



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance



CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.4: TAXATION

THURSDAY: 3 DECEMBER 2015

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**

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		
From	To	Tax Rate
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

Employees contribution	3%
Employer'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, antiques, 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) Explain the PAYE system in Rwanda (4 Marks)
- b) Mutesi is employed by KBC limited on the following contractual terms
1. Monthly salary Frw 800,000
 2. Transport allowances Frw 80,000 per month
 3. A house which is rented by the company. The company pays Frw 250,000 per month to the Landlord.
 4. Two house girls paid by the company at Frw 50,000 per month each.
 5. During the year she was sent on an official mission in Nairobi. The company reimbursed her Frw 850,000 she spent on the mission.
 6. Over time allowance of Frw 100,000 per month
 7. She owns one property in Gikondo which she rents at Frw 500,000 per month
 8. The company contributes Frw 80,000 for Mutesi in the statutory pension fund and Mutesi contributes Frw 100,000 in the private recognised pension fund.
 9. The company withhold Frw 80,000 per month from Mutesi's salaries as PAYE

REQUIRED:

1. Compute her annual taxable income, tax liability and the tax payable for the year ended 31/12/2014 (14 Marks)
 2. Compute Mutesi's annual pension contribution (2 Marks)
- (Total 20 Marks)

QUESTION TWO

- a) When are goods and services taxables for VAT in Rwanda? (4 Marks)
- b) Give three objectives of introducing the EBM by RRA (3 Marks)
- c) Uwamahoro deals in general merchandise business. All purchases and sales are made from VAT registered tax payers. The following transactions took place during the month of January 2015.
- (i) Purchased goods for Frw 18,780,000 from Moses inclusive of VAT. Upon receipt of the goods, he realised that goods worth Frw 1,060,500 were defective and were returned to the supplier. The supplier issued a credit note.
 - (ii) Sold goods worth Frw 22,850,600 inclusive of VAT on credit. The customer returned goods worth Frw 2,025,200 exclusive of VAT because they were defective and a debit note was issued to the customer.
 - (iii) During the month, a customer owing Frw 1,150,600 inclusive of VAT was declared bankrupt
 - (iv) The company paid Frw 750,158 exclusive of VAT for electricity.
 - (v) An input VAT of Frw 1,500,050 for the last one year for which Uwamahoro had not got supporting documents

REQUIRED:

Input VAT, Output VAT and the VAT payable or claimable to/from RRA. (10 Marks)

d) List three conditions that Uwamahoro must satisfy in order to claim for VAT refund

(3 Marks)

(Total 20 Marks)

QUESTION THREE

a) What is a tax resident? (2 Marks)

b) Discuss how expatriates working for the Government of Rwanda accounts for their tax liabilities in Rwanda (6 Marks)

c) Identify taxes applicable to international non-governmental organisations working in Rwanda. (6 Marks)

d) Distinguish between a tax burden and a tax base. (6 Marks)

(Total 20 Marks)

QUESTION FOUR

a) Discuss tax registration requirements for new investors coming to Rwanda (5 Marks)

b) What are taxes applicable to a taxpayer who manufactures beers and lemonades in Rwanda (4 Marks)

c) Give four reasons why the Government of Rwanda should fight tax fraud and charge taxes on imports and yet Rwandans want foreign goods for its citizens to consume. (4 Marks)

d) Apart from taxes, where do you think Government gets funding for its activities? (4 Marks)

e) Give three major reasons why Rwanda Revenue Authority was established by the Government. (3 Marks)

(Total 20 Marks)

QUESTION FIVE

ABC Ltd is a sole shareholder of M Media Limited. M Media Limited deals in general merchandise. M Media Limited had a turnover of Frw 230,000,000 for the year 2014. The accounting profit before tax as at 31 December 2014 was only Frw 7,000,000. The payroll expense for the company was Frw 67,000,000. This payroll expense includes 5% contribution to the Rwanda Social Security Board (RSSB). Payroll taxes were properly accounted for and remitted to the Rwanda Revenue Authority (RRA). Other expenses were related to the payment of the board members of Frw 10,000,000. This was paid to the board members of ABC Ltd because they sit on the board of M Media Limited. 20% of the board expense is their air tickets.

During the year, three employees were sacked on the account of gross misconduct. The employees sued M Media Limited and won the case as they were dismissed contrary to the labour laws. The court ordered the company to pay them fines of Frw 10,000,000 although a provision of Frw 13,000,000 had been made awaiting the court order.

Other expenses included customs dues of Frw 40,000,000, unrecovered Value Added Tax on motor vehicle amounting to Frw 3,000,000 and payment of Frw 3,000,000 to casual labour that was not part of the payroll scheme. In addition, M Media Limited incurred bad debts of Frw 11,000,000. The debtor has been sued and there are chances of winning the case by M Media Limited. There were unallocated expenses of Frw 6,000,000 because the accountant and the Chief Finance Officer have failed to obtain the supporting documents for the

expenses.

Other information:

M Media Limited participated in the public tender and Frw 700,000 was retained by the Government as withholding tax and Frw 900,000 as Value Added Tax. This was in addition to Frw 400,000 paid at customs as withholding tax and has not been claimed by the company. The motor vehicle that was purchased in the same year cost M Media Limited Frw 30,000,000.

M Media Limited is registered with RRA as a large taxpayer. Assume M Media had paid Corporate Income Tax amounting to Frw 13,000,000 in 2013.

REQUIRED:

- Compute the Corporate Income Tax payable by M Media Limited for the year ended 2014 in accordance with the income tax law of Rwanda. (12 Marks)
- Discuss whether there should be quarterly prepayments in 2014 and 2015 and quantify the amount if any and show the dates of payment. (4 Marks)
- Discuss what happens if M Media Limited pays dividends to its sole shareholder who is not a tax resident of Rwanda. (4 Marks)

(Total 20 Marks)

QUESTION SIX

- The argument of taxation rotates around utility and equitable distribution of resource. Explain the two main theories of taxation. (4 Marks)
- With examples, explain the arithmetic and economic relationship between tax and tax revenue. (4 Marks)
- The taxable capacity of a country is determined by number of factors. Explain five factors that determine the taxable capacity of the country. (5 Marks)
- Give five fixed assets that are exempted from the fixed asset tax. (5 Marks)
- A tax can be classified in accordance with the determination of the amount. Explain the ways under which tax can be classified in accordance with the determination of the amount. (2 Marks)

(Total 20 Marks)

QUESTION SEVEN

FN consultants is a non-tax resident of Rwanda. The company is registered in Singapore. They have supplied services to FT Limited, a tax resident of Rwanda. FN consultants were paid Frw 40,000,000 in relation to their services. The services rendered were in relation to the construction of a one business stop centre in Kigali where investors will be accessing free business guide.

In addition, FN Limited made sales amounting to Frw 150,000,000 out of which 30% were exports.

REQUIRED:

- a) Compute the taxes that FN Limited should pay to the tax administration. (5 Marks)
- Discuss the requirements that a company must fulfill in order to de-register from paying taxes in Rwanda. (3 Marks)
- b) Using examples, discuss the meaning of Accounting depreciation and tax depreciation. (4 Marks)
- c) Explain the components of the taxable base for imports at customs in Rwanda. (4 Marks)
- d) Give four common taxes collected by all the five East African States (4 Marks)

(Total 20 Marks)

End of question paper

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