



**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

DATE: MONDAY 26, AUGUST 2024

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven** questions and **only five** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings and assumptions if any.
5. The question paper should not be taken out of the examination room.

QUESTION ONE

a) Mukamana is employed by Ingabire Ltd since 2021. During the month of April 2024, she received the following income relating to her employment;

1. Monthly basic salary of FRW 1,500,000.
2. Sick leave allowance of FRW 200,000.
3. Overtime allowance of FRW 100,000.
4. Salary advances of FRW 2,000,000 interest free to be repaid back within 1 year.
5. Loan of FRW 3,000,000 from her employer at the interest rate of 12%. The company has a Memorandum of Understanding (MoU) with one of the commercial banks to grant the personal loan to their employees at the rate of 11.5% and this is the same rate published as central bank rate (CBR).
6. Ingabire Ltd paid an additional cash of FRW 100,000 to Mukamana's account on monthly basis as facilitation to pay the security guard who assume the security of Mukamana's house, as per security companies' union in the country, the minimum payment per security guard is set at the rate of FRW 150,000 per month.
7. Mukamana attended the business meeting in Kenya for 5 days, and the company paid her the mission allowance of FRW 500,000 for business purpose and the rate applied is the same with rates approved by board.

Required:

Compute the total employment income for April 2024 of Mukamana and her Pay As You Earn (PAYE) to be submitted to tax authority.

Note: Where the allowance received is not to be included in the employment income, explain the reasons behind. (10 Marks)

b) Government initiated different initiative aimed to improve on tax collection system. The initiatives will help to implement and sustain effective and efficient tax system. During the regional tax forum, the expert recommends the government should not focus only on tax laws but also prioritize principles of taxation underpinning the tax law.

Required:

With reference to the above statement, **discuss 5 principles of taxation applicable in the jurisdiction of Rwanda** (5 Marks)

c) The taxable income can be generated from difference source; including the employment, business, investment and so many others. Mageza is a Rwanda citizen, an investor who has been operating different business through his registered company called MZA Ltd since 1990. During the year ended 31st December 2023, The company made the following investment:

1. They deposited FRW 20,000,000 in Rubona Bank Rwanda Plc from 01st February 2020 for maturity period of 5 years at the annual interest rate of 12%, the interest from this investment was credited on his account on 31st December 2023.

2. They established a film making studio where he requests copy right from Rwanda Development Board for each film produced. The person who want to disseminate or sell their film, is required to buy the right to do so. During the year, MZA Ltd received FRW 5,000,000 from selling copy right to different clients.
3. On 01st January 2023, MZA Ltd bought 20,000 shares at FRW 1,000 each from Rutaro mining company based in Burundi. As at the year end, they received FRW 2,000,000 as dividend from Rutaro Mining Company.

Additional information

- i) The incomes received were net of tax where applicable and Rutaro Mining Company withheld 20% of tax on the income paid to MZA Ltd, the proof and declarations are available.
- ii) Except the investment stated above, the company has not received any other income during the year.
- iii) The corporate tax rate is 30%

Required:

Compute the tax arising on the above investments for the year ended 31st December 2023

(5 Marks)

(Total: 20 Marks)

QUESTION TWO

a) Peter and John are brothers who have been selling the shoes in Nyarugenge city market since 2015. Their business is operated on the framework that allows each to receive the money based on quantity he sold the client. In January 2023 they decided to register their business as partnership which will help them to share the income, instead of competing themselves for clients. The business was registered as P&J Partnership and each contributed FRW 5,000,000, each one is entitled to annual interest rate of 10% on capital contributed and agreed that the interest on capital will be paid at the end of each year. The agreement between them state that the profit must be shared equally. The tax rate is 30%

Stated below, are business incomes and expense for the year ended 31st December 2023

Description	Amount in FRW (000)
Revenue from sell of shoes	12,500
Purchase cost of the shoes sold	5,500
Rent expense	2,400
Computer acquired on 1 January 2023 with useful life of 4 years	600
Trading license	120
Cleaning fees	120
Transport cost	300
Security fees	60
Salary to Peter	1,200
Salary to John	1,200
Gift to Peter's girl friend	100

Description	Amount in FRW (000)
Valued Added Tax (VAT) paid	375
Penalty of late declaration of cleaning fees	100
Bank charges	30
John's gift from her sister who live in Canada	200

Required

- i) Compute the net profit of P&J Partnership for the year ended 31st December 2023. (6 Marks)
- ii) Calculate the total income to be shared by Peter and John (6 Marks)

b) Between 1995 and 2024, Rwanda registered many of businesses and these businesses are owned by both local and foreign investors. One of the strategies used by the government of Rwanda is to grant tax incentives to foreign investors which minimize their burden of tax.

Required:

Outline 4 special incentives for registered investors in Rwanda. (4 Marks)

c) In some cases, the government of Rwanda through the central bank issues the treasury bonds to the public for the purpose of collecting money. Whereas if commercial bank want to raise money from public, they pay high interest rate on deposit. The clients are attracted by high interest and make more deposit to bank.

Required:

As far as tax is concerned, **state 2 criteria a taxpayer can look at it before investing in the government treasury bond and commercial bank through deposit in order to minimize the tax liability.** (4 Marks)

(Total: 20 Marks)

QUESTION THREE

a) Bwiza Ltd Rwandan company that sells electronic devices since 2017. Bwiza Ltd received the investment certificate from competent authority after fulfilling all the requirements. Below is the profit or loss for the year ended 31st December 2023 prepared by company's accountant

Item description	FRW'000'	FRW'000'
Sales		800,000
Less cost of sales		
Opening stock	200,000	
Purchase	500,000	
Closing stock	(300,000)	(400,000)
Gross Profit		400,000
Less expenses		
Salaries and wages	50,000	
Rent	30,000	
Depreciation	19,500	
Electricity	5,000	

Item description	FRW'000'	FRW'000'
Marketing cost	3,000	
Mission allowance cost	12,000	
Total expenses		119,500
Profit before tax		280,500
Tax @ 30%		84,150
Net profit		196,350

Additional information:

- Salaries expense includes the provision for bonus accrued from the previous years of FRW 10,000,000 but paid in the year ended 31st December 2023.
- Bwiza Ltd has a contract with landlord of paying 2 years rent, and the rent paid related to the year of 2023 and succeeding year.
- At the beginning of the year, Bwiza Ltd acquired motor vehicle, furniture and fittings at cost of FRW 60,000,000 and FRW 15,000,000 respectively. The depreciation reported in profit or loss account relates to these assets. Prior to 2023, there were no non-current assets
- Marketing cost included the cost of billboard of FRW 2,000,000 located at the entrance of Remera main road which will be used for 3 years.
- Tax rate is 30%

Required:

As tax consultant, **confirm whether the reported profit before tax is correct, if not correct, prepare revised profit or loss and re-compute the adjusted tax for the year ended 31st December 2023.** (12 Marks)

Hint: Start from the sales

b) Tunga betting company submitted the following revenue and expenditure details from two clients relating to the 2nd week of June 2024 as follows:

Client Name	Amount betted (FRW)	Amount won and received (FRW)
Client 1	2,000,000	2,500,000
Client 2	5,000,000	0
Total	7,000,000	2,500,000

Required:

- Calculated the tax expense to be paid and deducted from the taxable income in determining corporate income tax due of Tunga betting company (2 Marks)
- Compute withholding tax to be paid by Tunga betting company. (2 Marks)

c) Taxes can be classified according to their nature, or based on someone bears the burden to pay taxes, or method of determination of amount of tax, or purpose, or scope or authority imposing the tax and graduated scale of rates.

Required:

Differentiate direct taxes from Indirect taxes and states one (1) disadvantage on each.

(4 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) Gasana imported the following consignments during the month of April 2023 and these shipments are to be based on while computing the Value Added Tax (VAT) for the period of 30 April 2023.

Consignment type	Country of origin	Net weight of consignment (kg)	Cost Incurred	Amount in FRW
Sport Shoes	Turkey	1,500	Cost of sport shoes	12,000,000
			Insurance	1,000,000
			Freight	1,500,000
			Transport cost from Dar-es-salaam to Kigali	1,000,000
			Off-loading cost	800,000
			Parking cost	200,000
			Total	
Tusker beer	Kenya	1,400	Cost of Tusker beer	6,000,000
			Insurance	1,200,000
			Freight	700,000
			Other costs from Rwandan border to Kigali	900,000
			Total	

Note: Handling fees applicable to imported goods is FRW 10/kg and excise duty is taxed at 60% where applicable

Required:

Assume the import duty of 25% on both consignments, **calculate the total VAT due by Gasana from his imported consignments** (12 Marks)

b) VAT law in Rwanda requires taxpayers to register for VAT if their turnover is above FRW 20,000,000 for any twelve-month period, or above FRW 5,000,000 for three consecutive quarters. This includes all taxable, exempt and zero-rated sales. In addition, any taxpayer may choose to register for VAT. Once the taxpayer ceased to have the taxable supplies, he/she may apply for VAT deregistration.

Required:

Discuss the process of VAT deregistration in Rwanda.

(3 Marks)

c) Investment income includes any payments in cash or in kind to an individual in the form of financial interest, dividends, proceeds from sale or transfer of shares, royalty, or rent which has not been taxed as business income.

Required:

Outline the examples or situations where the capital gain and interest income will be exempted from withholding tax. (5 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) Ngenzi Company Ltd (NCL) owns a machine held for renting to collecting income from different farmers in Kayonza District. The machine was acquired at the cost of FRW 20,000,000, whereby 80% of the cost was financed by the Bank at the annual interest rate of 10%. During the year ended 31st December 2023, NCL received the gross rental income of FRW 8,000,000 and as per the records from the previous year ended on 31 December 2022, NCL paid a tax of FRW 1,200,000. During the year, the company declared and paid taxes on quarterly instalment as per the provision of income tax law.

Required:

Prepare the taxable rental income and tax payable or refundable by NCL for the year ended 31st December 2023. (5 Marks)

b) Muhire owns a farm in Gakenke District where he practices agriculture and livestock farming. During the year ended 31st December 2023 he received the following incomes.

Item description	Amount in FRW
Sales from pineapple	4,500,000
Sales from sugarcane	7,000,000
Sales from milk	3,000,000
Total	14,500,000

Additional information:

1. His farm is situated in small business category.

Required:

Compute the tax payable by Muhire and advise him on the deadline to pay that tax.

(5 Marks)

c) Yuhi own a small supermarket located at Kabuga center. During the year ended 31st December 2023, he prepared the statement of profit or loss for his business but because he was planning to file the annual return to RRA, his colleague James advised him to find a tax consultant to review his financial statements to make sure that there is no under/over claimed expenses or income.

Yuhi statement of profit or loss for the year ended 31st December 2023

Item description	FRW'000'	FRW'000'
Sales		60,000
Cost of sales		(25,000)
Operating profit		35,000
Other income		5,000
Total Income		40,000
Other expenses		
Rent	(3,600)	
Business Transport	(1,000)	
Electricity	(800)	
Water	(500)	
School fees for his children	(2,400)	
Wage to Housemaid	(360)	
Pocket money for his wife	(1,000)	
Gifts to friends	(600)	
Motorcycle	(2,500)	
Shopping	(3,000)	
Total Expenses		(15,760)
Taxable profit		24,240
Tax @30%		(7,272)
Profit after tax		16,968

Additional information:

1. Other income related to the consultancy work, Yuhi incurred FRW 2,500,000 to pay the commission fees, transport and other expenses attached to that work. The recorded income was gross.
2. Motorcycle expense shown above is related to the brand-new motorcycle acquired from YUTONG
3. Yuhi dwelled in a big house, where the ground floor reserved for business while the remaining 2 floors reserved for his family. The rent paid is for the whole house and he estimated that the business part is almost 1/3 of the house.
4. Yuhi has one Cash power and meter for electricity and water respectively. It was not possible to separate water and electricity costs of the business from home usage.

Required:

- i) Yuhi approached you as tax advisor, **prepare the adjusted taxable profit for the year ended 31st December 2023.** (8 Marks)
- ii) **Advise him on the rate of tax he used in his statement of profit or loss.** (2 Marks)

(Total: 20 Marks)

QUESTION SIX

a) In Rwanda, a taxpayer who is dissatisfied with the contents of the tax assessment notice or notification of administrative fine appeals to the Commissioner General against the disputed amount within a period not exceeding thirty (30) days from the day of receipt of the notice or notification

Required:

States 6 conditions that appeal to the commissioner general should fulfil. (6 Marks)

b) Article 46 of the law No 016/2018 of 13/04/2018 establishing taxes on income, indicates the entities that are exempted from corporate income tax (CIT)

Required:

i) **List at least 2 non-government owned entities that are exempted from (CIT)** (2 Marks)

ii) **What is the requirement regarding annual income tax declarations for these entities as per the provision of the law?** (2 Marks)

c) Musanze company Ltd is a private company established by 4 brothers in 2012. After financial crisis caused by conflict in foreign county which supply 80% of the materials, the company started experiencing low production and some shareholders were accusing the management of not putting the strong strategy to address the effects of the crisis. In 2023, the shareholders decided to liquidate the company and the proceeds was FRW 80,000,000. The company had the following obligations not yet cleared on date of liquidation:

1. Musanze Company Ltd had unrepaid credit facility of FRW 20,000,000 at the annual interest rate of 10% granted from Musanze Cooperative Bank in 2018. Up to the date of liquidation that took place after 5 years since receiving loan, there were no single payment made in regard to the loan. The interests due were not capitalized to the outstanding principal and both parties agreed to use simple method of computing interest based on principal amount only. The parties agreed to consider interest for two years under maturity period. In addition, the penalty rate was 5% annually to be computed based on delayed years after end of maturity period which was 2 years per loan contract.
2. Tax payable from the previous years were FRW 8,000,000.
3. Unpaid salaries were FRW 10,000,000.
4. Capital of shareholders were FRW 15,000,000.

Required:

Calculate the tax as result of Musanze company Ltd liquidation. (10 Marks)

(Total: 20 Marks)

QUESTION SEVEN

a) To determine the fairness of a tax regime, it is necessary to consider the economic incidence of taxation. The process of determining tax incidence depends on a good understanding of how various markets operate in a given economy, particularly the ability of different kinds of taxpayers to shift the cost of the tax to other economic actors.

Required:

i) **Define tax incidence.** (2 Marks)

ii) **Describe how the price elasticity of supply and demand affect the tax incidence and provide an example of tax where the incidence of tax can be shifted to other.** (3 Marks)

b) The Tax administration sends a notice of assessment or a written notification of an administrative fine to the taxpayer. The taxpayer pays the tax due or an administrative fine within seven (7) days from the receipt of the notice and written notification. Both notice of tax assessment and written notification of administrative fine constitute enforcement orders to recover tax, fees, interests, administrative fines and enforcement costs.

Required:

List 5 contents of notice of assessment (5 Marks)

c) A tax administration may conduct a desk audit if the grounds that trigger such audit are available. In case of the desk audit, it is not necessary to inform in writing the taxpayer that he or she is audited. However, the taxpayer is invited for explanations before the tax notice is issued to him or her. Where there are serious indications of tax evasion, the Tax Administration may conduct an audit without also a notice.

Required:

States 5 grounds that may trigger the desk audit and how those grounds can be mitigated by the taxpayer. (10 Marks)

(Total: 20 Marks)

End of question paper

BLANK PAGE

BLANK PAGE