CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.3: TAXATION

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Question Number	Correct answer	Marks
1	D	2
2	C	2
3	D	2
4	C	2
5	C	2
6	C	2
7	B	2
8	A	2
9	B	2
10	B	2

Model answers

QUESTION ONE

The correct answer is D

The normal tax period runs from 1st January to 31st December of each year. However, a taxpayer may request to change the tax period to any other 12-month period. If the new period is approved, the due dates for filing and payment are amended to three months after the end of the relevant tax period.

Therefore, since the approved tax period ends on 31st March, the deadline for filing the tax return for the year 2025 is 30th June 2025.

QUESTION TWO

The correct answer is C

A loss incurred on a long-term contract may be offset against profits previously recognized on the same contract if it cannot be fully used against other business profits of the period. This means that the loss will reduce the taxable profits of the business in the relevant year.

If the loss is large enough that it cannot be fully absorbed by other profits in the year in which the contract is completed, the excess loss may be carried back and offset against profits previously recognized from that contract. Although the legislation does not specify the order of offset, it is generally assumed that losses are applied against the most recent contract profits first.

In this case, the loss of FRW 5,000,000 from the tender is first offset against the profit of FRW 3,000,000 generated from other businesses, leaving a remaining loss of FRW 2,000,000. This remaining loss is carried back and offset against the profit earned in 2024.

Therefore, option C is the correct answer, while options A, B, and D are incorrect.

QUESTION THREE

The correct answer is D

Ministerial Order number 006/19/10/TC of 29/4/19 sets out the conditions under which a longer carry forward period would be permitted. They are that the taxpayer must:

1. Apply in writing to the tax administration
2. Present sound reasons that have caused the loss and reliable strategies to overcome it
3. Prove that the loss derived from the investments carried out
4. Be a credible taxpayer who has declared and paid all taxes on time and has not committed tax evasion within the last five years
5. Not have distributed any profit in the last five years

Therefore, D is not among the condition for a taxpayer to be permitted to carry forward a loss while others are included.

QUESTION FOUR

The correct answer is C

No.	Individual	Status / Facts	Residency Analysis (2025)	Resident in Rwanda?
1	BWIZA Jane	Rwandan ambassador to Somalia	Rwandan government official posted abroad; deemed resident under tax law	Yes
2	RUKUNDO Nepo	Rwandan resident seconded to the UK (2024–2027)	Temporary absence; retains residency ties to Rwanda	Yes
3	Ongolo	Kenyan citizen; CFO of KVC Bank Rwanda from 1 Aug 2025	Presence in Rwanda for less than 183 days; no permanent home indicated	No
4	Jennifer Lopez	Israeli ambassador to Rwanda since Jan 2025	Foreign diplomat; not treated as resident in host country	No

The individuals treated as resident in Rwanda for the 2025 tax period are: BWIZA Jane and RUKUNDO Nepo, thus, the correct answer is C, 1 and 2.

QUESTION FIVE

The correct answer is C

Article 42: Royalty income Royalty income includes:

1. All payments of any kind received as a prize for the use of, or the right to use, any copyright of literary, craftsmanship or scientific work including cinematograph films, films, or tapes used for radio or television broadcasting.
2. Any payment received from using a trademark, design or model, computer application and invention patent.
3. The price of using, or of the right to use industrial, commercial or scientific equipment or for using information concerning industrial, commercial or scientific knowledge
4. Payments from natural resource use

Therefore, both statements are correct.

QUESTION SIX

The correct answer is C

If the exchange rate at the date of the original transaction is different from the exchange rate at the end of the tax period, the item must be re-translated using the closing exchange rate, thus the correct answer is C.

Option A is not correct because, this rate was used when the transaction occurred, but exchange differences arise because the rate changes over time. Using the original rate would ignore gains or losses resulting from currency fluctuation

Option B is not correct because, tax law requires the use of official exchange rates published by the National Bank of Rwanda. Taxpayers cannot choose arbitrary rates, as this would allow manipulation of taxable income.

Option D is not correct because, using an average or prior year's rate is not compliant with Rwandan tax law. The law requires the closing rate at the end of the tax period to ensure accurate reflection of the gain or loss at that specific point in time.

QUESTION SEVEN
The correct answer is B

- **Any increase in a provision** must be **added back to taxable profit**, because provisions are estimates, not actual losses.
- **A reduction in a provision** (e.g., recovery of a previously doubtful debt) **can be deducted** from accounting profit.

Thus,

- **Option A is incorrect because,** provisions are **not automatically deductible**—only actual bad debts are.
- **Option C is incorrect because,** reductions **can** be deducted, so saying they cannot is wrong.
- **Option D is incorrect because, p**rovisions **do not automatically qualify for tax relief**; tax relief requires actual bad debts or statutory reserves for licensed financial institutions.

QUESTION EIGHT
The correct answer is A

The arm's-length principle requires that transactions between related parties be priced as if they were between independent parties.

Actual price paid = FRW 12,000,000
Arm's-length price = FRW 10,000,000
Difference = 12,000,000 − 10,000,000 = FRW 2,000,000

This excess payment is not deductible for tax purposes because it exceeds the arm's-length value.
The Rwanda Revenue Authority (RRA) may add back the excess FRW 2,000,000 to the taxable income of the subsidiary.

Option B: FRW 10,000,000 is not correct because, this is the arm's-length price, not the excess that needs adjustment.

Option C: FRW 12,000,000 is not correct because, this is the total payment, not the excess over arm's-length; adding it back would double count.

Option D: FRW 22,000,000 is not correct because, this is the sum of actual and arm's-length price, which is incorrect and irrelevant.

QUESTION NINE
The correct answer is B

When the proportion of private use is unknown, Rwanda assumes 20% private use of the asset.

Tax Treatment:
- Tax depreciation is calculated at the normal rate.
- Only the business-use portion (80%) is deductible for tax purposes

QUESTION 10
The correct answer is B

Dividends received from foreign subsidiaries are subject to CIT, with foreign tax relief allowed.

Option A is not correct because, dividends between resident companies are not always taxable.
Option C is not correct because, dividends from resident companies are not automatically exempt in all cases like where the withholding tax has not applied.
Option D is not correct because, dividends are sometimes considered for tax purposes (foreign dividends)

SECTION B

QUESTION 11

Marking guide

Sub question (a)	**Marks**
Contract Price	
Estimated cost	
Total cost incurred up to 31st Dec. 2025	
Completion % (Incurred cost/total cost)*100	1
Revenue to be recognize (Contract Price * completion %)	0.5
CIT computation	
Revenue	
Less allowable cost/Expenses	
Direct materials	0.5
Direct labor	0.5
Subcontractor fees	0.5
Equipment rental	0.5
Award 0.5 marks for excluding Enternatment expense and Fines	1
Total allowable expenses	
Taxable income (Revenue - Allowable Expenses)	0.5
CIT @30% (**Note:** Award 0.5 marks for rate and 0.5 for the correct answer)	1
Sub total	**5**
Sub question (b)	
Award 3 marks for conditions for qualifying assets, 1 mark for rate of investment allowance and 1 mark for tax consequences of disposing of the asset within three years	**5**
Total marks	**10**

Model answers

(a)

Description	**FRW**
Contract Price	40,000,000
Estimated cost	19,700,000
Total cost incurred up to 31st Dec. 2025	14,100,000
Completion % (Incurred cost/total cost)*100	72%
Revenue to be recognize (Contract Price * completion %)	28,629,442

Description	FRW
CIT computation	
Revenue	28,629,442
Less allowable cost/Expenses	
Direct materials	6,500,000
Direct labor	4,000,000
Subcontractor fees	2,000,000
Equipment rental	1,200,000
Total allowable expenses	**13,700,000**
Taxable income (Revenue - Allowable Expenses)	**14,929,442**
CIT @30%	4,478,832

(b)

Under Rwandan tax law, an investment allowance (capital allowance) is granted to encourage significant investment in fixed assets, subject to specific conditions;

Production machinery

- ✓ The production machinery costing FRW 120,000,000 qualifies for the investment allowance because it exceeds the minimum investment threshold of US$50,000
- ✓ The company shall holds a valid investment certificate issued by the Rwanda Development Board (RDB).
- ✓ Therefore, Kigali Manufacturing Ltd is entitled to an investment allowance of 50% of the acquisition cost, amounting to FRW 60,000,000.
- ✓ This allowance is deducted in the year of purchase. The remaining FRW 60,000,000 will then be subject to standard tax depreciation according to the applicable depreciation rules.

Office Furniture

The office furniture costing FRW 30,000,000 does not qualify for the investment allowance because the cost is below the minimum threshold of US$50,000 per asset. As a result, it will only qualify for normal tax depreciation.

2 saloon cars

The 2-saloon car (5-seater) costing both FRW 75,000,000 does not qualify for the investment allowance because the cost of each FRW 37,500,000 car is below the minimum threshold of US$50,000 per asset. The car will therefore only be eligible for standard tax depreciation.

Tax consequences of disposing of the asset within three years

Finally, since the production machinery was sold in 2025, which is within three years of the claim, the investment allowance previously claimed must be withdrawn. Kigali Manufacturing

Ltd will be required to repay the tax benefit obtained from the allowance, together with any applicable interest and penalties for underpayment of tax.

QUESTION 12

Marking guide

Description (Sub question a)	Marks
Correct explanation of filing and payment deadline (31 March)	1
Explanation of IQPs and basis of calculation (25% of prior year tax)	1
Correctly states 30 June, 30 September, and 31 December	1.5
Explanation of due dates for non-standard tax periods	1
Correct treatment of deadlines falling on holidays or weekends	0.5
Sub total	**5**
Description (sub question b)	
Definition and causes of tax arrears	1
Explanation of warning letter, garnishment, and seizure	2
Explanation of tax refunds and reasons for refunds	1
Procedure and requirements for claiming a refund	1
Sub total	**5**
Grand total	10

Model Answer

(a) Due dates for payment of income tax and instalment quarterly prepayments

- ✓ In Rwanda, the due date for payment of income tax coincides with the deadline for filing the tax return, which is 31 March following the end of the tax period for taxpayers using the standard calendar year ending on 31 December. Any remaining tax payable after deducting credits must be settled on this date.
- ✓ Taxpayers who are not in a loss position and who paid income tax in the previous year are required to make instalment quarterly prepayments (IQPs) in the following tax period. Each IQP is equal to 25% of the income tax paid in the previous tax period.
- ✓ The due dates for IQPs are 30 June, 30 September, and 31 December.
- ✓ For taxpayers using non-standard tax periods, the income tax return and final payment are due on the last day of the third month following the end of the tax period. The IQPs are then due on the last day of each subsequent quarter.
- ✓ Where a payment deadline falls on a weekend or public holiday, the next working day becomes the official deadline.

(b) Administration of tax arrears and tax refunds

- ✓ Tax arrears arise when a taxpayer fails to pay taxes, penalties, interest, or fines by the prescribed deadlines.
- ✓ The tax administration has several enforcement measures to recover unpaid amounts. Initially, the taxpayer receives a warning letter requesting engagement with the tax office. If the taxpayer fails to respond within 15 days, the tax administration may proceed with punishment, which involves freezing the taxpayer's bank accounts through third parties.

As a final measure, the tax administration may undertake search and seizure of movable and immovable assets, which may be sold by public auction to recover the outstanding tax liabilities.

- ✓ A tax refund occurs when taxes paid by a taxpayer exceed the actual tax liability, such as where withholding taxes and IQPs exceed the tax due, or where an overpayment has been made in error.
- ✓ To claim a refund, the taxpayer must submit a written request to the Deputy Commissioner of the relevant tax office, stating the taxpayer's name and TIN, the tax period and tax type concerned, the reason for the refund, and the amount claimed. If the tax administration is satisfied, often after conducting a tax audit, the refund may be granted either in the form of a credit note or a cash refund.

SECTION C

QUESTION 13

Marking guide

a)	Marks
Revenue (working 1)	2
Add non allowable expenses	
Training cost to employees' spouse	0.5
Extension of factory building	1
Provision for doubtful debts	0.5
Advertising and marketing (Overhead)- 20% of 20M	2
Director's remuneration- Medical expenses	0.5
Penalties and fines	0.5
Interest expense	0.5
Accounting depreciation	1
Less allowable expenses	
Capital allowance (Working 2)	0.5
Less non-taxable Income	
Dividend Income (Exempted)	1
Adjusted Taxable Income	
CIT @30%	1
Award 0.5 marks for each additional, accelerated depreciation and depreciation computed (Maximum 6 marks	4
Sub Total	**15**
b)	
Award 0.5 marks for scenarios and 0.5 mark for at least one applicable rate	5
Total Marks	**20**

Model answers

a)

Horizon Woodworks Ltd (HWL) Corporate Income Tax for the year ended 31st December 2025		
Description	**FRW'000'**	**FRW'000'**
Reported Accounting profit		295,500
Add non allowable Expenses		
Overseas training for employees' spouses.	5,000	
Extension of factory building	8,000	
Provision for doubtful debts	7,500	
Airtime	4,000	
Personal medical expenses	15,000	

Penalties and fines	3,800	
Interest expense	1,200	
Accounting Depreciation	45,000	**89,500**
Less Omitted expenses		
VAT on sales (W1)	76,271	
Capital allowance (W2)	77,275	**-** **153,546**
Less Non-taxable Income		
Dividend from local company	12,000	**-12,000**
Adjusted Taxable profit		219,454
CIT @30%		**65,836**
Net Profit		153,618

Working 1	**FRW'000**
Total revenue	1,000,000
50% of revenue (50% of 1,000,000)	500,000
VAT included in 50% of Revenue (18/118 of 500,000)	76,271

Working 2- Capital allowance					
Description	**Building**	**Plant and Machinery (Pool)**	**Motor vehicle**	**Computers**	**Total**
	FRW'000	**FRW'000**	**FRW'000**	**FRW'000**	
Cost or TWDV (1 Jan 2025)	250,000	29,000			
Additional	8,000	-	85,000	8,000	
Accelerated depreciation @50%	-	-	42,500	-	42,500
Depreciation base	258,000	29,000	42,500	8,000	
Depreciation rate	5%	25%	25%	50%	
Depreciation	12,900	7,250	10,625	4,000	34,775
Cost or TWDV (31 Dec 2025)	207,100	21,750	31,875	4,000	
Capital allowance					77,275

(b)

Under the real regime, the default corporate income tax rate is 30%, but it can be reduced in the following situations:

1. **Strategic sectors:**

Companies operating in certain strategic sectors such as large exporters, energy, large-scale goods/passenger transportation, and information & communication technology (ICT) can pay a reduced rate of 15%.

2. **Tax holidays for approved companies:**

- ✓ Registered venture capital companies and approved micro-finance companies enjoy 0% CIT for 5 years from the time of approval.
- ✓ Companies undertaking large investments (at least US$50 million) in sectors like energy, tourism, or health enjoy 0% CIT for 7 years from approval.

3. **Newly listed companies**:

Newly listed companies get a reduced CIT rate for 5 years, depending on the percentage of shares made available to the public:

- 20% if ≥ 40% of shares
- 25% if ≥ 30% of shares
- 28% if ≥ 20% of shares

4. **Registered investment entities or foreign companies:**

Companies operating in a free trade zone or foreign companies with headquarters/offices in Rwanda that meet investment criteria can pay 0% CIT.

5. **Large exporters**:

- ✓ Companies with exports outside the EAC exceeding US$3 million in a tax period get a 3% discount on their CIT.
- ✓ If exports exceed US$5 million, the discount increases to 5%.
- ✓ This discount is in addition to any other applicable reduced rate.

QUESTION 14

Marking guide

Description	**Marks**
Basic salary	1
Accommodation allowance	1
Transport allowance	1
Christmas gift	1
Bonus	1
Thirteen-month salary	1
Mission allowance	1
Leave allowance	1
Other income	
Interest from Government bond (To be grossed up for 15% withheld)	2
Interest from Iterambere Fund (Exempted)	1
Dividend from MTN Uganda (To be grossed up for 20% withheld)	2
Sub total 1	**13**
Tax Liability	
0-30000	0.5
30,001-100,000	0.5
Above 100,000	0.5
Total	
Less WHT on Interest from MTN Uganda	0.5
Sub total 2	**2**
(b)	
Award 1 marks for mentioning the key work of “'No taxation can be imposed, modified or removed except law” and 1 mark for “'No exemption from or reduction in tax may be granted unless authorised by law” and 1 mark for each good definition of direct and indirect taxes and 1 mark for each good example provided (Maximum 5 marks)	**5**
Total	**20**

Model Answers

NYIRANEZA
Tax payable for the month of December 2025

Description	**FRW**
Basic salary	1,500,000
Accommodation allowance	650,000
Transport allowance	400,000
Christmas gift	100,000
Bonus	800,000
Thirteen-month salary	1,700,000
Mission allowance	Exempted
Leave allowance	1,700,000
Income from employment	**6,850,000**
Other income	
Interest from Government bond (To be grossed up for 15% withheld)	2,941,176
Interest from Iterambere Fund (Exempted)	-
Dividend from MTN Uganda (To be grossed up for 20% withheld)	1,750,000
Total other Income	**4,691,176**
Total taxable Income	**11,541,176**

Tax Liability	**Rate**	**Tax**
0-30000	0%	-
30,001-100,000	20%	14,000
Above 100,000	30%	3,432,353
Total		**3,446,353**
Less WHT on Interest from MTN Uganda		350,000
Less Interest from Govt Bond		441,176
Tax payable		**2,655,176**

(b)

(i)
The basis of taxation in Rwanda is provided under Article 164 of the Constitution of Rwanda (2003). It states that no tax can be imposed, modified, or removed except by law. It further provides that no exemption from or reduction in tax may be granted unless authorised by law. This ensures that all taxation measures are legally approved and enforced.

(ii)
Direct taxation refers to taxes imposed directly on the income or wealth of a person and are paid by the person on whom they are levied. An example in Rwanda is income tax, governed.

Indirect taxation refers to taxes imposed on the production, exchange, or consumption of goods and services and are charged at the time of a taxable transaction. An example is Value Added Tax (VAT), which is paid by consumers when purchasing taxable goods or services.

QUESTION 15

Marking guide

(a) Particular	**Marks**
Gross Income	1
Less allowable expenses	
Deemed expenses @50%	1
Taxable income	1
Taxable income from Harvester Machine	
Gross Income	1
Less allowable Expenses	
Deemed expenses @ 10%	1
Tax depreciation	1
Interest Expenses (6,000,000*12%)	1
Taxable income	1
Sub total (a)	**8**
(b)	
Award 2 marks for each well WHT computed on each scenario (Maximum 12 Marks)	12
Total Marks	**20**

Model answers

(a)

Mwalimu Rental Taxable Income

Taxable income from Residential Building

Particular	**FRW**
Gross Income	3,500,000
Less allowable expenses	
Deemed expenses @50%	1,750,000
Taxable income	**1,750,000**
Taxable income from Harvester Machine	
Gross Income	1,500,000
Less allowable Expenses	
Deemed expenses @ 10%	150,000
Tax depreciation	56,000
Interest Expenses (6,000,000*12%)	720,000
Total expenses	**926,000**
Taxable income	**574,000**
Total taxable Rental Income	**2,324,000**

(b)

Scenario	**Applicable WHT Rate**	**Paid amount**	**WHT Payable (FRW)**	**Comment**
i	5%	4,000,000	200,000	Dividends on shares listed on the CMA are subject to **5%WHT.**
ii	0%	1,200,000	-	Interest paid by financial institutions on long-term deposits is exempt from WHT.
iii	5%	2,000,000	100,000	Interest on treasury bonds with a maturity of at least three years is subject to **5% WHT**.
iv	15%	3,000,000	450,000	Royalties are subject to **15% WHT** where no DTA applies.
v	10%	2,500,000	250,000	Service fees are subject to **reduced WHT rate as per DTA**.
vi	15%	1,800,000	270,000	Performance payments to artists are subject to **15% WHT** where no DTA applies.

END OF MARKING GUIDE AND MODEL ANSWERS