1-Purchase and resell	
Award 2 marks for calculation of revenue	2
Award 1 marks for total cost on option 1 (0.5 marks for Purchase and 0.5 marks for Transport cost)	1
Award 1 mark for correct profit on option 1	1
Award 1 mark for correct tax on option 1	1
Option 2-Produce Internally	
Award 4 marks for total cost on option 1 (0.5 marks for each raw material, operating, Training cost and capital allowance)	2
Award 1 mark for correct profit on option 1	1
Award 1 mark for correct tax on option 1	1
Best option	
Award 1 mark for the best option recommended	1
Sub-total (a)	**10**
Part (a)(ii)	
Award 1 mark for each factor (2 marks on option 1 and maximum 4 marks for option 2)	6
Part (b)	
Award 1 mark for each point, maximum 4 marks	4
Total Marks	**20**

Model answers

(a)(i) Recommendation based on Tax Impact

Step 1: Calculate Revenue (same for both options)

- Selling price = FRW 14,160 (VAT inclusive)
- VAT exclusive price = 14,160 / 1.18 = 12,000
- Quantity = 5,000 litres

Revenue (VAT exclusive): = 12,000 × 5,000 =60,000,000

OPTION 1: BUY AND RESELL
Costs

- Purchase cost = 5,000 × 3,500 = 17,500,000
- Transport cost = 800,000

Total Cost = 18,300,000
Profit =60,000,000 – 18,300,000 = 41,700,000
Tax @30%=41,700,000×30% = 12,510,000

OPTION 2: PRODUCE INTERNALLY
Costs

- Raw materials = 1,200 × 5,000 = 6,000,000
- Operating cost = 6,000,000
- Training cost = Exempted
- Capital allowance on Machine = (30,000,000+2,500,000)*25%= 8,125,000

Total Deductible Cost=6,000,000+6,000,000+ 8,125,000 = 20,125,000

Profit =60,000,000–20,125,000= 39,875,000

Tax @30% = 39,875,000 ×30% = 11,962,500

Comparison

Option	Profit	Tax
Buy & resell	41,700,000	**12,510,000**
Produce Internally	38,000,000	**11,962,500**

Conclusion (Tax Perspective)

To **produce internally** results in **lower tax liability** (FRW 11,962,500 vs 12,510,000).

Recommendation:
If the objective is **to minimize tax liability**, MCL should choose to **produce Internally**.

(a)(ii) Other Negative Factors to Consider

Even though tax is important, managers should also consider:

Option 1- Buy and resell

- Reliance on external supplier
- Risk of price changes or supply disruption

Option 2- Produce Internally

- **High Initial Investment Risk (**Buying the machine (FRW 30M) is costly and risk if future orders do not materialize)
- **Cash Flow Impact (**Internal production requires large upfront cash and may strain company liquidity)
- **Operational Risk (**Lack of experience in producing this new product and Possible inefficiencies or production failure

- **Time Constraints (**Training and installation may delay delivery and buying externally is faster)
- **Quality Risk (**Internal production may not match required quality initially)
- **Maintenance Costs (**Future repair and maintenance cost)

(b)

To reduce both income tax liability and VAT payable legally, Mr. Rwankindo should consider the following:

1. Expansion to South Africa instead of Cameroon:

Mr. Rwankindo should prioritize opening a branch in South Africa because Rwanda and South Africa signed a Double Taxation Agreement (DTA) in 2021. This will help to:

- Avoid double taxation on the same profits in Rwanda and South Africa by allowing tax credits or exemptions for taxes paid in South Africa.
- **Conclusion:** The above makes South Africa more tax-efficient than Cameroon if no similar treaty exists.

2. Outsourcing Foreign Services:

✓ When services are outsourced from foreign consultants to a Rwandan business, imported services VAT (reverse charge VAT) may apply in Rwanda. This means Mr. Rwankindo may need to account for output VAT to the Rwanda Revenue Authority on services received from abroad, especially where such services are available locally in Rwanda.

✓ Therefore, using foreign consultants may increase VAT payable under reverse charge rules compared to using local consultants, where the business can claim input VAT, thereby reducing the net VAT payable.

QUESTION FIVE

Marking guide

Tax Base		
Description	**% of change**	**Tax base**
2-floors residential apartment	0.5 marks	0.5 marks
4- floors residential apartment	0.5 marks	0.5 marks
Commercial Building - Kibagabaga	0.5 marks	0.5 marks
Commercial Building - Kacyiru	0.5 marks	0.5 marks

1. Tax on building	**Tax Rate**	**Discount**	**Tax amount**
2-floors residential apartment	0.5 marks		0.5 marks
4- floors residential apartment	0.5 marks	0.5 marks	0.5 marks
Commercial Building - Kibagabaga	0.5 marks		0.5 marks
Commercial Building - Kacyiru	0.5 marks		0.5 marks

2. Tax on plot of land			
Description	**Tax rate**	**Tax rate on excess**	**Tax amount**
2-floors residential apartment	0.5 marks		0.5 marks
4- floors residential apartment	0.5 marks		0.5 marks
Commercial Building - Kibagabaga	0.5 marks		0.5 marks
Commercial Building - Kacyiru	0.5 marks		0.5 marks

3. Tax on Rental Income	Gross Rental Income	Less deemed expenses (50%)	Less Interest on Loan	Taxable Rental Income
2-floors residential apartment	0.5 marks	0.5 marks		0.5 marks
4- floors residential apartment	0.5 marks	0.5 marks		0.5 marks
Commercial Building	0.5 marks	0.5 marks		0.5 marks

Tax on Rental Income		
Tax ban	**Rate**	**Tax amount**
0-180,000	0.5 marks	0.5 marks
180,001-1,000,000	0.5 marks	0.5 marks
Above 1,000,001	0.5 marks	0.5 marks

Model answers

Decentralized taxes are
1. Tax on building
2. Tax on plot of land
3. Rental Income Tax

Calculation

Tax Base on building					
Description	**Original Value**	**Additional/ reduction value**	**% of change**	**Impact**	**Tax base**
2-floors residential apartment	120,000,000	20,000,000	17%	Keep the original value as the appreciation did not exceed 20%	120,000,000
4- floors residential apartment	200,000,000	40,000,000	20%	Keep the original value as the appreciation did not exceed 20%	200,000,000
Commercial Building - Kibagabaga	150,000,000	30,000,000	20%	Keep the original value as the appreciation did not exceed 20%	150,000,000

Commercial Building - Kacyiru	220,000,000	30,000,000	13.6%	Keep the original value as the appreciation did not exceed 20%	220,000,000

Tax on building			
Description	**Value**	**Rate**	**Tax**
2 storey Residential building	120,000,000	0.50%	600,000
4 storey Residential building	200,000,000	0.10%	200,000
Commercial Building of Kibagabaga	150,000,000	0.30%	450,000
Commercial Building of Kacyiru	220,000,000	0.30%	660,000
Total tax on building			**1,910,000**

2. Tax on plot of land				
Description	**Area of plot in m2**	**Tax rate**	**Tax rate on excess**	**Tax amount**
2-floors residential apartment	300	250	-	75,000
4- floors residential apartment	500	250	375	150,000
Commercial Building - Kibagabaga	250	250	-	62,500
Commercial Building - Kacyiru	300	250	-	75,000
Total				**362,500**

3. Tax on Rental Income	**Gross Rental Income**	**Less deemed expenses (50%)**	**Less Interest on Loan**	**Taxable Rental Income**
2-floors residential apartment	36,000,000	18,000,000	15,200,000	2,800,000
4- floors residential apartment	84,000,000	42,000,000	-	42,000,000
Commercial Building	144,000,000	72,000,000	-	72,000,000
Total	**264,000,000**	**132,000,000**	**15,200,000**	**116,800,000**

Tax on Rental Income		
Tax ban	**Rate**	**Tax amount**
0-180,000	0%	-
180,001-1,000,000	20%	164,000
Above 1,000,001	30%	34,740,000
Total		**34,904,000**

Total decentralized taxes	**Tax amount**
Tax on building	1,910,000
Tax on plot of land	287,500
Rental Income Tax	34,904,000
Total	**37,101,500**

End of question paper