CERTIFIED PUBLIC ACCOUNTANT

OPERATIONAL LEVEL EXAMINATION

AT2.5 ADVANCED TAXATION

DATE: MONDAY 25, MAY 2026

INSTRUCTIONS:

1. Time allowed: **3 hours and 15 minutes**
2. The examination has three sections: A, B and C
3. Section A has 15 compulsory multiple-choice questions equal to 2 marks each.
4. Section B has 3 compulsory questions equal to 10 marks each.
5. Section C has 2 compulsory questions equal to 20 marks each.
6. Questions marked **"select all that apply**" have multiple correct answers. Candidates must choose all correct options in order to be awarded 2 marks.
7. The question paper should not be taken out of the examination room.

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	60,000	0	0	720,000	0
60,001	100,000	10	720,001	1,200,000	10
100,001	200,000	20	1,200,001	2,400,000	20
200,001	And above	30	2,400,001	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	6%
Employee's contribution	8%

RSSB contribution – Maternity leave

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

Corporate Income Tax Rate: 28%

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 027/2022 of 20/10/2022 and its amendment Law Nº 048/2023 of 05/09/2023 Establishing Taxes on Income where applicable.
- Law Nº 049/2023 of 05/09/2023 establishing value added tax.
- Law n° 020/2023 of 31/03/2023 on tax procedures.

SECTION A

QUESTION ONE

In the context of Rwandan tax law, **identify which of the following types of income are considered taxable under the source rule:**

i) Dividends paid to a non-resident by a Rwandan resident company.
ii) Rental income from property located outside Rwanda, earned by a Rwandan resident.
iii) Business profits earned by a Rwandan resident in a foreign country.
iv) Employment income earned abroad by a non-resident working temporarily for a Rwandan company.

A (i) and (iv)
B (iii) and (ii)
C (i) only
D (i), (iii) and (iv) **(2 Marks)**

QUESTION TWO

Yange Industry sold to Mutoni Kakwezi Enterprise their production machinery with an original cost of FRW400 million, net book value of FRW190 million, accumulated tax depreciation of FRW200 million, and was sold for FRW250 million. They also sold inventory of fresh fruits with a book value of FRW50 million and a sale price of FRW60 million.

What is the total taxable gain/loss from the sale?

A Gain of FRW50 million
B Gain of FRW60 million
C Loss of FRW140 million
D Gain of FRW10 million **(2 Marks)**

QUESTION THREE

MNB Ltd, a VAT-registered business in Rwanda, recorded the following VAT-exclusive transactions in June 2024. On the sales side, the company made domestic taxable goods sales of FRW 50 million, taxable exports of FRW 20 million, and medical supplies sales of FRW 10 million. On the expenses side, purchases of goods for taxable supplies amounted to FRW 30 million, along with FRW 5 million worth of goods purchased from a customs bonded warehouse before taxes and duties were paid, those goods exiting the warehouse in July 2024.

What is net VAT payable or refundable in June 2024?

A FRW4.275 million payable
B FRW4.275 million refundable
C FRW3.6 million payable
D FRW3.6 million refundable **(2 Marks)**

QUESTION FOUR

The Rwanda Investment Code offers various incentives to financial service providers who wish to establish or expand their operations in Rwanda and access the African market. These incentives include tax holidays, preferential tax rates, and exemptions from withholding tax and capital gains tax.

Which of the following statements about the incentives under the Rwanda Investment Code is incorrect?

A The incentives help to attract foreign direct investment into Rwanda.

B The incentives are available to investors with valid investment certificates which are renewable in five-year periods.

C The incentives promote digital innovation by allowing financial service providers to operate with virtual offices instead of physical ones.

D The incentives encourage employment and capacity building of local talent.

(2 Marks)

QUESTION FIVE

Kamaliza is an employee at one of the big auditing firms in Rwanda as an accountant. During the month of December 2024, she received the following educational benefits from her employer in addition to her basic salary.

i) Tuition fees paid by the employer for an employee's child attending a private school

ii) Employer pays for accounting professional training program for Kamaliza at a local college

iii) Employer paid for a three weeks' training program in London for Kamaliza on Afro-European cuisine

iv) Cash allowances for purchasing educational materials for Kamaliza's dependents.

Which of the following educational benefits provided by the firm is exempt from tax?

A (i) and (iv)

B (iii) only

C (ii) only

D (i) and (ii) **(2 Marks)**

QUESTION SIX

As a newly recruited accountant for a telecommunication company in Rwanda, Jacob wants to comply with the tax law and needs your help to identify the services that are subject to excise tax. He has to file the excise tax return by the due dates.

Which of the following services are liable for excise tax in Rwanda?

i) Data bundles provided by local telecom companies

ii) Mobile airtime services

iii) Mobile money services

iv) Bank transfer fees to mobile wallets

A (i), (ii) and (iii)

B (ii) and (iii)

C (ii) only

D (i), (ii) and (iv) only **(2 Marks)**

QUESTION SEVEN

During an audit conducted six months after the fiscal year ending 31 December 2021, Rwanda Revenue Authority (RRA) discovered that Win Bet Ltd, a Rwandan betting and gaming company, had underdeclared its gaming tax for July 2021. As a result, RRA imposed back taxes at a 15% withholding tax on the unaccounted winnings, along with interest charges of 1.5% per month on the unpaid taxes from the due date until payment or assessment. The audit revealed that total wagers placed by players during the fiscal year amounted to FRW 500,000,000, while total winnings paid out were FRW 400,000,000. This was a desk audit that was concluded on 15th June 2022.

Under Rwanda's 2025 gaming tax reforms, **which of the following statements most accurately reflects the combined fiscal and regulatory approach adopted by the government?**

A The Gross Gambling Revenue (GGR) tax was reduced to 13% to encourage more operators to enter the market, while withholding tax on winnings remained at 15%.

B The government introduced a 1.5% tax on all gambling winnings and mandated that 25% of net profits be allocated to responsible gambling programs.

C The Gross Gambling Revenue tax was increased to 40%, withholding tax on winnings rose to 25%, and corporate tax is now exempt on companies in the gaming business.

D A flat 25% corporate income tax replaced all previous gambling-related taxes, streamlining the tax regime for digital and land-based operators alike **(2 Marks)**

QUESTION EIGHT

Fikra Tech Ltd, a technology company operating in Rwanda, is governed by the Rwanda Income Tax Law, which permits taxpayers to carry forward business-related tax losses and offset them against taxable income for up to five consecutive years.

Year	**Taxable income/ loss**
2019	(50,000,000)
2021	(30,000,000)
2022	40,000,000
2023	60,000,000
2024	(20,000,000)
2025	50,000,000

What is the amount of taxable income that Fikra Tech Ltd must declare for the year 2025, after applying the loss carry forward rules?

A FRW50,000,000

B FRW20,000,000

C FRW0

D FRW30,000,000 **(2 Marks)**

QUESTION NINE

Iwacu Food Ltd is a manufacturer of powdered milk that sells its products to both related and unrelated parties. In March 2023, it sold 100 kg of powdered milk to its subsidiary, Uwera Ltd, at FRW 4,000 per kg. It also sold 100 kg of powdered milk each to two independent customers, Maisha Ltd and Mavuta Ltd, at FRW 5,000 per kg. The consumption tax rate for powdered milk is 10%.

How much excise duty should Iwacu Food Limited pay for the month of March 2023?

A FRW 140,000

B FRW 130,000

C FRW 150,000

D FRW 160,000 **(2 Marks)**

QUESTION 10

A Rwandan trader imported FRW 5,000,000,000 in intermediate goods and FRW 3,000,000,000 in finished goods from outside the EAC. However, following a post-clearance audit, the RRA reclassified 20% of the intermediate goods as finished goods.

Based on the EAC Common External Tariff (CET) structure, and assuming no exemptions or valuation changes, **what is the total customs duty the trader is liable to pay?**

A FRW 1,150,000,000

B FRW 1,275,000,000

C FRW 1,400,000,000

D FRW 1,325,000,000 **(2 Marks)**

QUESTION 11

A Rwandan company manufactures and exports taxable goods to a European customer. The invoice value of the goods is Euros 500,000. The company paid FRW50,000,000 in input VAT on its local purchases for production.

How much VAT is charged by the Rwandan company, and how much VAT is claimed/refunded to the Rwandan company?

A The Rwandan company charges FRW50,000,000 in output VAT, and the Rwandan company receives no refund.

B The Rwandan company charges no output VAT as taxable exports are zero rates. The Rwandan company receives a refund of FRW50,000,000 arising from the suffered input VAT.

C Rwandan company receives no refund.

D The Rwandan company charges no output VAT as all exports are exempt from tax, and the Rwandan company receives a refund of FRW50,000,000. **(2 Marks)**

QUESTION 12

A Rwandan resident provides consulting services to a company in Country A, which has a double taxation treaty (DTT) with Rwanda. The resident receives income of FRW100,000,000 from this source. Country A levies a 15% withholding tax on consulting fees according to its domestic law, but the DTT reduces this rate to 10%. Rwanda taxes residents on their worldwide income at 30% and allows a foreign tax credit for taxes paid in the source country, subject to the DTT rate.

What is the total amount of tax paid by the resident in both countries after applying the DTT and the foreign tax credit rules?

A FRW30,000,000
B FRW25,000,000
C FRW20,000,000
D FRW15,000,000 **(2 Marks)**

QUESTION 13

Global General insurance company is a resident entity that provides insurance services in Rwanda. In its financial statements for the year ended 30 November 2022, it reported directors sitting allowances of FRW113,928,000 as an expense, net of withholding tax. The company withheld 15% of the gross allowances and paid the net amount to the directors. The company also reported the withholding tax as a separate expense in its profit and loss account.

What was the correct actual amount of directors sitting allowances that the company should have paid to the directors, and what was the correct amount of expense that the company should have deducted from its profit and loss account for tax purposes?

A FRW96,847,300 directors sitting allowance and FRW113,928,000 gross amount expensed.
B FRW93,823,058 directors sitting allowance and FRW113,928,000 gross amount expensed.
C FRW134,032,941 directors sitting allowance and FRW134,032,941 gross amount expensed.
D FRW93,823,058 directors sitting allowance and FRW134,032,941 gross amount expensed.
(2 Marks)

QUESTION 14

Which of the following statements correctly describe the tax treatment of contributions to the public institution in charge of social security (RSSB) in Rwanda?

i) Employers' contributions for their employees are exempt from employment income tax for the employees.
ii) Employees' contributions deducted and remitted by their employers are deductible in the employers' income tax calculation.
iii) Employers' contributions for their employees are not exempt from employment income tax for the employees.
iv) Employees' contributions deducted and remitted by their employers are not deductible in the employers' income tax calculation.

A (i) and (ii)
B (ii) and (iii)
C (iii) and (iv)
D (i) and (iv) **(2 Marks)**

QUESTION 15

Under the Ministerial Order on Transfer Pricing, a Rwandan taxpayer selects the Transactional Net Margin Method (TNMM) and designates a foreign affiliate as the tested party. **Which of the following conditions must be satisfied for this application to be considered compliant with the Order?**

A The foreign tested party must be the parent company of the Rwandan taxpayer.

B The taxpayer must demonstrate that no other method among the five approved methods is applicable.

C Sufficient financial information must be available to reliably apply the method and allow review by the Rwandan tax administration.

D The tested party must be located in a jurisdiction with a tax treaty with Rwanda.

(2 Marks)

SECTION B

QUESTION 16

ABC Ltd, a construction company, was awarded a tender to construct a road from Kigali to Muhanga, expected to take three years (2021-2023). The company operates under long-term contract accounting rules. During the construction period, the following financial outcomes were recorded:

- 2021: The company earned a profit of FRW100 million from the road project.
- 2022: The company realized a profit of FRW150 million from the project.
- 2023: Upon completion of the contract, the company incurred a loss of FRW250 million due to unforeseen costs and penalties.

Required:

a) **How should the loss in 2023 be treated and elaborate the THREE impacts on ABC Ltd's tax obligations?** (6 Marks)

b) ABC Ltd earned taxable profits in 2021 and 2022 from a road construction project expected to last for three years. Under Rwanda's income tax law, **how should the company determine the timing and amount of taxable income for each year?** (2 Marks)

c) During the final year of the road construction project, ABC Ltd. incurred significant penalties due to delays and contract breaches. Under Rwanda's income tax law, **how should such penalties be treated for tax purposes, and what considerations must be made if the contract terms were modified during the project?** (2 Marks)

(Total: 10 Marks)

QUESTION 17

Inkuru Holdings Ltd is a VAT-registered company headquartered in Kigali, Rwanda, filing monthly VAT returns. It operates across six business segments: Manufacturing and exporting processed coffee and tea; Importing and distributing pharmaceutical and medical equipment products; Commercial real estate leasing; Operating an accredited private school and vocational training centre; Providing IT consulting and software development services to local and foreign clients; Operating a hotel with a restaurant and conference facilities.

The following transactions relate to October 2024. All amounts are in FRW and exclusive of VAT unless stated otherwise.

S/N	Transaction Description	Amount
1	Export of processed coffee (FOB Kigali) to a buyer in Netherlands	62,000,000
2	Export of processed tea to a buyer inside a Rwandan Free Zone	14,500,000
3	Local sale of human medicines to hospitals and retail pharmacies	41,000,000
4	Local sale of medical diagnostic equipment to a private clinic	28,000,000
5	Commercial office space rental income. Includes FRW 2,500,000 advance rent for November 2024 received in October 2024	19,500,000
6	School fees from enrolled students	24,000,000
7	IT consulting services to a local Rwandan bank	16,200,000
8	Software development services to a tech firm in Dubai	23,580,000
9	Hotel room revenue (accommodation)	31,000,000
10	Conference hall hire fees charged to event organisers	8,700,000
11	Free coffee samples given to local distributor for promotion (market value). Input VAT was claimed during production; given for benefit of business	3,600,000
12	Medicines returned by pharmacy in the same tax period (damaged) - credit note issued	(5,000,000)
13	Import of pharmaceutical raw materials: CIF FRW 26,000,000 + customs duties FRW 4,000,000	30,000,000
14	Import of medical diagnostic equipment: CIF FRW 18,000,000 + duties FRW 2,000,000	20,000,000
15	Coffee and tea processing machinery used exclusively in export production	22,000,000
16	12-seater minibus purchased for transporting hotel guests from the airport	11,000,000

S/N	Transaction Description	Amount
17	Laptop computers for IT consulting staff (used 100% for taxable IT services)	6,500,000
18	Staff accommodation for school teachers on residential duty (away from usual residence)	3,200,000
19	Cocktail reception hosted by directors for prospective investors (entertainment)	4,800,000
20	Utilities, cleaning, security, and office supplies - incurred across all six business segments	18,000,000
21	Hotel building renovation: 70% relates to hotel rooms (taxable); 30% relates to school dormitories (exempt)	9,000,000
22	Company sedan for the Finance Director: 55% business use, 45% personal use	14,000,000

Required:
Compute the VAT payable or refundable for the month of October 2024 (10 Marks)

QUESTION 18

KAWUNGA Best Ltd is a manufacturing company in Rwanda that wants to acquire heavy equipment worth FRW 280,000,000 to expand its operations. The company has two options: leasing or purchasing the equipment. The following information is relevant for both options:

- KAWUNGA Best Ltd's annual taxable income before accounting for any leasing payments, depreciation, or interest is expected to be FRW110,000,000.
- The equipment has a useful life of five years and qualifies for straight-line depreciation at 5% per year (Rwanda's depreciation rate for heavy manufacturing equipment).
- The equipment also qualifies for an investment allowance of 50% in the first year (as per Rwanda's tax law for eligible manufacturing investments).

The details of each option are as follows:

1. Leasing Option: KAWUNGA Best Ltd enters a five-year operating lease agreement with annual payments of FRW51,500,000 (VAT exclusive).
2. Purchasing Option: KAWUNGA Best Ltd. purchases the equipment outright and finances it through a loan with annual interest expenses of FRW10,000,000.

Required:

a) **Calculate the taxable income and tax liability for KAWUNGA Best Ltd. in the first year under both the leasing and purchasing options. Show your workings and round your answers to the nearest thousands.** (4 Marks)
b) **Advise KAWUNGA Best Ltd on which option results in lower tax liability in the first year and explain the reasons for your choice.** (2 Marks)

c) **Suggest one factor that KAWUNGA Best Ltd. should consider for the long-term tax implications of each option.** (4 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 19

Mr. Valens Mugisha is a Senior Finance Manager of KigoTech Ltd. He is a Rwandan resident citizen. The following transactions occurred during the year ended 31st December 2023.

1. KigoTech Ltd paid Mr. Mugisha a basic salary of FRW 14,400,000, transport allowance of FRW 1,140,000, a cost-of-living allowance of FRW 720,000; a housing allowance of FRW 180,000 and a performance bonus of FRW 220,000.
2. Mr. Mugisha uses a motor vehicle from KigoTech Ltd. He used the vehicle for both business and personal purposes, and no separate charge was made to him for personal use.
3. KigoTech Ltd paid the premium on a private medical insurance policy of FRW 660,000 on behalf of Mr. Mugisha.
4. The company paid school fees of FRW 840,000 directly to the school attended by Mr. Mugisha's two children for the year 2023.
5. KigoTech Ltd paid a salary of FRW 600,000 to a maid employed by Mr. Mugisha.
6. KigoTech Ltd paid FRW 120,000 to a professional training institute for Mr. Mugisha to attend an advanced financial modelling course.
7. During the year, KigoTech Ltd granted Mr. Mugisha a share-based award with a fair value of FRW 450,000. Mr. Mugisha holds 7% of the total share capital of KigoTech Ltd.
8. On 1 October 2023, KigoTech Ltd advanced Mr. Mugisha FRW 4,800,000 against his future salary. The advance was granted on an interest-free basis and is repayable over 12 months. The National Bank of Rwanda interbank rate is 9% per annum.
9. During the year, Mr. Mugisha received FRW 600,000 from his former employer, DataRw Ltd, as a termination payment following the end of his employment contract.
10. KigoTech Ltd paid Mr. Mugisha a sitting allowance of FRW 150,000 for attending a board of directors meeting held on 12 October 2023. Mr. Mugisha sits on the company's board as a non-executive director.
11. Mr. Mugisha submitted expense claims of FRW 90,000 for client entertainment expenditure incurred in October. KigoTech Ltd reimbursed the full amount.
12. Mr. Mugisha received a pension distribution of FRW 200,000 from the RSSB.
13. On October 20, Mr. Mugisha received a net dividend of FRW 170,000 from his investment in BK shares listed on the RSE. The company withheld 15% withholding tax at source.
14. On September 22, Mr. Mugisha, completed an assignment for a UK company and invoiced FRW 4,500,000. The UK client withheld 20% as UK withholding tax and remitted.
15. On December 28, Mr. Mugisha received monthly rent of FRW 600,000 from a tenant occupying his residential house in Nyamirambo, Kigali.
16. On December 26, Mr. Mugisha received a net interest of FRW 102,000 on his savings account at Equity Bank Rwanda. The bank withheld 15% at source.

Required:

a) **Compute Mr. Mugisha's total taxable employment income and PAYE payable for the year ended 31st December 2023** (12 Marks)

b) **Calculate the Personal Income Tax payable by Mr. Mugisha 2023** (8 Marks)

(Total: 20 Marks)

QUESTION 20

Rwanda Globe Manufacturing Ltd (RGM) is a Rwandan-resident company incorporated in Kigali. The company manufactures and exports agricultural processing equipment and is registered for Value Added Tax with the Rwanda Revenue Authority. The following events occurred during the year ended 31 December 2024

On 15 February 2024, RGM imported a consignment of specialized steel components from a supplier in the People's Republic of China. The invoice price paid to the supplier on a Free-On-Board basis was FRW 23,700,000. Freight charges amounted to FRW 1,750,000 and the marine insurance premium was FRW 725,000. The import duty rate is 25%. An excise tax of 10% also applies. The Value Added Tax and Withholding Tax are applicable. In addition, Infrastructure Development Levy at 1.5%, Quality Inspection Fees at 0.2%, and the African Union Import Levy at 0.2% are also applicable.

During the year, RGM engaged a German engineering consultancy firm to conduct specialised technical testing and quality assurance services at a fee of FRW 15,000,000. RGM carried out enquiries and confirmed that no Rwandan-resident firm is able to provide services of equivalent technical specification. Accordingly, RGM applied for and duly obtained written authorization from the Minister of Finance prior to engaging the German firm.

In addition to its domestic operations, RGM earned foreign-source income from three separate jurisdictions during 2024. First, RGM received net royalty income of FRW 36,000,000 from a licensee in Mauritius in respect of a patent license agreement. The Mauritian tax authority withheld 10% at source before remitting the net amount to RGM. Second, RGM generated gross business profits of FRW 80,000,000 from a short-term infrastructure project it executed in South Africa. The South African Revenue Service charged income tax of 20% on those profits. Third, RGM received net dividend income of FRW 18,500,000 from its shareholding in a company incorporated in Barbados, from which Barbados withheld tax of 7.5% before payment. There is double taxation agreement between Rwanda and the above countries.

Required:

a) **Compute the customs duty, excise duty, Value Added Tax, withholding tax, infrastructure development levy, quality inspection fees and African Union levy payable by RGM on the steel components from China.** (7 Marks)

b) **Identify THREE WTO customs valuation methods that apply if the transaction value cannot be established, and state the order in which they are considered.** (3 Marks)

c) **Advise RGM on the VAT reverse charge mechanism as it applies to the consulting services procured from the German engineering firm**. (2 Marks)

d) **Calculate the foreign tax credit available to RGM in respect of each of the three foreign income streams**. (4 Marks)

e) **Advise the company RGM on how its South African business profits would be taxed in Rwanda if there were no tax treaty between the two countries, and compare that to the position under the existing treaty.** (4 Marks)

(Total: 20 Marks)

End of question paper