

MARKING GUIDE AND MODEL ANSWERS

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS A2.3: ADVANCED TAXATION DATE: MONDAY 21, AUGUST 2023

Page 1 of 17

PARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUC**SECTION UA**UST2023 ICPARAUGUST2023 ICPA

QUESTION ONECPARAUGUST2023 ICPARAUGUST2023 ICP

Marking Guide23 icparaugust2023 icparaugust202

Questio	Description Gust2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUS Markpa	rTotal
23 ICPARAUC 13 ICPARAUC	IUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA IUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST 2 023 ICPA	Marks O23 ICPA
(a) CPARAUC	Statement of adjusted taxable profit or loss	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Operating income 023 icparaugust2023 icparaugu	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	Add non-allowable deductions O23 ICPARAUGUST 2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	House keepers' salary PARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC	Interest expenses 023 icparaugust2023 icparaugust2023 icpa	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Provision for bad debts ARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 IC P A	RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Depreciation :ust2023 icparaugust2023 icparaugust2023 icparaugust2023 icpa	RAUGUST 2023 ICFA RAUGUST 2023 ICFA	KAUGUST 2023 ICFA RAUGUST 2023 ICPA
23 ICPARAUC 23 ICPARAUC	Tax paid raugust 2023 icparaugust 2023 i	RAUGUST 2023 ICPA RAUGUST 2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	I SWHT (tax.august2023 tcparaugust2023 tcparaugust2023 tcpa I JSWHT (tax.august2023 tcparaugust2023 tcparaugust2023 tcpa	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Transfer to reserves 1 CPARAUGUST 2023 ICPARAUGUST 2023 I	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	Repair and maintenance RAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	Donation RAUGUST 2023 ICPARAUGUST 2023 I	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC	Training fees UST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC	Communication 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Less non-allowable income: JST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Dividends from a local company 028 ICPARAUGUST2028 ICPA	RAUGUST2023 0:5 A	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Income from agricultural activities 3 ICPARAUGUST 2023 ICPA	.RAUGUST2023 ICPA .RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Add foreign dividends Paraugust 2023 ICPARAUGUST 2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Add local dividend gross up ust2023 (cparaugust2023 (cparaugus	IRAUGUST 2023 ICPA IRAUGUST 2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	Less capital allowance araugust 2023 (cparaugust 2023 (cp	RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	Adjusted taxable income	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC	Total CPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA	RAUGUST202 17.5
23 ICPARAUC	Well calculated Capital allowance and wear and tea	raugust2023 icpa	RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	ipst2023 icparaugust202.4cparaugust2023 icparaugust2023 icpa ip <mark>on:</mark> 23 icparaugust2023 icparaugust2023 icparaugust2023 icpa	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	ULand icparaugust2023 icparaugust2023 icparaugust2023 icparaugust2023 icpa	RAUGUST2023 ICPA RAUGUST2023 IC P A	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	$^{ m Building}$ raugust2023 icparaugust2023	.RAUGUST2023 ICPA .RAUGUST2023 IC P A	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Motor vehicle st2023 icparaugust2023 icparaugust2023 icpa	.RAUGUST2023 ICPA .RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Furniture and fittings cparaugust2023 icparaugust2023 icpa	RAUGUST 2023 ICPA RAUGUST 2023 ICPA	RAUGUS 12023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Computer & accessories RAUGUST 2023 (CPARAUGUST 2023 (CPA	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	Software RAUGUST 2023 ICPARAUGUST 2023 I	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC	Total CPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 IC 6 A RAUGUST2023 IC 6 A
(b) PARAUC	Computation of tax to be paid 2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA	RAUGUST2023 ICPA
23 ICPARAUC	360,0014-1,200,000 icparaugust2023 icparaugust2023 icpa	RAUGUST2023 0:5 A	RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	$= Above \ 1,200,000 \ \text{O} \$	RAUGUST202316PA RAUGUST2023 0:5 A	RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	T :.11 11.	raugust2023 icpa Raugust2023 0.5 a	RAUGUST2023 ICPA RAUGUST2023 ICPA
23 ICPARAUC 23 ICPARAUC	Less double taxation relief: UST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA	RAUGUST2023 ICPA RAUGUST2023 ICPA
)23 ICPARAUC)23 ICPARAUC	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	. RAUGUST2023 ICPA .RAUGUST2023 IC P A	RAUGUST2023 ICPA

A2 3 PARAUGUST 2023 ICPARAUGUST 2023 ICP

20	Questio	Description GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST Mark PARAUGUST2023 ICPARAUGUST2023 ICPARAUGUS
20	B ICPARAUGI	JST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUS \$023 ICPARAUGUST2023 ICPARA
20	23 ICPARAUG	Withholding tax on foreign dividends PARAUGUST2023 ICPARAUGUST2023 ICIARAUGUST2023 ICPA
20	23 ICPARAUG 23 ICPARAUG	Jarahandus 12023 ierakaugus 12023 ieraka
20 20	(C)CPARAUGI	Award 0.5 marks on each tax liability computed for every GU T2023 ICPA RAUGUST2023 ICPA
20	23 ICPARAUGI 23 ICPARAUGI	IST2023 (MARAIGUST2023 ICPARAUGUST2023 ICPARAU
20	23 ICPARAUGI 23 ICPARAUGI	IST 2023 ICPARAUGUST 20
20	23 ICPARAUGI	Total Marks ust2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 IA0

a) i Computation of adjusted taxable profit or loss of Muthoni for the year ended 31/12/2021 RAUGI 2023 ICPARAUGUST 2023 ICPA

Description 223 ICPARAUGUST 2023 ICPARAUGUS 223 ICPARAUGUST 2023 ICPARAUGUS 223 ICPARAUGUST 2023 ICPARAUGUS	T2023 ICPARAUGUS 12023 ICI T20 Workings UST2023 ICI T2023 ICPARAUGUST2023 ICI	Amount FRW Augus	Amount FRW 023 ICPA
Operating income CPARAUGUS	T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICPARAUGUS PARAUGUST2023 ICPARAUGUS	2023 ICPARAUGUST 22,010
Add non-allowable RAUGUS deductions T2023 ICPARAUGUS	T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICPARAUGUS' PARAUGUST2023 ICPARAUGUS' PARAUGUST2023 ICPARAUGUS'	2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA
House keepers' salary AUGUS	T2023 ICPARAUGUST 2023 ICI T2023 ICPARAUGUST 2023 ICI	PARAUGUST2023 ICP 32,000 5	2023 ICPARAUGUST 2023 ICPA
Interest expenses CPARAUGUS	T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICP 30,000 5	2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA
Provision for bad debts	/12023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	paraugust2023 icp 21,000 s	12023 ICPARAUGUST2023 ICPA 12023 ICPARAUGUST2023 ICPA
Depreciation 2023 ICPARAUGUS	7 12023 ICPARAUGUST2023 ICI 712023 ICPARAUGUST2023 ICI	PARAUGUST 2023 ICP 94,000 S	2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA
Tax paid gust2023 icparaugus	Allowed GUST2023 ICI	PARAUGUST2023 ICPARAUGUS PARAUGUST2023 ICPARAUGUS	2023 ICPARAUGUS 12023 ICPA 2023 ICPARAUGUS T2023 ICPA
WHT tax just 2023 icparaugus	TT2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICP 55,000 PARAUGUST2023 ICP 55,000	. 2023 ICPARAUGUST 2023 ICPA 2023 ICPARAUGUST 2023 ICPA
Transfer to reserves ARAUGUS	T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	690,500	2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA
Repair and maintenance	T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICP 20,000 ° PARAUGUST2023 ICPARAUGUS PARAUGUST2023 ICPARAUGUS	2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA
Donation ust 2023 icparaugus 23 icparaugust 2023 icparaugus 23 icparaugust 2023 icparaugus 23 icparaugust 2023 icparaugus	91,762 - (1% *23 CT 8,342,009) ST2023 CT	PARAUGUST2023 ICPAI 8,342 S PARAUGUST2023 ICPARAUGUS PARAUGUST2023 ICPARAUGUS PARAUGUST2023 ICPARAUGUS	2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA
Training fees 2023 ICPARAUGUS	T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICPARA PARAUGUST2023 ICPAR	. 2023 ICPARAUGUST 2023 ICPA 2023 ICPARAUGUST 2023 ICPA
COMMUNICATION 3 ICPARAUGUS COMMUNICATION 3 ICPARAUGUS 923 ICPARAUGUST 2023 ICPARAUGUS 923 ICPARAUGUST 2023 ICPARAUGUS	5,200+(96,000- 5,200) *20%	PARAUGUST2023 ICP 23,360 PARAUGUST2023 ICP ARAUGUST2023 I	2023 ICPARAUGUS 976,2024 2023 ICPARAUGUS 976,2024 2023 ICPARAUGUS 72023 ICPA
023 ICPARAUGUST2023 ICPARAUGUS	T2023 ICPARAUGUST2023 ICE	PARAUGUST2023 ICPARAUGUS	2023 ICPARAUGU 998,212
Less non-allowable RAUGUS 23 IUPARAUGUS 12023 IUPARAUGUS income: GUST2023 IUPARAUGUS	T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICPARAUGUS' PARAUGUST2023 ICPARAUGUS' PARAUGUST2023 ICPARAUGUS'	2023 ICPARAUGUST 2023 ICPA 2023 ICPARAUGUST 2023 ICPA 2023 ICPARAUGUST 2023 ICPA
Dividends from a local ugus 23 ICPARAUGUST2023 ICPARAUGUS companygust2023 ICPARAUGUS	T20 Not taxable T2023 ICI T2023 ICPARAUGUST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 IC168,0005 PARAUGUST2023 ICPARAUGUS PARAUGUST2023 ICPARAUGUS	2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA 2023 ICPARAUGUST2023 ICPA
Income from agricultural activities	T2023 ICPARAUGUST2023 ICI T20 Exempted UST2023 ICI T2023 ICPARAUGUST2023 ICI	PARAUGUST2023 ICPARAUGUST2023	2023 ICPARAUGU 179,500) 2023 ICPARAUG (179,500) 2023 ICPARAUGUST 2023 ICPA
023 ICPARAUGUST2023 ICPARAUGUS	T2023 ICPARAUGUST2023 ICP	PARAUGUST2023 ICPARAUGUS	2023 ICPARAUGU 818,712
Add foreign dividends	(124,000/90*100)	PARAUGUST2023 IC 137,778 PARAUGUST2023 IC PARAUGUS	2023 ICPARAUGUS 137,778
Add local dividends	(168000*100/85)	197,647	2023 ICPARAUG 1,154,137
Less capital allowance	T20WiGPARAUGUST2023 ICH	PARAUGUST2023 ICPARAUGUS	2023 ICPARAUG (786,850)

A2.3 PARAUGUST 2023 ICPARAUGUST 2023 ICP

Г2	Description T2023 ICPARAUGUST2	Workings UST 2023 ICPA	Amount FRW AUGUST	Amount FRW 023 ICPA
$\Gamma 2$	023 ICPARAUGUST2023 ICPARAUGUST2	023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPARAUGUST	2023 ICPARAUGUST2023 ICPAR
ľ2	023 ICPARAUGUST2023 ICPARAUGUST2	023 ICPARAUGUST2023 ICPA	RA' ()()() '1'2023 ICPARAUGUS'	2 0000 Maraugust2023 icpa
$\Gamma 2$	023 ICPARAUGUST2023 ICPARAUGUST2	023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPARAUGUS'	2023 ICPARAUGUST2023 ICPA
Γ2	Adjusted taxable income UST2	023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPARAUGUS	2023 ICPARAUGUS $367,\!287$ A

Working 1: st2023 icparaugust2023 icparaugust

2023 ICPARAUGUST 2023 20 ASSELS AUGUST 2023 2023 ICPARAUGUST 2023 2023 ICPARAUGUST 2023 2023 ICPARAUGUST 2023 2023 ICPARAUGUST 2023 2023 ICPARAUGUST 2023	Land JG ICPARAUG ICPARAUG ICPARAUG ICPARAUG	Buildin AI UST 2023 ICPAI IST 2023 ICPAI	Motor 202 vehicle 202 AUGUST 202 AUGUST 202 AUGUST 202	Furniturst e and ugust fittings ust a leparaugust	Computer & ICPARAUGU accessorie s ICPARAUGU	Softwar _{RA} Stoo23 ICPARA Sco23 ICPARA Stoo23 ICPARA Stoo23 ICPARA Stoo23 ICPARA	Capital ICPAI allowance Allowance Al
20 Cost ARAUGUST2023 2023 ICPARAUGUST2023 2023 ICPARAUGUST2023	10 85,00 G 10PARAUG 10PARA 0 G	JS 960,000 I JST2023 ICPAI JST2023 ICPAI	RAU 140,00 2 RAUGUST202 RAUGUST2 0 2	B ICF 122,000 T B ICPARAUGUST B ICPARAUGUST	2023 IC 45,000 J 2023 ICPARAUGU 2023 ICPARAUGU	st2 132,000 st2023 icpara st2023 icpara	UGUST2023 ICPAI UGUST2023 ICPAI UGUST2023 ICPAI
20 Rate araugust 2023 20 Rate araugust 2023	ІСРАО%	UST20250%\I	RAUG 50%2	BICPARA 50% T	2023 ICPA 50% J	512023 50% A	UGUST2023 ICPAI
Capital usust202 allowance st202	ICPARAUG ICPARAUG ICPARAUG ICPARAUG	J. 480,000 J JST2023 ICPAI JST2023 ICPAI	RAUGUST202 RAUGUST202 RAUGUST202	BICPA61,000 BICPARAUGUST BICPARAUGUST	2023 ICPARAUGU 2023 ICPARAUGU 2023 ICPARAUGU 2023 ICPARAUGU	5T20 66,000 A ST2023 ICPARA ST2023 ICPARA	JGUS 677,000 JGUST2023 ICPAI JGUST2023 ICPAI
Dep Value		960,000	70,000	61,000	45,000	66,000	
W & T rate	ICPA 0%	UST2023 5% AL	25%	BICPARA25%	2023 ICPA 50%	T2023 10%	UGUST2023 ICPAI
W.&ATAUGUST2023	ICPARA OG	48,000	17,500	15,250	22,500	6,600	109,850
OTotal RAUGUST2028 023 ICPARAUGUST2028 0allowanceUST202	ICPARA 0 G ICPARAUG ICPARAUG	US 528,000 I UST2023 ICPAI UST2023 ICPAI	RA1 87,500 2 RAUGUST202 RAUGUST202	B ICPA 76,250 T B ICPARAUGUST B ICPARAUGUST	2023 IC 22,500 J 2023 ICPARAUGU 2023 ICPARAUGU	st20 72,600 st2023 icpara st2023 icpara	JGUS 786,850 JGUST2023 ICPA JGUST2023 ICPA
WDV 31/12/2021	10 85,00 G 1000 1000 1000 1000 1000 1000 1000	US 960,000 UST2023 ICPAI UST2023 ICPAI	ka 52,500 2 RAUGUST202 RAUGUST202	BICPA 45,750 TBICPARAUGUST	2023 IC 22,500 2023 ICPARAUGU 2023 ICPARAUGU	st20 59,400 a st2023 icpara st2023 icpara	UGUST2023 ICPAI UGUST2023 ICPAI UGUST2023 ICPAI UGUST2023 ICPAI

b) Computation of the tax liability of Muthoni for the year ended 31/12/2021

Computation of tax to be paid	RWorkings icparaugust2023 icparaugu RWorkings icparaugust2023 icparaugu	FRW "000" UST2023 ICPA
00; 10360,000 ST2023 ICPARAUGUST2023 ICP	ARAUGUST2023 ICPARAUGUST2023 ICPARAO ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICOA ST2023 ICPARAUGUST2023 ICOA
360,001 - 1,200,000 RAUGUST2023 ICP	(1,200,000-360,000) *20%	ST2023 ICPARAUGUST2023168A ST2023 ICPARAUGUST2023 ICPA
Above 1,200,000 CPARAUGUST2023 ICP	(367,287-1,200) * 30%	ST2023 ICPARAUGUST09,826
Tax for the year ICPARAUGUST 2023 ICP	RAUGUST2023 ICPARAUGUST2023 ICPARAUGU	ST2023 ICPARAUGUS 109,994
Less withholding tax on imports	ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU	st2023 icparaugu (55,000)
Less double taxation relief: 12023 ICP	ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPA
Withholding tax on foreign 2023 CP	/RAUGUST2023 ICPARA(137,778/100*10)	st2023 icparaugu(13,778)
023 ICPARAL GUST2023 ICPARAUGUST2023 ICP 0 dividends : ust2023 ICPARAUGUST2023 ICP	ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPA ST2023 ICPARAUGUST2023 ICPA
Withholding tax on local	RAUGUST2023 ICPARA (197,647*15/100)	ST2023 ICPARAUGU (29,647)
odividends ust2023 ICPARAUGUST2023 ICP	ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPA IST2023 ICPARAUGUST2023 ICPA
Tax to be claimed PARAUGUST2023 ICP	ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU ARAUGUST2023 ICPARAUGUST2023 ICPARAUGU	ST2023 ICPARAUGU (11,569) ST2023 ICPARAUGUS (20,5369)

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c) Advice on which sector Mutoni Merci may invest in;

Before go into details for the incentive attached to each sector Mutoni the best investment is looking to invest in as tax is concerned is the one which minimize the tax liability or provide the high tax saving through the tax incentives. So let us see in detail the tax incentive attached to each sector to arrive on the final conclusion;

For Mining sector

The law stated that a registered investors holding a valid exploration license are entitled to carry forward losses for a period of ten (10) years from the first year of making the loss, by deducting losses in the order in which they incurred.

For construction Sector and for manufacturing sector

Both construction and manufacturing sector are entitled to carry forward the loss within the period of 5 years but in case for construction, the taxpayer engaged in long term contract for constructing like the road, the law stated that a loss in a tax period in which a long-term contract is completed may be carried back and offset against previously taxed business profit from that contract to the extent it cannot be absorbed by business profit in the tax period of completion.

By calculating the tax to be paid within the investment period between 2 options, below is the advice for each:

Option 1 ugust 2023 icparaugust 2023 icp

Years	Profit or loss	Loss to be Carried forward	Net profit or loss	Tax @ 30%
2023 ICPAR <i>i</i> 2023 ICPAR <i>i</i>	FRW Million	GUST2023 ICPARAUGUFRW Million	FRW Million	FRW Million
2023 ICPARA 2023 ICPARA	UGUST2023 (800) (GUST2023 ICPARAUGUST2023 ICPARAUG GUST2023 ICPARAUGUST2023 ICPARAUG	JST2023 ICPARAUG (800) 3 JST2023 ICPARAUG (800) 3	ICPARAUGUST2023 ICOA ICPARAUGUST2023 ICOA
023 ICPARA	UGUST2023 ICP/ 50 U UGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 IC(800) GUST2023 ICPARAUGUST2023 ICPA	JST2023 ICPARAUG (750)3 JST2023 ICPARAUG (750)3	ICPARAUGUST2023 ICOA ICPARAUGUST2023 ICOA
03 ICPARA	UGUST2023 ICI	GUST2023 ICPARAUGUST2023 IC (750)	JST2023 ICPARAUGI (650) 3	ICPARAUGUST2023 ICOA
02 ICPARA	UGUST2023 ICH/50U	GUST2023 ICPARAUGUST2023 IC (650)	JST2023 ICPARAUG (500)3	ICPARAUGUST2023 ICOA
0 5 3 ICPARA	UGUST2023 IC1 <mark>/60</mark> U	GUST2023 ICPARAUGUST2023 ICI(500)	JST2023 ICPARAUGI (340) 3	ICPARAUGUST2023 ICO
06 ICPARA	UGUST2023 IC 180 U	GUST2023 ICPARAUGUST2023 IC (340)	IST2023 ICPARAUGI (160) 3	ICPARAUGUST2023 IC 0 A
023 ICPARA	ugust2023 icp 770 .u	GUST2023 ICPARAUGUST2023 ICI (A 1 60) ;	JST2023 ICPARAUGUS12023 JST2023 ICPARAUGUS (90) 3	ICPARAUGUST2023 ICPA ICPARAUGUST2023 IC 0 A
0 23 ICPARA 0 8 3 ICPARA	ugust2023 icp 60 u	GUST2023 ICPARAUGUST2023 ICPA(90);	JST2023 ICPARAUGUS (30)3 JST2023 ICPARAUGUS (30)3	ICPARAUGUST2023 ICPA ICPARAUGUST2023 IC 0 A
Total T	ax after 8 years	GUST2023 ICPARAUGUST2023 ICPARAUG GUST2023 ICPARAUGUST2023 ICPARAUG	UST2023 ICPARAUGUST2023 UST2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPA ICPARAUGUST2023 IC 9 A

Total Tax that will be paid under manufacturing sector is calculated as follows:

20	Years Aug	Profit or loss	Loss to be Carried forward	Net profit or loss	Tax @ 30%
20	023 ICPARAUGI	FRW Million	T2023 ICPARAUGUS FRW Million	FRW Million	ICPARFRW Million
20	23 ICPARAUGI	JST2023 ICP (800) J	T2023 ICPARAUGUST2023 ICPARAUG⊍S	T2023 ICPARAUG (800) 3	ICPARAUGUST2023 ICOA
20	2^3 icparaugi 2 3 icparaugi	JST2023 ICPARA 50 J	st2023 icparaugust2023 icpa (800) s	T2023 ICPARAUG (750) 3	ICPARAUGUST2023 ICPA 0 4
20	1923 ICPARAUGI 1933 ICPARAUGI	JST2023 ICPAR 100 J	TT2023 ICPARAUGUST2023 ICPA (750) S	12023 ICPARAUG (650) 3	icparaugust2023 icpa icparaugust2023 ic 0 a
20	123 ICPARAUGI 23 ICPARAUGI	JST2023 ICPARA JST2023 ICPAR 150 J	512023 ICPARAUGUS 12023 ICPA (650) ST2023 ICPARAUGUST2023 ICPA (650) S	12023 ICPARAUG (500) 3	TCPARAUGUST2023 ICPA ICPARAUGUST2023 ICPA
20	23 ICPARAUGI 23 ICPARAUGI	JST2023 ICPARA 160 JST2023 ICPAR 160	ST2023 ICPARAUGUST2023 ICPARA ST2023 ICPARAUGUST2023 ICPA (500) S	12023 ICPARAUG (340) 3 12023 ICPARAUG (340) 3	ICPARAUGUST2023 ICPA ICPARAUGUST2023 ICPA

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2	06 ICPARAUGI	JST2023 ICPAR 180 J	ST2023 ICPARAUGUST2023 ICPA (340) ST	2023 ICPARAUG (160) 3	ICPARAUGUST2023 ICPA
2	02/3 ICPARAUGI	JST2023 ICPARA 70	ST2023 ICPARAUGUST2023 ICPARAUG <mark>O</mark> ST	2023 ICPARAUGUST 70 23	ICPARAUGUST2023 121AI
2	08 ICPARAUGI	JST2023 ICPARA 60 U	ST2023 ICPARAUGUST2023 ICPARAUG <mark>0</mark> ST	2023 ICPARAUGUST 60	ICPARAUGUST2023 I 8AI
2	Total Tax	after 8 years	ST2023 ICPARAUGUST2023 ICPARAUGUST	2023 ICPARAUGUST 2023	ICPARAUGUST2023 I 39AI

Under option 1, the best investment that will minimize the tax liability is Mining sector because more period of 10 years to carry forward the loss.

Option 2 JGUST2023 ICPARAUGUST2023 ICPARAUGUST

Years	Profit or loss	Loss to be Carried forward	Net profit or loss	Tax @ 30% 3 ICPA
023 ICPARA 023 ICPARA	FRW Million	UST2023 ICPARAUGUS FRW Million	FRW Million	FRW Million
023 ICPARA 023 ICPARA	UGUST2023 ICPARA UGUST2023 ICPAR 20 G	UST2023 ICPARAUGUST2023 ICPARAUGUS UST2023 ICPARAUGUST2023 ICPARAUGŪS	T2023 ICPARAUGUST 2023 T2023 ICPARAUGUST 20 23	ICPARAUGUST2023 ICPA ICPARAUGUST2023 ICPA
023 ICPARA	UGUST2023 ICPARSOG	UST2023 ICPARAUGUST2023 ICPARAUGUS UST2023 ICPARAUGUST2023 ICPARAUGŪS	T2023 ICPARAUGUST 20 23 T2023 ICPARAUGUST 5 023	ICPARAUGUST2023 ICPARAUGUST202
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028 ICPARA	UGUST2023 ICPAR30G	UST2023 ICPARAUGUST2023 ICPARAUGUS	T2023 ICPARAUGUS 130	ICPARAUGUST2023 ISPAN
0 5 3 ICPARA	ugust2023 IC (290) G	UST2023 ICPARAUGUST2023 ICPARAUGUS	T2023 ICPARAUG (290)	ICPARAUGUST2023 ICPA
Total T	ax after 5 years	UST2023 ICPARAUGUST2023 ICPARAUGUS UST2023 ICPARAUGUST2023 ICPARAUGUS UST2023 ICPARAUGUST2023 ICPARAUGUS	T2023 ICPARAUGUST2023 T2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPA

Total Tax that will be paid under construction sector is calculated as follows:

Years	Profit or loss	Loss to be Carried forward	Net profit or loss	Tax @ 30%
023 ICPARA 023 ICPARA	FRW Million	GUST2023 ICPARAUGUERW Million	FRW Million	FRW Million
023 ICPARA 023 ICPARA	UGUST2023 ICP/ 20 U UGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAUGU GUST2023 ICPARAUGUST2023 ICPARAUGU	JST2023 ICPARAUGUST220 I JST2023 ICPARAUGUST2023 I	CPARAUGUST2023 ICEA CPARAUGUST2023 ICEA
023 ICPARA 023 ICPARA	UGUST2023 ICP/ 50 U UGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAUGI GUST2023 ICPARAUGUST2023 ICPARAUGI	JST2023 ICPARAUGUST250 I JST2023 ICPARAUGUST2023 I	CPARAUGUST2023 ICFA CPARAUGUST2023 ICPA
0 3 3 ICPARA	UGUST2023 ICH/00 U	GUST2023 ICPARAUGUST2023 ICPAR	JST2023 ICPARAUGUST 100 I	CPARAUGUST2023 1 30 4 CPARAUGUST2023 1CPA
043 ICPARA	UGUST2023 IC1/30 U	GUST2023 ICPARAUGUST2023 ICPAR	JST2023 ICPARAUGUST 130 I	CPARAUGUST2023 139
05 ICPARA	ugust2023 (290) u	GUST20 (-290+20+50+100+120)	JST2023 ICPARAUGU (290) I	CPARAUGUST202(87)A
Total T	ax after 5 years	s (Balance) araugust 2023 icparaug	UST2023 ICPARAUGUST2023 I	CPARAUGUST2023 ICIA

Under option 2, the best investment that will minimize the tax liability is construction sector because of carrying back the loss incurred in the last year.

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SECTION B

QUESTION TWO

Marking Guide

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023 ICPAR 023 ICPAR	AUGUST 2023 ICPARAUGUST 2023 ICPARAUGUS
023 ICPAR 023 ICPAR	$ \begin{array}{l} {}^{\rm A} \hbox{Consultancy Income} \\ {}^{\rm A} \hbox{Consultance Income} \\ {}^{\rm A} Consultance In$
023 ICPAR	Foreign income (from South Africa) converted at rate of 68 AUGUST 2023 ICPARAUGUST 2023 1.0
023 ICPAR	A Calculation of Gross tax liability JST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 1.0
023 ICPAR	Calculation of tax liability on Rwanda sourced income CPARAUGUST 2023 ICPARAUGUST 2023 1.0
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023 ICPAR 023 ICPAR	AUGUST2023 ICPARAUGUST2023 IC
023 ICPAR 023 ICPAR	Calculation pf net tax liability after offsetting DTR
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Model Answers

a. Memo

To: Board of Management of Vatex LLC

From: CPA Graduate

Subject: Tax Implications of proposed investment in Dizo Ltd

I have made a careful evaluation of the proposed investment approach, informed by Rwanda relevant tax code, I would like to draw your attention to the following for your further steps and decision.

- 1. Thin Capitalization: The proposed Investment would create Thin Capitalization for the Rwandan company Dizo Ltd, which needs to be carefully looked at. Article 26 (10) of law no. 16/2018 stipulates that interest paid on loans and advances from related entities is not deductible to the extent that the total amount of the loan for which interest is paid exceeds four (4) times the amount of equity during the tax period. With a 65% majority shareholding, I recommend a maximum debt: equity ratio of 4:1.
- 2. Withholding tax on interest: Interest paid to Vatex LLC shall be subject to 15% withholding tax per Rwandan tax code. There are some exceptions like Interest on loans from foreign

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development financial institutions are exempted from this tax and interest on loans from local banks. Since Vatex is a foreign company, not primarily in business of lending the withholding tax shall be applied on interest. PARAUGUST 2023 ICPARAUGUST 2023 ICPARA

3. **Interest allowed for CIT**: In line with thin capitalization, Interest on loan is only allowable for income tax purposes up to a cap of loan not exceeding 4 times equity. For this particular scenario, only interest on loan of up to FRW 3.6 billion (4x850 Million equity) shall be allowed for income tax, the interest on the rest of the loan (FRW 5.3 billion – 3.6 billion) is disallowed for income tax purposes.

b. Advise to Mr Jacques Mulisa:

- **Domestic & foreign income both taxable**: Mr Mulisa is a Rwandan resident, essentially the Rwandan tax law requires Rwandan residents to pay tax on both their domestic and foreign income. In this regard Mr Mulisa is accountable for tax on his income at home and also on his income from Egyptian subsidiary, however there are other applicable tax credits explained below.
- Foreign tax credit: Article 7 of law n. 16/2018 stipulates that if in a tax period a resident in Rwanda generates income from taxable activities performed abroad, the income tax payable on such foreign sourced income is reduced by amount of foreign tax payable on such income, as long as there's appropriate evidence. However, such reduction cannot exceed tax payable in Rwanda on income from abroad. So Mr Mulisa's total income tax shall be reduced by tax paid in Egypt, as long as the above conditions are fulfilled. In addition, Mr Mulisa must look if Rwanda and Egypt signed a Double Taxation Agreement (DTA) to be allowed this foreign tax credit.

c.

Francis Ngabo tax computation paraugust2023 icparaugust2023 icparaugust2023 icparaugust2023 icparaugust2023 ic	C PARAUGUST2023 ICI CPARAUGUST2023 ICI
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Add: Consultancy Income T2023 ICPARAUGUST2023	CPARAUGUST 62,000
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QUESTION THREE

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A. Advise to the CEO of GenMotors

Article 2 of Law No. 02/2015 sets out different goods, services and entities that are zero rated and some exempt from Value added tax. In the following paragraphs, I am summarizing specific Vehicle models that GenMotors can consider prioritizing if they want to take advantage of available VAT incentives;

- Buses: Article stipulates that transportation of persons by road in vehicles which have a seating capacity of fourteen (14) persons or more is exempted from VAT. In contrast, Vehicles with less than 14 sitting capacity don't qualify for this benefit.
- Trucks: In the same article, transportation of goods by road is exempted from VAT. Since GenMotors manufactures trucks as well, having a large fleet of trucks would be beneficial, Rwanda currently has most of trucks so old that's even an additional advantage to GenMotors to consider.
- Nature of business: There is an exception on vehicles with less than 14 seating capacity, if these vehicles are for tourist purposes. Gen motors can consider using their various range of VIP SUVs and go into tourism business to take advantage of this incentive.

B. Advise to H manufacturers Ltd;

Introduction: A sale (tax point) is a point on which the supply of goods or service is recognised to have occurred. The tax point for the supply of goods and services is the earliest of one of the following:

- The date on which the invoice is issued;
- The date on which payment of goods and services, including a partial payment is made.
- The date on which goods are either removed from the premises of the supplier or when they are given to the recipient; RAUGUSTZOZZICPARAUGUS
- The date on which the service is delivered
- i. VAT law requires the A local recipient of services from a foreign supplier is required to account for a VAT reverse charge at 18% of the value of the services procured. The VAT Act further provides that the recipient may not reclaim the corresponding input VAT unless the services so procured are not available in the local market. In addition, being a non-resident, the company needs to account for withholding tax of 15% on the payment of the EUR 40,000. I understand the CFO is certain there are no local suppliers available here, but that decision / judgement is not in hands of the company to make. The Company should write to RRA, through relevant ministry in charge, and only until RRA approves in writing the company should account for relevant taxes I mentioned above.
- ii. This pertains to the outsourcing of services, and it's essential to invoice for the full amount. The service provider incurs expenses to ensure the delivery of the required service like any other business, but the HR Company should issue an invoice to HM which includes a 18% VAT charge on the total amount.

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- iii. There are two main considerations when it comes to supplies to Government institutions; 1) The Government Institution holds VAT from source and pays it directly to RRA, 2) The Public institution withholds 3% on amount payable to the supplier, unless the supplier holds a valid tax clearance certificate. In HM's case, both sales the company should invoice with VAT but does not have to pay it since the public institution holds it from the source. However, the first sale will suffer from 3% withholding tax since the company did not have a valid tax clearance certificate, the second sale shall not suffer the withholding tax as HM has applied the tax clearance certificate.
- iv. If a taxpayer, purchased in the country or imported taxable goods or services which are directly or indirectly related, on one hand partly to taxable goods or services and partly to exempted goods or services on the other, the sum of the input tax is a portion of the tax paid to the taxable goods or services in relation with his/her taxable business. In HM's case, I have summarized this in calculation below;

Standard formula: Allowable Input VAT = Total Input VAT x (Taxable sales / Total sales)

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023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPA	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICPA	RAUGUST2023 ICPA
Total Input vat (345m*18%)	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR.	AUGUST2023 ICOZ	,100,000 023 ICP/
023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPA 023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPA	RAUGUST2023 ICFAI	RAUGUST2023 ICPAR. RAUGUST2023 ICPAR.	AUGUST2023 ICPA AUGUST2023 ICPA	RAUGUST 2023 ICP/
022 CPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICPA	RAUGUST2023 ICPA
OUTPUT VAT: 23 ICPARAUGUST 2023 ICPA	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICPA	RAUGUST2023 ICPA
Standard sales (305M*18%)	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 154	,900,000
Zero rated sales (55M*0%)	RAUGUST 2023 ICPAI	RAUGUST2023 ICPAR.	AUGUST2023 ICFA	RAUGUS 12023 ICFA
UZ3 ICPARAUGUS12UZ3 ICPARAUGUS12UZ3 ICPA	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICPA	RAUGUST2023 ICPA
¹² Exempted sales (100M) ³ UST2023 ICPA	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICPA	rau (N/A) 23 icp <i>a</i>
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023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICPA	RAUGUST2023 ICPA
Allowable Input $VAT = 62.1M \times (3.1)$	805M+55M)/460	AUGUST2023 ICPARA MCLIST2022 ICPAR	$^{ m AUGUST2023ICPA}_{ m AUGUST2023ICPA}$,600,000
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023 ICPARAUGUST2023 ICPARAUGUST2023 ICPA	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICPA	RAUGUST2023 ICPA
Net VAT payable / (claimable)	RAUGUST2023 ICPAI	RAUGUST2023 ICPAR	AUGUST2023 ICK	300,000
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Therefore, HM may have incurred 62.1M input VAT, but can only claim 48.6M.

v. The VAT law has a specific provision on what is called the Blocked supplies (No input VAT deductible). One of them is importation of passenger vehicles and spare parts or repair and maintenance services for these vehicles (unless the taxpayer is involved in resale or leasing of such vehicles and they were acquired for this purpose. HM being a manufacturing company and not necessarily using these vehicles in daily business operations to generate income, the company cannot claim import VAT paid on these vehicles. It is good that the beneficiaries are paying a benefit in kind in the payroll.

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92

- i. Taxation and Unemployment: In times of unemployment, taxes can be reduced, most especially corporate taxes. This leaves companies with more earnings after tax, which can be used to grow business operations, hence creating more employment. The Government can also advance tax credits attached the number of employees, in Rwanda there are some CIT tax credits attached to employing Rwandans.
- ii. **Taxation and Inflation:** The Government can increase or decrease tax rates to manage inflation levels. During times of high inflation there is a lot of money in circulation & people have more money in hand, The Government can increase tax to reduce purchasing power, hence reduce cash in circulation and eventually help to control Inflation.

The reverse is true when the inflation is very low and demand is sluggish, the government can decrease taxes hence increasing purchasing power and increasing cash in circulation. UGUST2023 ICPA

- iii. Income Gap: Huge income gap happens when the rich get richer and the poor get poorer. The Government can use taxation to try and minimize this gap, by taxing the rich more and the poor less, and instead using tax monies from the rich to extend essential facilities to the poor can eventually partially mitigate this problem.
- iv. Consumption Behaviour: Taxation is one of the most effective ways to influence consumption behaviours, by taxing certain goods and services more or less consumption is shifted to and the reverse is true. For Instance, The Government of Rwanda does not impose tax on agricultural products because Agriculture is essential to Rwanda economy and consumption of agricultural produce should be promoted. However, certain goods and services are so essential that even when taxes are increased consumption still remains high.

b. Advise to the CFO:

The CFO's statement contains inaccuracies. The tax procedures law delineates various fines and penalties depending on the specific wrongful act committed.

Article 76: Late Payment Interest

Article 76 (Interests for late payment) provides that if the taxpayer fails to pay tax within the period provided for by this Law, he or she must pay late payment interest on the amount of principal tax. The interest rate is fixed at one point five percent (1.5%). Interests for late payment are calculated on a monthly basis, non-compounding, counting from the first day after the tax should have been paid until the day of payment inclusive. Interest for late payment applies to both non-filers (those who declares on time but fail to pay) and non payers (those who declare on time but fail to pay on time).

Article 77: Wrongful acts punished with fixed administrative fine.

Article 77 provides the fixed administrative fines for taxpayers who fail to submit their tax declarations on time. In our case, this provision specifically target those who do not adhere to the deadline for tax declaration.

A2.3 PARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST

Article 78: Administrative fine for non-declaration and non-payment of tax on time

Article 78 addresses administrative fines for taxpayers who neither declare nor pay their taxes within the legally mandated time limits. It's noteworthy that taxpayers who declare their taxes within the specified time limits but fail to make timely payments are subject to a reduced fine, amounting to half of the penalty imposed on non-filers.

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ii) December: Soon or later RRA shall initiate their tax investigation / audit notice. This will help to minimize tax accruing penalties significantly. For example, when RRA conducts an audit, there will be understatement fines, which could be much higher, plus monthly interest keeps accumulating at 1.5% non-compounding every month of delay.

If the company does a voluntary declaration, below will be the computation of fines and penalties

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PAR	03 marks for a comprehensive explanation with evidence linking to the law,	JUST2023 ICPAR
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a) Advantages of double taxation agreements:

- Double taxation agreements create more certainty in fiscal policies of concerned countries which eventually encourages investments and inter-trade between the countries.
- Double taxation agreements enhance the co-operation between tax authorities of contracting countries, which comes with a lot of mutually benefiting strategies.
- They help to curb the problems of unfair and discriminatory taxation of certain foreigners who are working in another country, which in the end encourages more exchange of skills.
- Double tax agreements help countries easily prevent international tax evasion and unjustified parallely pa
- Double taxation agreements promote Foreign Direct Investments (FDI) in contracting countries, for instance investors from Angola shall not hesitate to invest in Rwanda since they are assured there won't be any unfair or double taxation of their income.

b)

- i. Doing business in Rwanda essentially refers to having permanent establishment in Rwanda, in this case income derived from taxable activities in Rwanda is taxable. Doing business with Rwanda on the other hand does not necessitate presence in Rwanda, hence no obligation to pay tax from resulting income from 'doing business with Rwanda'.
- ii. Controlled transaction: A transaction can be considered to be a controlled transaction when;
- One of the parties to the parties to the transaction has physical presence in Rwanda and taxable in Rwanda while the other party to the transaction is outside Rwanda and not taxable in Rwanda.
- A resident company in Rwanda transacts with a non-resident related party, as long as the transaction relates to a permanent establishment of the Rwanda based entity.
- A Rwandan tax resident entity / person engages in a business transaction with another person in a country whose tax administration grants preferential tax treatment, whether the transacting entities are related or not.
- A non-resident person, residing in a country where tax administration does provide beneficial tax regime, does business with a non-resident in Rwanda that results in a permanent establishment, whether such persons are related or not.

c)

202

- Manufacture of plastic pipes is done outside Rwanda and corresponding money paid to the Rwandan firm, this does not fulfil the requirements of permanent establishment, and hence Metis is not tax liable in Rwanda for the \$100 Million.
- The Rwanda office manage land preparation, pipes installation constitutes a permanent establishment. So, the income generated from Rwanda in this regard is taxable per Rwanda tax laws and Metis's subsidiary is expected to account for all corresponding taxes in Rwanda as a permanent establishment.
- However, if there was a double taxation agreement between Rwanda and Greece, Metis would seek appropriate tax reliefs the manufacture and installation works done both at home country and in Rwanda.

A2.3 PARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST

ii. Per article 6 of the Rwanda income tax law, Charles Obi does not meet the requirements of qualifying to be a permanent establishment; no physical place of work, branch, factory / workshop, site for construction... as specified in the law.

Also, he is serving Ugandan clients, a non-resident living in Rwanda, generating income from a non-resident entity is not liable for tax in Rwanda.

END OF MARKING GUIDE AND MODEL ANSWERS

2 ISPARAUGUST 2023 ICPARAUGUST 2023 ICPA