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CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.3 TAXATION

DATE: FRIDAY, 29 JULY 2022

MODEL ANSWERS AND MARKING GUIDE

SECTION A

Marking Guide

Question Number	Answer
1	D
2	C
3	B
4	B
5	D
6	B
7	A
8	C
9	B
10	D

Section A – Marks allocation **Marks**

2 marks for each correct answer **2**

Total marks: **20**

Model answers

QUESTION ONE

The correct answer is D

Because the law says that an electronic invoice should be given to every buyer whether requested for or not. **A** is not correct because it is an obligation of taxpayer to possess an electronic invoicing system, **B** is not correct because the electronic invoice should indicate real name of goods and related tax rates for VAT registered person, **C** is not correct because to possess an electronic invoicing system; to indicate real name of goods and related tax rates on the electronic invoice for VAT registered persons, to notify the Tax Administration of failure of electronic invoicing system within a time not exceeding six (6) hours consist of taxpayers' obligations for the use of electronic invoicing system.

QUESTION TWO

The correct answer is C

Because the recipient of the income was in Mauritius where Rwanda has signed DTA to withheld 12%, **A** is not correct answer because 15% is charged to the other persons not having such Double Taxation Agreement, **C** also is not correct because 7.5% WHT rate is charged to the payment made to Singapore and Barbados.

QUESTION THREE

The Correct Answer is B

Because the quoted law said that the payment made on the services provided by the persons not registered with Tax Administration, who are registered but does not have a recent income tax declaration are held liable, C is not correct answer because if someone has income tax declaration whether null or not, is not liable of this tax, A is not only the correct answer, D is not correct answer because the i, ii, and iii are not correct answers.

QUESTION FOUR

The correct answer is B

Because the law says that the rate of 5% is applied on the gain on the transfer of shares which means proceed minus the value of the shares at the date of selling them (13,000,000-10,000,000)=3000,000, then 5% of 3,000,000 is 150,000, A is not correct because 5% rate was applied on the total proceed, C also is not correct answer because 5% capital gain was applied to the Value of the shares at the selling date. Since A is not correct, D also cannot be correct.

QUESTION FIVE

The correct answer is D

Because all the elements that was stated by the law was mentioned on i, ii, iii, iv, no element that was mentioned is not related to the exemption of employment income

QUESTION SIX

The correct answer is B

Jane is the employee who received the amount which are both taxable and exempted i.e. her basic salary is taxable but FRW 150,000 that was received is exempted because the amount was a reimbursement of what was spent in the business of the company. A is not correct because salary plus bonus is taxable, C is not correct because salary and terminal benefits are taxable, D is not correct because salary plus a company car are taxable.

QUESTION SEVEN.

The correct answer is A.

Because even though there is no payment that was not made by the company the law says that money which is recorded in the books of account as a liability of a taxpayer to creditors and which reduces the taxable income is deemed a payment if it has exceeded six (6) months following the tax period. (15% of 28,000,000) =4,200,000 is supposed to be paid, B is not correct because there is a withholding due, C is not correct because WHT is not 10%.

QUESTION EIGHT

The correct answer C

Because King is a Rwandan shareholder who is registered and has TIN his payment is not subject to WHT, A is not correct because a foreign consultant is subject to WHT of 15%, B is correct because Amza is not registered with RRA and George is registered but does not have a recent income tax declaration, D also is not correct because it combines the first three who are subject to WHT of 15%.

QUESTION NINE

The correct answer is B

Because when the due date of declaring and paying taxes is in the weekend or holiday, the next working day become a due date, so 15th was on Saturday, 17th will be a new date for paying taxes, A is not correct because it was on Sunday C, is not correct because 18th was on Tuesday the second working day D is not correct because 15th was on Sunday which is in weekends.

QUESTION 10

The correct answer is D

Because no entity is exempted from income tax, A is not correct because ETS is an importation company in the business hence not exempted, B is not correct because Navigation Company is a HR service provider Company, hence not exempted from income tax, C is not correct because Gasabo District conference hall is a separate business with a unique TIN and hence not exempted from income tax.

SECTION B

QUESTION 11.

Marking Guide

Description	Marks
Award 0.5 marks for each computation of 80% pension contribution to Alliance	2.5
Award 1 mark for each computation of benefit in kind related to loans given	2
Award 0.5 marks for each personal computation of total income	2.5
Calculation of PAYE	2
Stating the deadline for declaration	1
Total Marks	10

Model Answers

a. Computation of employment Income for each employee

S/N	Employee First Name	Basic Salary in FRW	Transport Allowance in FRW	Housing Allowance in FRW	Retirement contribution to Alliance (W1)	Benefit in kind (Interest on loan) (W2)	Gross Salary
1	Joseph	1,032,000	147,429	147,429	825,600		2,152,457
2	Jean Baptiste	143,400	20,486	20,486	114,720		299,091
3	Octave	173,400	24,771	24,771	138,720	150,000	511,663
4	Emmanuel	235,000	33,571	33,571	188,000	180,000	670,143
5	Claude	276,000	39,429	39,429	220,800		575,657
	Total	1,859,800	265,686	265,686	1,487,840	330,000	4,209,011

Workings:

1. Computation of 80% pension contribution to Alliance

S/N	Employee First Name	Basic Salary in FRW	Retirement contribution to Alliance
1	Joseph	1,032,000	825,600
2	Jean Baptiste	143,400	114,720
3	Octave	173,400	138,720
4	Emmanuel	235,000	188,000
5	Claude	276,000	220,800
	Total	1,859,800	1,487,840

2. Computation of Benefits in kind related to the loan given to Emmanuel and Octave.

Names	Descriptions	Amount FRW
Octave	Interest that should have been paid by octave as per interbank rate (2,500,000 *8%)	200,000
	Actual interest paid (2,500,000 *2%)	50,000
	Difference (Benefit in kind)	150,000
Emmanuel	Interest that should have been paid by Emmanuel as per interbank rate (3,000,000*8%)	240,000
	Actual interest paid (3,000,000*2%)	60,000
	Difference (Benefit in kind)	180,000

b. Total tax (PAYE) payable

S/N	Employee First Name	Gross Salary	PAYE
1	Joseph	2,152,457	629,737
2	Jean Baptiste	299,091	73,727
3	Octave	511,663	137,499
4	Emmanuel	670,143	185,043
5	Claude	575,657	156,697
	Total	4,209,011	1,182,703

PAYE FORMULA

$$((\text{Gross salary} - 100,000) * 30 / 100) + 14,000$$

The deadline for paying the above PAYE should be 15th May 2022, but as this was in the weekend (Sunday), the deadline was the following working day (Monday 16th May 2022)

QUESTION 12.

Marking Guide

Description

Marks

A

- i. 1 mark for the different between sole traders and partnership and 1 mark for elaborating their basis of tax assessment 2
- ii. Award 05. Marks for each deducted expense and taxable income 3
- iii. 1 mark for each condition that an expense should fulfill for it to be allowed as a deductible expense from taxable business profit (maximum 2 marks) 2

Maximum marks for this section

7

B

- Calculate the corporate income tax due on the partnership profit. 2
- Assess whether there are any other taxes due to RRA and compute them if any 1

Maximum marks for this section

3

Total Marks

10

Model Answers

A.

i. Sole trade is a business that is set up and run by one single person while Partnership refers to the business that is formed by two or more persons basing on the partnership agreement. The basis of tax assessment refers to the all income or revenues sourced from Rwanda and outside of Rwanda.

ii.

Description	Amount	Amount
Sales/Turnover		30,000,000
Deductible expenses		
Wages and salaries	1,000,000	
Telephone bills 80% of 300,000	240,000	
Transport	200,000	
House rent	600,000	
Depreciation	3,000,000	
Total expenses		(5,040,000)
Taxable income		24,960,000

iii. An expense to be deducted from taxable income shall fulfil the following criteria

- ✓ They are incurred for the direct purpose of the business and they are directly chargeable to the income.
- ✓ They correspond to a real expense and can be substantiated with proper purchase receipts;

- ✓ They lead to a decrease in the net assets of the business;
- ✓ They are used for activities related to the tax period in which they are incurred.

B.

i. Since the business of the partnership is in agriculture, the turnover of FRW 12,000,000 is exempted from tax and the remaining (FRW25,000,000-12,000,000=FRW 13,000,000) is subject to the CIT and partnership is taxed as company at the rate of 30%.

The total tax payable will be $FRW 13,000,000 * 30\% = \mathbf{FRW 3,900,000}$.

ii. Since James is not a Rwandan the profits that has been received is subject to WHT of 15%

WHT to be payable = $\{(13\text{Million} - 3.9 \text{ million}) * 50\% \} * 15\% = 682,500$

SECTION C

QUESTION 13.

Marking Guide

Description	Marks
a. 1 mark for each condition for being granted a period of more than 5 years to carry out loss incurred (Maximum 4 marks)	4
b. 0.5 marks for each line under losses to be carried out and adjusted taxable income for each period	5
c. (i) 1 mark for the meaning of Real, flat and lumpsum tax regimes	3
(ii) 2 marks for criteria and 1 mark for showing tax payable 2018	3
(iii) (a and b) 3 marks for computation of tax payable 2019 and 2 marks for stating the due date for 2018 and 2019	5
Total Marks	20

Model Answers

a. The following are the conditions to be fulfilled by a taxpayer for him/her to be granted a period of more than 5 years to carry out losses incurred as set out in the ministerial order no 006/19/10/TC of 29/04/19.

1. Submit a written application to the Commissioner General of Rwanda Revenue Authority for carrying forward the loss for more than five (5) tax periods.
2. Submit his or her application with the declaration of tax for the fifth tax period;
3. Present sound reasons that caused the loss for which he or she is requesting to carry forward and reliable strategies to overcome such a loss;
4. Prove that the loss was derived from the investments carried out;
5. Submit the certified financial statements of the tax period corresponding to the loss;
6. Be a credible taxpayer who declares and promptly pays tax and not guilty of tax evasion in the previous five (5) years.
7. Not to have distributed any profits in the previous five (5) years.

b. Loss carries forward is computed as follows:

Description	2016 FRW''00 0''	2017 FRW''00 0''	2018 FRW''00 0''	2019 FRW''00 0''	2020 FRW''00 0''	2021 FRW''00 0''
Net profit or loss	(1,332)	902	(118)	1,070	(2,078)	3,632
Loss carried forward		(1,332)	(430)	(548)	0	(2,078)
Adjusted loss/profit		(430)	(548)	522	(2,078)	1,554

c.

i. The following terms are defined as follows:

✚ **Real tax regime:** This is a category of companies who have an annual turnover of more than FRW 20,000,000.

✚ **Flat tax regime:** This is the category of micro taxpayers who have an annual turnover ranging between (FRW 2,000,001 and FRW 12,000,000).

✚ **Lump sum tax regime:** This is the category of small taxpayer who have a turnover in range between FRW 12,000,001 and FRW 20,000,000).

ii. Since Atete is a micro taxpayer of an annual turnover between FRW 4,000,000 and FRW 7,000,000, the tax payable for the period of 2018 is **FRW 120,000 if she opts for flat regime**

iii. The turnover of Mrs Atete in 2019 was FRW15,000,000, she will be taxed on lumpsum basis of 3% on turnover. i.e $15,000,000 \times 3\% =$ **FRW 450,000**

IQP that was paid in 2019 is FRW60,000

Then the total tax payable is $FRW 450,000 - FRW 60,000 =$ **FRW 390,000**

Deadline for paying Income tax of 31/12/2018 is not later than **31/03/2019**

Deadline for paying Income tax of 31/12/2019 is not later than **31/03/2020**

QUESTION 14

Marking Guide

Description	Marks
a. 3 marks for differentiate between capital and revenue expenditures and 2 marks for their effects on taxable profits	5
b. Award 1 ark for each conditions for bad debts to be an allowable expense and 2 marks N.B	5
c. Award 2 marks for transfer pricing rule and its impact	2
d. Award 1 mark for each computation of Transfer pricing Adjustment	3
e. Award 0.5 marks for each Journal entries	5
Total Marks	20

Model Answers

a. **Capital expenditures** are typically one-time large purchases of fixed assets that will be used for revenue generation over a longer period while **Revenue expenditures** are the ongoing operating expenses, which are short-term expenses used to run the daily business operations.

Examples of capital expenditure are **construction or purchase cost of office property, machines**, etc. while **employee salaries, cost of supply** etc are considered as revenue expenditure.

Capital expenditure is not deductible in when computing taxable income unless its cost is 500,000 and less. Accounting depreciation of the corresponding assets bought is also not deductible unless they are computed using tax depreciation rate.

Revenue expenditures are allowed to be deducted from taxable income and should fulfil the conditions set out in the article 25 of the law no 16 of 13/04/2018

b. The following are conditions Bad debts must fulfill to be an allowable expense according to the article 31 of the law no 16 of 13/04/2018 on income tax:

1. If an amount corresponding to the debt was previously included in the income of the taxpayer;
2. If the debt is written off in the books of accounts of the taxpayer;
3. If the taxpayer has taken all possible steps in pursuing payment and has shown a court decision declaring the insolvency of his/her debtor.

N.B: For an individual whose debt is less than three million Rwandan francs (FRW 3,000,000) in addition to the conditions referred to in points 1° and 2° of Paragraph One of this Article, the taxpayer must provide proof that he has taken all reasonable steps over a period of three (3) years to recover the debt

c. Transfer pricing rule state that the purchase price of goods and services that was paid by Rwandan business to the related parties must be on an arm's length principle i.e should not exceed the amount that would have been paid to an independent third party.

The tax Administration has the power to adjust taxable business profit if taxpayer failed to retain documents justifying the prices charged on the transactions between themselves and their related parties.” **Impact of transfer pricing”**

d.

RB paid FRW 30,000,000 Management fees to the parent company

This is 10% higher than what other companies in the same industry pays i.e

$$X + 0.1X = 30,000,000$$

$$1.1X = 30,000,000$$

$$X = 30,000,000 / 1.1 = \text{FRW } 27,272,727$$

Tax administration will increase RB business taxable income by $(30,000,000 - 27,272,727) =$
FRW 2,727,273

e.

***On 02/01/2021**

Dr Purchases 13,656,750

Cr Account payable 13,656,750

(Being a purchase of goods from foreign supplier)

***On 03/01/2021**

Dr Account receivable 7,288,080

Cr sales 7,288,080

(Being a sale to the customer)

***On 10/01/2021**

Dr Bank 7,305,840

Cr Account receivable 7,288,080

Cr Exchange gain/loss 17,760

***On 15/01/2021**

Dr Account Payable	13,656,750
Dr Exchange gain/loss	54,000
Cr Bank	13,710,750
Exchange difference that will be taxable is	FRW 17,760
Exchange difference that will be Deductible is	FRW 54,000

QUESTION 15

Marking Guide

Marks

Computation adjusted income chargeable to CIT (A)

Calculation of 20% telephone addbacks	2
Fines and penalties	1
Calculation of donation exceeding 1%	2
Bad debts added back	2
Calculation of donation exceeding 1%	1
Treatment of 12% Closing stock	2
Computation of tax payable	2
Maximum marks for this section	12

(B)

Advise on the actions to be undertaken by Imena after the audit conclusion	2
Drafting of appeal letter to commissioner General	6
Maximum marks for this section	8
Total Marks	20

Model Answers

a.

Description	Amount FRW	Amount FRW
Taxable income Declared		148,350,000
Add: Non-deductible expenses		
20% of telephone charges	2,100,100	
Fines and penalties	28,000,000	
Donation Excessing 1% of turnover (15,000,000-13,817,740)	1,182,260	
Increase in provision for bad debt	3,000,000	
Bad debts written off	28,000,000	
Management fees exceeding 2% of turnover (29,000,000-27,635,480)	1,364,520	
Add 12% of Closing stock not supported (12%*219,489,000)	26,338,680	
Total add back		89,985,560
Total Adjusted taxable income		238,335,560
Adjusted tax payable @ 30%		71,500,668

b. If the taxpayer is not satisfied with the audit results, he/she addresses the appeal to the Commissioner General of Rwanda Revenue Authority within 30 days clearly indicating the reasons why taxpayer is not satisfied with audit results. The appeal should be made to the Commissioner General of RRA, on address KG 4 Ave 8, KIMIHURURA, and P.O.Box 3987 Kigali, Rwanda.

N.B: Appeals submission are made online using the link <https://etax.rra.gov.rw/>, login using Company TIN and password then click on APPEAL button to proceed case.

c. Draft of the Appeal letter

The Commissioner General

Rwanda Revenue Authority

P.O BOX.....

Kigali-Rwanda

Date.....

In the matter of Imena Company Ltd

TIN

P.O BOX

Kigali-Rwanda

SUBJECT: APPEAL ON THE FINAL NOTE FOR RECTIFICATION ON CIT FOR THE PERIOD OF 2018

In conformity of the article **48 of the law no 026/2019 of 18/09/2019** on tax procedures, we have the honor to file our appeal on the final note for rectification issued by RRA.

FINANCIAL YEAR 2018 CIT

ANALYSIS OF BUSINESS INCOME

The amount worth FRW48,000,000 were reversals that were initially credited on our account but later this amount was reversed in our account but RRA Auditors considered this as our sales.

Yours Sincerely

END OF MARKING GUIDE AND MODEL ANSWERS