

**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

TUESDAY: 28 NOVEMBER 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven (7)** questions and only **five (5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings.
5. Any assumptions made must be clearly and concisely stated.
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 | | Tax Rate |
|------------------------|-------------|----------|
| From | To | |
| 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% |

Attempt any five questions

QUESTION ONE

Kabera is the quality assurance manager with Manzi Construction Company Limited (MCCL). MCCL has its headquarters in Kigali and branches in Kampala, Nairobi and Arusha. Kabera oversees the quality assurance department and sits at the company headquarters in Kigali. His effective date of appointment was 1 July, 2016. The following is a summary of the remuneration and benefits as per his appointment letter:

| | |
|----|---|
| 1 | Basic salary Frw 2,500,000 per month payable in arrears at the end of each month. |
| 2 | Leave pay Frw 1,500,000 in the month leave is taken. Kabera took his leave in June, 2017. |
| 3 | Medical allowance Frw 5,000 per month. |
| 4 | Travel allowance Frw 750,000. During the month of September, 2016 he travelled to Arusha for inspection of completed road projects. |
| 5 | He was given a company vehicle, Nissan pickup for both private and official use. The motor vehicle cost the company Frw 37,500,000. |
| 6 | In December, 2016 he requested for a salary advance of Frw 8,000,000 to enable him start a poultry business, which was approved. The advance was to be recovered by 1 April, 2017 at no interest. |
| 7 | In June, 2017 he was paid a bonus of 0.5 % of his annual salary. |
| 8 | House servant allowance Frw 75,000. His house servant does general cleaning of his home. |
| 9 | The company paid his quarterly rent of Frw 4,000,000 at his apartment located at Gasabo. |
| 10 | School fees were paid for one of his daughters Frw 125,000 under the “support a girl child at school mission” from his church. The church is not part of MCCL. |
| 11 | Received his yearly subsistence allowance in June, 2017 amounting to Frw 1,235,000. |
| 12 | The central bank discount rate was 12.5% in December, 2016 as issued by the National Bank of Rwanda. |

REQUIRED:

- (a) Compute Kabera’s chargeable income and tax payable for the year ended 30 June, 2017. **(15 Marks)**
- (b) Compute the total amount of contributions that shall be paid to the Rwanda Social Security Board (RSSB) in respect to Kabera’s income. **(3 Marks)**
- (c) Explain the tax treatment for the interest free salary advance amounting to Frw 8,000,000 repayable by 1 April, 2017. **(2 Marks)**

Total 20 Marks)

QUESTION TWO

Mr. Ntaryamira Baptiste, a resident of Byumba Town in the north province, owns a business registered as Ntaryamira & Sons Enterprises. The business is engaged in the importation and sale of various items that include agricultural and veterinary equipment, energy saving lamps, rice, sugar, household appliances and an assortment of men and women's clothing. Mr. Ntaryamira also owns two 30-seater buses that operate on the route from Kigali to Katuna on the border with Uganda on a daily basis. The business is registered for VAT and has been registered as a certified electronic billing machine (EBM) user. The business files their VAT returns on a monthly basis. The exchange rate relevant for customs purposes for the month of August, 2017 was 1 USD: Frw 844.

The transactions for the month of August 2017, all exclusive of VAT were as follows:

Imports:

| Date | Particulars | Country of origin | Amount (USD) |
|------|------------------------|-------------------|-----------------|
| | | | (VAT exclusive) |
| 2 | Hoes | China | 10,500 |
| 5 | Irrigation pumps | India | 36,700 |
| 5 | Milk cans | Denmark | 20,000 |
| 10 | Men and Women clothing | Thailand | 25,000 |

Local purchases/ payments:

| Date | Particulars | Amount (Frw) (VAT exclusive) |
|------|--|---------------------------------|
| 1 | Payment for rent for the shop premises for August, 2017 | 800,000 |
| 15 | Payment for telephone services for July, 2017 | 2,500,000 |
| 16 | Stationery for use in the shop | 50,000 |
| 31 | Payments for fuel | 4,500,000 |
| 31 | Payment to Byumba General Garage for the servicing the minibuses | 750,000 |

Sales made on 31 August, 2017:

| Particulars | Amount (Frw) (VAT exclusive) |
|---------------------------------|---------------------------------|
| Revenue from transport business | 22,000,000 |
| Energy saving lamps | 3,500,000 |
| Electric kettles | 2,000,000 |
| Men and women clothing | 60,000,000 |
| Wheat flour | 4,000,000 |
| Sugar | 5,500,000 |
| Hoes | 1,500,000 |

REQUIRED:

- (a) Compute the VAT payable/ claimable for the month of August, 2017. **(10 Marks)**
- (b) Explain the penalties imposed by the law for any fraudulent use of the EBM. **(5 Marks)**
- (c) Explain any **five** obligations of a supplier of certified invoicing system (CIS) or sales data controller (SDC). **(5 Marks)**
- (Total 20 Marks)**

QUESTION THREE

- (a) Identify any **six** factors that distinguish employment from self-employment. **(6 Marks)**
- (b) Mr. Kajuga Damian is a consultant engineer who operates his business in an office located at Avenue Du Commerce in Kigali. The summary of his business income and expenses for the year ended 31 December, 2016 was as below:

| Particulars | Note | Frw | Frw |
|---|----------|---------|-----------------------|
| | | "000" | "000" |
| Income from consultancy services | | | 350,000 |
| Interest on fixed deposit account in the bank (gross) | 1 | | <u>10,000</u> |
| | | | 360,000 |
| Expenses: | | | |
| Fuel for personal car | 2 | 15,000 | |
| Depreciation for the motor vehicle | | 12,500 | |
| Depreciation for computers | | 900 | |
| Salaries to his assistant | | 300 | |
| Lunch and accommodation expenses | 3 | 13,600 | |
| Office rent | | 11,300 | |
| Other office expenses | 4 | 25,000 | |
| Family expenses | | 15,000 | |
| Telephone | | 4,000 | |
| Subscriptions to the Institution of Engineers Rwanda | | 112,500 | <u>(210,100)</u> |
| Net profit | | | <u>149,900</u> |

Notes:

- The withholding tax deducted by the bank was Frw1, 500,000.
- He uses the motor vehicle for both business and personal purposes and it is not easy to estimate the portion attributed to the private use.
- He pays for hotel accommodation while attending to his clients who are located outside Kigali while the lunch expense is for the period when he is in his office in Kigali. The amount paid for accommodation was Frw 13,000,000.

4. Other office expenses included a donation to Byanaga Construction Limited, a client, of Frw 100,000.
5. The motor vehicle and computers cost Frw 50,000,000 and Frw 3,000,000 respectively on 1 January, 2015 when he first commenced the consultancy business. The business also purchased furniture Frw 1,500,000 on 1 January, 2015.

The tax written down values are as follows:

| | Frw "000" |
|------------------------|------------------|
| Computers and software | 1,500 |
| Other assets | 38,625 |

REQUIRED:

Compute Mr. Kajuga's taxable income and tax payable for the year ended 31 December, 2016. **(14 Marks)**

(Total 20 Marks)

QUESTION FOUR

Itungo, a resident of Kibeho has many investments ranging from commercial property, shares, bonds and Royalties. During the year ended 31 December, 2016 she provided you with a summary of the following transactions:

| Month | Note | Nature of transaction |
|-----------|------|--|
| February | 1 | Purchased 31,250 shares from Mandiv Limited Frw 1,250,000. |
| May | | Received payment from copyrights for using literature from one of her books Frw 500,000. |
| August | | Received Frw 4,000,000 from investing in bonds issued by government of Rwanda, through National Bank of Rwanda with maturity of 4 years. |
| September | | Received dividends from Atlas Limited Frw 650,000. |
| November | 2 | Received quarterly rent Frw 25,000,000 from her commercial property. |

Notes:

1. Mandiv Limited is listed on the Rwandan Stock Exchange. They declared and paid dividends in July, 2016 at Frw 10 per share to their shareholders.
2. The quarterly rent received was from four companies that occupy her commercial property in Kigali.

REQUIRED:

- (a) Advise Itungo on the:
 - (i) tax payable on the above transactions. **(9 Marks)**
 - (ii) tax treatment of the rent received. **(4 Marks)**
- (b) Explain the obligations of a withholding tax agent in relation to the tax withheld. **(3 Marks)**

- (c) With examples, explain the type of taxpayers who are exempted from withholding tax on importation of goods. **(4 Marks)**
(Total 20 Marks)

QUESTION FIVE

- (a) Explain the term ‘public bonded warehouse’ as described in the East African Community Customs Management Act. **(4 Marks)**
- (b) Provide at least **six** examples of goods that may **not** be kept in a bonded warehouse. **(3 Marks)**
- (c) Explain the necessary conditions that a person must fulfill in order to operate a bonded warehouse. **(3 Marks)**
- (d) Explain at least **five** minimum requirements in order for a person to be licensed to operate a building as a bonded warehouse. **(5 Marks)**
- (e) Mention at least **five** prohibited items that cannot be imported into Rwanda. **(5 Marks)**
(Total 20 Marks)

QUESTION SIX

- (a) Explain any **three** assets that are not subject to wear and tear in determining depreciation allowance. **(3 Marks)**
- (b) Explain the investment allowances that are granted to a person who invests in business assets that are used in Rwanda. **(6 Marks)**
- (c) The following information relates to the assets of Sehene Company Limited, which is located in Kigali, for the year ended 31 December, 2016. The company deals in the processing of poultry feeds and does not have an investment license.

1. Book value of the depreciable assets 1 January, 2016:

| Particulars | Frw ‘000’ |
|------------------------|-----------|
| Computers and software | 350,000 |
| Other assets | 513,510 |

2. Additions during the year:

| | Frw ‘000’ |
|--------------------------------|-----------|
| Four delivery vans each at | 50,000 |
| New inventory control software | 15,000 |
| Furniture and fittings | 12,500 |
| Second-hand loading machine | 42,000 |

REQUIRED:

Compute the capital and investment allowances (if any) that the company is entitled to deduct from the taxable income of the year ended 31 December, 2016.

(6 Marks)

- (d) Explain at least **five** advantages of direct taxes.

(5 Marks)

(Total 20 Marks)

QUESTION SEVEN

Buyoya Technical Services (BTS) deals in the repair of construction machinery and have been in operation since January, 2016. On 16 June, 2017 they received a corporate tax assessment amounting to Frw 10,500,000 after an investigation conducted by a team of auditors from Rwanda Revenue Authority.

REQUIRED:

- (a) Explain the circumstances under which a taxpayer may receive a notice of assessment from the commissioner general of Rwanda Revenue Authority. **(4 Marks)**
- (b) Explain the steps that BTS would follow in order to express their dissatisfaction to the notice of assessment issued by the commissioner general of Rwanda Revenue Authority.

(16 Marks)

(Total 20 Marks)

End of question paper