

**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3: ADVANCED TAXATION

MONDAY: 30 NOVEMBER 2020

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 optional questions to choose any three
4. In summary attempt **Four** questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings where necessary.

SECTION A

QUESTION ONE

The table below is a draft profit and loss account for the **Swift Safaris 2020 Ltd** for the year ended 31st December 2019. Study the table carefully and answer the questions that follow.

Swift Safaris 2020 Ltd-Draft income statement for the year ending 31st December 2019:

	Rwf "000"
Proposed Adjustments from Trial balance	
Profits per accounts	2,000,000
Depreciation (from PPE) – qualifying Assets	90,000
Depreciation (from PPE) – non qualifying Assets	70,000
Provisions	30,000
Tax depreciation	55,000
IFRS 16 adjustment	30,000
Payments to board of directors	20,000
IFRS 9 adjustment	40,000
Utilization of provisions for non-financial institutions	5,000
Fines and similar penalties	31,000
Donations to the government fund in excess of 1% of turnover	1,000
Exchange Loss adjustment	1, 300
Income tax and recoverable VAT	21,000
Personal consumption expenses	25,000
Entertainment expenses	10,000
Management, technical & royally fees in excess of 2% of turnover	40,000
Telephone expenses for staff mobile phones for personal purposes	40,000
Variance between income reported for VAT compared to Income in the draft Profit & Loss account	60,000
Thin Capitalization	70,000
Revenue expenses capitalised	7,000
Gain in fair value of assets	2,000

Swift Safaris 2020 Ltd is a large taxpayer and during the financial year 2018, the company realised a loss of Rwf 4 billion. In the same year, 40% of its shares was bought by the Inclined Inc, a company incorporated in the United States of America. In 2017, the company paid Corporation income tax totaling to Rwf 600,000,000, part of which (Rwf 120,000,000) was an overpayment according to the Chief Accountant because the company paid the tax basing on non-audited financial statements.

Required:

- a) **Compute the profit tax for Swift Safaris 2020 Ltd for the financial year 2019 in accordance with the income tax law of Rwanda.** (10 Marks)
- b) **Compute the Corporate Income Tax for Swift Safaris 2020 Ltd for the year ended 31st December 2019.** (5 Marks)
- c) **Advise the Chief Accountant on the treatment of the overpayment of Rwf 120,000,000 that was inadvertently done during filing Corporate Income Tax return for the period 2017 and discuss the ways the company can recover this overpayment.** (5 Marks)
- d) Intambwe Plc is a commercial bank incorporated in the Republic of Rwanda. During the financial year 2019, Intambwe Plc was acquired by Ubumwe Plc, another commercial bank which also has a Permanent Establishment (PE) in the Republic of Rwanda. In the same financial year and before the acquisition deal was concluded, Intambwe Plc had constructed a head office building in Kimihurura worth Rwf 35 billion. During the process of acquisition by Ubumwe Plc, a valuation exercise was conducted by a qualified valuer appointed by the Central Bank of Rwanda to value the head office building. The fair Value of the building was estimated at Rwf 29 billion by the valuer. The head office building was put into use on 1st January 2019 by Intambwe Plc. Intambwe Plc had obtained an investment certificate from the Rwanda Development Board (RDB) for the total investment of the building.

Required:

- i) **Discuss the value of the head office building that should benefit from capital allowances and accelerated depreciation during the computation of the Corporate Income Tax for the year ended 31st December 2019 and show which commercial bank should depreciate and capitalize the building.** (5 marks)
- ii) **Discuss the tax treatment of the loss on building after valuation.** (5 marks)
- iii) **Discuss three major conditions to be fulfilled in order for an investor in a commercial building to obtain the investment certificate.** (5 marks)
- iv) **Discuss the circumstances under which an investment certificate can be revoked?** (5 marks)

(Total:40 Marks)

SECTION B

QUESTION TWO

- a) **Discuss five reasons why RRA is ready to forego taxes of investors in Agriculture sector.** (5 marks)
- b) **Discuss the reasons why some documents are required to be filed to the Rwanda Revenue Authority (RRA) by the multinational companies operating in Rwanda during the Corporate Income tax return filing.** (5 marks)
- c) Eco Serve Ltd is the importer and manufacturer of assorted items in Rwanda. Eco Serve Ltd conducted the following transactions during the year 2019.

		Rwf
1	Paid telephone expense	4,000,000
2	Paid accommodation for expatriate staff	11,000,000
3	Purchased software	20,000,000
4	Travel abroad cost	15,000,000
5	Security for residential and office premises	7,000,000
6	Supplied sanitizers to the Government for free worth	12,000,000
7	Sold some goods in transit to Kigali in Belgium worth	40,000,000
8	Sold goods to the companies in Rwanda Free Trade Zone worth	6,000,000
9	Sold office chairs to the residence of the US ambassador in Kacyiru worth	17,000,000
10	The taxpayer claimed all VAT on purchase in total	

Compute the VAT payable by Eco Serve Ltd and penalties of late payment if any. All prices are VAT inclusive where applicable. (10 marks)

(Total:20 Marks)

QUESTION THREE

GBS Securities Ltd is an investor in Rwanda. In the year 2017, the company applied for an investment license and it was obtained and used. The application was for Rwf 2,000,000,000 to acquire motor vehicles. In the application, the company wrote that it would structure such that 80% of financing comes from equity and 20% from loan. The paid-up share capital of GBS Securities Ltd is Rwf 1,000,000. In 2017, the company made losses of Rwf 24,000,000. During RRA audit, it was discovered that the company provision for interests to the one of the shareholders (who holds 70%) totaling to Rwf 30,000,000 and had financed its capital structure by 80% loan and 20% equity.

Required:

- a) **As a tax auditor, compute the taxes payable and penalties of late payment if any.** (12 Marks)
- b) **Discuss the various tax relief measures that were given to taxpayers by RRA during Covid-19 lockdown in Rwanda in the year 2020.** (8 Marks)

(Total:20 Marks)

QUESTION FOUR

- a) The Rwanda tax administration is working on a plan to grant taxpayers tax amnesty so that they can pay taxes voluntarily.

Required:

What is a tax amnesty and discuss the reasons why the Government should allow the tax amnesty for taxpayers? (5 Marks)

- b) Trading Ltd is a listed company on Rwanda Stock Exchange. The company has one majority shareholder who holds 35%. In the year 2018, the annual general assembly approved a bonus share pay out of Rwf 10 per share. There are 100,000 shares in the company each valued at Rwf 15.

Required:

Discuss the taxes that are applicable as a result of the above transaction in accordance with the Rwanda Income Tax law? (5 Marks)

- c) **Discuss the possible reasons why Rwanda Revenue Authority refunds input VAT and other taxes to the taxpayers?** (5 Marks)
- d) **Why does customs department of RRA give duty remissions to manufacturers in Rwanda?** (5 Marks)

(Total:20 Marks)

QUESTION FIVE

- a) Some East African Community Partner States have agreed to increase the Common External Tariff (CET) of Agricultural Products to 60% while other Partner States want the CET to remain at 0% and to 25% for raw and processed Agricultural Products. All the Partner States have not reached a consensus on the proper CET rate for the region.

Required:

Discuss the possible reasons why there are persistent disagreements among the Partner States on CET rate of Agricultural Products. (10 Marks)

- b) **Discuss the cost elements that should not be considered with Price Actually Paid or Payable for imported goods in Rwanda.** (7Marks)
- c) Seller S in the exporting country X enters into a contract to sell cables to importer A in the importing country I at a price of USD 5.75/PC. S concludes an agreement with manufacturer M also in country X to manufacture the goods. Manufacturer M on behalf of S, ships the goods to A in country I. M's selling price to S is USD 5/PC.

Required:

Compute the transaction value that should be considered as a basis for valuation under Article 1 of the WTO Valuation Agreement. (3 Marks)

(Total:20 Marks)

