CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.3 ADVANCED TAXATION

DATE: TUESDAY, 26 MAY 2026

INSTRUCTIONS:

1. Time allowed: **3 hours and 45 minutes (**15 minutes reading and 3 hours 30 minutes writing)
2. This examination has **two** sections; **A&B**
3. Section **A** has one Compulsory Question while section **B** has Four optional questions to choose any Three
4. In summary attempt **Four** questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings

TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

Personal Income Tax Rates (PIT)

Monthly Taxable Income		**Tax Rate**	**Annual Taxable Income**		**Tax Rate**
From (FRW)	**To** (FRW)	%	**From** (FRW)	**To** (FRW)	%
0	30,000	0	0	360,000	0
30,001	100,000	20	360,001	1,200,000	20
100,001	And above	30	1,200,001	And above	30

Individual's housing benefit: 20% of the employment income excluding benefits in kind

Individual's Car benefit: 10% of the employment income excluding benefits in Kind.

RSSB contribution - Pension

Employer's contribution	5%
Employee's contribution	3%

RSSB contribution – Maternity leave

Employer's contribution	0.3%
Employee's contribution	0.3%

Corporate Income Tax Rate: 30%

Capital gains tax

Net aggregate gains are taxable at the company rate of tax

Gains on sale of shares are taxable at the rate of 5%

Value Added Tax (VAT) Rate: 18%

Withholding tax

Standard	15%
Government securities	5%
Import	5%
Public Tender	3%

Gaming tax: 13%

Capital allowance

Description	**Rate**
Accelerated depreciation	50%
Wear & Tear Allowance	
Buildings, heavy industrial equipment and machineries	5%
Intangible assets	10%
Information and communication systems whose life is over ten (10) years	10%
Computers and accessories, information, and communication systems whose life is under ten (10) years	50%
Other business asset	25%

Your answers should be based on Law Nº 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

SECTION A

QUESTION ONE

Ikoro Company Ltd (ICL) is a company incorporated in 2012 to produce Ikoro bricks as its brand. At the beginning, the company had few customers, but over time it gained a large market share. In 2018, ICL requested an investment certificate from the Rwanda Development Board (RDB) as it was planning to invest in capital expenditure. As the company became more profitable in the region, it was decided to list their shares on the Rwanda Stock Exchange, where 35% of its shares were issued to the public.

In 2020, ICL's investment analyst proposed expanding the market by exporting at least 50% of its sales to neighbouring countries and establishing branches outside Rwanda, where the number of clients is increasing. This proposal was approved by the Board of Directors during an extraordinary meeting held in December 2021.

Below is the profit and loss account for the year ended 31st December 2023 of ICL.

Description	**FRW'000'**	**FRW'000'**
Revenues		6,500,000
Cost of sales		
Opening stock	800,000	
Purchases	700,000	
Closing stock	(150,000)	(1,350,000)
Gross profit		**5,150,000**
Other income		
Interest	300,000	
Agriculture (Gross)	55,000	
Total other Income		355,000
Total operating profit		**5,505,000**
Expenses		
Salary cost	450,000	
Electricity cost for operation and production activities	250,000	
Finance costs	85,000	
Repair and Maintenance	150,000	
Depreciation	200,000	
Water costs	25,000	
Capital expenditure	370,000	
Reserve allowance	172,000	
Provision for bad debts	2,000	
Withholding tax on public tender	12,000	
Trading license for 2024	2,000	
Training and research	89,000	
Quarterly prepayment for the last 3 quarters	45,000	
Communication costs	16,000	
Marketing costs	9,000	
Other costs	188,000	

Description	FRW'000'	FRW'000'
Total expenses		**(2,065,000)**
Business Profit		**3,440,000**

Additional information:

1. The revenue was recorded inclusive of VAT.
2. The recorded interest related to other income is accrued from savings in collective investment schemes of ICL staff.
3. ICL incurred FRW 12,000,000 and FRW 8,500,000 relating to the costs of seeds and fertilizers, respectively used in agricultural activities.
4. Salaries include the accrued staff bonus from the previous year, which was paid in 2023 of FRW 70,000,000.
5. FRW 80,000,000 included in repair and maintenance costs related to office partitioning for technicians working in the operations department.
6. Company policy reserves 5% of the profit annually for unexpected events.
7. Training and research expenses were incurred on the production machinery, which was new; ICL conducted this to ensure staff were trained and the machinery was suitable for their production model.
8. Communication costs related to the internet loaded in the office's routers.
9. Marketing costs included FRW 3,500,000 relating to the billboard placed at the entrance of Musanze City.
10. It was agreed by the Rwanda Revenue Authority that the capital allowance should be FRW 123,000,000.
11. In January 2024, the Chief Finance Officer of ICL reviewed the financial statements and found that insurance paid in January 2023 for a period of five years, amounting to FRW 500,000,000 and split equally over the period, had not been recorded by the accountant, who believed it was a prepayment. Further review revealed that FRW 67,000,000, net of withholding tax, relating to dividends received from an investment in Vodacom Tanzania, had also not been recorded. Rwanda and Tanzania have signed a Double Taxation Agreement under which the withholding tax on dividends is 8%.
12. As advised by the investment analyst, in 2022 ICL established a branch in Mozambique. For the year ended 2023, a profit after tax of FRW 340,000,000 was obtained; however, this profit was not recorded by ICL. There is no double taxation agreement between Rwanda and Mozambique. The Mozambique Revenue Authority has set the Corporate Income Tax rate at 35%.

Required:

Consider that you have been approached by ICL as a tax expert in February 2024 to review and prepare the accounts for tax filing:

a) **Compute the adjusted taxable profit for ICL for the year ended 31st December 2023.** (22 Marks)

b) **Comment on the tax implications of ICL's decision to register on the Rwanda Stock Exchange and to export its sales, as well as the applicable Corporate Income Tax**

(CIT) rate resulting from these decisions, considering that ICL achieved the export target in 2023. (3 Marks)

c) Considering the tax implications mentioned in (b), **compute the tax liability and tax payable by ICL for the year ended 31st December 2023.** (6 Marks)

d) PharmaRw Ltd is a Rwandan pharmaceutical company wholly owned by PharmaCo Inc, a parent company incorporated in Japan (a lower-tax jurisdiction). During the year ended 31 December 2023, PharmaRw imported a consignment of Active Pharmaceutical Ingredients (APIs) from PharmaCo Inc. The following details relate to the transaction:

Invoice price	USD 180,000 FOB
Marine insurance (Japan to Mombasa)	USD 4,500
Freight (Japan to Mombasa)	USD 9,000
Road transport (Mombasa to Kigali)	RWF 3,600,000
Port handling charges	RWF 10 per kg (500 kg consignment)

Additional information:

1. Rwanda Revenue Authority (RRA) has obtained data showing that an unrelated supplier, GenChem Ltd, sells identical APIs to Rwandan importers at USD 220,000 CIF for the same quantity and commercial level.
2. PharmaRw sells the finished drugs domestically. Its gross profit margin (using the cost-plus method) is benchmarked at 35% on cost. PharmaCo Inc recorded a cost of goods manufactured of USD 120,000 for this consignment.
3. Applicable tax rates: Import duty: 25%; Excise duty: 10%; Exchange rate: USD 1 = RWF 1,200.

Required:

i) **Explain why RRA may reject the transaction value of USD 180,000 FOB as the customs value, with reference to the WTO/EAC customs valuation rules applicable to related-party transactions.** (2 Marks)

ii) Using the transaction value of identical goods (USD 220,000 CIF), **compute the CIF customs value in RWF and the total customs duties and taxes payable (import duty, excise duty, and VAT) to RRA.** (3 Marks)

iii) Using the cost-plus method, **determine whether the transfer price of USD 180,000 is consistent with the arm's length principle, given PharmaCo Inc's cost of goods manufactured of USD 120,000 and a benchmarked gross profit margin of 35% on cost.** *Show all workings.* (2 Marks)

iv) **Briefly explain the double taxation risk that could arise if RRA makes a transfer pricing adjustment to PharmaRw's taxable profits, and state one mechanism by which this risk may be mitigated.** (2 Marks)

(Total: 40 Marks)

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SECTION B

QUESTION TWO

a) Peter Sakidi has been employed by Tunga Weza Company Ltd (TWCL) since 2024. The company drafted his employment contract based on its Human Resource (HR) policy. The contract includes the following provisions:

1. The monthly basic salary is set at FRW 2,800,000.
2. The transport allowance is set at 7% of the basic salary.
3. The housing allowance is set at 8% of the basic salary.
4. The statutory deductions disclosed in the contract include contributions to the Rwanda Social Security Board (RSSB), Maternity Leave, and Community-Based Health Insurance (CBHI).
5. Peter Sakidi is entitled to a 13th month salary, equivalent to his basic salary plus transport and housing allowances.
6. The contract also includes a bonus allowance equivalent to two basic salaries, usually paid in October each year.

Apart from the remuneration disclosed in the contract, Peter Sakidi received the following income from TWCL and other sources for the year ended 31 December 2025:

- Mission allowance of FRW 9,500,000 received during field work with farmers.
- FRW 15,000,000 received in 01st August 2025 as an interest-free loan of 20 years. The annual interbank interest rate published by the National Bank of Rwanda is 16%.
- Pension payment of FRW 3,500,000 received from Teganya Pension Scheme, a qualified pension fund licensed by the National Bank of Rwanda.
- Contribution to study loan of FRW 150,000 per month agreed by TWCL to be deducted from his monthly salary.
- Interest income of FRW 4,500,000 received from employees' shares scheme.
- A monthly medical insurance contribution equivalent to 5% of the basic salary is made on behalf of Peter, while TWCL contributes an additional 15% under the company's medical scheme, which applies to all employees.

Note: Statutory contributions are based on the monthly payments, where applicable.

Required:

Compute the Pay As You Earn (PAYE) on Peter Sakidi's employment income for the year ended 31 December 2025, and the total statutory contributions by him and TWCL. (17 Marks)

b) An employee receives a monthly salary along with various allowances from their employer. The employer is responsible for managing the payments and related deductions. Based on this scenario, **state THREE key responsibilities of an employer regarding the management and taxation of employees' employment income.** (3 Marks)

(Total: 20 Marks)

QUESTION THREE

a) Muneza is a businessman who trades in cosmetics, women's wear, and shoes at Nyarugenge City Market. For the month of March 2026, the following transactions occurred:

- On 2nd March 2026, he imported a container of women's wear from China at an invoice value of USD 20,000. He used his brother's container free of charge, and the insurance paid was USD 100. Upon arrival at the customs warehouse, the customs staff noted that the imported wear had been undervalued by USD 8,000.
- On 3rd March 2026, he sold cosmetics worth FRW 15,000,000 and purchased local products worth FRW 12,000,000.
- On 4th March 2026, he paid rent of FRW 1,000,000 and electricity expenses of FRW 800,000.
- On 6th March 2026, he paid salaries to his workers amounting to FRW 3,500,000.
- On 7th March 2026, he sold wear worth FRW 7,600,000, but the payment was not made immediately because the products were sold to a women's cooperative, which agreed to pay the amount after three months, in June 2026.
- On 8th March 2026, he received an order from a hotel worth FRW 25,000,000 for cosmetics. The hotel paid the full amount on the same date, but agreed with Muneza that the goods would be delivered in May 2026, when the hotel expects to host guests from outside.
- On 10th March 2026, he purchased a computer for one of his staff members at a cost of FRW 1,200,000.
- On 11th March 2026, he paid FRW 11,000,000 for shelter materials to be used in constructing his new residential house for his family.
- On 15th March 2026, he issued an invoice to his friend, who is also a trader in the same market, for shoes worth FRW 15,000,000. However, no goods were actually released from his stock, as this was done to balance his input VAT with output VAT.
- On 20th March 2026, he acquired consultancy services from a Ugandan consultant who came to assess his business model and provide advice, for a fee of FRW 6,000,000, even though similar service providers are available in Rwanda.
- On 23rd March 2026, he took 6 pairs of dresses and 6 pairs of shoes from his stock and gave them to his sisters as gifts, valued at FRW 650,000.
- On 25th March 2026, some shoes worth FRW 2,500,000 were returned from the customers after defects were discovered.

Additional Information:

1. The Rwanda Revenue Authority (RRA) has published that the transport cost of one container is USD 1,900.
2. At the date of import, 1 USD was equivalent to FRW 1,450.
3. The applicable rates of import duty and excise duty are 20% and 10% respectively.
4. All transactions were recorded VAT exclusive

Required:

Compute the VAT resulting from the above transactions for the month of March 2026. (12 Marks)

b) Mukundwa started a business in 2020 but as she did not meet the required turnover threshold, she was not registered for VAT at that time. She later registered for VAT in January 2025. Prior to her VAT registration, the following transactions were incurred:

1. In January 2020, she purchased raw materials at FRW 30,000,000 (VAT exclusive), which were fully consumed by May 2023.
2. In September 2023, she purchased additional goods at FRW 120,000,000 (VAT exclusive). As of January 2025, goods worth FRW 50,000,000 remained in stock.
3. In October 2024, she paid for consultancy services related to business policy formulation amounting to FRW 6,000,000 (VAT exclusive).

Required:

i) **Outline the conditions that Mukundwa must fulfill to be allowed to claim input VAT on goods and services incurred before VAT registration.** (5 Marks)

ii) **Compute the input VAT that Mukundwa can claim after VAT registration.** (3 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) Muhirwa Company Ltd (MCL) is a company that produces and sells different kinds of soft drinks. In recent months, MCL received an order from one of the five-star hotels in Rwanda. The order appears special, as the soft drink requested by the hotel is not the same as those that MCL usually produces.

During a management meeting, this offer was discussed to evaluate whether it should be accepted or rejected. In the assessment, two options were proposed. The first option was to determine whether the soft drink is available on the market so that it could be purchased from an existing supplier and resold to the hotel. The second option was to acquire a machine to produce the drink internally, without involving an external supplier, as the company believes such orders may continue in the future.

The meeting resolved that the Chief Finance Officer (CFO) would perform a numerical analysis and present the findings at the next meeting for a final decision. It was also highlighted that the proposal should cover both the tax saving aspects and the potential negative effects of each option.

Below are the details of the order and other relevant information to guide the decision:

- The hotel ordered 5,000 liters at FRW 14,160 (VAT inclusive) per liter.
- MCL expects to purchase the same quality product from Soft Drink Company Ltd at a cost of FRW 3,500 (VAT exclusive) per liter and resell to the hotel.
- MCL will incur additional transport costs of FRW 800,000 if the product is purchased from Soft Drink Company Ltd.
- If MCL decides to produce the order internally, it will need to purchase machine at a cost of FRW 30,000,000 and will be classified under pooled assets.

- MCL will also incur training costs of FRW 2,500,000 for operating the machine.
- Raw materials will cost FRW 1,200 per liter.
- Additional operating costs for internal production will amount to FRW 6,000,000.

Required:

i) Suppose you are the CFO of MCL As indicated, senior managers are interested in knowing which option will result in greater tax savings. Based on your calculations, **recommend the option that will lead MCL to incur the lowest tax liability.** (10 Marks)

ii) **Explain other negative factors that senior managers should consider when selecting the best option.** (6 Marks)

b) Mr. Rwankindo is planning to expand his business by operating branches outside Rwanda. His initial plan is to open a new branch in South Africa and another in Cameroon. In 2021, Rwanda and South Africa signed a Double Taxation Agreement.

Additionally, Mr. Rwankindo is considering outsourcing foreign services, as he believes foreign consultants provide better services than local consultants, even though there are many local consultants who normally provide such services.

Required:

Consider the planning of Mr, Rwankindo and advice the decision that will provide tax efficient and VAT payable on outsourced services to tax authority. (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

Ndongoozi owns three properties located in Gasabo since 2018, with the following values:

1. A two-storey residential apartment situated in the Kibagabaga sector was professionally assessed and valued at FRW 120,000,000. The property stands on a total land area of 300 m² and comprises two floors designed to accommodate residential occupancy. The valuation was carried out in accordance with prevailing market conditions and reflects the property's structural characteristics, location advantages, and overall physical state at the time of assessment.
2. A four-storey residential apartment building, strategically located in the Kacyiru sector, was formally valued at FRW 200,000,000. The property is developed on a total land area of 500 m² and features four floors intended for residential use. Given its prime location and relatively larger floor area, the valuation takes into account the property's accessibility and proximity to key amenities.
3. A commercial building situated within the Kibagabaga sector was formally assessed and valued at FRW 150,000,000. The property is constructed on a total land area of 250 m² and is designated for commercial use. The valuation reflects key determinants such as the building's structural condition, commercial utility, accessibility to customers and businesses, as well as the prevailing market dynamics within the Kibagabaga area at the time the assessment was conducted.

During the year ended 31 December 2023, he made the following improvements to his properties:

- The two-floor residential apartment situated in the Kibagabaga area underwent significant renovation and improvement works, with the total cost of the improvement amounting to FRW 20,000,000. These improvements were undertaken with the aim of enhancing the structural integrity, functionality, and overall value of the property.
- The four-floor residential apartment, which comprises multiple dwelling units across its four levels, was subjected to a comprehensive improvement and rehabilitation program. The total expenditure incurred in carrying out these improvement works amounted to FRW 40,000,000, reflecting the scale and complexity of the renovation undertaken.
- The commercial building located in the Kibagabaga area was subjected to substantial improvement works aimed at upgrading its physical condition and enhancing its suitability for commercial activities. The total cost associated with these improvement works amounted to FRW 30,000,000, representing a significant investment toward increasing the property's commercial utility and market value.

In January 2023, Ndongoozi valuers assessed a commercial building located in Kacyiru which he has bought in 2022 at FRW 220,000,000. The building is constructed on a land area of 300 m^2. The tax administration, however, contested this valuation on the grounds that the property's market value may have been understated, and consequently commissioned a counter-valuation. The counter-valuation determined the building's value to be FRW 250,000,000.

Additional Information:

1. The 2-floor residential apartment located at Kibagabaga was rented out at FRW 3,000,000 per month. It was constructed using a bank loan of FRW 80,000,000 at 19% simple interest for 10 years, with the remaining amount financed from personal funds.
2. The 4-floor residential apartment located at Kacyiru was rented out at FRW 7,000,000 per month. It was financed through a grant from his parents living in Canada.
3. The commercial building located at Kibagabaga was rented out at FRW 12,000,000 per month. No loan was taken to construct it.
4. Ndongoozi hired a professional accountant to manage his properties, with a monthly salary of FRW 1,000,000.
5. Total electricity and water expenses for the year 2023 amounted to FRW 20,000,000.
6. Other operating expenses for the year 2023 amounted to FRW 15,000,000.
7. District council has approved that the standard plot of land size should not exceed $300m^2$ while the rate shall be FRW 250 per square meter.

Required:

Compute the decentralized taxes that Mr Ndongoozi is required to pay for the year ended 31 December 2023. (20 Marks)

(Total: 20 Marks)

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