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CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION
S3.3: TAXATION
DATE: FRIDAY 28, APRIL 2023

INSTRUCTIONS:

1. Time allowed: 3 hours.
2. This examination has **three** sections: **A, B and C.**
3. Section A has **10** multiple choice questions equal to 2 marks each.
4. Section B has **2** questions equal to 10 marks each.
5. Section C has **3** questions equal to 20 marks each.
6. All questions are compulsory.
7. 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 Rate: (VAT)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 N° 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

SECTION A

QUESTION ONE

The following are sources of income for tax purpose in Rwanda except:

- A Loans and Grant.
- B Activities of a crafts person, singer, artist and a player sale, lease, use, transfer of a movable or immovable business assets.
- C Crop farming, animal farming, fishing and forestry activities.
- D Services and employment;

(2 Marks)

QUESTION TWO

Nikumana Limited is a Rwandan resident company. During the year ended 31/12/2021 the Nikumana company generated FRW 20,000,000 from local investment and FRW 10,000,000 from foreign investment net of 25% tax.

How much tax will the company declare for the year ended?

- A FRW 9,000,000
- B FRW 6,000,000
- C FRW 3,000,000
- D FRW 6,666,667

(2 Marks)

QUESTION THREE

Consider the following areas/activities that were established/carried out by the taxpayer in Rwanda.

- i. A branch
- ii. The use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise
- iii. A factory or workshop
- iv. The maintenance of a fixed place of business solely for the purpose of purchasing inventory (stock) of goods or merchandise or of collecting information, for the enterprise
- v. The maintenance of a fixed place of business solely for any combination of activities, provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character

Which of the above areas/activities are not considered as permanent establishment in Rwanda?

- A (i) only
- B (i) and (ii)
- C (ii), (iv) and (v)
- D (ii) and (iv)

(2 Marks)

QUESTION FOUR

Namaharo Jean Paul is a business man in Kigali. His annual turnover for the year ended 31/12/2022 was FRW 45,000,000.

Which of the following records should Namahoro keep as per the income tax Law?

- i. Bank reconciliation statement
- ii. Business assets and Liabilities
- iii. Journals and ledgers
- iv. Records of closing stocks
- v. Daily records of expenses and incomes
- vi. Purchases and sales

- A (i), (ii), and (iii)
- B (ii) and (iii)
- C (ii), (iv), (v), and (vi)
- D All the above

(2 Marks)

QUESTION FIVE

Umukiza purchased 500,000 shares from KB Investment Rwanda Limited on 1/1/2010 at FRW 200 per shares the shares were sold on 1/1/2022 at FRW 340 per share.

What is the capital gain tax to be paid by Umukiza?

- A FRW 3,500,000
- B FWR 7,000,000
- C FRW 21,000,000
- D FRW 14,000,000

(2 Marks)

QUESTION SIX

Mukamana owns a small grocery in Musanze, her annual turnover for the year ended 31/12/2021 was FRW 19,900,000 and her expenses were FRW 10,000,000.

How much tax should Mukamana declare for the income tax purpose for the year ended?

- A FRW 2,778,000
- B FRW 2,970,000
- C FRW 597,000
- D FRW 5,970,000

(2 Marks)

QUESTION SEVEN

Best Price Supermarket Rwanda Limited (BSMRL) is a subsidiary of Best Super Market International Limited (BSMIL). During the year ended 31/12/2021, BSMIL gave a loan of FRW 400,000,000 at annual interest rate of 12% to BSMRL. The issued and fully paid-up share capital of BSMRL is FRW 50,000,000.

What interest expense will be considered as allowable for income tax purpose?

- A FRW 6,000,000
- B FRW 48,000,000
- C FRW 12,000,000
- D FRW 24,000,000

(2 Marks)

QUESTION EIGHT

During the year ended 31/12/2021 Muraho had a bad debt of FRW 2,950,000 written off because the customer had disappeared for three years now.

Which of the following conditions must be fulfilled for the bad debt to be considered as allowable expenses?

- i. The bad debt was included in the previous sales
- ii. It has been written off in the books of accounts
- iii. The taxpayer has steps to recover and failed and has evidence from the court that the customer is bankrupt
- iv. The debt has taken three years to recover and failed.

- A (i) only
B (i) and (ii)
C (i), (ii), and (iii)
D (i), (ii) and (iv)

(2 Marks)

QUESTION NINE

The entities below made a tax loss for the year ended 31/12/2021

- i. Turikumwe agriculture cooperative society
- ii. Musanze Microfinance Limited
- iii. Akabaya Construction company limited
- iv. Jado Manufacturing Company Limited

Which of the above entities is not allowed to carry backward the loss?

- A (i) only
B (iii) only
C (i), (ii) and (iv)
D All the above

(2 Marks)

QUESTION 10

RKY Limited is a private company and resident taxpayer in Rwanda located in Kigali and deals in manufacturing of ICT equipment and offering consultancy services to different stakeholders. During the year ended 31/12/2021 the company imported goods with a Cost Insurance and Freight of FRW 140,000,000 and also offered a consultancy services to government of FRW 50,000,000 gross.

Which is the total Withholding tax on both imports and consultancy RKY Limited is supposed to pay to the Rwanda Revenue Authority?

- A FRW 8,500,000
B FRW 14,500,000
C FRW 28,500,000
D FRW 57,000,000

(2 Marks)

SECTION B

QUESTION 11

a) John Kamali completed his Certified Accounting Technician (CAT) and immediately was employed KTC Transport Company. Below is his remuneration from the contract for the period ended 31, December 2021

- i. Monthly salary FRW 800,000.
- ii. Communication allowance per month FRW 200,000.
- iii. Medical allowance per month FRW 50,000.
- iv. A company car which he uses for both private and business.
- v. A company house in Kacyiru. The employer purchased furniture of FRW 3,000,000 to be put in the house.
- vi. Utilities at home of FRW 100,000 per month.
- vii. During the month of June, he travelled to Rubavu to attend a business meeting. The company reimbursed him FRW 500,000 used while attending the business meeting.
- viii. Performance bonus of 1% on the basic salary per month.

Required:

Compute the taxable employment income and tax payable for the year ended 31st December 2021. (7 Marks)

b) List any three individuals whose income is exempted from the employment income tax. (3 Marks)
(Total: 10 Marks)

QUESTION 12

a) With examples, differentiate between the allowable and non-allowable expenses for income tax purposes. (4 Marks)

b) Barando Limited is a private company in Rwanda which deals in the manufacture of sportswear. In the recent years, the company has invested heavily in assets due to the increasing emphasis by the government for the people to do sports. On 1st January 2021 the company had the following assets.

Assets	FRW “000”
Land	100,000
Building	160,000
Heavy industrial machines	220,000
Patent right	20,000
Computer and accessories	10,000
Other assets	86,000

The following assets were purchased during the year

Asset	FRW “000”
Furniture	10,000
Computers	5,000
Motor vehicle	30,000

Required:

Compute the depreciation to be recognized in the income tax calculations (6 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

Mukamwiza is a sole trader in Nyagatare district and she is a registered taxpayer under real tax regime (paying tax on profits). She owns a supermarket and a restaurant. During the year ended 31st December 2021 she made a taxable profit of FRW 98,000,000.

Required:

a) Compute the income tax to be declared by Mukamwiza and list the date of declaration.

(3 Marks)

b) Compute the quarterly prepayments to be made and state the due date of declaring the quarterly prepayments. (5 Marks)

c) List the documents that Mukamwiza must attach to her income tax declarations.

(5 Marks)

d) Explain the income tax declaration and payment procedures that Mukamwiza must follow. (5 Marks)

e) List the taxpayers that are exempted from withholding tax.

(2 Marks)

(Total: 20 Marks)

QUESTION 14

a) Explain corporate restructuring as provided for in the income tax Law. (5 Marks)

b) Musanze Limited was liquidated on 1st January 2022, the proceeds from the sale of assets were FRW 150,000,000, and the liabilities outstanding were FRW 80,000,000 and share capital was FRW 10,000,000. Compute the tax on liquidation. (5 Marks)

c) Musanze limited is proposing to issue shares to the general public. Explain to the shareholders of Musanze Limited the incentives that are available if the company issues shares to the general public. (4 Marks)

d) Best Construction Company Limited entered into contract with the government Rwanda to construct the road from Musanze to Kigali at a construction price of FRW 200 billion. The estimated cost was FRW 189 billion. By the end of year, the company had reached Rulindo and incurred an expense of FRW 85 billion.

Required:

Compute the taxable income and corporate income tax for the year end. (6 Marks)

(Total: 20 Marks)

QUESTION 15

Burera Steel Rolling Mills Limited (BSRM Ltd) deals in manufacture of hardware materials that include Iron bars, Iron sheets and building materials. The company is not a registered investor neither its shares are listed on Rwanda Stock Exchange Market. During the year ended 31st December 2021, the company submitted the following statement of profits and losses for the income tax assessment:

Particulars	Notes	FRW “000”
Sales		920,900
Cost of sales	1	(674,500)
Gross profit		246,400
Expenses		
Salaries and wages	2	(43,100)
Electricity		(8,000)
Advertising	3	(12,800)
Fines and penalties		(12,300)
Depreciation	4	(23,600)
Purchase of furniture		(18,000)
Communication	5	(8,000)
Donation	6	(18,670)
Bad debt	7	(8,900)
Fuel		(11,200)
Director's remuneration	8	(30,000)
Interest	9	(15,700)
Entertainment	10	(10,000)
Total Expenses		<u>(220,270)</u>
Profit before tax		26,130

Notes: The following information is also relevant:

1. Included in the cost of sales is a closing stock of FRW 50,000,000. At the end of year, they discovered that closing stock was understated by 15%.
2. Salaries amounting to FRW 14,000,000 was accrued and therefore not included in the financial statements.
3. Included in advertising is an amount of FRW 4,000,000 that was used to construct a steel billboard to advertise the company's products.
4. The allowable capital allowance for tax purpose agreed by Rwanda Revenue Authority is FRW 17,789,000.
5. The communication expenses relate to airtime loaded on the mobile telephones of all employees. It is very hard to separate the private from business calls.
6. The donation was made to a recognized charitable organization.
7. The bad debt expenses relate to customers who have not managed to pay their debts for three years now.

8. Included in the director's remuneration is an amount of FRW 12,000,000 related to the directors' sitting allowances.
9. The interest expenses relate to a loan that was to buy private houses for the directors.
10. 40% of the entertainment expenses were used to construct a playground used by employees every Friday evening. The remainder was used to entertain clients.

Required:

Compute the taxable income and corporate income tax (20 Marks)
(Total: 20 Marks)

End of question paper

