



**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3: ADVANCED TAXATION

DATE: MONDAY 21, AUGUST 2023

INSTRUCTIONS:

1. Time allowed: 3 hours and 45 minutes (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has two sections; A&B.
3. Section A has one Compulsory Question while section B has Four optional questions to choose any three.
4. In summary attempt four questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings.
7. The 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

Muthoni Merci is an individual enterprise registered in Rwanda Revenue Authority under the Tax Identification Number (TIN) 999222111. She obtained an investment certificate in 2021. The following information related to her profit or loss statement for the year ended 31/12/2021.

Items	FRW "000"	FRW "000"
Sales		8,342,009
Cost of sales		7,000,000
Gross profit		1,342,009
Other income		
Agricultural income		11,500
Dividends received		168,000
Total income		1,521,509
Expenses		
Salaries	236,237	
Interests' expenses	30,000	
Water and Electricity	29,000	
Provision for bad and doubtful debts	21,000	
Depreciation	94,000	
WHT tax	55,000	
Tax paid	108,800	
Transfers to reserves	690,500	
Audit fees	5,600	
Training fees	2,000	
Advertising costs	12,800	
Repair and maintenance	26,800	
Donation	91,762	
Communication	96,000	
Total expenses		1,499,499
Operating Profit		22,010

Additional information:

- Agricultural income related to the income generated from agricultural firm located in eastern province.
- Salary included remuneration amounting to FRW 32,000,000 paid to Muthoni's house keepers and gardeners.
- The bad and doubtful debts related to the provisions made for the year 2021.
- Of the repair and maintenance, FRW 20,000,000 was used to repair her residential house.
- Withholding tax figure in the profit and loss account related to money paid on importations.
- Training fees related to payments made to train staff in accounting software. These fees were part of software acquisition cost.

7. The donation was made to a charity organization.
8. Communication included FRW 5,200,000 loaded on the mobile phone of Muthoni's kids for the purchase of internet at home.
9. Interest expenses were payment of mortgage interests for Muthoni's residential house.
10. Tax paid related to WHT declared and paid to RRA for payment made to non-registered suppliers.
11. Dividends were received from an investment made in shares, in Rwandan Bank and they were received net of withholding tax.
12. In addition to the local income, Muthoni received a foreign dividend equivalent to FRW 124,000,000 net of 10% withholding taxes, from the investment she made in East Africa. This foreign income was not recorded in the books of accounts.
13. Depreciation related to the following assets:

Date of acquisition	Description	Cost in FRW "000"
01/01/2021	Land	85,000
01/01/2021	Building	960,000
01/01/2021	Motor vehicle	140,000
01/01/2021	Furniture and fittings	122,000
01/01/2021	Software	132,000
01/01/2021	Computer & accessories	45,000

Required:

- (a) A statement of adjusted taxable profit or loss for the year ended 31/12/2021. (23 Marks)
- (b) Computation of the tax liability if any for the year ended 31/12/2021. (4 Marks)

(c) Mutoni Merci is planning in the next 8 years to start a company but she is in doubt of what sector of business she may invest in as tax planning is concerned. She has approached you as tax expert to advice on which sector, she may invest in between the Mining versus manufacturing of non-alcohol wine sectors (Option 1) and construction under long term contract versus manufacturing of non-alcohol wine sectors (Option 2). She also submitted to you the projected profit or loss of 2 options for you to be easy to reach on your conclusion as follow:

Option 1: Where the investment is planned within the 8 years between Mining and Manufacturing of non-alcohol wine sectors.

Projected profit or loss in both Mining and Manufacturing of non-alcohol wine Sectors

Years	1	2	3	4	5	6	7	8
Profit or Loss before Tax in Million FRW	(800)	50	100	150	160	180	70	60

Option 2: Where the investment is planned within 5 years between Manufacturing of non-alcohol wine and construction under long term contract.

Projected profit or loss in both Manufacturing of non-alcohol wine and construction under long-term contract Sectors

Years	1	2	3	4	5
Profit or Loss before Tax in Million FRW	20	50	100	130	(290)

You are required to support your advice by calculation on each option. Assume where there is a required conditions to be fulfilled, were met and CIT rate is 30% (13 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

(a) Vutex LLC is a company incorporated and resident in United States of America, the company's shareholders have been strongly advocating for expansion by looking for investment opportunities in Africa, focusing on companies with management and cash flow issues but having a good business model. In 2021, Vutex identified Rwanda as the best country to invest their money.

Vutex is planning to acquire 65% of shares in Dizo Ltd, a Rwandan resident company with shareholding spread between so many business women from Kigali City Market, the company's financial state is not looking good at all.

The equity of Dizo Ltd including retained earnings, predominantly accumulated losses amount to FRW 850 million), the company has a revaluation reserve of FRW 350 million from revaluation of their undeveloped property at Mont Kigali.

Once all arrangements are done, Vutex intends to start with an immediate cash Financial Facility Loan of USD 5 Million (Equivalent to about FRW 5.3 billion), at an annual interest of 8%.

Required:

Write a memo to the Board of Management of Vutex LLC as a CPA Graduate on the tax implications of their investment proposal in Dizo, highlighting specific Rwanda tax law restrictions if any and any relevant point of consideration. (6 Marks)

(b) i. Jacques Mulisa is a Chief Financial Officer at Golden Distillers, a multinational manufacturing company with subsidiaries across Africa. He is Rwandan and currently working for Rwanda subsidiary but he has been offered a service expert opportunity.

Essentially, he would have to relocate to Egyptian subsidiary for the same position, his contract at home shall remain and he will be getting his salary and housing allowance for his family as is now. In Egypt, he will be getting a salary plus other benefits, all relevant Egyptian taxes applicable thereof.

Required:

Advise Mr Mulisa on tax implications he needs to be aware of before he puts pen on paper for this new career opportunity. (4 Marks)

ii. Francis Ngabo, a Rwandan has recently relocated back from a foreign assignment in South Africa where he has been serving as Financial Management Specialist for the past 15 years at the International Finance Centre (IFC). He came back home and took up a Country Manager role at a new Venture capital project next to his family in Kigali. He makes substantial amount of money from his side gigs in financial consultancy as well.

During the year 2021, Mr Ngabo earned an equivalent of 3 million South African Rands (ZAR), off which ZAR 750,000 was paid as taxes to South African Revenue Service in the same year.

In 2021, He got FRW 120 million from his new job as salary and an additional FRW 62 million from his individual consultancies. A total of FRW 36 million paid as PAYE and his Rwandan employer takes care of his house rent bill at FRW 2 million per month.

Foreign exchange rate to be used: **ZAR 1 = FRW 68**

Required:

Assuming Rwanda has double taxation agreement with South Africa, **Compute the tax liability of Francis Ngabo for the year 2021.** (10 Marks)

(Total: 20 Marks)

QUESTION THREE

(a) GenMotors is a famous manufacturer of various models of Vehicles, ranging from small salon cars, SUVs, buses and trucks. Recently the Group CEO visited Rwanda and identified various opportunities in transportation sector in Rwanda, both transportation of people and goods. With brand new Vehicles we can take this market by storm, the CEO noted.

As a CPA graduate, **write a brief memo to GenMotors CEO highlighting the available fiscal incentives, particularly VAT related, your advice should help GenMotors decide which vehicle models to start with, from a tax perspective.** (5 Marks)

(b) You have been appointed as a senior tax consultant in one of the big four audit firms based in Kigali, Rwanda. One of the clients H Manufacturers Ltd (HM) approaches you for your advice on a number of issues they have with regards to VAT and withholding tax;

i. EUR 40,000 was paid to a Germany company specialized in maintenance of the plant, the CFO is certain that there is no single company in Rwanda that can provide such service, he therefore believes no tax should be applicable.

ii. The company outsources plant operators from a resident HR company, on a monthly basis the HR company invoices HM the net salaries plus all relevant statutory taxes, which the company refunds the HR company plus a 10% of gross pay management fees for the HR company services. The HR Company then pays staff, accounts for all relevant PAYE and pension thereof and recognizes the 10% as their income. Your client is contemplating on the VAT treatment in such a circumstance.

iii. HM won a tender to supply goods to Government, the company made two (2) sales of taxable goods to Rwanda Infrastructure Board, Government Institution. One sale was made in April for FRW 5 million (VAT exclusive) before renewing their tax clearance certificate (Quits fiscal), the second sale happened in May after the company successfully renewed their Quitus fiscal, this time for FRW 3 million (VAT exclusive). The company is not sure how these two sales are different in terms of applicable VAT and withholding taxes (if any at all).

iv. HM sources locally most of raw materials usually. In a particular period, they purchased variable raw materials worth FRW 345 million, the company then processed these raw materials into finished goods as it is their usual business. However, the company made a mix of sales, including; FRW 305 million variable sales, FRW 100 million exempted and FRW 55 million zero rated sales, all amounts are VAT exclusive where applicable. The company is not sure if there is anything to be worried about.

v. The company recently imported three (3) SUVs for their senior management team. This is in line with their contractual benefits, for which they pay benefit in kind in their payroll every month. The company paid import VAT and withholding tax on these vehicles and now one of the accountants is seeing a risk of RRA blocking refund of such VAT. These Vehicles shall be in names of the business of HM but won't be used for HM business primarily.

Required:

Advise your client HN on the above VAT and withholding tax issues. (15 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) Taxation is widely understood as one of the tools of fiscal policy in Rwanda and across the globe, explain how this is possible in relation to the following;

- Unemployment (2 Marks)
- Inflation (2 Marks)
- Income Gap (2 Marks)
- Consumption behaviour (2 Marks)

(b) You are a tax consultant and your client has approached you with a situation they are in which is bad but you need to help them prevent it from becoming worse. The client has cash flow issues and no money available to pay VAT for December 2022, The CFO is of the view that *“why would we even declare VAT if we won't pay, it's just inviting RRA to our door steps next day, after all we shall pay fines anyway”*. Assess the CFO's statement and give your recommendation. (4 Marks)

(c) SoyCo is a local medium sized company that manufactures soy oil from soya beans, due to climate changes the business has taken a big hit, they buy scares raw materials at a high price and struggle to increase prices for their sales, yet fixed costs still remain fixed. As a result, the company defaulted in their last three (3) months regarding PAYE, PAYE is due every 15th of the subsequent month, you are provided with the following information below.

Description	Oct 22	Nov 22	Dec 22
Total Basic Salaries for all staff	120,000,000	135,000,000	142,000,000
Total Vehicle benefit in kind applicable, per new retention policy	-	4,000,000	4,200,000
13th check once of payment	-	-	142,000,000

- October:** The company declared paid corresponding PAYE on time
- November:** The Company declared on time the corresponding PAYE but up until now no sufficient cash available to pay it.
- December:** The Company is yet to declare the corresponding PAYE.

Required:

- Compute the applicable interest, fines and penalties on November 2022 PAYE. (3 Marks)
- Advice and make relevant calculation per your recommendation on the 'less painful' approach SoyCo should use with regard to December 2022 PAYE. (5 Marks)

Note: For the purposes of this question, assume the effective date to be 19th January 2023.

(Total: 20 Marks)

QUESTION FIVE

(a) The Government of Rwanda recently signed a double taxation agreement with the Government of Angola, this comes in addition to others with other countries already in place.

Discuss five benefits that result from such double taxation agreements. (5 Marks)

(b) In December 2020, The Minister of Finance and Economic Planning of Rwanda gazetted a Ministerial order No. 003/20/10TC which establishes general rules on transfer pricing between related persons involved in controlled transactions;

Write brief notes on the following;

i. **Doing business in Rwanda and doing business with Rwanda** (3 Marks)

ii. **Controlled transactions** (4 Marks)

(c) **Discuss the following scenarios in relation to article No. 6 (Permanent establishment) of law No. 16/2018.**

i. Metis LLC is a Greek plumbing and construction, the company secured a contract to install underground water plastic pipes covering 300 km from Kigali to Nyagatare with the Rwandan Ministry of Infrastructure. The contract value is USD 250 Million. Of this amount, USD 100 Million relates to manufacture of the plastic pipes, which is done in Greece and payment goes to Greece for that matter.

The land preparation, putting of pipes in the ground and all related works are definitely done in Rwanda. The company opened an office in Rwanda to handle the Rwanda works. (5 Marks)

ii. Charles Obi is Nigerian IT freelancer who has clients across Africa, he enjoys the safe and clean city of Kigali, and the ease of accessing free internet in the car free zone in central business district. In the past month, he spent most of his time working from Rwanda. He does not rent a specific place of work, instead works from his hotel room, restaurants, and the like. He was working on IT projects of his Ugandan clients but he was based here in Kigali. (3 Marks)

(Total: 20 Marks)

End of Question Paper

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