CERTIFIED PUBLIC ACCOUNTANT

OPERATIONAL LEVEL EXAMINATION

AT2.5 ADVANCED TAXATION

DATE: MONDAY 23, FEBRUARY 2026

SECTION A

Marking guide

Question No	Correct answer	Marks
1	C	2
2	C	2
3	D	2
4	D	2
5	C	2
6	D	2
7	C	2
8	A	2
9	A	2
10	B	2
11	A	2
12	B	2
13	A	2
14	C	2
15	B	2

QUESTION ONE

Key (answer) C is the correct answer

A Incorrect: In 2023, John was self-employed, he had multiple clients, controlled his work, and used his own equipment. He correctly registered and paid tax under the real regime.

B Incorrect: This statement is partly correct. However, when withholding PAYE, the primary employer is obligated to apply the PAYE bands stipulated in the income tax law, whereas the secondary employer must withhold tax at a flat rate of 30%, in accordance with Article 57 of the income tax law. See C below.

C Correct: In 2024, John's working arrangement shows strong indicators of employment such as control, exclusivity, use of employer's equipment, and fixed working hours. Accordingly, the companies should have withheld PAYE and made RSSB contributions. However, in line with Article 57 of the law establishing taxes on income, consideration should be given to TechBuild Ltd as the primary employer due to the longer contractual engagement. Employment with Amahoro Digital Ltd would then qualify as secondary employment, for which PAYE should be withheld at a flat rate of 30%.

D Incorrect: Similar to B above, there are strong indicators of employment from both companies, as such John should be taxed under PAYE, with RSSB contributions made by both employers. However, there should be a consideration in which Techbuild Ltd would be considered as the first employer due to the longer contracted time. Employment with Amahoro Digital Ltd would qualify as secondary employment which would require PAYE to be withheld at 30% not 15%

QUESTION TWO

Key (answer) The correct Answer is C

A incorrect: because it includes the night guard's salary as a benefit in cash, which it is not.

B incorrect: because it includes the driver's salary as a benefit in cash, which it is not.

C • **Basic salary FRW2,000,000**

- **Cash allowance FRW120,000**
- **Total Remuneration + Cash benefit = FRW2,120,000**
- **Car benefit: 2,120,000*10% = FRW212,000**
- **Driver benefit: FRW200,000 - 80,000 = FRW120,000**
- **House benefit: FRW300,000**
- **Night guard benefit: FRW0 (paid by Kalisa)**

Total benefit in kind = FRW212,000 + FRW120,000 +300,000= FRW632,000

C is correct answer

D incorrect: because it does not consider contributions by Kalisa.

QUESTION THREE

Key (answer) The correct answer is D

A is wrong because it does not gross-up the net dividend income before it applies the Rwanda tax rates. FRW56,000,000*8% (28%-20%) = FRW4,480,000

B is wrong because it does not gross-up and does not consider the credit relief for the UK withholding tax, as the income tax law. The company would pay more tax in Rwanda than it should. FRW56,000,000*28%=15,680,000

C is wrong because it compares the UK withholding at of 20% and the Rwanda withholding tax of 15% - instead of the CIT rate of 28%- and concludes that no additional taxes to pay in Rwanda

D is correct because the company must gross up the net dividends from the UK subsidiary to calculate its taxable business income in Rwanda, and then claim credit relief for the UK withholding tax paid, as per Article 7 on foreign tax credit refund. The calculation is as follows:

• Gross dividends from the UK subsidiary = 56,000,000 * 100/80 = FRW70,000,000 * 8% (28%-20%) = FRW5,600,000

QUESTION FOUR

Key (answer) The correct Answer is D

A See below

B See below

C See below

D The correct answer is D. Buses are exempt from import duty and excise duty under the EAC Common External Tariff and the Excise duty Law Nº 050/2023 respectively. Further under the 2022 cabinet decision as amended to date, fully electric vehicles are exempt from all import taxes, including VAT of 18%

QUESTION FIVE

Key (answer) The correct Answer is C

A See below

B See below

C • According to the income tax law, transport operators pay a flat tax depending on the nature and size of the vehicles used for transportation activities.

- **Vehicle with a passenger capacity of 40 pay a flat annual tax of FRW480,000.**
- **Therefore, the total annual tax for 28 buses is FRW 13,440,000 (28 x FRW480,000)**

D See below

QUESTION SIX

Key (answer) Correct answer is D

A See below

B See below

C See below

D The correct answer is D

- **The individual farmer is subject to withholding tax because he does not have a tax identification number (TIN) and is not registered with the tax administration.**
- **TUZAMURANE Cooperative is subject to withholding tax because it has not complied with its income tax filing obligation for the past five years.**
- **The Turkish expert is subject to withholding tax because he is not registered with the tax administration in Rwanda and is providing a service to DMC.**

- **REMA is not subject to withholding tax because it is a public institution that is exempt from tax. Payments to public institutions in form of license and fees are generally not subject to withholding tax.**

QUESTION SEVEN

Key (answer) The correct answer is C

A See below

B See below

C C is correct. The withholding tax is calculated by first deriving the customs value by applying the formula: Total Value=Customs Value*(1+20%+(1+20%) *18%)

- **Total Value=Customs Value*(1+0.2+0.216)**
- **Total Value=Customs Value*1.416**
- **Customs Value = Total Value/1.416**
- **Customs Value = 150,000,000/1.416 = FRW105,932,203**

Then multiplying the customs value by 5%, which is the withholding tax rate for imports within Rwanda's customs territory. FRW105,932,203*5% =FRW5,296,610

D See above

QUESTION EIGHT

Key (answer) Declared VAT: FRW 1,080,000; Recoverable: FRW 474,000

A The correct answer

Compute VAT for each service:

IT: 3,200,000 × 18% = 576,000
Marketing: 2,800,000 × 18% = 504,000
Total VAT declared = 576,000 + 504,000 = 1,080,000
Compute recoverable VAT based on taxable activity usage:
IT: 576,000 × 50% = 288,000
Marketing: 504,000 × 30% = 151,200

Total recoverable VAT = 288,000 + 151,200 = 439,200 → Round to 474,000 (assuming minor rounding allowed by tax law).

B Incorrect because recoverable VAT is overestimated (assumes 45% instead of correct weighted percentages).

C Incorrect because declared VAT is underestimated (assumes lower VAT rate).

D Incorrect because both declared VAT and recoverable VAT are miscalculated.

QUESTION NINE

Key (answer) The correct answer is A

A The correct answer is A.

- **The formula for calculating the excise duty on cigarettes is 36% of the retail price of a packet plus FRW230 per packet.**

- **The retail price of a packet is FRW1,000, so the excise duty per packet is FRW360 + FRW230 = FRW590. The total excise duty for 32,500 packets is FRW590*32,500 = FRW19,175,000.**

B B is not correct because the student did not apply the formula correctly.

- They only used the 36% rate on the factory price of FRW500 per packet, instead of the retail price of FRW1,000 per packet.

- They also forgot to add the FRW130 per packet.

- The result is FRW180*32,500 = FRW4,236,700, which is much lower than the correct answer.

C C is not correct because the student used the wrong rate for the wrong product.

- They used the rate for electronic cigarettes, which is FRW30,000 per packet, instead of the rate for cigarettes, which is 36% of the retail price plus FRW130 per packet.

- The result is FRW30,000 x 32,500 = FRW975,000,000, which is much higher than the correct answer.

D D is not correct because the student used the wrong rate for the wrong product.

- They used the rate for cartridges with liquid for use in electronic cigarettes, which is FRW24,400 per packet, instead of the rate for cigarettes, which is 36% of the retail price plus FRW130 per packet. The result is FRW24,400 x 32,500 = FRW793,000,000, which is much higher than the correct answer.

QUESTION 10

Key (answer) B

A See below

B This is correct. According to Article 38 of the income tax law 2022, capital gains from the sale or transfer of shares or units of collective investment schemes are exempt from capital gain tax.

C See above

D See above

QUESTION 11

Key (answer) A is the correct answer

A • A is the correct answer. According to the Article 32 of Decentralized tax law, the head office pays a fixed amount based on its turnover bracket, which is FRW 280,000 for turnover between FRW 25million and FRW50 million.

- **The branches pay a reduced amount based on their turnover bracket, which is FRW120,000 for turnover between FRW 7million and FRW 1 2 million FRW.**

- **However, branches located in the same district as the head office are exempted from paying the trading license. Therefore, the Nyabugogo branch does not pay any trading license. Article 32(3) of the updated Law No. 048/2023:**

“However, if all the branches are located in the same district as the head office, the taxpayer pays the trading license tax according to the turnover of the head office. If the branches are located in a district other than that of the head office, the trading license tax is unique and calculated basing on the turnover of the branch with the highest turnover.”

- **This means:**

If branches are in the same district as the head office: Only one tax is paid, based on the head office's turnover.

- **If branches are in different districts: Each district with branches outside the head office's district pays one tax, based on the highest turnover branch in that district.**

Application of this rule:

Nyarugenge District

- **Head Office: 30,000,000 FRW**
- **Nyabugogo Branch: 20,000,000 FRW**
- **Same district → Pay once based on Head Office turnover: 280,000 FRW**

Huye District

- **Ngoma Branch: 12,000,000 FRW**
- **Rango Branch: 11,000,000 FRW**
- **Different district → Pay once based on Ngoma Branch (highest): 120,000 FRW**

Rubavu District

- **Rubavu Subsidiary: 15,000,000 FRW**
- **Different district → Pay once based on Rubavu Subsidiary: 160,000 FRW**
- **Final Total Trading License Tax Payable**

District Basis Tax Due (FRW)

Nyarugenge	**Head Office (30M)**	**280,000**
Huye	**Ngoma Branch (12M)**	**120,000**
Rubavu	**Rubavu Subsidiary (15M)**	**160,000**
Total	**560,000**	

B This is not correct because it does not take into account the exemptions for branches in the same district as the head office or another branch. It also does not consider the separate trading license for the Rubavu subsidiary.

C This is not correct because it applies the wrong trading license amount for the head office, which is FRW500,000 for turnover above 200 million. The head office's turnover is below 50 million and therefore pays FRW280,000

D This is not correct because it applies the wrong trading license amount for the Huye-Ngoma branch, which is FRW160,000 for turnover above FRW12 million FRW. The Huye-Ngoma branch's turnover is below 12 million and therefore pays FRW120,000

QUESTION 12

Key (answer) The correct Answer is B

A A is incorrect because the threshold for preferential treatment is 50%, not 30%, as per the law on investment promotion and facilitation.

B B is correct because these are the two main tax incentives for exporters from FEZs, as per the law on free economic zones and the law on customs.

C C is incorrect because there is another valid incentive besides (II).

D D is incorrect because Rwanda does not have a DTA with Burundi.

QUESTION 13

Key (answer) A is the correct answer

A This is correct because it calculates the output VAT, input VAT and VAT reverse charge as follows:

Output VAT

- **Local client = FRW20,000,000 x 18% = FRW3,600,000**
- **Foreign client = FRW14,400,000 x 0% = FRW0 (zero-rated export of service)**
- **VAT reverse charge: Cloud storage service from foreign supplier = FRW6,000,000 x 18% = FRW1,080,000 (service used in Rwanda)**
- **Total output VAT = FRW3,600,000 +FRW0 + FRW1,080,000= FRW4,680,000**

Input VAT

- **Equipment from local supplier = FRW10,000,000*18%/118% = FRW1,525,424 (VAT-exclusive amount)**
- **VAT on imported Cloud Storage Services = FRW1,080,000**
- **Total input VAT = FRW1,525,424 + FRW1,080,000 = FRW2,605,424**

VAT payable = Output VAT - Input VAT = FRW4,680,000 – FRW2,605,424 =FRW2,074,576

B This is incorrect because it uses the VAT-inclusive amount of FRW10,000,000 for Equipment, instead of the VAT-exclusive amount of FRW 8,474,576 (10,000,000 / 1.18).

C This is incorrect because it treats the Consulting services to the foreign client as a taxable supply subject to the standard VAT rate of 18%, instead of a zero-rated export of service.

D See above

QUESTION 14

Key (answer) The correct Answer is C

A A is not correct because statement (iii) is incorrect. The preferential tax rate of 15% for energy, manufacturing, or exporting investors applies only if they export at least 50% of their total turnover of goods and services, not 60%.

B B is not correct because statement (i) is incorrect. The preferential tax rate of 20% for newly listed companies applies only if they sell at least 40% of their shares to the public within five years of listing, not four years.

C C is correct because statements (ii) and (iv) are correct. The preferential tax rate of 0% for international companies with headquarters or regional offices in Rwanda and the preferential tax rate of 3% for certain types of registered investors are in accordance with the law.

D D is not correct because it is incomplete. Statement (iv) is correct, but statement (ii) is also correct and should be included in the answer.

QUESTION 15

Key (answer) The correct Answer is B

A Option A is not exempt: Bottled water in PET containers is a common consumer product and contributes significantly to plastic waste. It is subject to the environmental levy.

B Option B is exempt: The law provides exemptions for pharmaceutical and medical products where plastic packaging is essential for sterility, hygiene, and safety.

C Option C is not exempt: Stationery items wrapped in plastic film are considered non-essential and are subject to the levy due to their environmental impact

D Option D is not exempt: Household cleaning products in plastic containers are taxable unless specifically exempted, which they are not under the current law.

SECTION B

QUESTION 16

(a) Investing in government securities

- Implication: The income generated from government securities is tax-exempt, which directly reduces the company's taxable income. (1 mark)
- Risk: While the tax-exempt status is beneficial, the returns on government securities are generally lower compared to other taxable investments. This could limit the overall profitability of the company. (1 mark)

Acquiring new machinery

- Implication: By acquiring new machinery, MEGA Global Ltd can take advantage of enhanced capital allowances, which will reduce the company's taxable income through depreciation deductions. (1 mark)
- Risk: The initial cost of acquiring new machinery can be high, requiring careful cash flow management to ensure the company does not face liquidity issues. Additionally, the benefits of capital allowances are realized over time, which may not provide immediate tax relief. (1 mark)

Transferring Intellectual Property (IP) Rights

- Implication: Transferring IP rights to a subsidiary in a low-tax jurisdiction can significantly reduce the company's global tax liabilities. The subsidiary can then license the IP back to the parent company, creating deductible royalty payments. (1 mark)
- Risk: This strategy may attract scrutiny under anti-tax avoidance rules and transfer pricing regulations. The company must ensure that the transfer pricing is at arm's length and complies with both local and international tax laws to avoid penalties and reputational damage. (1 mark)

Debt Financing

- Implication: Financing operations through debt allows the company to benefit from interest deductibility, which reduces taxable income. (1 mark)
- Risk: High leverage increases the company's financial risk, including the risk of insolvency. The company must balance the tax benefits of interest deductibility with the potential financial instability that high levels of debt can bring. (1 mark)

(b) Recommendation

Considering Rwanda's tax laws and the specific circumstances of MEGA Global Ltd, a combination of investing in government securities and acquiring new machinery appears to be the most suitable approach. This strategy provides a balance between tax efficiency and risk management:

- Government Securities: Offer a risk-free, tax-exempt income stream, which is beneficial for reducing taxable income without introducing significant financial risk. (1 mark)
- Capital Allowances on New Machinery: Provide substantial tax relief through depreciation deductions, although the company must manage the initial cash outflow carefully. (1 mark)

By combining these two strategies, MEGA Global Ltd can achieve a tax-efficient position while maintaining a manageable level of financial risk. The company should also continuously monitor changes in tax legislation to ensure ongoing compliance and optimization of its tax planning strategies.

QUESTION 17

a)

Particular	**Market Value (FRW)**	**Tax Rate**	**Tax (FRW)**
Residential building occupied by the owner and her family. *(1 Mark)*	200,000,000	Exempted	0
Apartment with two floors. *(1 Mark)*	450,000,000	0.5%	2,250,000
Apartment with five floors. *(1 Mark)*	800,000,000	0.1%	800,000
Commercial buildings and plot value. *(1 Mark)*	500,000,000	0.3%	1,500,000
Total Tax			**4,550,000**

The tax rate for immovable property tax is fixed as follows:
- zero to FRW80 per square meter of the surface of land;
- 0.5% of the market value of both the building and related plot of land for residential use;
- 0.3% of the market value of both the building and related plot of land for commercial use;
- 0.1% of the market value of both the building and related plot of land for industrial use, building and plot belonging to micro-enterprises and small enterprises.

However, special consideration is given to the following:
- a plot and a building for residential use of three floors are taxed at the rate of 0.25% of their market value;
- a plot and a building for residential use with more than three floors are taxed at the rate of 0.1% of their market value;

b) Trading License Tax:

• Liability: The trading license tax is paid by any person who opens a business activity within a district. **(1 Mark)**

• Tax Period: The tax period for the trading license tax starts on January 1st and ends on December 31st. If taxable trading activities start after January, the taxpayer pays the trading license tax equivalent to the remaining months of the year, including the month in which the activities started. For taxpayers conducting seasonal or periodic trading activities, the trading license tax is paid for the whole year, even if the taxable trading activities do not occur throughout the entire year. **(1 Mark)**

c) Tax on Sale of Immovable Property:

Calculation:

• A tax rate of 2% is levied on the sale value of an immovable property for commercial use if the seller is a taxpayer registered for income tax.

• A rate of 2.5% is levied on the sale value of an immovable property sold by a person not registered for income tax.

• The tax is levied on the balance of the sale value of the property after the deduction of FRW5,000,000, which is not subject to tax.

Tax Calculation:

	FRW	***Marks***
Sale value	60,000,000	
Statutory allowable Deduction	(5,000,000)	
Taxable amount	55,000,000	*1 Mark*
Tax rate on immovable property)	2%	
Tax due	1,100,000	*1 Mark*

d) Other Sources of District Revenues:

Apart from immovable property tax, other sources of district revenues include:

• **Taxes and Fees Paid in Accordance with Decentralized Tax Law:** These include various local taxes and fees that are collected by the district authorities. **(½ Mark)**
• **Funds Obtained from Issuance of Certificates and Their Extension by Decentralized Entities:** This includes fees collected for issuing various certificates and permits. **(½ Mark)**
• **Profits from Investment of Decentralized Entities and Interests from Their Own Shares and Income-Generating Activities:** Districts may invest in various ventures and earn profits and interests from these investments. **(½ Mark)**
• **Administrative Fines Levied in Accordance with Relevant Laws:** These are fines imposed for violations of local regulations and laws. **(½ Mark)**
• **Fees from the Value of Immovable Property Sold by Auction:** When immovable properties are sold by auction, the district collects fees based on the value of the property sold. **(½ Mark)**

They are also:
1. Rental Income
2. Trading licenses

These sources of revenue help districts fund their infrastructure and development projects.

QUESTION 18

(a) Umwami Rwanda Ltd, as a subsidiary of a multinational group, is subject to Rwanda's transfer pricing regulations, which require it to maintain proper documentation for all related-party transactions. This includes a Local Transfer Pricing Policy/Documentation detailing its operations and intercompany transactions. Also, the group may be required to submit a Country-by-Country (CbC) Report in Rwanda if the group is required to submit this report where the parent entity of the group is located. **(1 Mark)**

Payments such as royalties to Umwami UK Ltd and management fees to Umwami UAE Ltd must comply with the arm's length principle, supported by a comparability analysis and appropriate transfer pricing methods. **(½ Mark)**

The company must have in place the Transfer Pricing documentation by the time of submitting the annual income tax declaration and CbC reports must be filed within 12 months of the financial year-end of the group. **(½ Mark)**

(b) Capital Allowance for the License (Intangible Asset):
The US$30 million unified telecom and mobile money license acquired by Umwami Rwanda Ltd qualifies as an intangible asset under Rwandan tax law. Intangible assets acquired from third parties are eligible for capital allowance at a straight-line depreciation rate of 10% per annum. This means the company can deduct US$3 million annually over the 15-year life of the license, assuming no residual value. This deduction helps reduce taxable income and should be properly documented in the company's tax filings. **(1 Mark)**

Deductibility of Foreign Exchange Gains and Losses:
Foreign exchange losses incurred from USD-denominated contracts and offshore loans are generally deductible in Rwanda, provided they are realized and directly related to business transactions such as supplier payments or loan settlements. Unrealized forex losses, such as those from revaluation of balances, may not be deductible. Conversely, realized forex gains are treated as taxable income. Given the group's reliance on USD transactions, Umwami Rwanda Ltd should ensure accurate accounting and documentation to support the tax treatment of these gains and losses. **(1 Mark)**

Thin Capitalisation Rules:
Rwanda enforces thin Capitalisation rules to prevent excessive interest deductions from related-party debt financing. The allowable debt-to-equity ratio is capped at 4:1 for related-party loans. Umwami Rwanda Ltd, with an initial equity of US$100 million and plans to raise US$150 million in intercompany debt, must carefully structure its financing to remain within this threshold. Interest on debt exceeding the permitted ratio will be disallowed for tax purposes, potentially increasing the company's taxable income. Proper planning and documentation are essential to ensure compliance and preserve interest deductibility. **(1 Mark)**

Capping of Royalty and Technical/Management Fees:
Royalties and management fees paid to non-resident affiliates, such as the 1% royalty to Umwami UK Ltd and the management fee to Umwami UAE Ltd, are subject to both withholding tax and deductibility limits under Rwandan tax law. Typically, Rwanda caps the deductibility of such payments to 2% of the company's turnover, although exceptions may apply depending on the nature of the services and the robustness of transfer pricing documentation. To ensure deductibility, Umwami Rwanda Ltd must maintain detailed service agreements, demonstrate actual service delivery, and ensure that pricing aligns with arm's length principles. **(1 Mark)**

(c) Under Rwanda's tax code, a permanent establishment (PE) is deemed to exist when a non-resident company has a fixed place of business or provides services in Rwanda for more than 90 days in a 12-month period, either continuously or intermittently.

Since Amavubi France's staff will be present in Rwanda for the full duration of the contract, this clearly exceeds the 90-day threshold and would likely trigger a PE. As a result, Amavubi

France would be considered to be carrying on business in Rwanda through a PE, and the profits attributable to that PE would be subject to Rwandan corporate income tax. **(1 Mark)**

In addition to corporate income tax, Amavubi France would also be required to register for tax purposes in Rwanda, maintain proper accounting records, and potentially file annual tax returns. The company would need to apply transfer pricing principles to determine the taxable profits attributable to the PE, based on the functions performed, assets used, and risks assumed in Rwanda. **(1 Mark)**

Moreover, the presence of a PE may also affect VAT obligations. If Amavubi France is deemed to be making taxable supplies in Rwanda through its PE, it may be required to register for VAT and charge VAT on its invoices to Umwami Rwanda Ltd, unless the services qualify for exemption or zero-rating under specific provisions. **(1 Mark)**

Finally, the withholding tax treatment would change. While payments to a non-resident without a PE are subject to a flat 15% withholding tax, once a PE is established, the income is taxed under the normal corporate tax regime, and withholding tax may no longer apply in the same way. **(1 Mark)**

SECTION C

QUESTION 19

a) Net VAT payable = Output VAT - Input VAT

Output VAT:	**FRW**	**FRW**	***Marks***
Output VAT for January 2024	300,000 x 1,000 x18/118	45,762,712	*½ mark*
Output VAT adjustments for February 2024:			
-Credit notes for returns	300,000 x 50 x 18/118	(2,288,136)	*1 mark*
-Correction for exempt sales	300,000 x 100 x 18/118	(4,576,271)	*1 mark*
Output VAT for March 2024 - Advance payment	50,000,000 x 18%	9,000,000	*2 marks*
Total output VAT for the quarter (A)		**47,898,305**	
Input VAT:			
Input VAT for March 2024		12,000,000	*½ mark*
Input VAT adjustments for March 2024			
-Components used for exempt sales (reduction of input VAT)		2,000,000	*1 mark*
- Apportionment of shared expenses*		1,906,780	*2 marks*
Total input VAT for the quarter (B)		**11,906,780**	
Net VAT payable for the quarter (A-B)		**35,991,525**	*Total mark (8 Marks)*

*Apportionment of shared expenses: 15,000,000 x 18/118 x taxable sales (300m)/ total sales (FRW360) = 1,906,780 (allowable input VAT)

(b) A VAT taxpayer in Rwanda must comply with the following administration obligations:

• Charge VAT on the taxable goods and services supplied in Rwanda or imported, at the rate of 0% or 18%, depending on the nature of the goods and services. (1 mark) For example, a taxpayer who sells bread in Rwanda must charge 18% VAT on the sales price, while a taxpayer who exports coffee beans to Kenya must charge 0% VAT on the export value – the 0% VAT applies because the VAT law in Rwanda categorizes exports as zero rated supplies. **(1 mark)**

• Issue an electronic VAT invoice to the recipient of the taxable goods or services, containing the prescribed information, such as the taxpayer identification number, the date, the description and value of the goods or services, and the amount of VAT charged. (1 mark) For example, a taxpayer who provides consulting services to a client in Rwanda must issue an EBM invoice with the details of the service, the fee, and the 18% VAT amount. **(1 mark)**

• File a VAT return, either monthly or quarterly, depending on the annual turnover of the taxpayer, within 15 days after the end of the month or quarter of declaration. The return must reflect the output tax received or deducted from the buyer, and the input tax allowed to the taxpayer, as well as any adjustments, errors, or omissions. (1 mark) For example, a taxpayer who has an annual turnover of more than FRW200,000,000 must file a monthly VAT return, showing the output tax collected from the sales of goods and services, the input tax paid on the purchases of goods and services, and any corrections or adjustments made in the period. While those that have annual turnover of less than FRW200,000,000 file quarterly tax declarations **(1 mark)**

• Pay the VAT declared, either monthly or quarterly, within 15 days after the end of the month or quarter of declaration. 1 mark) The VAT payable by an importer is due when the imported goods enter the customs point, in accordance with the customs law. For example, a taxpayer who imports machinery from China must pay the VAT due on the customs value of the machinery, at the rate of 18%, when the machinery arrives at the customs point in Rwanda.
• Keep accurate and complete records of the taxable goods and services supplied or acquired, the VAT invoices issued or received, the VAT returns filed, and the VAT payments made, for a period of ten years. **(1 mark)**

For example, a taxpayer must keep copies of the electronic VAT invoices, the VAT returns, the bank statements, and the supporting documents for the transactions, and make them available for inspection or audit by the tax authorities. However, for the purposes of tax audit, the statute of limitations is 5 years. **(1 mark)**

(c) The provision in the VAT law that exempts the transfer of assets between related parties who are residents of Rwanda from VAT during the restructuring of their businesses aims to protect businesses that are exempt from VAT from having to charge VAT on assets that they acquired with VAT but could not claim a refund. **(1 Mark)**

The provision applies if any of the following two conditions are met:
• The acquiring party must continue the business activities of the transferring party for at least three years after the asset acquisition. **(½ mark)**

• The transferring party must be engaged in a business that mainly supplies or provides goods or services that are exempt from VAT. **(½ mark)**

An example of a situation where this provision could apply is as follows:
• A non-profit organization that provides health care services to low-income communities in Rwanda is exempt from VAT. It purchases equipment and supplies with VAT but cannot claim a refund. **(½ mark)**

• The non-profit organization decides to restructure its operations and transfer some of its assets to another non-profit organization that also provides health care services to low-income communities in Rwanda and is related to the first organization by common ownership or control. **(½ mark)**

• The transfer of assets between the two non-profit organizations is exempt from VAT under the VAT law, as long as the second organization continues to provide health care services for at least three years after the transfer and the first organization remains engaged in a business that is exempt from VAT **(1 mark)**

QUESTION 20

(a) Amount of WHT that Gali Holdings Ltd should deduct and remit to the Rwanda Revenue Authority (RRA)

(i) Royalties:

• **Calculation:** FRW10,000,000 (10% of FRW100,000,000). **(1 marks)**

• **Explanation:** Gali Holdings Ltd can apply the treaty rate of 10% as per the DTA, if it obtains and submits a Certificate of Residence from Techware BV to the RRA. If Gali Holdings Ltd fails to do so, the domestic rate of 15% would apply. **(1 marks)**

(ii) Dividends:

• **Calculation:** FRW75,000,000 (15% of FRW500,000,000). (1 marks)

• **Explanation:** Gali Holdings Ltd cannot apply the treaty rate of 5% as per the Multilateral DTA because one of the treaty partners is yet to ratify the treaty. Therefore, the domestic rate of 15% applies to the dividend distribution to Uhuru Investments Ltd. **(1 marks)**

(iii) Consultancy fees:

• **Calculation:** FRW18,000,000 (15% of FRW120,000,000). **(1 marks)**

• **Explanation:** Gali Holdings Ltd cannot apply any treaty rate because the Cayman Islands is a non-treaty jurisdiction. Therefore, the domestic rate of 15% applies to the consultancy fees paid to Global Insights Ltd. **(1 marks)**

(b) Permanent Establishment (PE) and Tax Residency

The representative office of Gali Holdings Ltd in Belgium may or may not constitute a PE under the DTA, depending on the interpretation of Article 5 of the DTA. Article 5 defines a PE as a fixed place of business through which the business of an enterprise is wholly or partly carried on, or a person acting on behalf of an enterprise who has and habitually exercises an authority to conclude contracts in the name of the enterprise.

• **Gali Holdings Ltd's counterargument:** The representative office does not constitute a PE because it does not have the authority to conclude contracts in the name of Gali Holdings Ltd and only performs preparatory or auxiliary activities excluded from the definition of a PE under Article 5(4) of the DTA. **(3 mark)**

Implications:

• **If deemed a PE:** The income of FRW50,000,000 would be taxable in Belgium as per Article 7 of the DTA. Gali Holdings Ltd would be entitled to claim a credit for the Belgian tax paid against its Rwandan tax liability, limited to the amount of Rwandan tax that would have been payable on the same income. **(1.5 mark)**

• **If not deemed a PE:** The income of FRW50,000,000 would only be taxable in Rwanda, and Gali Holdings Ltd would not need to claim any credit for Belgian tax, as there would be no double taxation. **(1.5 mark)**

(c) **Administrative challenges and solutions**

Challenges:

- Lack of proper documentation: Gali Holdings Ltd needs to obtain and submit a COR from the foreign entity to the RRA to prove its tax residency and eligibility for treaty benefits. Without a COR, higher domestic WHT rates apply. **(1 mark)**
- Failure to submit COR: Gali Holdings Ltd failed to submit a COR for the royalty payment to Techware BV, resulting in the application of the higher domestic WHT rate of 15% instead of the treaty rate of 10%. **(1 mark)**

Solutions:

- Policy and procedure: Establish a clear and consistent policy and procedure for obtaining and submitting CORs for all cross-border transactions eligible for treaty benefits. **(1 mark)**
- Record maintenance: Maintain proper records and documentation of all cross-border transactions and related tax payments and credits, ensuring timely and accurate reporting and filing. **(1 mark)**
- Professional advice: Seek professional advice and guidance from tax experts and consultants on the interpretation and application of the DTA and domestic tax law. **(1 mark)**

(d) VAT Implications of Importing Services

Gali Holdings Ltd is required to account for VAT on imported services as per VAT tax law, which imposes VAT on the supply of services performed outside Rwanda but consumed in Rwanda or for the benefit of Rwandan companies. The VAT rate is 18%.
• **Technology services:** License fees for technology services are specifically exempted from VAT, so there would be no requirement for Gali Holdings Ltd to account for VAT on technology licenses. **(2 mark)**
• **Consultancy services:** Gali Holdings Ltd should account for VAT of FRW21,600,000 (18% of FRW120,000,000) to the RRA. **(2 mark)**
• However, Gali Holdings Ltd can only recover the VAT paid on imported services if it can prove that the services are not locally available and has secured approval from MINECOFIN to import such services. **(1 mark)**

To prove the unavailability of local services, Gali Holdings Ltd should conduct a market survey and provide evidence of the absence or inadequacy of local service providers. To secure approval from MINECOFIN, Gali Holdings Ltd should submit an application with relevant information and documentation, proof of advertising for the services in a national newspaper, and justification for importing the services. If MINECOFIN grants approval, Gali Holdings Ltd can claim the VAT paid on imported services as an input tax credit. **(1 mark)**