
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.4: TAXATION

THURSDAY: 6 DECEMBER 2018

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

QUESTION ONE

- (a) Mr. Ntarugera runs various business enterprises in Kigali. In December, 2017 he acquired a piece of land with a commercial building in Gasabo district and has since received the land title deed. A certified valuer ascertained the market value of this non-current asset on 1 February, 2018 and issued a certificate of valuation of RWF 50,000,000.

REQUIRED:

- (i) Explain to Mr. Ntarugera **four** persons that have to pay fixed asset tax according to the Rwandan law no. 59/2011 of 31/12/2011 establishing the source of revenue and property for decentralized entities and governing their management. **(4 Marks)**
- (ii) Compute the fixed asset tax to be paid by Mr. Ntarugera and determine the deadline for declaration and payment of the tax. **(3 Marks)**
- (b) In addition, Mr. Ntarugera also has a family business trading as, Ntarugera & Sons Limited (NSL), specializing in the distribution of motor cycles. NSL recently signed a sole distributorship agreement with BWM International Limited (BIL) to distribute BWM motorcycles in Rwanda. NSL's statement of profit or loss and other comprehensive income for the year ended 31 December, 2017 is detailed below.

Details	Amount
	RWF
Sales	189,450,000
Cost of sales	<u>(167,560,000)</u>
Gross profit	21,890,000
Other income	<u>8,287,000</u>
	<u>30,177,000</u>
Expenses:	
Administrative	(8,178,900)
Operating	(5,567,800)
Selling & distribution	<u>(7,567,000)</u>
	<u>(21,313,700)</u>
Profit before tax	<u>8,863,300</u>

Notes:

- Administrative expenses include the following:
 - Withholding tax (WHT) RWF 4,670,000 paid to Rwanda Revenue Authority Customs Services Department at the time of importing the motor cycles.
 - Depreciation costs RWF 3,342,000.
 - RWF 2,456,000 for a staff party to celebrate signing of the distributorship agreement.
 - A traffic police charge RWF 340,000 to one of NSL riders for reckless test riding of one of the motorcycles.

2. Operating expenses relate to asset purchases that include;
 - Office partitioning costs RWF 400,670.
 - Delivery van RWF 4,300,000.
3. Selling and distribution expenses include a donation RWF 2,400,000 to Rwanda Motor Sport Federation, a non-profit making organisation.

REQUIRED:

Compute NSL's corporate tax liability for the year ended 31 December, 2017.

(13 Marks)

(Total 20 Marks)

QUESTION TWO

Karial Company Limited (KCL) is a registered wholesaler dealing in general merchandise operating in Gasabo district. KCL is a registered taxpayer who is also registered for value added tax (VAT) and files monthly VAT returns. KCL has no accounting staff and outsources all accounting functions including tax advisory. Joan Kaitezi, the managing director of KCL, is aware that you are a student of taxation and has approached you to file returns for the tax period ending 31 October, 2018. She has provided you with the following transactions for the month.

1. Purchased electronics from KTL Enterprises RWF 3,500,000 VAT exclusive.
2. Paid utilities RWF 108,000 for electricity and water consumed in the month of October but not yet invoiced by utility companies. All utilities are VAT inclusive.
3. Sold furniture to WVI International RWF 5,100,000 VAT exclusive. WVI International is an NGO implementing a donor-funded project in Rusizi district.
4. Sold electronics RWF 8,190,000 VAT exclusive for use exclusively for a diplomatic mission to Ryan Pickford, a diplomat accredited to the government of Rwanda.
5. Purchased appliances RWF 4,400,000 VAT inclusive from Act Co. Ltd. These appliances have not yet been paid for as at 31 October, 2018 but Act Co. Ltd delivered the entire consignment on 15 October, 2018.
6. Exported electronics RWF 6,200,000 VAT exclusive to Kazi Brothers Ltd in Mwanza, Tanzania.
7. Purchased additional stock from Queens Ltd RWF 5,100,000 VAT inclusive. This stock has not yet been delivered but Queens Ltd has already invoiced KCL for the said amount.
8. Sold household appliances to unregistered customers worth RWF 9,400,000 VAT inclusive.
9. Received a new telephone bill for the month of October RWF 74,000 VAT inclusive.
10. Sold electronics to Kengo Brothers Ltd RWF 11,300,000 VAT exclusive.

REQUIRED:

- (a) Compute KCL's VAT payable /claimable for the month. **(10 Marks)**
- (b) Explain what is meant by taxation period for the supply of goods and services in accordance with the Value Added Tax law no. 37/2012 of 19/11/2012 establishing Value Added Tax in Rwanda. **(5 Marks)**
- (c) Mention any **five** obligations of taxpayers under the Value Added Tax law of Rwanda. **(5 Marks)**

(Total 20 Marks)

QUESTION THREE

Gertrude Kabatesi works for Ngoma Hotel Limited (NHL) as an accountant. For the year ended 31 December, 2017 she received the following income in cash, benefits in-kind and allowances from NHL:

1. Monthly salary RWF 2,000,000, an annual cost of living allowance RWF 30,890,000 and monthly gratuity of RWF 240,000.
2. Having not taken annual leave since January, 2015 NHL would like to compensate her for the untaken leave. As at 31 December, 2017 the monetary value of her outstanding leave days was RWF 1,557,000.
3. NHL facilitates Kabatesi's membership to the Rwanda Golfers' Association with an annual membership fee RWF 500,000.
4. Incurred private expenses RWF 250,000 in August 2017 but was reimbursed by NHL.
5. NHL provides meals to staff at the hotel's staff canteen with each plate of food valued at RWF 5,000. For the year ended 31 December, 2017, the canteen records indicated that Kabatesi consumed 200 plates of food.
6. In addition Kabatesi supports the marketing department with sales and marketing activities for which she is paid a commission. She received a commission RWF 349,000 for the year ended 31 December 2017.
7. In May 2017, Kabatesi was part of a group of people that travelled to Israel for a pilgrimage. 10% of her total trip costs was met by NHL. She paid USD 840 for a return ticket with Success Airways Rwanda Limited and hotel charges USD 500. Assume the May, 2017 exchange rate was USD 1 = RWF 860.
8. Was given an option of taking up accommodation in Kigali city comprising of a self-contained house with all utility bills paid by NHL or a monthly housing allowance of RWF 200,000. She chose the housing accommodation option.
9. Is permitted access to a motor vehicle while undertaking duties of employment.

REQUIRED:

- (a) In accordance with the Rwandan Law no. 16/2018 of 16/04/2018 establishing taxes on income:
 - (i) Explain the meaning of the term pay as you earn (PAYE). **(1 Mark)**
 - (ii) Mention the persons who must register for the PAYE system. **(1 Mark)**
 - (iii) Identify the obligations of PAYE registered taxpayers. **(2 Marks)**
- (b) Compute Kabatesi's employment income and tax payable for the year ended 31 December, 2017.

(16 Marks)
(Total 20 Marks)

QUESTION FOUR

- (a) Paltek Company Limited (PCL) is a registered company incorporated in Rwanda with its head office in Nyarugenge district. During the month of September, 2018 PCL imported 25 bales of second hand clothes from China through the port of Mombasa. For each bale, PCL paid USD 320 Free on Board (FOB) and Freight USD 90 to the port of Mombasa. No insurance is required for this kind of consignment. PCL hired a truck to transport the consignment for USD 930 from Mombasa to its stores in Kigali. Each bale weighed 100 kg at the time of importation.

Note:

- Import duty is 25%.
- Excise duty is USD 4 per kg.
- VAT is 18%.
- WHT is 5%.
- Infrastructure Development Levy (IDL) is 1.5%.
- African Union Levy (AUL) is 2%.
- Computer processing fee is RWF 3,000.
- USD 1 = RWF 860

REQUIRED:

- Compute the import tax payable by KCL for the consignment above. **(10 Marks)**
- (b) Mention any **five** examples of goods regarded as wholly produced in a partner state in accordance with the East African Community rules of origin. **(5 Marks)**
- (c) Explain the following terms as used in customs management:
- (i) Transit goods. **(2 Marks)**
 - (ii) Bonded warehouse. **(3 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) Trinity Bank Limited (TBL) was incorporated in Rwanda in January, 2015 but commenced operations one year later in January, 2016. The bank is owned 90% by its parent, Trinity SA Limited (TSL), based in South Africa. TBL was recently audited by the Large Tax Payers' Office (LTO), for a three year period from January, 2015 to December, 2017. The audit report has highlighted a number of non-compliance issues at TBL and the audit team raised a rectification note for the underpaid tax. TBL has objected to this note on the basis that for the last three years, their accountant has timely filed the annual tax declarations and that in May, 2016 TBL had received a refund of RWF 35,000,000 from the LTO.

REQUIRED:

- (i) As an accounts assistant at TBL, the accountant has presented to you the audit report for your perusal. Explain to the accountant the following terms:
- Tax declaration by a company. **(2 Marks)**
 - Refunds. **(2 Marks)**
- (ii) Explain **three** types of tax audits. **(3 Marks)**
- (b) Bizimana has a business of repairing fridges. His annual turnover as at 31 December, 2017 was RWF 11,600,000. Bizimana also operates a small grocery shop in Huye district, and owns a truck/ semi-trailer with maximum load capacity between 15-30 tones for transportation business. Bizimana earns annual income of RWF 14,500,000 from the grocery shop, and RWF 6,000,000 from the transportation business.

Hint:

Consider each business as a separate tax entity.

REQUIRED:

Determine the tax payable by Bizimana on each of the above three businesses. **(6 Marks)**

- (c) Bizimana also owns a shop selling textiles that had the following accounting information in the year ended 31 December, 2017

Item	RWF
Sales revenue	68,900,000
Depreciation expenses	5,700,000
Investment allowance	4,345,000
Other operating expenses	2,430,000

During the year ended 31 December, 2017, the business remitted quarterly prepayments to the Rwanda Revenue Authority (RRA) of RWF 679,000 and exported textiles worth RWF 5,680,000 to a customer based in Ugandan that withheld tax at 15% before paying Bizimana.

REQUIRED:

Determine the tax payable by Bizimana for the year ended 31 December, 2017. **(7 Marks)**
(Total 20 Marks)

QUESTION SIX

- (a) Crossgen Company Limited (CCL) is an international investment company with its headquarters in Kigali, Rwanda. During the year ended 31 December, 2017 CCL received RWF 15,100,000 as rental income from its building in Byumba town. The total cost of constructing this building was RWF 748,000,000 of which CCL borrowed RWF 280,500,000 from IMC Bank payable within a period of 15 years. CCL makes an equal monthly installment of RWF 180,000 as interest payment to IMC Bank.

REQUIRED:

Determine CCL's rental income and compute rental tax payable for the year ended 31 December, 2017. **(10 Marks)**

- (b) Explain the meaning of 'trading license tax' and identify the persons required to pay the tax. **(4 marks)**
- (c) Bakunda Eric is a trader who owns a number of businesses in Rwanda. He has a supermarket in Kigali which is registered for value added tax. The business realized a turnover of RWF 180,000,000 for the year ended 31 December, 2017. Bakunda also owns a transport truck which he uses for transporting cargo within Rwanda. He acquired this truck on 16 January, 2017. In addition, he has a retail shop in Rwamagana district which is considered urban place. This shop does not meet the value added tax (VAT) threshold and is therefore not registered for VAT. Each of these businesses is considered a separate tax entity.

REQUIRED:

Determine the trading license tax payable in the year 2018 for each of Bakunda's businesses stated above. **(6 Marks)**
(Total 20 Marks)

QUESTION SEVEN

- (a) Following the reading of the budget speech on 14 June, 2018 a number of tax proposals geared toward the collection of tax revenue to fund government expenditure were introduced. It is, however, argued that the burden associated with the tax proposals may not be borne by corporate suppliers and consumers but rather by individuals.

REQUIRED:

- (i) Explain, with an example, the term incidence of a tax. **(4 Marks)**
 - (ii) Discuss **three** roles of taxation in achieving budgetary objectives. **(6 Marks)**
- (b) Makuza is a wholesaler of home appliances in Kirehe district. In September, 2018 he sold a Hi-Fi music system at RWF 590,000 VAT inclusive to Toto, a VAT registered retailer. Toto sold the music system to Yuhi at RWF 708,000 VAT inclusive, Yuhi bought the music system for his personal use but did not declare VAT to RRA.

REQUIRED:

Determine the VAT payable by each of the three persons involved in the transaction above. **(7 Marks)**

- (c) In a bid to reduce the cost of doing business and ease compliance, RRA introduced Electronic Billing Machine (EBM) version II.

REQUIRED:

Identify any **three** key features of the EBM version II. **(3 Marks)**
(Total 20 Marks)