



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA  
Driving Sustainable Performance



## **CERTIFIED PUBLIC ACCOUNTANT LEVEL 2 EXAMINATIONS**

### **F2.4: TAXATION**

**TUESDAY: 1 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		Tax Rate
From	To	
0	Frw30,000	0%
30,001	Frw100,000	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, 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

Mellinda Ltd is registered in Rwanda, and deals with trade of goods and services. The company's 2014 annual turnover was Frw 1 billion inclusive of VAT and the company incurred the following expenses. Rent of expatriate staff Frw 30 Million, mobile telephone expense for expatriate staff Frw 16 Million, withholding tax on foreign payments Frw 30 Million, Reverse Charge VAT not claimable Frw 14 Million.

In addition, the company bought a new building in the same year at a cost of 1 billion Francs which was commissioned in October 2014 and started being used in November 2014. In the same year, the company bought three five seater cars at a cost of Frw 8 Million each and two buses of 24 seater at a cost of Frw 40 Million each. In March 2014, Mellinda Ltd bought computers worth Frw 70 Million and software of Frw 32 Million was installed a month later.

### Additional information

- 1) Bellinda Ltd has a valid investment certificate of Frw 300 Million and has listed 35% of its shares in the Rwanda Stock exchange.
- 2) Bellinda Ltd paid Frw 40 Million as withholding tax of 5% at customs in the same year and had no tax clearance certificate (quitus fiscal). A software can be down-loaded on website without being cleared through customs since it is an intangible asset. Customs penalised Bellinda Ltd Frw 5 Million for not declaring the software in the customs system.
- 3) The company had 200 employees, out of which 20 were declared on payroll for six month.
- 4) The company had trade payables totaling to Frw 150 Million as at 31 December 2014, just waiting for invoices to pay. No VAT was claimed because although the service had been rendered, the requirement of the supplier is that you cannot pay without an invoice.
- 5) Bellinda's turnover for VAT from January to December 2014 and that of Profit and Loss do not agree as the turnover for VAT is higher than that recorded in the Profit and Loss account by Frw 150 Million. The accountant could not explain the difference to the RRA as he had failed to make reconciliation.

### REQUIRED:

Compute the Corporate Income Tax to be paid by Bellinda Ltd for the year ended 31 December 2014 and subsequent quarterly prepayments and show the dates the tax and prepayments are due and payable.

(Total 20 Marks)

## QUESTION TWO

- a) Explain the taxable value of goods and services under the VAT law. (2 Marks)
- b) John is a business man in Kigali city and has been trading for the last one year. During the quarter ended 30/9/2015, his quarterly turnover reached Frw 5,000,000. His store cards as on 30/9/2015 show a value of closing stock of Frw 1,890,000. John has been buying all his stocks from registered VAT taxpayers and maintaining invoices.

## REQUIRED:

- (i) Explain the conditions that John must fulfill in order to register for VAT (2 Marks)
  - (ii) Supposing that John has to register after 30/9/2015, what is the tax treatment of the value of the goods that are still in store? And what documents must John present to RRA when he is claiming. (6 Marks)
  - (iii) Explain three benefits that John will enjoy after registering for VAT (3 Marks)
  - (iv) When should John deregister for VAT (2 Marks)
- c) The VAT law allows the taxpayers to adjust the value of their sales after the sales transaction. List four circumstances under which the taxpayers may be allowed to adjust their sales value after the sales, transaction. (3 Marks)
- d) Rukundo is a registered VAT taxpayer; he buys in the local market. His supplies include both standard rated (18%) and exempt supplies. Explain his VAT treatment for the input tax. (2 Marks)

(Total 20 Marks)

## QUESTION THREE

- a) Differentiate between employment and self-employment in the context of the Rwandan income tax system (2 Marks)
- b) Mugisha is employed by NTM Rwanda limited on the following contractual terms for the year ended 31/12/2015;
  - (i) Monthly salary Frw 1,800,000.
  - (ii) The company contributes Frw 400,000 per month in an international medical insurance because he is a senior staff. The general policy to all employees is Frw 150,000 paid to RAMA.
  - (iii) He stays in the company house in Nyarutarama
  - (iv) He is provided with a company car and a driver paid a salary of Frw 200,000 per month.
  - (v) The company contributes Frw 300,000 to a private pension fund on his behalf and he personally contributes Frw 150,000 to the same fund.
  - (vi) The company pays school fees for his Two children at Nyarutarama High school Frw 500,000 per term for each student
  - (vii) In the month of June, Mugisha sold a copy right of his new software to the company. They agreed that the company will be paying him a gross amount of Frw 800,000 per month for a period of Ten years
  - (viii) In March, the company gave Mugisha a loan of Frw 8,000,000 in the production of the software at an interest free rate in appreciation of his innovative idea that will benefit the

company. The intercompany interest rate is 12%.

- (ix) During the year, Mugisha made a contribution of Frw 3,000,000 to RRA as PAYE

**REQUIRED:**

- a) Compute his taxable income for the year ended 31/12/2015. (14 Marks)
- b) The tax liability and the tax payable (4 Marks)
- (Total 20 Marks)

**QUESTION FOUR**

- a) Discuss the accelerated depreciation given to the investors who invest in new assets and state the conditions that must be met as per law number 06/2015 relating to investment promotion and facilitation. (8 Marks)
- b) The law relating to investment promotion and facilitation provides corporate income tax holiday of seven years to certain investors. Discuss the conditions that this category of investors must meet in order to benefit from this incentive. (6 Marks)
- c) Explain how Microfinance institutions are taxed in Rwanda for Corporate Income Tax purposes. (2 Marks)
- d) Discuss the penalties applicable to the investors with investment certificates who do not comply with the conditions set in the investment code. (4 Marks)

(Total 20 Marks)

**QUESTION FIVE**

- a) Kayitesi has owned commercial property in Kacyiru which she purchased two years ago at Frw 150,000,000, to which she incurred additional cost of Frw 8,750,000. During the year ended 31/12/2014, she sold the property for Frw 168,000,000. The incidental cost of sale was Frw 5,000,000.
- i) Compute the taxable capital gains and the capital gains tax (4 Marks)
- ii) Suppose the property was an incorporated property, what would be her capital gains tax. (2 Marks)
- b) Bwirayezu wagered Frw 150,000 in the match of Arsenal Vs Manchester. After the match, he was awarded Frw 485,000 by the African betting limited. Compute his withholding tax (3 Marks)
- c) List five main items that must appear on EBM receipt (5 Marks)
- d) Give four reasons under which goods may be allowed a Pre-Clarence scheme under the customs law. (4 Marks)
- e) What is meant by inward processing and under what conditions may this facility be allowed to the tax payer. (3 Marks)

(Total 20 Marks)

## QUESTION SIX

- a) Law number 38/2012 on tax procedures states that in case the tax declaration form is rectified, the tax administration sends a rectification note to the taxpayer.
- i) Discuss the contents of a rectification note issued by the tax administration, the rights of the taxpayer on the rectification note and the circumstances under which it becomes definitive. **(4 Marks)**
- ii) Discuss the circumstances under which the directors of a private company may be jointly liable for the tax liabilities incurred by the company. **(4 Marks)**
- b) Discuss the reasons that may trigger assessment without procedure by RRA. **(2 Marks)**
- c) Discuss the penalties and administrative fines available for not filing Corporate Income tax on time. **(6 Marks)**
- d) Explain how listed companies on the Rwanda stock exchange pay their corporate income tax. **(4 Marks)**
- (Total 20 Marks)**

## QUESTION SEVEN

- a) With examples differentiate between deductible expenses and non-deductible expenses. **(4 Marks)**
- b) Uwimana is business lady in Kigali city. During the year ended 31/12/2014, her accountant submitted the following information for income tax purposes:

	Frw (000)	Frw (000)
Revenues		250,000
Less cost of sales		(120,000)
Gross profit		130,000
<b>Less expenses</b>		
Salaries	35,000	
Rent	10,000	
Bad debt	2,000	
Electricity	18,000	
Advertising	6,000	
Insurance	5,000	
VAT	20,000	
Telephone	6,000	(102,000)
Profit before Tax		28,000

### Additional Information:

- i) Rent was paid on 1/1/2015 covering a period up to 30/3/2015.
- ii) Of the bad debt expenses, Frw 1,000,000 relates to a debtor who was declared Bankrupt

- iii) Salaries of Frw 5,000,000 remained outstanding
- iv) A quarter of the insurance expenses has expired.
- v) The telephone expenses relates to the airtime loaded on the Uwimana's mobile phone which she uses for both private and business purposes.

**REQUIRED:**

Compute the taxable income and the tax liability of Uwimana (16 Marks)

(Total 20 Marks)

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**End of question paper**

