CERTIFIED PUBLIC ACCOUNTANTS

ADVANCED LEVEL 2 EXAMINATIONS

A2.3 ADVANCED TAXATION

DATE: TUESDAY 24, FEBRUARY 2026

SECTION A

QUESTION ONE

MARKING GUIDE

a		**Marks**
	01 mark for any valid point, maximum 05 marks	5.0
	01 mark for any valid point on challenges, maximum 03 marks	3.0
b		
(i)	01 mark for correct line items in tax computation, maximum of 06 marks	6.0
	02 marks for each of the 2 WHT workings	4.0
(ii)	08 marks spread across the correct line items in tax calculation	8.0
	02 marks for each of the 2 WHT workings	4.0
c	02 marks for memo introduction and 02 marks for each valid and well explained point, maximum of 10 marks.	10.0
Total marks for Question One		***40.0***

MODEL ANSWER

A. **Reasons why double taxation treaties are useful:**

- Double taxation treaties help top remove impediments to Internation trade and investment through mitigating the risk of double taxation.
- They provide certainty to tax payers, especially those engaged in cross boarder investments in knowing the exact tax implications and not fearing excessive taxes in certain countries.
- Tax treaties facilitate administrative cooperation between concerned countries through sharing of business information, pricing, effective collection of taxes and solving any disputes.
- Tax treaties help to protect foreigners and non-resident tax payers against discrimination and any form of unfair taxation.
- Tax treaties promote transfer of technology across the concerned countries.

- Tax treaties promote good will between contracting states.

Challenges of Double Taxation Treaties:

- Double tax treaties lack credible evidence whether they indeed promote international trade specifically foreign direct investment in contracting countries.
- Double tax treaties may be exploited by multinational companies to pay extremely low taxes if any at all. Which in the end contradicts the objectives of these treaties.
- Double tax treaties may pose a risk to development financing in African countries by skewing tax rights in favor of developed countries, which eventually erodes the tax base.

B.

i) Income tax is payable by SG Ltd for the tax year 2024.

	RWF	RWF
Profit for the year		165,225,000
Add: Income from foreign sources;		
Dividends (1,565,250 x 100/65)	2,408,077	
Interest (2,282,030 x 100/90)	2,535,589	
		4,943,666
Final taxable Income		**170,168,666**
Corporate Income tax at 30%		51,050,600
Less: DTR on;		
Dividends (W1)	(361,212)	
Interest (W2)	(253,559)	
		(614,770)
Net Income tax payable		**50,435,829**
W1: Double tax relief (DTR) on Dividends.		
DTR is the lower of;		
Foreign WHT tax on Dividends (2,408,077 x 35%)		842,827
and actual WHT per Rwanda tax law (2,408,077 x 15%)		361,212
DTR is there for 362,212 being the lower amount		
W2: Double tax relief (DTR) on Interest.		
DTR is the lower of;		
Foreign WHT tax on Interest (2,535,589 x 10%)		253,559
and actual WHT per Rwanda tax law (2,535,589 x 15%)		380,338
DTR is there for 235,559 being the lower amount		

ii) Personal income tax payable by Joseph Kalisa for the tax year 2024

	RWF	RWF
Gross Employment income		18,000,000
Add:		
Refund of rent cost	3,500,000	
Maintenance manager cost (80,000 x 12)	960,000	
		4,460,000
Total income from employment		**22,460,000**
Add: Other Income (Local sources)		
Royalties (880,000 x 100 / 85)	1,035,294	
Interest Income (1,500,000 x 100 / 95)	1,578,947	
		2,614,241
Add: Other Income (Foreign sources)		
Rental income (1,250,500 x 100 / 85)	1,471,176	
Dividend income (980,000 x 100 / 75)	1,306,667	
		2,777,843
Total Taxable Income		**27,852,085**
Tax computation;		
First		168,000
Excess of 1,200,000 (27,852,085-1,200,000) x 30%		7,995,625
Total Gross tax payable		**8,163,625**
Less: DTR on foreign income		
Rental income (W1)	(111,118)	
Dividend income (W2)	(196,000)	
Royalty Income (15%*1,035,294)	(155,294)	
Interest from Gvt Bond (5%*1,578,947)	(78,947)	
		(541,359)
Net personal Income tax payable		**7,622,266**
W1 (DTR on rental income):		
Total Rental Income		1,471,176
Less 50% allowable expense		(735,588)
Taxable Income		735,588
First 180,000 taxes at 0%		-

	RWF	RWF
(735,588 - 180,000) x 20%		111,118
Rental income tax per Rwanda tax law		111,118
Actual rental income tax paid		220,676
DTR is there for 111,118 being the lower amount		
W2 (DTR on Dividend income):		
Foreign WHT on Dividend Income (1,306,667 x 25%)		326,667
WHT per Rwandan tax law (1,306,667 x 15%)		196,000
DTR is there for 196,000 being the lower amount		

C.

MEMO TO CRIXUS PLC BOARD OF DIRECTORS ON TAX IMPLICATIONS OF FINANCIAL INFORMATION ABOUT IKARO LTD

The interest in investing in Ikaro Ltd will make Crixus PLC a potential shareholder in a resident Rwandan company. In line with law on corporate restructuring, there are specific tax implications on mergers and acquisitions both for the transferring and the receiving company. Ine the following paragraphs I will highlight the implications and any possible tax savings;

i) **FRW 205 million provision for Bad debts:** The receiving company is entitled to carryover of provisions and reserves created by the transferring company, subject to terms that would have applied if the corporate restructuring did not happen. General provision for bad debts is generally not allowable as deductible tax expense; hence Crixus PLC shall have to factor this into their consideration.

ii) **125 million tax loss carryovers:** In line with the above provision on point (i), Crixus PLC shall benefit from offsetting of the loss from past 3 years against current and future profits. Important point to note is that this Loss can only be offset against profit if it does not exceed five years.

iii) **Withholding tax credit:** A withholding tax credit is a benefit that the acquiring company shall benefit from. Upon fulfilment of certain criteria like withholding tax certificate, the credit is offset against Corporate Income tax payable for the tax year.

iv) **Export Market:** Exporting up to 50% of sales attracts a preferential income tax rate of 15% instead of the standard 30%. This is a very attractive aspect of Ikaro Ltd and should it be considered feasible for this export market then Crixus PLC should proceed to invest in Ikaro PLC and take advantage of this.

SECTION B

QUESTION TWO

MARKING GUIDE

		Marks
a	1.5 marks for each well explained ethical and professional issue and 1.5 marks for appropriate corrective action, maximum 09 marks	**9.0**
b	Award marks as follows	
i)	03 marks for well explained answer, showing rates applicable	3.0
ii)	03 marks spread between each of the three benefits (Lunch, School fees and Housing), maximum 03 marks	3.0
iii)	02 marks for a proper explanation of tax treatment of unrealized foreign exchange Loss	2.0
iv)	03 marks for well explained answer on reverse charge VAT, showing the implication, the treatment and possible workaround	3.0
	Total Marks for Question Two	***20.0***

MODEL ANSWER

A. Ethical and Professional Issues for the tax Manager regarding Cash Creek job;

i) Familiarity threat:

Imminent familiarity threat exists because you personally most of the company Directors for many years. You are likely to become too sympathetic to the interests and explanations given by the company which can impair your judgement with regard to tax matters. There is a risk that you may knowingly not disclose any contentious tax issues that may result in your client paying more tax, for the fear of damaging your relationship with the company Directors.

The appropriate action can be to either have someone else from the firm take over the assignment or at least have the tax work you performed be reviewed by an independent professional.

ii) Self-interest threat:

Accepting a contingent fee as a percentage of tax savings that shall result from the assignment creates a significant self-interest threat. Accepting a contingent fee may impair the objectivity of the firm in reporting the correct tax position of the client since the income for the firm depends on how much the client saves.

The best way around this threat is to negotiate a fee based on the scope of work and time spent on the assignment, and not necessarily the amount of tax savings.

iii) Last day income omitted:

The firm should advise the client to submit a revised tax return and include the omitted income. Failure to do amounts to tax fraud, which is tax evasion and is illegal and can have adverse consequences for the company.

If the directors insist on not making the appropriate amendment to the company tax return, you should make this known to respective tax authorities (Rwanda Revenue Authority), which on one side overrides with the confidentiality principle but necessary. Seeking legal opinion is advisable.

B. Advise on tax implications arising from;

i) Interest free loans to company Directors:

Interest free loans and salary advances to employees amounts to taxable benefit in kind. The company should inform the Loan recipients that the loan amount in excess of three months' salary shall be taxed at the difference between the interbank rate and the actual rate charged, in this case zero.

This resulting benefit shall be added on the taxable income which shall result in higher PAYE payable for the employee.

ii) Free lunch, school fees and free housing;

-Housing: A company owned furnished house is considered as a benefit in kind and would be valued at 20% of the salary to increase taxable income effectively. In this case the house is rented in behalf of the employee, the actual rent amount should be added to the salary to increase taxable income.

- Free Lunch: Depending on the company policy the tax treatment can vary, if this benefit is accorded to all employees, perhaps due to nature of the job, location or otherwise then this may not be taxed. However, if this is a specific benefit just because of seniority and not particularly the nature of the job then it would be considered as a taxable income.

- School fees: Paying 50% of school fees for employees' children is a taxable benefit, the company should increase the taxable salary by the school amount paid and the impact of additional tax affects the salary of the employee.

iii) Exchange Loss on unpaid Loan:

Foreign exchange loss on Liabilities is only allowed if it is realized and for related party loans meets the thin capitalization principle. A realized loss occurs when the loan is actually settled and the foreign currency is converted, confirming the loss.

This means that the company cannot claim a deduction of foreign exchange loss simply as a result of the impact of currency fluctuation on the RWF balance on a USD denominated Loan at the end of a tax period.

iii) Imported Services:

Importing services from non-resident service providers attracts a non-claimable reverse charge VAT of 18% hence the company should account for and pay the reverse charge VAT on the amount payable to Rwanda Revenue Authority. This shall form part of the cost as for the company since it cannot be claimed.

In addition, Upong payment the company shall be required to pay a 15% withholding tax because the payment is to a non-resident beneficiary.

However, the company can request specific approval through respective sector ministry. A special exemption can be granted for specific services for specific amount over a specific period on understanding that those services cannot be found on local market. This would depend on Rwanda Revenue Authority's assessment.

QUESTION THREE

MARKING GUIDE

		Marks
a)	Award 01 mark for any valid point, maximum 04 marks	**4.0**
b)	Revenue from operations	0.5
	Less: Allowable tax expenses	
	Consultancy fees	0.5
	Marketing cost	0.5
	Rent expense (15,000,000 / 12 x7)	1.0
	Capital allowances	0.5
	Value added tax (Not applicable)	0.5
	Net adjusted taxable profit for the sole proprietorship	0.5
		4.0
c)	Business profit	0.5
	Gross salary (3.5M x 5) / (2.85M x 5)	1.0
	Total taxable income	0.5
	Tax computation;	
	First	0.5
	Excess of 1,200,000 taxed at 30%	1.0

		Marks
	Total Gross tax payable	0.5
		4.0
d)	Business profit	0.5
	Less: Business expenses	
	Directors' salaries	0.5
	RSSB employer contribution - 5%	1.0
	Office rent (60M / 24 x 5)	1.0
	Warehouse rent (taken over from Sole proprietorship)	1.0
	Capital Allowances:	
	Shop building (77M-25M) x 5%	1.0
	Fixtures and Fittings (5,950,000 x 25%)	0.5
	Motor Vehicle (8,250,000 x 25%)	0.5
	IT Infrastructure and accessories (6,500,000 x50%)	0.5
	Net Taxable profit	0.5
	Corporate Income tax @ 30%	1.0
		8.0
Total marks for Question Three		***20.0***

MODEL ANSWER:

a)

Tax implications arising from incorporating s Limited company to replace the sole proprietorship.

- The sole proprietorship shall be considered as to have ceased trading and its legal status change from being a trading business. Mr Munyakazi shall be assessed in line with tax laws upon liquidation or cessation of trading.
- Thew net sole proprietorship profit after all allowable tax expenses shall be added to Mr Munyakazi's personal income for assessment of his personal income tax.
- The new Limited company shall be assessed from the start date July 2024 effectively and only five months shall be considered for the tax year 2024.
- The Assets transferred from the sole proprietorship shall be assessed at their market values and corresponding capital allowances are claimable by the Limited Company.

(04 Marks)

b) Computation of the final taxable business profit for the sole proprietor

Taxable Profit for Sole Proprietorship (Jan-July 2024)	
Description	**FRW**
Revenue	38,000,000
Less allowable expenses	
Capital Allowance	3,250,000
Rent	8,750,000
Architectural consultancy fees	Not allowed
VAT	Not allowed
Marketing and Branding	950,000
Total allowable expenses	**12,950,000**
Taxable Profit	**25,050,000**

c) Personal Income tax payable by Munyakazi and Lisa for the tax period 2024

	Munyakazi	**Lisa**
	RWF '000	**RWF '000**
Business profit	25,050	-
Gross salary (3.5M x 5) and (2.85M x 5)	17,500	14,250
Total taxable income	**42,550**	**14,250**
Tax computation;		
First	168	70
Excess of 1,200,000 taxed at 30%	12,405	4,125
Total Gross tax payable	**12,573**	**4,195**

d) Computation of taxable business profit and corporate income tax payable by Kazi ni kazi Ltd for the tax year 2024

Corporate Income tax by Kazi ni Kazi Ltd		
	RWF '000	**RWF '000**
Revenue		81,000
Less: Business expenses		
Directors' salaries	31,750	
Office rent (60M / 24 x 5)	12,500	
Warehouse rent (taken over from Sole proprietorship)	6,250	
Capital Allowances:		
Shop building (77M-25M) x 5%	2,600	
Fixtures and Fittings (5,950,000 x 25%)	1,488	
Motor Vehicle (8,820,000 x 25%)	2,205	

IT Infrastructure and accessories (6,500,000 x50%)	3,250	60,043
Net Taxable profit		**20,957**
Corporate Income tax @ 30%		***6,287***

QUESTION FOUR

Marking guide

a) Sales

Marking Guide	**Marks**
Water tanks	0.5
Pipes	0.5
Exports	0.5
Transport	0.5
Mobile plastic toilets	0.5
Desktops	0.5
Mineral supplements for animal feeding	0.5
Disposal of a business motor vehicle	0.5
Disposal of a land	0.5
Disposal of a residential house	0.5
Meat preparation and processing equipment	0.5
Energy saving lamps	0.5
Total marks	**6**

Purchases

Marking Guide	**Marks**
Advertisement	0.5
Clearing charges	0.5
Electricity	0.5
Laptops and tablets	0.5
Generators	0.5
Legal service	0.5
Security service	0.5
Tax advisory services	0.5
Telephone expense	0.5
Water	0.5
Cleaning services	0.5
Medical services to staff	0.5
Mobile telephones for team leaders	0.5

Marking Guide	Marks
Software (QuickBooks)	0.5
Printer	0.5
Total marks	**7**

Total marks for this section **13**

b) Information (ii), (iii), and (iv)

Information (ii)

Computation of the VAT reverse charge on financial advisory service **1 mark**

Computation of the VAT reverse charge on Software maintenance **1 mark**

Comment on VAT reverse charge refundable **0.5 Marks**

Information (iii)

0.5 mark for the correct computation of the CIF value, import duties, Excise duties and 1 marks for the correct computation of the VAT paid in customs. **Total marks 2.5**

Information (iv)

1 mark for the valid comment on the refund for June 2022 and 1 mark for the refund for July 2022, **Total marks 2**

Total marks for the question **40**

Model answer

a) **Standard rated, exempted or zero rated and corresponding VAT**

Sales	FRW "000"	Standard Rate	Exempted	Zero rated	Corresponding VAT (FRW "000)
Water tanks	420,000	x			64,067.8
Pipes	158,000	x			24,101.7
Exports	98,150			x	
Transport	12,000		x		
Mobile plastic toilets	15,600	x			2,379.7
Desktops	26,500		x		
Mineral supplements for animal feeding	12,400		x		
Disposal of a business motor vehicle	35,000	x			5,339.0
Disposal of a land	67,500		x		
Disposal of a residential house	89,000		x		
Meat preparation and processing equipment	19,000		x		
Energy saving lamps	4,500		x		

Marking Guide	FRW "000"	Standard Rate	Exempted	Zero rated	Corresponding VAT (FRW "000)
Advertisement	3,500	x			533.9
Clearing charges	1,800	x			274.6
Electricity	6,500	x			991.5
Laptops and tablets	25,500		x		
Generators	30,000	x			4,576.3
Legal service	2,000	x			305.1
Security service	950	x			144.9
Tax advisory services	1,750	x			266.9
Telephone expense	650	x			39.6
Water	120	x			18.3
Cleaning services	400	x			61.0

Marking Guide	FRW "000"	Standard Rate	Exempted	Zero rated	Corresponding VAT (FRW "000)
Medical services to staff	19,248		x		
Mobile telephones for team leaders	10,000		x		
Software (QuickBooks)	3,000		x		
Printer	2,500	X			381

b) Compute and comment on the VAT resulting from each case above and advise the company on the treatment of the VAT refunds in June and July 2022

- ✓ **Computation of the VAT reverse charge**

Financial advisory service
VAT=15,500,000 * 18/100= 2,790,000 (payable)

Software maintenance
VAT=22,350,000 * 18/100= 4,023,000**.**
This has null effect on the VAT payable as the service is not locally available (This is VAT payable and refundable at the same time**).**

- ✓ **Computation of VAT paid on importation**

CIF=FOB+I+F
CIF=26,000 +1,200+600=USD27,800 *1,050= FRW 29,190,000
Import duty = 29,190,000 *0% = FRW 0
Excise Duties= (CIF+import duties) *5%
Excise Duties= 29,190,000 *5%=1,459,500
VAT= (CIF+import duties+Excise duties+other handling charges) *18/100
Handling fees=780*1,050=819,000
VAT= (29,190,000+1,459,500+ 819,000) *18/100 =39,130,875*18/100 =5,664,330

Reference on import duty rate
The different Import Duty rates also allow for certain types of goods to be prioritised. In general, CET rates are: - Capital goods and raw materials = 0% - Intermediate goods = 10% - Finished goods = 25% - Sensitive Goods = Varying rate, therefore the applied rate on this scenario is 0%

- ✓ **Comment on the refund on June and July 2022**

The returns for June 2022 resulted in a VAT refund amounting to FRW 61,568,000. The management should be advised to claim this from the tax administration, by sending a formal letter requesting this. RRA may decide to conduct a quick desk audit toa ascertain the accuracy of the refund claim.

The refund on the return for July 2022 is below the threshold and should be claimed automatically on the VAT return for August.

QUESTION FIVE

MARKING GUIDE

		Marks
a)		
i)	01 mark for each valid line item in calculation, maximum 04 marks	4.0
ii)	01 mark for each valid line item in calculation, maximum 06 marks	6.0
		10.0
b)	Accounting profit before tax	0.5
	Add disallowable expenses:	
	Performance bonus accrual	0.5
	Capital expenditure cost paid to Gulf Contractors	1.0
	Transfer pricing fees for 2023	1.0
	Accounting depreciation	1.0
	Penalties on statutory obligations	1.0
	Less: costs allowable income tax	
	Actual bonus payout in 2024	1.0
	Tax depreciation	1.0
	Add: Disallowable income	
	Unrealized foreign exchange gain	1.0
	Net taxable income	1.0
	Corporate income tax at 30%	1.0
		10.0
Total Marks for Question Five		***20.0***

Model Answers

a) **Computation Interest, Fines and Penalties.**

(i) Penalties for Value Added Tax for May 2024	
VAT declared	38,250,000
Date of declaration	May-24
Due date of payment	15-Jun-24
Actual payment	31-Jul-24
Delayed days	45 days
Delayed months	2
Computation of fines, Interest and Penalties	
Non fixed administration @20%	7,650,000
Interest @1.5% per month	1,147,500
Total Interests and Penalty	**8,797,500**
(ii) Penalties for Withholding tax in September 2024	
Net payment	12,500,000
Gross payment (12,500,000*100/85)	14,705,882
WHT	2,205,882
Date of declaration	Sept-24
Due date of payment	15-Oct-24
Actual payment	30-Nov-24
Delayed days	45 days
Delayed months	2
Computation of fines, Interest and Penalties	
Fixed administration	500,000
Non fixed administration @20%	441, 176
Interest @1.5% per month	66, 176
Total Interests and Penalty	1,007,352

b) **KML Corporate Income tax computation for the tax year ended 31 December 2024**

Final taxable income and resulting Corporate Income Tax payable by KML for the tax year 2024		
Description	**FRW'000'**	**FRW'000'**
Profit Earnings before income tax		1,071,222
Add non allowable expenses		
Performance bonus of 2023	25,000	
Technical fees (Below 2% of Revenue)	Allowed	
Payment of new production line	42,500	
Legal fees	15,850	

Transfer pricing retainer	64,350	
Depreciation	82,350	
Penalties	27,000	257,050
Less omitted allowable expenses		
Performance bonus of 2024 (37M-35M)	- 2,000	
Tax depreciation	- 72,500	- 74,500
Less non-taxable Income		
Unrealized foreign exchange gain	- 56,000	- 56,000
Final Taxable Income		1,197,772
Corporate Income Tax @30%		359,332
Net Profit After Tax		**838,440**