
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATION**

F2.4: TAXATION

DATE: MONDAY 24, NOVEMBER 2025

MARKING GUIDE AND MODEL ANSWERS

QUESTION ONE: VAT Computation

Marking Guide

Descriptions	Marks
Award 0.5 Marks for computation of output VAT for each transaction	5
Award 0.5 Marks for computation of input VAT for each transaction	5.5
Award 1 Mark for correct point for VAT input apportionment	4
Award 0.5 Mark for 3 items used in calculating Net VAT Payable	1.5
Award 1 Mark for each correct point stated	4
Total Marks	20

Model Answer

(b) Net VAT Payable/Refundable

Output VAT (Taxable sales only):

No.	Description	Amount (FRW)	Output VAT
1	Sale of desktop computers to SMEs	40,000,000	Exempted
2	Export of 100 solar panels to Uganda	15,000,000	Zero rated
3	ICT training for university students	6,000,000	1,080,000
4	Supply of printed books to public school	5,000,000	Exempted
5	Sale of accounting software to a private firm	12,000,000	Exempted
6	Internet installation for a hospital	10,000,000	1,800,000
7	Sale of medical diagnostic kits to a private clinic	4,000,000	Exempted
8	Free donation of tablets to a charitable organization	2,000,000	Exempted
9	Sale of SIM cards and routers to telecom companies	9,000,000	Exempted
10	Sale of data bundles to government institution	6,000,000	1,080,000
Total Output VAT		109,000,000	3,960,000

Input VAT (on allowable purchases):

No.	Description	Amount (FRW)	Input VAT
1	ICT inventory from local supplier	30,000,000	Exempted
2	Lease of showroom premises	5,000,000	900,000
3	Utility bills (water, electricity)	1,200,000	216,000
4	Security services (local firm)	800,000	144,000
5	Hotel and meals for staff retreat	3,000,000	540,000
6	Maintenance of office vehicles	1,500,000	270,000
7	Purchase of accounting software license	2,000,000	Exempted
8	Transport services from local carrier	1,000,000	Exempted
9	Printing and stationery	900,000	162,000
10	Legal consultancy services	2,500,000	450,000
	VAT retained by the gvt institution	6,000,000	1,080,000
		53,900,000	3,762,000

- **Total Allowed Input VAT = Taxable sales/Total sales*General input VAT**

Description	Amount (FRW)
Taxable sales	37,000,000
Exempted sales	72,000,000
Total sales	109,000,000
Ratio of taxable sales over total sales	34%

Input VAT Allowed: $34\% \times 2,682,000 = \text{FRW } 910,404$

Net VAT Payable = $3,960,000 - (910,404 + 1,080,000) = \text{FRW } 1,986,444$

(c) Input VAT Treatment for Mixed Supplies

For businesses making taxable, exempt, and zero-rated supplies:

- Input VAT for taxable and zero-rated supplies is claimable.
- Input VAT related to exempt supplies is non-deductible.
- If shared, Input VAT will be apportioned based on taxable sales ratio over the total sales.
 - **Total Allowed Input VAT = Taxable sales/Total sales*General input VAT**

(d) Circumstances When Input VAT Is Denied

According to the article 17 of the VAT law, the following shall be considered as denial of input VAT.

No input tax is allowed on the following goods:

- i. Passenger vehicle, or spare parts or repair and maintenance services for such a vehicle, unless the taxpayer's business involves the re-sale or rent of such a vehicle and the vehicle was solely acquired for the purpose of such taxpayer's business;
- ii. Goods acquired or imported for entertainment purposes unless the taxpayer's business involves providing entertainment and the entertainment is provided in the ordinary course of that business and was not entrusted to a partner or employee;
- iii. Goods acquired for accommodation purposes, unless: a) the taxpayer's business involves providing accommodation services and the accommodation is provided in the ordinary course of that business; b) the accommodation was provided to the person who was away from his/her usual residential home for the interest of the business or employer's interests;
- iv. 40% of the Value added tax paid on such business overheads as in the case of telephones and electricity whose use cannot be practically separable from private and business use.

QUESTION TWO: Partnership Tax

Marking Guide

Descriptions	Marks
Consulting	1
Bank Interest	1
Allowable Expenses:	
Salaries	0.5
Rent	0.5
Utilities	0.5
Travel	0.5
Entertainment	1
Bank Charges	1
Partner A salary	1
Interest on B's loan	1
Interest on capital: Not allowed for tax purpose	1
Capital allowance (as per RRA)	1
Taxable Income	0.5
Income Tax Payable	0.5
Less: Tax paid at source	
Withholding tax on interest	0.5
Net income tax payable	0.5
Total	12
b)	
Award 1 Mark for each partners' profit share	3
c) Award 1 mark for each condition provided	3
d) Award 2 Marks for a well definition provided	2
Total Marks	20

Model Answer

(a) Partnership Income Tax Computation

Description	Amount (FRW)
Total Revenue	
Consulting Income	80,000,000
Bank Interest (grossed-up)	11,764,706
Total Income	91,764,706
Allowable Expenses	
Salaries	25,000,000
Rent	12,000,000
Utilities	4,000,000
Travel	5,000,000
Entertainment (50% of 2,500,000)	1,250,000

Bank Charges	600,000
Partner A Salary	12,000,000
Interest on B's Loan	2,000,000
Capital Allowance (per RRA)	8,000,000
Total Allowable Expenses	69,850,000
Taxable Income (91,764,706 - 69,850,000)	21,914,706
Income Tax Payable @ 30%	6,574,412
– Less: Withholding Tax on Interest (15%)	-1,764,706
Net Income Tax Payable	4,809,706
Profit After Tax	15,340,294

b) Distribution of the profit to the partners

Descriptions	Partner A	Partner B	Partner C	Total
Profit share	2	1	3	6
Interest on Capital	800,000	700,000	500,000	2,000,000
Partners profit share	4,446,765	2,223,382	6,670,147	13,340,294
Total	5,246,765	2,923,382	7,170,147	15,340,294

c) Business Loss carry forward

If the computation of business profit results in a loss in a tax period, the loss may be deducted from the business profit in the next five (5) tax periods, earlier losses being deducted before later losses.

During a tax period, foreign sourced losses cannot be deducted from either present or future domestic sourced business profits.

If during a tax period, the direct and indirect ownership of the share capital or the voting rights of a company, whose shares are not traded on a recognized stock exchange changes more than twenty five per cent (25%) by value or by number, the provisions of Paragraph one of this Article cease to apply to losses incurred by that company in the tax period and previous tax periods.

(d) Thin Capitalization

Thin capitalization arises when a company is primarily funded through debt from related parties rather than equity.

Under Rwandan tax law, interest deductions on such related-party debt is restricted if the company's debt-to-equity ratio exceeds 4:1.

QUESTION THREE:

Marking Guide

Descriptions	Marks
Award 1 for each definition provided	2
Award 1 Mark for a well principle provided	4
Award 1.5 for a well defined tax procedure	6
Award 2 Mark for explanation of appeal to the commissioner general	2
Award 1 Mark for explanation of Amicable to the commissioner general	1
Award 1 Mark for explanation of lodging appeal to court	1
Award 1 Mark for each correct point stated on burden of proof of taxpayer	2
Award 1 Mark for each correct point stated on burden of proof of tax Administration	2
Total Marks	20

Model Answer

(a) Tax Avoidance vs. Tax Evasion

Definition: Legally minimizing tax liability using loopholes in tax laws | Illegally reducing tax by misrepresenting or concealing information

Legality: Legal but may be unethical | Illegal and punishable by law

Example: Using tax incentives, exemptions | Underreporting income, falsifying expenses

(b) The following are principles of Taxation

1. Equity (Fairness)

- **Definition:** Taxes should be fair. People in similar financial situations should pay similar amounts (horizontal equity), and those with greater ability to pay should contribute more (vertical equity).
- **Example:** Progressive income taxes charge higher rates to higher-income individuals.

2. Certainty

- **Definition:** The tax system should be clear and certain. Taxpayers should know how much they owe, when, and how to pay.
- **Example:** Income tax deadlines and rates should be publicly known and predictable.

3. Convenience

- **Definition:** The timing and manner of tax payments should be convenient for taxpayers.
- **Example:** Payroll taxes are deducted directly from employees' salaries, making payment automatic.

4. Economy (Efficiency)

- **Definition:** Tax collection should be cost-effective. The cost of collecting taxes should be as low as possible.
- **Example:** Using digital systems for tax filing reduces administrative costs.

5. Simplicity

- **Definition:** The tax system should be simple to understand and comply with.
- **Example:** Flat tax systems or clear deductions help avoid confusion and reduce tax evasion.

6. Productivity (Revenue Generation)

- **Definition:** A tax system should raise enough revenue to fund public services and government operations.
- **Example:** Value-added tax (VAT) is a productive source of revenue in many countries.

7. Elasticity

- **Definition:** Tax revenue should increase with economic growth. As national income rises, tax revenues should naturally increase.
- **Example:** Income taxes typically rise with increases in wages and employment.

8. Neutrality

- **Definition:** Taxes should not distort economic decisions more than necessary. They should not unfairly favor certain industries or behaviors.
- **Example:** Avoiding over-taxation of investment income to encourage economic growth.

(c) i) Audit Procedures are detailed as follows:

Tax audit is conducted in one of the following procedures:

Notification – RRA

- 1° contradictory procedures;
- 2° issue-oriented audit;
- 3° desk audit;
- 4° audit without notice.

Contradictory procedure

Where the Tax Administration discovers a miscalculation, an omission, an understatement, a misrepresentation of a tax or any other error in the tax declaration or assessment, the Tax Administration sends a draft note for rectification to the taxpayer containing all the elements taken into consideration.

Issue-oriented audit procedure

The Tax administration may proceed to an issue oriented audit when a comprehensive audit is not necessary.

Desk Audit

Desk audit is conducted by an auditor in his/her office on any of the following grounds:

- i. Turnover of Value Added Tax is not corresponding to the turnover of income tax without justification;
- ii. Tax declarations are not corresponding to paid taxes;
- iii. The taxpayer deducted from tax base non-deductible expenses;
- iv. One or more invoices were not declared;
- v. Any other situations where the tax administration has sufficient documents that can be used to assess taxes.

Audit without notice

This is conducted where there are serious indications of tax evasion, the Tax Administration may conduct an audit without notice. In such a case a notice of assessment or a notification of fine is issued to the taxpayer without any involvement of the taxpayer as it is done in the other audit procedure above.

ii) Tax Dispute Resolution Process (4 Marks)

The tax payer who is not satisfied with the assessment may lodge in an appeal to the tax authority. There are two different ways under which may start an **appeal that is appealed to the appeal commission and the judicial appeal.**

Appeal to the Commissioner General

The taxpayer who is not satisfied with the contents of the tax assessment notice may appeal to the Commissioner General within thirty (30) days after receipt of the assessment notice.

The appeal has to fulfil the following conditions:

- Be in writing;
- Identify the taxpayer and the taxpayer's identification number;
- Identify the tax period;
- Mention the assessment and the object and the grounds for the appeal;
- Be signed by the taxpayer, the taxpayer's legal representative or the representative holding a mandate;
- Contain all the proofs, and legal arguments against the assessment.

A taxpayer who is dissatisfied with the decision of the Commissioner General, may request for an **amicable settlement** within 30 days after receipts of the appeal decision.

Filing a case to the court

If the two parties cannot resolve the dispute amicably, the taxpayer may file a case to the court within a period not exceeding thirty (30) days from the date both parties fail to reach an amicable solution. A taxpayer who is dissatisfied with the decision of the Commissioner General may also file a case to the competent court within thirty (30) days from the receipt of the decision of the Commissioner General.

iii) Burden of Proof

- **On the Taxpayer:**

The tax payer has to provide evidence if:

- 1 ° the Tax administration conducts an audit without notice;
- 2 ° he or she proceeds with rectification of declaration;
- 3 ° he or she disapproves the content of the statement.

- **On the Tax Administration (RRA):**

The Tax administration has the obligation to provide evidence if:

- 1 ° it rectifies tax declaration;
- 2 ° it demonstrates indicators of prosperity and the valuation method of property;
- 3 ° it requests the Prosecutor for search warrant in residential buildings.

QUESTION FOUR:

Marking Guide

Descriptions	Marks
Award 0.5 for each import duty for each Goods	2
Award 0.5 for each VAT on each Goods	2
Award 0.5 for each IDL on each Goods	2
Award 0.5 for each AUL on each Goods	2
Award 0.5 for each QIF on each Goods	2
Award 0.5 for each QIF on each Goods	2
Award 0.5 for each Computer processing fees	2
Sub total	14
Award 1 Mark for definition of trade liberalisation, 0.5 Mark for each Characteristic	2
Award 1 Mark for definition of pre-clearance, 0.5 Mark for each type of goods	2
Award 1 Mark for definition of Inward processing, 0.5 Mark for each Condition	2
Sub total	6
Total Marks	20

Model Answer

(a) Customs Tax Computation

Type of Goods	Quantity Imported	Unit Cost (USD)	Total FOB Value (USD)	Insurance (USD)	Freight (USD)	CIF (USD)	Exchange rate	CIF (FRW)
Smartphones	1,000	250	250,000	725	3,623	254,348	1,200	305,217,391
Laptop Computers	500	600	300,000	362	1,812	302,174	1,200	362,608,696
Television Sets	300	400	120,000	217	1,087	121,304	1,200	145,565,217
Refrigerators	100	700	70,000	72	362	70,435	1,200	84,521,739
Total	1,900		740,000	5,000	25,000	770,000	4,800	924,000,000

Type of Goods	Import duty @ 25%	VAT @ 18%	Infrastructure Development levy @ 1.5%	Withholding tax @ 5%	Africa Union Levy @ 0.2%	Quality inspection fees @ 0.2%	Computer Processing fees
Smartphones	76,304,348	N/A	4,578,261	15,260,870	610,435	600,000	3,000
Laptop Computers	90,652,174	N/A	5,439,130	18,130,435	725,217	720,000	3,000
Television Sets	36,391,304	32,752,174	2,183,478	7,278,261	291,130	288,000	3,000
Refrigerators	21,130,435	19,017,391	1,267,826	4,226,087	169,043	168,000	3,000
Total	231,000,000	53,005,263	13,860,000	46,200,000	1,848,000	1,776,000	12,000

(b) Trade Liberalization

Definition:

Process of removing or reducing trade barriers (tariffs, quotas) between countries to encourage free trade.

Key Features:

1. Elimination of tariffs and quotas.
2. Encouragement of foreign direct investment (FDI).
3. Free movement of goods/services.
4. Open and competitive markets.

(c) Pre-Clearance

Definition:

A procedure that allows clearance of goods before their physical arrival at the port.

Goods That Qualify:

1. Perishable goods (fruits, vegetables).
2. Pharmaceuticals.
3. Hazardous materials.
4. Diplomatic consignments.

(d) Inward Processing

Definition:

A customs regime allowing imported goods to be processed (manufactured/assembled) and then re-exported without paying import duties.

Conditions:

1. Goods must be re-exported after processing.
2. Proper records must be maintained.
3. Prior authorization from customs.
4. No domestic sales unless taxes are paid.

QUESTION FIVE:

Marking guide

Qn	Description	Marks
a)	i) Award 0.5 Marks for Computation of the selling price before excise	1
	Award 1 Marks for Computation Excise duty on each product	2
	ii) Award 0.5 Marks for each computation of the selling price VAT inclusive	1
	Award 0.5 Marks for each computation selling price per one bottle	1
	Award 0.5 Marks for each sales	1
	iii) Award 1 mark for each deadline	3
	iv) Award 1 Mark for the cigarette excise duty rate	1
	Sub total	10
b)	Withholding on Payment to Bwiza Ltd (on WHT, award 0.5 marks for rate and 0.5 marks for WHT well computed)	1
	Withholding on Payment of allowance to BoD (1 mark for rate and 1 mark for WHT correctly computed)	2
	Withholding on Payment to a consultant Murith (1 mark for rate and 1 mark for WHT correctly computed)	2
	Withholding on Payment to Rwanda artist (1 mark for rate and 1 mark for WHT correctly computed)	2
	Withholding on Payment to Teravive Ltd (on WHT, award 1 mark for rate and 1 mark for WHT well computed)	2
	Deadline for declaration and payment	1
	Sub total	10
	Total	20

Model Answer.

i and ii

Descriptions	Akanozo	Akeso	Total
Quantity produced	68,750	95,000	163,750
Production costs	680	750	1,430
Total Production costs	46,750,000	71,250,000	118,000,000
Mark up @ 8%			-
Selling Price	50,490,000	76,950,000	127,440,000
Excise duty @ 39%	19,691,100	30,010,500	49,701,600
Total selling price VAT exclusive	70,181,100	106,960,500	177,141,600
Selling price VAT inclusive	82,813,698	126,213,390	209,027,088
Selling price per one bottle	1,205	1,329	2,533

iii.

The tax period is the calendar month divided into the following three periods:

- From 1st date to 10th date of the month
- from 11th date to 20th date of every month
- From 21st date towards end of the month

The tax is payable on 15th, 25th and 5th of the following month.

iv.

The excise tax on Cigarettes is 36% of the pack price +130 per pack.

b)

#	Description	Paid amount	WHT Rate	Withholding Tax
1	Payment to Bwiza Ltd	15,000,000	3%	450,000
2	Payment of allowance to BoD	3,500,000	30%	1,050,000
3	Payment to a consultant Murith	5,000,000	15%	750,000
4	Payment to Rwanda artist	1,200,000	15%	180,000
5	Payment to Teravive Ltd	16,000,000	0% (Quitux)	-

QUESTION SIX:**Marking guide**

Question four (a)	Marks
Computation of the taxable profit or loss for the year	
Monthly Basic salary	1
Cash allowance	1
Communication allowance	1
House allowance	1
Medical Allowance	0.5
Pension payment	1
Overtime allowance	1
Mission allowance (reimbursement)	0.5
Termination fees	1
A company car	1
PAYE	1
b) Tax penalties computation: Award 1 mark on penalties for non-declaration, 1 for fixed penalties, 1 for interests (Maximum: 3 marks)	3
Question four (c)	
Taxpayers who must register for Pay As You Earn	
Award 1 mark for well explained type of taxpayers required to register for PAYE. (Maximum: 2 marks)	2
Question Four (d)	
Award 1 Mark for a well definition of salary advance, 1 Mark for treatment	2
e) Taxpayers exempted from employment income tax	
Award 1 mark for well explained type of person exempted from employment income tax (Maximum: 3 marks)	3
Total Marks	20

Model answer

A. Declared Pay As You Earn for Umugwaneza Immaculate for the month of December 2020.

Descriptions	Amount
Monthly Basic salary	2,222,222
Cash allowance	100,000
Communication allowance	50,000
House allowance	500,000
Medical Allowance	Exempted
Pension payment	200,000
Overtime allowance	50,000
Mission allowance (reimbursement)	Exempted
Termination fees	250,000
A company car	317,222
Taxable employment income	3,689,444
PAYE payable $(3689,444 - 100000) \times 30\% + 14000$	1,090,833

b) Computation of tax penalties	
20% Tax penalties of non-declaration in 30 days	218,167
Fixed penalties	300,000
Interest 1.5%	16,362
Total tax penalties applicable to the company	534,529

B. Taxpayers who must register for PAYE at Rwanda Revenue Authority are as follows:

- Any taxpayer who pays its employees in cash, benefits in kind or allowances is required to register and declare for PAYE on behalf of their employees.
- In the event that an employer has special authorization from the government of Rwanda, that they are not required to declare and PAYE taxes on income, their employee are required to register with RRA, and declare and PAYE on their own behalf.

C. The types of persons exempted from employment income tax in Rwanda are the following:

- A foreigner who represents his/her country in Rwanda.
- Any other individual employed in any Embassy, Legation, Consulate or Mission of a foreign state performing State affairs, who is a national of that State and who owns a diplomatic passport.
- A non-citizen individual employed by an international organization that has signed an agreement with the Government of Rwanda in accordance with Rwandan laws.

QUESTION SEVEN:**Marking guide**

Question six (a)	Marks
Computation of the Immovable property tax (Total marks: 12)	
Award 1 mark on exemption of tax on residential building occupied by the owner and his family (Maximum: 1 marks)	1
Award 1 mark on each well computed property tax on building on each year. (Maximum: 12 marks)	12
Question six (b)	
Award 2 marks on each penalty or interest max	6
Award 1 mark for showing declaration portal	1
Total Marks	20

Model answer**A. Computation of the Immovable property tax for Mugabi Rurangwa.**

Particular	Market value	Working	Tax
Residential building occupied by the owner and his family	100,000,000	-	Exempted
A residential building with two floors			
2019	500,000,000	$(500,000,000 \times 0.25\%)$	1,250,000
2020	500,000,000	$(500,000,000 \times 0.50\%)$	2,500,000
2021	500,000,000	$(500,000,000 \times 0.75\%)$	3,750,000
2022	500,000,000	$(500,000,000 \times 1\%)$	5,000,000
A residential building with four floors			
2019	2,000,000,000	$(2,000,000,000 \times 0.25\%) \times 50\%$	2,500,000
2020	2,000,000,000	$(2,000,000,000 \times 0.50\%) \times 50\%$	5,000,000
2021	2,000,000,000	$(2,000,000,000 \times 0.75\%) \times 50\%$	7,500,000
2022	2,000,000,000	$(2,000,000,000 \times 1\%) \times 50\%$	10,000,000
Industrial building			
2019	3,000,000,000	$(3,000,000,000 \times 0.10\%)$	3,000,000
2020	3,000,000,000	$(3,000,000,000 \times 0.10\%)$	3,000,000
2021	3,000,000,000	$(3,000,000,000 \times 0.10\%)$	3,000,000
2022	3,000,000,000	$(3,000,000,000 \times 0.10\%)$	3,000,000

b)

Penalties for late declaration and Payment of Local Government taxes

- A taxpayer who fails to declare district taxes on time or submits an inaccurate declaration incurs a penalty equal to 40% of the tax owed.
- In cases where payment is delayed, interest of 1.5% per month is applied from the day following the payment deadline until the actual payment date, with any part of a month counted as a full month.
- Additionally, a 10% surcharge is imposed on the outstanding tax amount, though this surcharge shall not exceed RWF 100,000.

The appropriate portal for declaring decentralized taxes

Declare and pay decentralized taxes through the Rwanda Revenue Authority (RRA) using the **Local Government Revenue Collection Information System (LGRCIS)**.

End of marking guide and model answers