CERTIFIED PUBLIC ACCOUNTANTS

ADVANCED LEVEL 2 EXAMINATIONS

A2.3 ADVANCED TAXATION

DATE: TUESDAY 24, FEBRUARY 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.
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	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

a) Economists and tax analysts all over the world have consistently cautioned countries to be mindful on the relevance and efficient implementation of double taxation treaties as a solution to tax problems in Africa. Yet many African countries continue to sign treaties among themselves and with other developed countries in Europe.

Required:

Explain FIVE reasons why Double Taxation Treaties are useful and explain any THREE challenges associated with Double Taxation Treaties? (8 Marks)

b) SG Ltd is a company known for consistently performing well financially in all their portfolio. During 2024 the company made a profit of FRW 165,225,000. The company has investments in foreign countries. In 2024, the company got the following incomes from foreign investments in Cameroon;

- Dividends net of 35% withholding tax: FRW 1,565,250
- Interest on Treasury Bond net of withholding tax of 10%: FRW 2,282,030

Joseph Kalisa is the Chief Financial Officer of SG Ltd; he earned a gross annual salary of FRW 18,000,000 in 2024. He also received other incomes below;

- Royalty from one of his investments in Kigali of FRW 880,000 (net)
- Interest income on Government Bond with the Government of Rwanda of FRW 1,500,000 (net), this is a five-year bond.

Mr Kalisa rents a residential house for FRW 3,500,000 per year, employs a maintenance manager for the property who is paid FRW 80,000 per month. The company refunds Joseph Kalisa the rental cost along with corresponding maintenance costs on the rented property.

During the same year 2024 Mr Kalisa received income from his foreign investments comprising of;

- Rent income of FRW 1,250,500 (net of 15% withholding tax)
- Dividend income of FRW 980,000 (net of 25% withholding tax)

There is no Double Taxation Agreement between Rwanda and the countries where foreign income was generated. Double taxation relief in Rwanda is given on a unilateral basis, as a credit against Rwandan income tax on foreign income.

Required:

i) Calculate the Income tax payable by SG Ltd for the tax year 2024. (10 Marks)
ii) Calculate the tax payable by Joseph Kalisa for the tax year 2024. (12 Marks)

c) Crixus PLC, company based in Italy has expressed interest in investing in Ikaro Ltd, a company incorporated in Rwanda for the manufacture and selling of Tiles. As part of Crixus PLC's due diligence, the following information came up regarding Ikaro Ltd which caught the attention of the Directors of Crixus PLC;

i) The company provision for bad debts amounting to FRW 205 million in the Balance sheet.
ii) Ikaro Ltd has accumulated tax loss carryover of FRW 125 million from previous three years of Operations.
iii) The company has a withholding tax credit that would normally be claimable on Income tax at the time of filling.
iv) The company has recently secured an export market in the region that could potentially take up to 50% of the annual production. Underlying risk is not satisfying local demand.

It is the policy of Crixus Plc to provide Loans to foreign acquired entities at a maximum interest rate of 5% per year.

Required:

As an investment analyst, **prepare a memorandum addressed to the Board of Directors of Crixus PLC evaluating the tax implications arising from the above financial information and the company's existing tax policy**. (10 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

As a tax Manager with a prominent advisory firm, you have been given an assignment to analyse the state of affairs of Cash Creek Ltd. The company is owned by four brothers each having 25% shareholding. Three of the owners work full time for the company while the other one doesn't. You have known two of the owners personally for a long time and they helped you to influence the rest of the owners to hire your firm.

The Company proposed that instead of paying your firm a flat retainer, it should instead be a percentage of the tax savings your advisory will bring them.

The company is planning to introduce a motivational loan scheme where each of the four owners receive up to FRW 200 million interest free loan to be repaid back as a bullet payment after two years.

The company is also planning to motivate senior management by providing free lunch, free accommodation by renting house for them and funding 50% of their children's school fees for those who have school children.

During engagement planning and initial assessment of cut off risks, you found out the following;

1) The company omitted two credit sale invoices that were created on last day of the year when preparing the Corporate Income tax return for the previous year 2024. The company owners have indicated that they don't find reasons to amend the tax return since Rwanda Revenue Authority has not queried anything and Afterall, there was no money received from this 'last minute sale'.
2) The company contracted Singh PLC, an Indian company to install and do maintenance of newly acquired packaging machine. The contract is worth $100,000 and was paid to India since the company has no representation in Rwanda. The full amount was paid in 2024 at exchange rate of FRW 1,300 per USD 1.
3) The company has incurred FRW 35 million in foreign exchange loss on an unpaid USD Loan owing to Bank of East Africa. This was part of tax expenses included in the Corporate Income tax workings.

Required:

a) **Evaluate ethical and professional issues that you and your firm potentially face in relation to this assignment, please recommend appropriate measures that could be taken to address the issues above.** (9 Marks)
b) **Advise the company on the tax implications arising from the following;**
   i) **Motivation scheme of providing interest free loans to shareholders.** (3 Marks)
   ii) **Provision of free lunch, school fees and free housing for top Management** (3 Marks)
   iii) **FRW 35 million foreign exchange loss on unpaid USD loan.** (2 Marks)
   iv) **Contracting Singh PLC to install and maintain the packing machine.** (3 Marks)

(Total: 20 Marks)

QUESTION THREE

Munyakazi is a sole proprietor who runs a chain of retail outlets in Nyabugogo, Kigali's busiest business centre. His annual income usually exceeds FRW 60 million. He is planning to add his wife Lisa to the business and together register it as a limited company trading as Kazi ni Kazi Ltd with effect from 01 August 2024. You have been provided with the following information.

Sole Proprietorship:

The Revenue for the period 01 January to 31 July 2024 is estimated to FRW 38 million. The following information relates to the same period;

- Capital allowances, valued at FRW 3,250,000
- 12 months' rent paid in February 2024 for period January 2024 to December 2024, FRW 15,000,000
- Architectural consultancy fees for a new warehouse FRW 4,950,000
- Value added tax paid for December 2023 period paid in January 2024 FRW 1,250,000
- FRW 950,000 Invoice received in July for marketing and branding cost done in Quarter one of 2024 in Igihe.Com online newspaper. This invoice is due in 90 days and was still unpaid at the time of cessation of operations of sole proprietorship

Limited Company:

The Limited company is planned to be incorporated on 01 August 2024 and commence operations immediately. The following information are relevant:

1. The Limited company shall issue share capital of 500,000 shares of FRW 10 each. Munyakazi will hold 70% of the shares while Lisa 30% of issued shares.
2. Both Munyakazi and his wife shall become full time directors of the company earning a monthly salary of FRW 3,500,000 and FRW 2,850,000 respectively.
3. Revenue for the company is expected to be FRW 81 million for the period from 01 August 2024 to 31 December 2024.
4. The Limited rents the office building and paid two years in advance rent of FRW 60 million
5. The new Limited company shall take over all assets of the sole proprietorship and assume all the liabilities at the following market values;

Assets / Liabilities	**Market value as at 01 August 2024**
	FRW
Shop buildings and Land (Land: 25,000,000)	77,000,000
Fixtures and Fittings	5,950,000
Volkswagen Amarok (Pickup Truck)	8,820,000
Stock of merchandize	2,170,000
Prepaid warehouse rent (01 August to 31 December 2024)	6,250,000
Bank Overdraft	1,500,000
Trade payable	950,000
Serve room and other IT Infrastructure (8 years useful life)	6,500,000

Required:

a) **Advise Munyakazi with any FOUR income tax implications that shall arise from incorporating a Limited company to replace the sole proprietorship on 01 August 2024.** (4 Marks)

b) **Compute the taxable profit for Munyakazi as a sole proprietor from the start of the year until 31 July 2024.** (4 Marks)

c) **Computer the personal income tax for Munyakazi and Lisa for the tax period 2024.** (4 Marks)

d) **Compute the taxable business profit and corporate income tax payable by Kazi ni kazi Ltd for the tax year 2024.** (8 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) Kigali Company Ltd was incorporated in Rwanda in 2005 as private company under the Rwandan company Law and is domiciled with interests in the Manufacturing of plastic water tanks, pipes and a general trading.

In 2015, the company was informed by the Commissioner General of RRA that they registered in the category of large taxpayers. The following are transactions for August 2022:

Sales	**FRW "000"**
Water tanks	420,000
Pipes	158,000
Exports	98,150
Transport	12,000
Mobile plastic toilets	15,600
Desktops	26,500
Mineral supplements for animal feeding	12,400
Disposal of a business motor vehicle	35,000
Disposal of a land	67,500
Disposal of a residential house	89,000
Meat preparation and processing equipment	19,000
Energy saving lamps	4,500

Purchases	**FRW "000"**
Advertisement	3,500
Clearing charges	1,800
Electricity	6,500
Laptops and tablets	25,500
Generators	30,000
Legal service	2,000
Security service	950
Tax advisory services	1,300
Telephone expense	650
Water	120

Cleaning services	400
Medical services to staff	19,248
Mobile telephones for team leaders	10,000
Software (QuickBooks)	3,000
Printer	2,500

Additional information:

1. The meat preparation and processing equipment is rabbled as a sensitive item on the list issued by the Minister, regarding agricultural inputs and other agricultural and livestock materials and equipment exempt from the value added tax.
2. The Telephone expenses relate to the airtime loaded on the mobile phones of the team leaders.
3. All figures above include VAT where applicable.

Required:

Indicate whether the above items are standard rated, exempted or zero rated, and compute the corresponding VAT where applicable. (13 Marks)

b) Kigali Tanks Ltd is a subsidiary company of Port Louis Tanks; a company registered in Mauritius. Kigali Tanks Ltd received the following management services from the parent company: Financial advisory services that could be provided by ABC Ltd (a local company), and software maintenance, a service that could not be provided by any local company. Payments are FRW 15,500,000 and FRW 22,350,000 respectively.

Kigali Tanks Ltd has also imported raw materials used in manufacturing of water tanks and pipes. The materials were purchases from Turkey at USD 26,000; the company paid USD 1,200 for transport to Dar es Salaam, insurance paid amounts to USD 600. All other handling fees amount to USD 780. The exchange rate for the period was 1USD = 1,050 RWF and excise duty rate is 5%.

In June and July 2022, the company's VAT returns show refunds amounting to FRW 61,568,000 and FRW 45,000 respectively.

Required:

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. The figures are VAT exclusive where applicable. (7 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) You are a tax Director in RB Associates; a chartered accountant's firm and you have been assigned to deal with tax affairs of Kigali Manufacturers Limited (KML). KML is a tax resident company in Rwanda but fully owned by Global Manufactures PLC, based in Canada.

Information provided from previous tax year 2024:

KML received a notice from Rwanda Revenue Authority of a tax audit that will be conducted in February 2025 and the Company directors have asked you to help them to prepare for the audit. Upon initial assessment, it seems as if the company was generally compliant with exception of the following issues;

1. The Value added tax for May 2024 amounting to FRW 38,250,000 was paid on 31 July 2024 although the filling was done on time.
2. In September 2024, KML paid FRW 12,500,000 net of withholding tax (WHT) to Felicien Kalisa, a freelancer consultant in Human resources for salaries benchmark. The corresponding withholding tax return was remitted and paid on 30 November 2024, after a tax investigation revealed this oversight.

The following information relates to Tax year 2024.

	FRW '000
Revenue	3,950,000
Cost of goods sold	(1,905,190)
Gross Profit	**2,044,810**
Staff costs	(288,236)
Professional services	(185,200)
Other operating expenses	(648,232)
Other income	148,080
Profit Earnings before income tax	**1,071,222**
Corporate income tax	(321,367)
Net results after tax	**749,855**

Additional information:

1. Staff costs include FRW 35 million for performance bonus accrual for financial year 2024, payable in Quarter one of the subsequent year. In the same year FRW 25 million was paid out regarding financial year 2023 and the actual Bonus payout for 2024 was eventually FRW 37 million paid out in March 2025.

2. Professional services include the following:	**FRW**
Technical services support cost paid to Global Manufacturers PLC	62,500,000
Payment to Gulf Contractors for project management services during construction of a new production line	42,500,000

Legal services for TC law Chambers for representing the company in legal dispute of a dismissed employee	15,850,000
Transfer pricing retainer fee for the year 2023 paid in 2024	64,350,000

3. Included in other operating expenses is depreciation charges of FRW 82,350,000, billboard advertisement of FRW 32,500,000 and penalties on statutory obligations of FRW 27,000,000. The balance represents general allowable expenses. The final agreed tax depreciation for the year was FRW 72,500,000.

4. Other income comprises foreign exchange gain on unpaid loan denominated in USD of FRW 56,000,000 and the rest is refund from Insurance for cancelled Insurance policies.

5. Corporate income tax is a provisional tax accrued by financial accounting team while closing the financial year 2024.

Required:

a) With reference to relevant Rwandan tax laws, **advise the directors of KML on the company's exposure to penalties and any interest on overdue / underpaid taxes and late submission of tax returns arising from the following;**

i) **Value Added Tax for May 2024** (4 Marks)

ii) **Withholding tax in September 2024** (6 Marks)

b) **Calculate the final taxable income and resulting Corporate Income Tax payable by KML for the tax year 2024.** (10 Marks)

(Total: 20 Marks)