

**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS
A2.3: ADVANCED TAXATION
MONDAY: 27 NOVEMBER 2017**

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has two sections; A & B.
3. Section (A) has one Compulsory Question while section (B) has four (4) questions to choose any three (3).
4. Marks allocated to each question are shown at the end of the question.
5. Show all your workings.
6. Any assumptions made must be clearly and concisely stated.
7. 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, 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%

SECTION (A)

This is a compulsory question

QUESTION ONE

Gasabo Commercial Bank Rwanda Limited (GCBRL) is a commercial bank licensed to operate by the National Bank of Rwanda. The bank's headquarters are in Kigali City with 20 branches that are spread across the various districts of the country. The bank commenced operations in 2010 and is supervised by the National Bank of Rwanda. All the shareholders of the bank are citizens of Rwanda and usually reside in Rwanda. The bank is not a registered investor nor is its shares listed on the Rwanda Securities Exchange. GCBRL's statement of profit or loss and other comprehensive income for the year ended 31 December, 2016 was as shown below:

	Note	Frw "000"
Interest income	1	29,984,000
Interest expense		(6,863,540)
Net interest income		23,120,460
Net fees and commission income		5,942,140
Foreign exchange related income		2,650,620
Other operating income	2	146,300
Operating income before impairment losses		31,859,520
Net impairment on loans and advances	3	(3,773,830)
Net operating income		28,085,690
Employment costs	4	(7,514,996)
Depreciation and amortisation		(1,903,560)
Administration and general expenses	5	(5,797,900)
Profit before tax		12,869,234

Notes

1. Interest income comprises:

	Frw "000"
Loans and advances	24,800,000
Government securities	2,570,000
Deposits with other banks	2,614,000
	29,984,000

National Bank of Rwanda deducts 15% withholding tax from any interest payments made. The interest earned is recorded gross of withholding tax where applicable.

2. Other operating income includes:

Particulars	Frw "000"
Rental income	68,990
Dividends from investments*	33,807

Gain on sale of fixed assets	37,890
Other income from banking activities	5,613
	146,300

*Dividend income was earned from shares held in Cyangungu Limited, a company whose shares have been listed on the Rwanda Securities Exchange since 2010.

3. **Net impairment on loans and advances is made up of:**

	Frw "000"
Additional specific provisions	4,393,670
Increase of collective (general) provisions	505,436
Recovery of previously written off loans	(1,125,276)
	3,773,830

4. **Employment costs include:**

	Frw "000"
Salaries and wages	6,812,800
Directors' sitting allowances	98,816
Medical expenses	229,820
Pension scheme contribution	373,560
	7,514,996

5. **Administration and general expenses include:**

	Note	Frw "000"
Directors remuneration	(a)	167,300
Audit fees		41,600
Travel and accommodation		228,900
Consultancy fees	(b)	217,000
Insurance		169,000
Security and cash in transit costs		669,000
Rent, repairs and maintenance		630,000
Marketing and publicity	(c)	715,000
Telephone and internet expenses	(d)	123,000
Electricity and Fuel expenses	(e)	302,000
Other general expenses	(f)	2,535,100
		5,797,900

(a) **Directors' remuneration:**

Included is Frw 50,000,000 that relates to the payment of cash bonuses for the year.

(b) **Consultancy fees:**

Included is Frw 120,000,000 that was paid to BRV Consultants, a company based in Belgium, for carrying out research on a new banking product that the bank intends to roll out in 2018.

(c) **Marketing and publicity:**

Included are the following amounts:

- Donation Frw 150,000,000 to Mubano Youth Development Association, a registered charitable organisation.
- Donation Frw 12,500,000 to Gasabo Trading Company, a customer of the bank who requested for some contribution to carry out community activities.
- Cost of a signpost and billboard for the branch of the bank in Gisenyi at Frw 5,000,000.

(d) **Telephone and internet expenses:**

An amount of Frw 38,000,000 relates to mobile telephone expenses by the staff. There is no system in place to determine the private and business portions of the expense.

(e) **Electricity and fuel expenses:**

Fuel of Frw 85,000,000 was provided to staff for use in company cars but which were also used for private purposes by the staff.

(f) **Other general expenses:**

Included are penalties and fines of Frw 10,000,000 for not adhering to the National Bank of Rwanda regulations.

6. Information relating to property, plant and machinery:

Additions during the year:

	Frw "000"
New building for the bank branch in Gisenyi (including the cost of land Frw 200,000,000)	2,500,000
Computers	80,000
Computer software	500,000
Motor vehicles (5 saloon cars of Frw 30 million each)	150,000
Furniture and fittings	90,000

Disposals during the year:

	Frw '000'
Computers	25,200
Furniture and fittings	12,600

The tax written down values as at 1 January, 2016:

	Frw "000"
Computers and accessories, information and communication systems, software products and data equipment	425,000
Other business assets	1,050,000

The bank owns the main branch building that cost Frw 6,000,000 to construct in 2009. It was first used on 1 January 2010. All the other branches are located in rented premises with the exception of the new branch in Gisenyi which was put to use on 1 January, 2016.

7. The bank paid the quarterly tax prepayment for 2016 of Frw 3,120,000,000. The balance of tax payable for 2015 and 2016 were all paid in time.

REQUIRED:

- (a) Advise GCBRL on the taxable income and the corporate tax payable for the year ended 31 December, 2016. **(20 Marks)**
- (b) (i) State who qualifies to be a foreign investor according to Rwandan Law on investment promotion and facilitation. **(3 Marks)**
- (ii) Explain the obligations that the Rwanda Law on Investment Promotion and Facilitation impose on a registered investor. **(6 Marks)**
- (c) GCBRL would like to expand their branch network in the country to forty in the next three years commencing in 2018. This will necessitate additional funding of Frw 3,500,000,000. The board of directors has made a decision to apply for an investment license from the Rwanda Development Board with effect from 1 January, 2018. The options that the board of directors is considering in order to raise the additional funding are as below:
- (i) Sell 350,000,000 shares at Frw 10 per share to Mr. Smith, a foreign investor, who is a resident of South Africa.
- (ii) Borrow USD 4,300,000 (Exchange rate 1 USD = Frw 830) from a venture capital company based in South Africa. The venture capital company has no relationship to the bank and avails loans on a non-discriminatory basis. The loan will carry an interest rate of 10% on reducing balance and will be repayable in equal annual installments in a period of 5 years, the first installment being due on 31 December, 2018.

The company's projection of the profits before interest and tax and the allowable depreciation allowances (wear and tear) are as below:

	2018	2019	2020
	Frw "million"	Frw "million"	Frw "million"
Profit before interest and tax	9,500	15,000	23,000
Wear and tear allowances	450	1,600	850
Investment allowance	2,300	1,200	

The company expects to make a dividend payment of Frw 2 per share during the period under consideration.

REQUIRED:

Advise GCBRL on the best available option of raising additional capital that will lead to a tax advantage on the basis of the information provided. **(11 Marks)**

(Total 40 Marks)

SECTION (B)

This section has four questions to attempt any three

QUESTION TWO

Virunga Limited has been trading in general merchandise since its inception on 1 January, 2016.

The company is not registered for VAT but it trades in both standard and exempt supplies.

(a) The following is a summary of the company's sales made during 2016:

	Standard rated	Exempt	Total
Month	Frw '000'	Frw '000'	Frw '000'
January	800	200	1,000
February	860	250	1,110
March	970	700	1,670
April	1,500	875	2,375
May	1,725	1,002	2,727
June	2,800	1,800	4,600
July	3,500	1,750	5,250
August	4,200	2,500	6,700
September	4,550	2,800	7,350
October	4,900	3,000	7,900
November	5,100	2,800	7,900
December	<u>5,600</u>	<u>3,200</u>	<u>8,800</u>
Total	<u>36,505</u>	<u>20,877</u>	<u>57,382</u>

The amounts were exclusive of VAT where applicable.

The Rwanda Revenue Authority (RRA) officers conducted an audit in January, 2017 and informed the company directors that they were supposed to have registered for VAT. They then compulsorily registered the company for VAT and computed the penalties due. The RRA officers also ordered the company to purchase and start using an electronic billing machine (EBM). The company would like to apply for an exemption to use the EBM, if possible.

REQUIRED:

- (i) Advise the company on when they were required to register for VAT and the penalties they were liable to pay. **(5 Marks)**
 - (ii) Explain to the company the process of obtaining an exemption from using an EBM and whether they qualify for exemption. **(5 Marks)**
- (b) The following purchases and payments were made during the quarter 1 October 31 December, 2016. All transactions were VAT exclusive.

Particulars	Frw '000'
Office furniture	2,000
Motor vehicle for office use	8,000
Fuel for the car	500
Telephone expenses	400
Rent for the shop	1,500
Rent for the Managing Director's residence	3,000
Entertainment goods for clients	450

REQUIRED:

- (i) Advise Virunga Limited on whether they have an obligation for any VAT during the quarter 1 October - 31 December, 2016. **(8 Marks)**
- (ii) You have been availed with information that the return for the quarter ended 31 December, 2016 was actually filed on 30 March, 2017.

REQUIRED:

Advise the company on the fines and penalties payable.

(2 Marks)
(Total 20 Marks)

QUESTION THREE

- (a) Using examples, explain the meaning of common external tariff (CET) as applied in the East African Community Customs Management Act, 2004. **(2 Marks)**
- (b) Genesis International Plc. (GI) is a company incorporated in Mauritius. GI provides consultancy related to telecommunication and information technology. The company has three shareholders based in Mauritius, South Africa and the United Kingdom. They have incorporated a subsidiary in Rwanda, Genesis Rwanda Limited (GRL) which employs both local and foreign consultants. GI also intends to expand business operations to Uganda and Kenya in the near future. The following is an extract of the major transactions for the year ended 31 December, 2016:

1	Total revenue from consultancy amounted to Frw 900,000,000.
2	Employed McCarthy, a South Africa national for two months to oversee the upgrade of the mobile money network system. He was paid Frw 60,000,000.
3	Declared and paid dividends of Frw 100,000,000 to each of their shareholders in Mauritius, South Africa and United Kingdom.
4	Paid Frw 150,000,000 as a fee for the shared services provided by GI. These services related to the support of the GI brand and software maintenance in Mauritius.
5	Penalty for non-conformity with the law Frw 3,520,000.
6	Paid salary and wages amounting to Frw 480,500,000.

REQUIRED:

- (i) Using examples, explain the meaning of ‘transfer pricing’ and ‘double taxation agreements’ as provided in the Rwanda tax laws/ code. **(4 Marks)**
- (ii) Explain any **four** transfer pricing methods that multinational companies use in order to determine the arms-length price in case of transactions involving related parties. **(8 Marks)**
- (iii) Compute the withholding tax applicable, if any, from the above transactions.

(6 Marks)

(Total 20 Marks)

QUESTION FOUR

Mr. Brown is an expert in the mining sector. He obtained a job with Mas Mining Company, Rwanda (MMC) on 1 January, 2016 as a mine supervisor under the following terms and conditions:

1	Annual salary Frw 20,000,000.
2	Furnished accommodation and a fuelled car for private use.
3	He has two children attending school. His employer MMC provides an education allowance of Frw 7,200,000 per annum paid to him in equal monthly installments.
4	The relocation cost was Frw 5,235,000 to enable him and his family travel from Italy to Rwanda.
5	Subsistence allowance Frw 1,200,000 per month.
6	Obtained medical reimbursement Frw 1,500,000.

Other income sources:

1. While in Rwanda, Mr. Brown obtained an online teaching job from India where he was paid Frw 12,000,000 annually.
2. He also obtains Frw 4,500,000 from the sale of his online journals in Rwanda annually.

REQUIRED:

- (a) Compute Mr. Brown's chargeable income and tax payable for the year ended 31 December, 2016 including the amounts payable to the National Security Board.

(7 Marks)

- (b) Assuming that Mr Brown did not relocate to Rwanda in order to provide the mine supervision services but only came to Rwanda for a total of 105 days in the year and earned Frw 20,000,000 as his salaries from MMC, and he did not earn any other allowances and benefits. The company only paid his accommodation costs of Hotel in Kigali. However, he was able to conduct his online teaching job and to sell his online journals while in the country.

REQUIRED:

Advise Mr. Brown of his tax obligations on the income earned while in Rwanda.

(4 Marks)

- (c) Using examples, explain the meaning of foreign tax credit as provided in tax laws/ code.

(3 Marks)

- (d) Explain the circumstances under which a taxpayer, who is an employer and is paying taxes under the pay as you earn system, may be subjected to penalties and fines.

(5 Marks)

(Total 20 Marks)

QUESTION FIVE

Byiringiro Limited is in the business of importing and selling building materials in Rwanda since 2010. The company owns a warehouse and shop in Kigali. During the year ended 31 December, 2015 their corporate tax return indicated that the company was in a tax loss position of Frw 254,000,000. You are an officer in the Rwanda Revenue Authority (RRA) Tax Investigation Department. On 15 March, 2017 an informer reported the following information to you regarding the operations of the company which he thinks are unusual.

1. The managing director, Mr Byiringiro bought two new luxurious vehicles for himself and his wife at a cost of Frw 80,000,000 each. The vehicles, however, were neither registered in the company names nor his or his wife's.
2. The imports that were processed through customs were Frw 920,000,000.
3. The company's mark up on sales is 20% and the closing trading inventory as at 31 December 2015 was Frw 125,000,000 while that at 31 December, 2016 was Frw 450,000,000.
4. The sales for the year ended 31 December, 2016 were recorded in the books as Frw 2,000,000,000.
5. The company expanded to the southern town of Butare and set up an additional shop. The construction of the shop cost Frw 150,000,000. All the sales made at the Butare shop were not recorded by the electronic billing system and the receipt books used are different in form from the ones used in Kigali.
6. There is a bank account different from the ones that are declared to RRA in which money is deposited and the balance in this account as at 31 December 2016 was Frw 350,000,000.

REQUIRED:

- (a) Advise your supervisor on whether RRA should carry out an audit explaining the reasons for your decision.

(6 Marks)

(b) The supervisor made a decision that there is a need to investigate the activities of the company and selected a team to conduct the audit. The RRA wrote to Byiringiro Limited and the letter included the following:

1. The letter was written on 1 April, 2017 informing the company that the audit was to commence on 2 April, 2017.
2. The company directors should expect the team any time at the company head office in Kigali to commence the audit.

Mr Byiringiro was confused on what this whole exercise was all about and called you to advise him on what to do next since he was out of the country to procure building materials and was not expected back until 10 April, 2017.

REQUIRED:

Advise Mr Byiringiro on his rights and obligations as a taxpayer before, during and after the audit process. **(10 Marks)**

(c) Highlight the importance of the final audit meeting between the RRA auditor and the taxpayer. **(4 Marks)**

(Total 20 Marks)

End of question paper