



ICPAR
Unlimited possibilities

CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.3: TAXATION

DATE: FRIDAY 28, APRIL 2023

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Question No	The correct answer
1	A
2	D
3	C
4	C
5	A
6	C
7	D
8	D
9	C
10	A

Award 2 marks for each correct answer

Marks

Total marks for this section

20

Model answers

QUESTION ONE

The correct answer is A

Source of Taxable Income

According to Article 5 of Law 16/2018, income taxable in Rwanda includes the following activities performed in Rwanda by any person and activities performed abroad by a resident of Rwanda:

- i. Services and employment;
- ii. Activities of a crafts person, singer, artist and a player;
- iii. Sports, cultural and leisure activities;
- iv. Activities carried on by a non-resident through a permanent establishment in Rwanda;
- v. Use, sale, lease and free transfer of business movable assets;
- vi. Sale, lease and free transfer of immovable assets allocated to the business;
- vii. Crop farming, animal farming, fishing and forestry activities;
- viii. Usufruct and other rights attached to immovable assets and their sale if such rights are allocated to the business;
- ix. Investments in shares of companies;
- x. Direct or indirect sale or transfer of shares or debentures;
- xi. Change of profits into shares that increases the capital of partners;

- xii. Distribution of profits among partners;
- xiii. Lending, deposits and other similar income generating activities;
- xiv. Transfer, sale and lease of intellectual property;
- xv. Any other income generating activities.

QUESTION TWO

The correct Answer is D

	FRW
Income from local sources	20,000,000
Foreign income gross (10,000,000*100/75)	13,333,333
Taxable income	33,333,333
Taxable liability	10,000,000
less tax paid for outside (25%*13,333,333)	3,333,333
Tax payable	6,666,667

QUESTION THREE

The correct Answer is C

Permanent Establishment

According to Article 6 of Law 16/2018, one of the following areas is considered as a permanent establishment:

- i. A place of management;
- ii. A branch;
- iii. A factory or a workshop;
- iv. A mine, a quarry or any other place for an exploitation of natural resources;
- v. A site set for construction, construction site or a place where supervision or assembly works are carried out;
- vi. Place of provision of services, including consulting services, carried on by a person, with the support of employees or other personnel, for more than ninety (90) days in a twelve (12) month period, either continuously or intermittently.

A person is considered as not to be a permanent establishment if that person:

- i. Uses facilities solely for the purpose of storage of goods or merchandise belonging to him/her;
- ii. Maintains a stock of goods or merchandise belonging to him/her solely for the purpose of storage;
- iii. Maintains a stock of goods or merchandise belonging to him/her solely for the purpose of processing by another person;

- iv. Has a place of operation aimed purposely at purchasing goods or merchandise or collecting information related to his/her business;
- v. Has a place of operation solely for the purpose of performing, within the context of his/her activities, any other activities of a preparatory nature or intended to make them more effective.

QUESTION FOUR

The correct answer is C

All businesses with turnover in excess of RWF 20, 000,000 per year are obliged to keep the following records:

- i. Business assets and liabilities
- ii. Daily records of income and expenses
- iii. Purchases and sales of goods and services related to the business
- iv. Records of closing trading stock

QUESTION FIVE

The correct answer is A

	FRW
Proceeds from the sale of shares (500,000*340)	170,000,000
Cost of shares (500,000*200)	100,000,000
Capital gain	70,000,000
Capital gain tax (70,000,000*5%)	3,500,000

QUESTION SIX

The correct answer is C

	FRW
Annual turn over	19,900,000
Tax 3%	597,000

QUESTION SEVEN

The correct answer is D

	FRW
Interest charged (400,000,000*12%)	48,000,000
Interest allowed (50,000,000*4*12%)	24,000,000

QUESTION EIGHT

The correct answer is D

Conditions for bad debt

Article 31 of Law 16/2018 provides that in the determination of business profit, a deduction is allowed for bad debts if the following conditions are fulfilled:

- i. If an amount corresponding to the debt was previously included in the income of the taxpayer;
- ii. If the debt is written off in the books of accounts of the taxpayer;
- iii. If the taxpayer has taken all possible steps in pursuing payment and has shown a court decision declaring the insolvency of his/her debtor.

However, for an individual whose debt is less than three million Rwandan francs (3,000,000 RWF) in addition to the conditions referred to in points 1° and 2° of Paragraph One of this Article, the taxpayer must provide proof that he has taken all reasonable steps over a period of three (3) years to recover the debt.

QUESTION NINE

The correct answer is C

It is only the construction companies that are allowed to carry backward the tax loss. Other are not, they are allowed to carry forward the loss as per income tax law.

QUESTION 10

The correct answer is A

	FRW
CIF	140,000,000
WHT (5%)	7,000,000
Consultancy to government	50,000,000
WHT (3%)	1,500,000
Total WHT	8,500,000

Option B is not correct as it considered WHT of 5 % on CIF and 15% on consultancy services

Option C is not correct as it considered WHT of 15% on both CIF and consultancy services.

Option D is not correct as it considered WHT of 30% on both CIF and consultancy services.

SECTION B

QUESTION 11

Marking guide

a. Computation of taxable employment income	Marks
Award 0.5 marks for each transaction apart from house and car benefits	5
Award 1 mark for computation of house benefit	1
Award 1 mark for computation of car benefit	1
Total	7
b. Individual exempted from employment income tax	
Award 1 Mark on each point listed	3
Total Marks	10

Model answers

(a)

Computation of taxable employment income	FRW
Particulars	
Basic salary (800,000*12)	9,600,000
Add other cash benefits	
Communication allowance (200,000*12)	2,400,000
Medical allowance (50,000*12)	600,000
Reimbursement of private expenses (utilities)	1,200,000
Performance bonus (1%*9,600,000)	96,000
Total cash benefits/gross salary	13,896,000
Add benefits in kind	
Company car (10%*13,869,000)	1,389,600
Company house (20%*13,869,000)	2,779,200
Taxable employment income	18,064,800
Tax liability	
0 - 360,000 0%	-
360,001 - 1,200,000 20%	168,000
1,200,001 - 18,064,800 30%	5,059,440
Tax payable	5,227,440

(b)

Individuals whose income is exempted from employment income tax

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

QUESTION 12

Marking guide

(a)	Marks
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Allowable and non-allowable expenses

Conditions for allowable expenses 0.5 mark each point Max	2
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Examples of non-allowable expenses 0.5 Mark Max	2
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Total	4
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(b)

Computation of depreciation base of tax base 0.5 marks Max	2.5
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Computation of depreciation of tax base 0.5 marks Max	3.5
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Total	6
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Total Marks	10
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Model answers

(a)

Differentiation between allowable expenses and non-allowable expenses

Article 25 of Law 16/2018 provides that in determining profits on business activities, expenses deducted from taxable income must fulfil the following conditions:

- i. They are incurred for the direct purpose of the business and they are directly chargeable to the income;
- ii. They correspond to a real expense and can be substantiated with proper purchase receipts;
- iii. They lead to a decrease in the net assets of the business;
- iv. They are used for activities related to the tax period in which they are incurred

Non-deductible expenses from taxable income

According to Article 26 of Law 16/2018, the following expenses are not deductible from the taxable business income:

- i. Dividends declared and profits paid-out to their beneficiaries;
- ii. Reserve allowances, savings and other special-purpose funds, unless otherwise provided for by this Law;
- iii. Fines and similar penalties; donations, save for donations given to non-profit making organisations the value of which does not exceed one percent (1%) of the turnover;
- iv. Income tax paid in accordance with this Law or paid abroad on business profit and recoverable Value Added Tax (VAT);
- v. Personal consumption expenses;
- vi. Entertainment expenses except for expenses on general sporting activities for employees;
- vii. Twenty per cent (20%) of expenses paid on business overheads as in the case of telephone, water, electricity and fuel whose private and business use cannot be practically separable;
- viii. Management, technical services and royalty fees paid to a non-resident person exceeding two percent (2%) of the turnover of the taxpayer;
- ix. Interest arising from loans between related persons either paid or due on a total loan which is greater than four (4) times the amount of equity

(b)

Computation of depreciation to be recognised in income tax

	Land	Buildin	Heavy	Patent	Compu	Other	Total
	g	Machines	rights	ters	assets		
	FRW	FRW	FRW (000)	FRW	FRW	FRW	FRW
	(000)	(000)	(000)	(000)	(000)	(000)	(000)
Cost	100,000	160,000	220,000	20,000	10,000	86,000	
New assets					5,000	40,000	
Dep Base		160,000	220,000	20,000	15,000	126,000	
Dep Rate		5%	5%	10%	50%	25%	
Depreciation	0	8,000	11,000	2,000	7,500	31,500	60,000
WDV	100,000	152,000	209,000	18,000	7,500	94,500	
31/12/2021							

QUESTION 13

Marking guide

a. Computation of tax to be declared and stating the declaration date Marks

Each transaction 0.5 marks Max 2

Stating the declaration date 1 mark Max 1

Total **3**

b. Computation of quarterly prepayments and stating the dates

Calculation of quarterly prepayments 1 mark Max 2

Stating the quarterly prepayment dates 1 mark Max 3

Total **5**

c. Documents required during declaration

Each document 1 mark Max 5

d. Income tax submission procedures

Each point explained 1 marks max 5

e. Taxpayer exempted from withholding tax

Each point 1 mark Max 2

Total marks **20**

Model answers

a. Computation of tax to be declared and the date of declaration

Particulars	FRW
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Taxable incomes	98,000,000
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Tax payable	
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0 - 360,000 0%	
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360,000 - 1,200,000 20%	168,000
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1,200,001 - 98,000,000 30%	29,040,000
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Tax payable	29,208,000
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Declaration date 31/3/2022

b. Computation of the quarterly prepayments and stating the date of declaration

	FRW
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Tax Liability	29,208,000
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Quarterly Prepayments (29,208,000*25%)	7,302,000
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Or (29,208,000/4)	
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Dates of declaration

30/06/2022	7,302,000
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30/09/2022	7,302,000
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31/12/2022	7,302,000
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31/03/2023	Final declaration
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c. Documents that are required during the declaration

- Statement of financial position
- Statement of profit and loss
- Depreciation Table
- List of debtors and
- List of creditors

d. Income tax declaration and payment procedures

- The tax administration has designed all forms of declarations, and these are available to view on the tax administration website.
- To submit a tax return, there is a step-by-step guide in the tax return.
- The declaration form is accessed by entering the TIN of taxpayer and a passcode given by the tax administration.
- Required to fill in the declaration form after, he/she submit it using e-tax system.
- After submission, the system generates a payment reference, which is used to pay the tax declared.
- A declaration is completed after payment of taxes. Taxes are paid through banks, or other means of payment like mobile money, mobicash

e. Taxpayers exempted from withholding tax

- Taxpayers who are exempted from CIT or PIT
- Taxpayers with tax certificate clearance (Quitus)

QUESTION 14

Marking guide

	Marks
(a) Corporate restructuring	
Each point 1 mark Max	5
(b) Each transaction 1 mark Max	5
(c) Each point 1 Mark Max	3
(d) Computation of tax payable	
Computing the percentage of completion 2 marks Max	2
Each transaction 1.5 marks max	5
Total	7
Total Marks	20

Model answers

a. Corporate restructurings

Article 53 defines corporate restructuring as follows:

- i. A merger of two or more resident companies into a separate company;
- ii. The acquisition or a takeover of fifty percent (50%) or more of shares or voting rights, by number or value in a resident company in exchange for shares of the purchasing company;
- iii. The acquisition of fifty percent (50%) or more of the assets and liabilities of a resident company by another resident company solely in exchange of shares in the purchasing company;
- iv. The acquisition of the entire company's assets so that its existence is replaced by the purchasing company;
- v. Splitting of a resident company into two or more resident companies

b. Tax on liquidation

Particulars	FRW
Proceeds on the sale of assets	150,000,000
Less liabilities	(80,000,000)
Less share capital	(10,000,000)
Liquidation Proceeds	60,000,000
Tax on liquidation 15%	9,000,000

c. Benefits available for issuing shares

- i. Twenty percent (20%) if those companies sell at least forty percent (40%) of their shares to the public;
- ii. Twenty-five percent (25%) if those companies sell at least thirty percent (30%) of their shares to the public;
- iii. Twenty-eight percent (28%) if those companies sell at least twenty percent (20%) of their shares to the public

d. Computation of taxable income and corporate income tax

	FRW
Percentage of completion = $\frac{\text{Cost of work Certified}}{\text{Estimated Cost}} * 100$	
$\frac{189,000,000,000}{44.97\%} = 85,000,000 * 100$	
Revenue for the period (200,000,000,000*44.97%)	89,940,000,000
Less Expenses	(85,000,000,000)
Taxable income	4,940,000,000
Tax payable 30%	1,482,000,000

QUESTION 15

Marking guide

Computation of corporate income tax Marks

Each transaction 1 mark Max 18

Working on donation 2 marks Max 2

Total Marks 20

Model answers

Computation of taxable income for Burera Ltd

Particulars	FRW (000)
Profit before tax	26,130
Add back non allowable expenses	
Advertising	4,000
Fines and penalties	12,300
Depreciation	23,600
Purchase of furniture	18,000
Communication (20%*8000)	1,600
Donation W1	9,461
Bad debt	8,900
Interest	15,700
Entertainment (10,000*60%)	6,000
	99,651
Add Understated closing stock (15/85*50,000)	8,824
	108,475
Less Accrued salaries	(14,000)
Business income	94,475
Less Capital allowances	(17,789)
Taxable income	76,776
Tax payable (30%)	23,032.8

W1 Donation

Amount donated	18,670
Donation allowed (1%*920,900)	9,209
Not allowed	9,461

END OF MARKING GUIDE AND MODEL ANSWERS