INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.4: TAXATION

THURSDAY: 01 DECEMBER 2016

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. Any assumptions made must be clearly and concisely stated.
5. Show all your workings
6. All iCPAR Examination rules and regulations apply.

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	Frw 30,000	0%
30,001	Frw 100,000	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	3.3%
Employer's contribution	5.3%

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, jewelry 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%

Attempt any five questions

QUESTION ONE

(a) List five organizations that are exempted from corporate tax. **(5 Marks)**

(b) Made in Rwanda Limited operates a general merchandise shop for products that are made in Rwanda. The accountant submitted the following information for the tax assessment purposes:

Particulars	**Frw (000)**	**Frw (000)**
Sales		450,000
Cost of sales		(310,000)
Gross profit		140,000
Dividend		10,500
Total in come		**150,500**
Less operating expenses		
Salaries	40,800	
Rent	25,500	
Electricity	8,000	
Insurance	1,500	
Repair and maintenance	12,800	
Bad debt	4,200	
Office furniture	10,000	
Communication	8,000	
Dividends	25,500	(136,300)
Operating profit		**14,200**

Additional information:

(a) The dividends were received from a local company net of 15% withholding tax.

(b) Salaries amounting to Frw 4,700,000 have not yet been paid.

(c) Repair and maintenance includes Frw 8,000,000 which relates to extension of the building.

(d) Bad debt includes Frw 2,500,000 which is specific provision.

(e) Communication expenses relates to money given to directors for communication purpose. It is difficult to separate the private and business related communication.

REQUIRED:

Compute the taxable income and the corporate tax liability. **(Total 20 Marks)**

QUESTION TWO

Umwari is employed by University of Rwanda as the director of finance under the following contractual terms:

i) Monthly salary Frw 1,800,000.

ii) Transport allowance Frw 200,000 per month

iii) Communication allowances Frw 150,000 per month

iv) University house

v) Overtime allowance Frw 300,000 per month

vi) During the month of July 2015, she received a salary advance of Frw 12,000,000 for six month. The university charged her an interest rate of 5% per year. The interbank interest rate is 15%.

vii) During the month of October, Umwari attended a university meeting in Kigali for a period of five days. She used Frw 500,000 for accommodations which the university reimbursed her.

viii) Before joining the University of Rwanda, Umwari was employed by INES Ruhengeri. She is receiving a pension of Frw 300,000 per month from her previous employment.

ix) During the month of April, her husband got an accident, the university contributed to Umwari Frw 2,500,000 for the cost of treating the husband in India.

x) The university contributes Frw 150,000 for Umwari to the state pension fund and Frw 100,000 to private pension fund.

xi) Umwari contributes Frw 50,000 per month in the private qualified pension fund.

xii) The employer withholds Frw 400,000 per month as PAYE.

REQUIRED:

(a) Compute the taxable employment income of Umwari for the year ended 31/12/2016. **(15 Marks)**

(b) Computer her tax liability and tax. **(5 Marks)**

(Total 20Marks)

QUESTION THREE

(a) List four characteristics of VAT. **(4 Marks)**

(b) Giving two examples on each differentiate between zero rated supply, exempt supply and standard rated supply. **(8 Marks)**

(c) Kapele is registered VAT trader. The following transactions took place in his business for the period ended 30/11/2016.

i) Purchases goods on credit worth Frw 20,000,000 inclusive of VAT.

ii) Returned goods worth Frw 5,000,000 to the supplier because they were defective and the supplier issued a debit note of the same amount.

iii) Sold goods worth Frw 28,000,000 on credit exclusive of VAT.

iv) After one week the customer realized that his invoice was over estimated by Frw 3,000,000. He complained to Kapele and he issued a credit note of the same amount.

v) Kapele wrote off a bad debt of Frw 2,500,000 which had stayed for one without any information from the customer.

REQUIRED:

Compute the VAT payable and state when Kapele is supposed to pay the VAT. **(7 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a) Differentiate between deductible e and non-deductible expenses for income tax purposes. **(4 Marks)**

(b) Ngabo owns a super market in Kigali City. He submitted the following information to RRA for the income tax assessment purpose for the year ended 31/12/2016.

Items	**Frw (000)**	**Frw (000)**
Sales		250,000
Cost of sales		(180,000)
Gross profit		70,000
Operating expenses		

Salaries	12,000	
Rent	10,000	
Electricity	4,000	
Bad debt	3,000	
Depreciation	15,000	
Income tax	7,000	
Transfers to reserves	2,500	
Audit fees	3,500	
Legal fees	8,000	
Advertising	4,000	
Repair and maintenance	10,000	
Donation	5,000	
Communication	2,500	(86,500)
Operating loss		**(16,500)**

Additional information:

i) Frw 4,000,000 related to salaries accrued and not considered in the income statement

ii) 40% of the rent will expire in 2017

iii) Bad debts of Frw 1,000,000 relates to a customer who was declared bankrupt at the end of the year.

iv) Capital allowances have been agreed by the tax administrators as Frw 4,500,000

v) Legal fees relates to settling the divorce case.

vi) Repair and maintenance, Frw 3,000,000 was used to partition an office of the internal auditor.

vii) The donation was made a Church.

viii) Communication is the money loaded on the mobile phone of Ngabo and it is used for both private and business purpose.

REQUIRED:

Compute the taxable income and tax liability of Ngabo. **(16 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a) Explain the term thin capitalization. **(2 Marks)**

(b) In order to improve on tax management, the government of Rwanda introduced the Electronic Billing Machines (EBM). Explain three objective of introducing an EBM. **(6 Marks)**

(c) List six content that must appear on a receipt generated by the EBM. **(6 Marks)**

(d) Explain four offences for violation the EBM regulations. **(6 Marks)**

(Total 20 Marks)

QUESTION SIX

(a) Differentiate between taxable capacity and the tax base **(2 Marks)**

(b) Explain five factors that affect the taxable capacity of Rwanda **(10 Marks)**

(c) List five sources of Taxable income in Rwanda. **(5 Marks)**

(d) Mention three types of taxes that levied under decentralization **(3 Marks)**

(Total 20 Marks)

QUESTION SEVEN

(a) Explain two theories of taxation. **(4 Marks)**

(b) Explain four objectives of taxation. **(8 Marks)**

(c) Differentiate between a direct tax and indirect tax. **(1 Mark)**

(d) Give two advantages and two disadvantages of direct tax and indirect tax. **(8 Marks)**

(Total 20 Marks)

End of question paper

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