

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

## **F2.4: TAXATION**

**MONDAY: 3 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

M/s Ntarugera United Assembling Limited (NUAL) is a resident company operating in Gisenyi town, Western Province. Their main business is assembling cars and motorcycles. The following is an extract from NUAL's statement of profit or loss and other comprehensive income for the year ended 31 December, 2017.

	Notes	RWF '000'
Sales		500,000
Direct costs	1	(300,000)
Gross profit		200,000
Less expenses:		
Sales & marketing expenses	2	(60,000)
Distribution costs	3	(31,250)
Finance costs	4	(55,500)
Other overheads	5	(23,250)
Profit before tax		30,000
Taxation at 30%		(9,000)
Profit after tax		21,000

Notes to the financial statement extracts:

- Direct costs include depreciation of RWF 10,000,000. Also included in this item is the total contracted consultancy fees of RWF 50,000,000 incurred during the year. NUAL paid the bill on 1 January, 2018. Other costs relate to direct labour and materials.
- Sales & marketing expenditure includes RWF 10,000,000 spent on purchase and installation of 10 steel advertising billboards of RWF 1,000,000 each, and 4 electronic advertising billboards each costing RWF 5,000,000 in Kigali city on 30 April, 2017, to advertise the company's cars and motorcycles. The balance was for newspaper and radio advertising.
- Distribution costs include:

Particulars	RWF '000'
Salary to field sales people	6,550
Sales promotion	9,000
In store branding	5,000
Warehouse manager's salary	7,000
Entertainment of engineers	1,000
Penalties	1,000
Taxes paid	500
Head of distribution personal consumption costs	1,200
	31,250

4. Included in net finance cost is interest payable of RWF 45,000,000 of which 15% relates to director's personal loan. The balance relates to loan acquired from a commercial bank to boost the company's working capital.

5. Other overheads are analyzed as follows:

Particulars	RWF '000'
Purchase of equipment of capital nature each costing less than RWF 500,000	15,000
Administrative salary	3,250
Allowable expenses	5,000
	<u>23,250</u>

Additional information:

6. Written down values as at 1 January, 2017.

Particulars	Book value RWF '000'	Market value RWF '000'
Heavy machinery fixed in the wall (assembly line)	62,500	43,750
Intangible asset purchased from third party	50,000	35,000
German make data handling equipment	20,000	14,000
Other business assets	30,000	9,000
	<u>162,500</u>	<u>101,750</u>

7. Additional assets

Particulars	Cost RWF '000'	Market value as at 31 December 2017 RWF '000'
Heavy machinery fixed in the wall(assembly line)	100,000	70,000
Intangible asset purchased from third party	40,000	28,000
Computers	30,000	9,000
Other business assets	20,000	14,000
	<u>190,000</u>	<u>121,000</u>

**REQUIRED:**

- With examples, explain real regime income tax. (2 Marks)
  - Compute taxable income and corporate tax payable by NUAL for the year ended 31 December, 2017 (using real regime). (16 Marks)
  - State the administrative penalty relating to a public limited taxpayer or a non-profit making organization with a turnover exceeding twenty million (20,000,000) Rwandan Francs who fails to file a tax declaration on time in accordance with the Rwandan Income Tax Act. (2 marks)
- (Total 20 Marks)**



## QUESTION TWO

M/s Ntampaka, a Rwandan resident, operates Ntampaka Supermarket Limited (NSL) in Kibuye, Western Province. During the period ended 31 December, 2016, the supermarket made a turnover of RWF 200,000,000 and subsequently got registered for Value Added Tax (VAT). NSL sales for the month of December, 2017 were as follows:

Date	Particulars	RWF '000'
1	Exported VAT exclusive goods for	25,000
3	Made VAT inclusive sugar supplies to some schools in Kamonyi District	50,000
4	Exported VAT inclusive services to Uganda	30,000
10	Made VAT exclusive sales to VAT unregistered persons	60,000
15	Made VAT inclusive purchases from VAT registered persons for	70,000
20	Made VAT inclusive supplies of cooking oil to some schools in Kamonyi District. The amount is due for payment.	40,000
21	Made VAT exclusive sales of melamine plates to some boarding schools in Kamonyi, Muhanga, Nyamagabe and Nyanza districts.	25,000
28	Supplied minerals to the central bank of Rwanda	120,000

### REQUIRED:

- Compute M/s Ntampaka's VAT claimable/payable for the month of December, 2017. (12 Marks)
  - With help of four examples, explain "VAT exempt" as indicated by Article 6 of Law N°37/2012 of 09/11/2012. (4 Marks)
  - Briefly, explain what is meant by VAT under the law of Rwanda establishing VAT and state at least two characteristics of VAT. (4 Marks)
- (Total 20Marks)**

## QUESTION THREE

- Mr. Jazbala aged 48 years works with Bukumune Publications Limited in Rwanda as a journalist. He has provided you with the following information for the year ended 31 December, 2017:
  - Monthly basic salary RWF 1,125,000.
  - Own monthly contribution RWF 56,250 from his basic salary towards Staff Retirement Benefit Scheme (SRBS) internally established within the organization.
  - Employer monthly contribution RWF 56,250 on behalf of its staff to one of the "qualified pension funds" established in accordance with the Rwandan laws.
  - Employer contribution to "Rwanda Social Security Board" (RSSB) for the year ended 31 December, 2017 amounted to RWF 1,350,000.

- (v) Interest income RWF 750,000 credited on his fixed deposit account by ABC Bank Rwanda as a result of him operating a fixed deposit account with the bank at an annual interest rate of 15% during the year.
- (vi) Received rent allowance arrears RWF 600,000 towards his personal accommodation contributed by his employer as annual accommodation allowance to staff.
- (vii) Received RWF 170,000 interest income on his ABF Bank savings account during the year and RWF 237,500 as interest income from his investment in government securities during the year.
- (viii) Paid RWF 180,000 through his ABF Bank account to Sanlam Insurance Rwanda for the medical insurance of his uncle for the year ended 31 December, 2017.
- (ix) Bukumune Publications Limited took over Mr. Jazbala residential house which it now uses as a guest house for its guests. Mr. Jazbala earned an annual rental income RWF 1,500,000 from the company for the year ended 31 December 2017.
- (x) Received RWF 112,500 as hardship allowance for the three months he was in one of the remote villages in Rwanda gathering information for his employer's bi-annual magazine.
- (xi) Was also paid a responsibility allowance RWF 75,000 by his employer as the team leader of the group that participated in information gathering in one of the remote villages of Rwanda.
- (xii) Was reimbursed medical expenses RWF 262,500 which he incurred while on official duty in the remote villages.
- (xiii) Medical insurance premium of RWF 875,000 was paid by the company towards Mr. Jazbala and his immediate family's medical expenses for the year.
- (xiv) Was given a return air ticket worth 3,875,000 to France to enjoy a holiday with his family as reward for being the best employee of the year.
- (xv) Mr. Jazbala received RWF 36,250 as monthly transport allowance to cater for his transport to and from work.

**REQUIRED:**

Compute Mr. Jazbala's total employment income and employment tax payable for the year ended 31 December, 2017. **(14 Marks)**

- (b) (i) Explain what is meant by the term "pay as you earn" (PAYE). **(1 Mark)**
- (ii) State any **three** obligations of PAYE registered taxpayers (employers) **(3 Marks)**
- (iii) State the deadline for declaration and payment of PAYE to Rwanda Revenue Authority? **(2 Marks)**

**(Total 20 Marks)**



## QUESTION FOUR

(a) Capital gains tax is one of the taxes that contributes to government revenue. In Rwanda, this tax is levied by the central government under domestic taxes.

### REQUIRED:

- (i) Explain what is meant by capital gains and capital gains tax. **(4 Marks)**
- (ii) Identify who must register, and declare capital gains tax to Rwanda Revenue Authority (RRA). **(3 Marks)**
- (iii) State the documents that are required from a taxpayer registered for capital gains tax by RRA when declaring capital gains tax. **(4 Marks)**
- (iv) State the deadline for the taxpayer registered for capital gains tax to declare and pay capital gains tax to RRA. **(2 Marks)**

(b) Excise duty is one of the taxes government's levy on certain goods and services consumed by its citizenry.

### REQUIRED:

- (i) Explain what is meant by the term "excise duty", giving at least two (2) examples of goods subject to excise duty. **(2 Marks)**
- (ii) Explain why government levies excise duty on certain goods. **(2 Marks)**
- (iii) Describe the obligations of taxpayers registered for excise duty in accordance with the RRA requirements. **(3 Marks)**

**(Total 20 Marks)**

## QUESTION FIVE

(a) Mr. Kwizera Paul is a businessman in Kigali. His business is located in Downtown Shopping Arcade, dealing in ladies' garments. Having been in this business for the last 10 years, Mr. Kwizera has now started importing the garments and supplying other traders locally in Kigali on both wholesale and retail basis. Recently he surveyed the prices for similar products from various suppliers in China and Singapore, but found that Zing Xing & Company in China is much cheaper and is offering him a full container load of garments of 1 x 40 ft. at USD 154,500 inclusive of inland charges in China. Freight charges from China to Mombasa are USD 16,500. Insurance charges for the goods will be USD 1,500, while transportation of these goods from Mombasa to Kigali will be USD 5,000.

**REQUIRED:**

Calculate the customs value for determination of taxes in accordance with the East African Community Customs Management Act (EACCMA 2004) and determine the total tax payable by Mr. Kwizera Paul at the importation of the above garments.

**Note:**

1. Use Import duty 25%, VAT 18%, WHT 6%, Environmental Levy 25%, & Inspection fee 1.5% to determine the total taxes payable.

2. Exchange rate on the transaction date: USD 1 = RWF 860. **(10 Marks)**

(b) Countries world over do put in place laws and regulations which restrict and prohibit importation of certain goods into the country. This is normally done for a number of reasons by the importing countries.

**REQUIRED:**

(i) With the help of two examples in each case, distinguish between ‘prohibited goods’ and ‘restricted goods’. **(4 Marks)**

(ii) Explain why countries prohibit and restrict importation of certain goods into the country. **(6 Marks)**

**(Total 20 Marks)**

**QUESTION SIX**

(a) M/s Sinamenya, a Rwandan resident, derived rental income from his assets for the year ended 31 December, 2017 as follows:

1. Earned income RWF 100,000,000 from his arcade (Ntarugera Arcade) located in Nyarugenge. The arcade was constructed at a cost of RWF 1,250,000,000 and put to use in 2016.

2. Earned RWF 50,500,000 from hiring out his heavy machinery with a cost of RWF 150,000,000.

3. Earned RWF 80,000,000 from leasing out agricultural equipment with a cost of 120,000,000 (operating lease) to M/s Ntampaka Agricultural Farm.

4. Earned RWF 65,000,000 from leasing out livestock equipment with a cost of RWF 100,000,000 (finance lease) to M/s Mugabo Livestock Farm.

5. Acquired a 10 year loan in 2016 from a Rwandan-based commercial bank of RWF 1,500,000,000 at an interest rate of 15% to facilitate the construction and acquisition of these assets.

**REQUIRED:**

Compute M/s Sinamenya's rental income and rental tax payable for the period ended 31 December, 2017. **(15 Marks)**

(b) Explain the following under Article 43 of Law no.16 of 16/04/2018 establishing taxes on income.

(i) Rental income tax. **(1 Mark)**

(ii) Taxable rental income. **(1 Mark)**

(iii) Purpose of the 10% allowable deemed expense. **(2 Marks)**

(iv) Eligible rental income taxpayer. **(1 Mark)**

**(Total 20 Marks)**

**QUESTION SEVEN**

(a) A good tax system must meet certain principles before it is regarded as a good tax system.

**REQUIRED:**

As a student of taxation, explain any **three** principles of a good tax system which Rwanda Revenue Authority (RRA) strives to uphold. **(6 Marks)**

(b) Explain any **two** reasons why the Rwandan constitution allows the government to levy taxes.

**(4 Marks)**

(c) Most tax bodies have of recent adopted the electronic payment and declaration of returns by their taxpayers.

**REQUIRED:**

As a student of taxation, state any four benefits of paying taxes electronically or online and on mobile phones. **(2 Marks)**

(d) It is always observed that no matter how good the tax laws of a country is, there will always be disagreements between the tax authority and the taxpayer. The law therefore, must provide for a mechanism of resolving any disagreements between the tax authority and the taxpayers.

**REQUIRED:**

Explain the depute resolution procedures laid down in the Rwandan Tax Laws that any aggrieved taxpayer may use to ensure that their dissatisfaction is resolved up to the Judicial Appeal level.

**(8 Marks)**

**(Total 20 Marks)**