
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.4: TAXATION

WEDNESDAY: 12 JUNE 2013

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. Calculations and workings need only be made to the nearest Rwf'000, unless directed otherwise.
5. All apportionments should be made to the nearest month.
6. Show all your workings

SUPPLEMENTARY INFORMATION:

L2.4

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TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

Personal Income Tax Rates

Monthly Taxable Income		Tax Rate
From	To	
0	Rwf30,000	0%
30,001	Rwf100,000	20%
100,001	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

National Social Security Contribution

Employer's contribution	3%
Employee's contribution	5%

Corporate Income Tax Rate 30%

Capital gains tax

Net aggregate gains are taxable at the company rate of tax

Value Added Tax Rate 18%

Annual tax depreciation allowances

Depreciable assets	Rate
Land, fine arts, antiquities, jewellery and any other assets that are not subject to wear and tear or obsolescence.	0%
The cost of acquisition or construction and the cost of refining, rehabilitation, reconstruction of buildings, equipment and heavy machinery fixed in walls	5%
The cost of acquisition or development and the cost of improvement, rehabilitation, and reconstruction of intangible assets including goodwill that is purchased from a third party	10%
Computers and accessories, information and communication systems, software products and data equipment	50%
All other assets (the tax depreciation is granted on reducing balance basis).	25%
Investment Allowance	Rate
Investment within Kigali	40%
Investment within priority sectors, or registered business located outside Kigali.	50%

QUESTION ONE

- a) Discuss reasons why government of Rwanda collects taxes (4 marks)
- b) Distinguish between tax avoidance and tax evasion (4 marks)
- c) Briefly describe four domestic taxes collected by Rwanda Revenue Authority. (12 Marks)
(Total 20marks)

QUESTION TWO

Damaris is a Value Added Tax (VAT) registered taxpayer in Rwanda. He sells taxable goods and services in Rwanda only.

- a) Using examples, distinguish between taxable sales and exempted sales under VAT (2 Marks)
- b) With examples, distinguish between zero rated supplies and standard rated VAT supplies. (4 Marks)
- c) Damaris imported goods in 2011 worth Rwf 2,000,000 and paid VAT and customs duties at MAGERWA. He sold these goods in Rwanda at Rwf 3,000,000. During the process of selling the goods, Damaris paid office accommodation and electricity for Rwf100, 000 and Rwf120, 000 respectively to registered VAT suppliers and was issued with a VAT invoice.

Required

Compute VAT paid by Damaris to the Rwanda Revenue Authority. (8 Marks)

- d) Assuming that the transactions took place in the month of April 2011 and Damaris files VAT on a monthly basis, indicate the dates that Damaris was required to file and pay VAT to the tax administration. State the punishments applicable to Damaris assuming that he delayed to file the VAT return (6 marks)

(Total 20marks)

QUESTION THREE

- a) With examples, distinguish between Fiscal Revenue and Non-fiscal revenue (2 marks)
- b) Magazin Ubumwe is a private company dealing in warehousing of goods. In the year 2010, the company registered total sales of Rwf100M. The following were expenses incurred by the company during the year.
 - 1) Estimated bad debts totaled to Rwf 470, 000.
 - 2) Marketing expenses were Rwf 170,000. In addition, Magazine Ubumwe's staff was given water and tea in the office totaling to Rwf 160,000.
 - 3) Communication expenses were Rwf 240,000. In addition, the company gave Rwf 200,000 to its Chief Operating Officer to facilitate him when working at home and over the weekend. He has a cell phone which he uses both for private and business work.
 - 4) In order to minimize costs, expatriate staff use the upper part of the warehouse building as accommodation. The total cost of renting the warehouse is Rwf 400,000 per month. Magazine Ubumwe pays Rwf 80,000 as water and electricity per month to EWSA because the owner of the warehouse is not required to pay this expense according to the rent agreement.
 - 5) The staff of Magazine Ubumwe contributed to Agakiro Development Fund (ADF) Rwf300,000 and this was posted to staff cost. ADF is a fund where people voluntarily contribute funds for the development of the nation.
 - 6) All traders who deal in warehousing are required to contribute Rwf 60,000 annually to their registered association. Magazine Ubumwe did not pay this money and was fined Rwf100,000 for the year 2010. Both fines and the principal were settled in full and posted to cost of sales.

Required

Compute corporate income tax payable by Magazin Ubumwe for the year of income 2010. **(16 Marks)**

- c) What are the major taxes paid by a company manufacturing beer in Rwanda and obtains beer ingredients in Rwanda? **(2 marks)**
(Total 20marks)

QUESTION FOUR

- a) State the category of people and conditions required in order for them to be exempted from Pay As You Earn (PAYE) **(3 marks)**
- b) Benjamin Mugesera earns an annual basic pay of Rwf 4.8M. In addition, he is entitled to monthly allowances as follows;

Transport allowance Rwf 600,000

Entertainment allowance Rwf 400,000

Communication allowance Rwf 200,000

His employer contributes Rwf 240,000 to a registered insurance scheme in Rwanda to cater for him and his immediate family's medical insurance.

Required:

Compute Pay as You Earn tax and National Social Security Fund contributions for Benjamin Mugesera for the month of June 2012 **(13 marks)**

- c) Using examples, explain the term 'benefits in kind'? **(4 marks)**
(Total 20marks)

QUESTION FIVE

- a) What do you understand by the term undervaluation of imported goods? **(2 marks)**
- b) State 4 offences commonly committed by importers at customs **(4 Marks)**
- c) State the major four functions of the customs department in Rwanda **(4 marks)**
- d) i) Write in full the following terms used in customs **(4 marks)**
- (i) GATT
 - (ii) F.O.B
 - (iii) C.I.F
 - (v) D.D.P
- e) Rwanda implemented GATT in 2004. State the methods used to value imported goods in accordance with the GATT Valuation System **(6 marks)**

(Total 20marks)

Question 6

- a) What is withholding tax? **(3 marks)**
- b) i) Explain the major forms of withholding taxes in Rwanda? **(9 marks)**

Mudslide Ltd is a company incorporated in Rwanda. It hired a Financial Statement auditor from Belgium in December 2012 because the company wanted to deal with experienced auditors who were cheap because audit services in Rwanda are very expensive. The engagement was concluded but no payment was immediately made to the auditor. In fact, the auditors are not yet paid and they are exploring ways of suing Mudslide Ltd in the commercial courts.

Required

- ii) Explain the types of taxes Mudslide Ltd is required to pay in Rwanda due to hiring the auditor and the dates these taxes should be paid to the tax administration. **(4 marks)**
- c) Explain the penalties and fines available to a company that fails to withhold taxes in accordance with the Rwanda tax legislation **(4 marks)**
- (Total 20marks)**

Question 7

- a) Distinguish between tax depreciation and accounting depreciation **(4 marks)**
- b) What are the tax depreciation rates applicable to the following items
- i) Land **(1mark)**
 - ii) Vans carrying less than 8 people **(1mark)**
 - iii) Fittings **(1mark)**
 - iv) Industrial buildings **(1mark)**
 - v) Goodwill **(1mark)**
- c) Identify reasons why a taxpayer may be audited by RRA **(5 marks)**
- d) Define the following terms as used in tax procedure law
- i) Objection **(2marks)**
 - ii) Appeal **(2marks)**
 - iii) Amicable settlement **(2marks)**

(Total 20marks)

End of question paper

