



ICPAR
Unlimited possibilities

CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.3 TAXATION

DATE: FRIDAY, 29 JULY 2022

INSTRUCTIONS:

1. Time Allowed: **3 hours.**
2. This examination has **three** sections: **A, B and C.**
3. Section A has **10** multiple choice questions equal to 2 marks each.
4. Section B has **2** questions equal to 10 marks each.
5. Section C has **3** questions equal to 20 marks each.
6. All questions are compulsory
7. Question paper should not be taken out of the examination room

TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

Personal Income Tax Rates (PIT)

Monthly Taxable Income		Tax Rate	Annual Taxable Income		Tax Rate
From (FRW)	To (FRW)	%	From (FRW)	To (FRW)	%
0	30,000	0	0	360,000	0
30,001	100,000	20	360,001	1,200,000	20
100,001	and above	30	1,200,001	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

RSSB contribution - Pension

Employer’s contribution	5%
Employee’s contribution	3%

RSSB contribution – Maternity leave

Employer’s contribution	0.3%
Employee’s contribution	0.3%

Corporate Income Tax Rate: 30%

Capital gains tax

Net aggregate gains are taxable at the company rate of tax

Gains on sale of shares are taxable at the rate of 5%

Value Added Tax Rate: 18%

Withholding tax

Standard	15%
Government securities	5%
Import	5%
Public Tender	3%

Gaming tax: 13%

Capital allowance

Description	Rate
Accelerated depreciation	50%
Wear & Tear Allowance	
Buildings, heavy industrial equipment and machineries	5%
Intangible assets	10%
Information and communication systems whose life is over ten (10) years	10%
Computers and accessories, information, and communication systems whose life is under ten (10) years	50%
Other business asset	25%

SECTION A

QUESTION ONE

Article 17 of the law no 026/2019 Of 18/09/2019 requires any person who carries out any taxable activity to issue an invoice generated by an electronic invoicing system certified by the Tax administration.

Which of the following is excluded from the obligations of the user of electronic invoicing system?

- i. To possess an electronic invoicing system;
- ii. To issue an electronic invoice to the buyer who request for electronic invoice
- iii. To indicate real name of goods and related tax rates on the electronic invoice for VAT registered persons;
- iv. To indicate real name of goods and related prices on the electronic invoice for VAT unregistered persons;
- v. To notify the Tax Administration of failure of electronic invoicing system within a time not exceeding six (6) hours;
- vi. To refrain from deleting invoice except for sound grounds.

- A (i) only
B (iii) only
C (iv), (v), and (vi)
D (ii) only

(2 Marks)

QUESTION TWO

Mulindi Company Limited (MC Ltd) is registered in Rwanda and is subject to pay its management fees worth FRW 135,500,000 to the parent company in Mauritius where Government of Rwanda has signed Double taxation agreement (DTA) and MC Ltd is supposed to withhold on that payment,

Which of the following will be tax liability of MC Ltd?

- A FRW 20,325,000
B FRW 13,550,000
C FRW 16,260,000
D None of the above.

(2 Marks)

QUESTION THREE

Gakire Company Limited (GC Ltd) has employed the following persons in the month of January 2022 and had paid them as follows:

- i. Kamana has received FRW 100,000 from GC Ltd and he is not registered with Tax Administration.
- ii. Kalisa has received FRW 500,000 from GC Ltd and has been registered with tax administration but does not have a previous income tax declaration.
- iii. Kaliza has received FRW 300,000 from GC Ltd but she has declared null taxes.

Choose the payment that is subject to the Withholding tax of 15%?

- A (i) only
- B (i) and (ii)
- C (iii) only
- D All of the above

(2 Marks)

QUESTION FOUR

Kibira Company Limited's share capital as at 31/12/2019 were worth 10,000 shares at FRW1000 per each. During the year, Kibira Company Limited decided to sell all its share and proceed from the sale worth FRW 13,000,000, the company wishes to declare and pay the corresponding capital gain tax.

Which of the following amount will be capital gain tax payable at Rwanda Revenue Authority?

- A FRW 650,000
- B FRW 150,000
- C FRW 500,000
- D None of the above

(2 Marks)

QUESTION FIVE

Which of the following payments are not included in the calculation of taxable employment income of an employee?

- i. The discharge or reimbursement of expenses incurred by the employee or his/her associate wholly for business activities of the employer or those that are deducted or would be deductible in calculating the employee's income from all his/her business activities;
- ii. Contributions made by the employer for the employee to the public institution in charge of social security;
- iii. Pension payment from the public institution in charge of social security or from a qualified pension fund;

iv. Employment income received by an employee who is not a Rwandan citizen from a foreign Government or a nongovernmental organization under an agreement signed by the Government of Rwanda, when the income is received for the performance of aid services in Rwanda;

v. Employment income received from an employer who is not a resident in Rwanda by a non-resident individual for the performance of services in Rwanda, unless such services are related to a permanent establishment of the employer in Rwanda.

- A (i) and (ii)
- B (iv) and (v)
- C (ii) and (iii)
- D All of the above

(2 Marks)

QUESTION SIX

KALISA Company Limited has offered to its employees the following payment at the end of the month of January 2021.

- i. Olive has received a monthly salary plus a one-month bonus due to her performance.
- ii. Jane has received her basic salary with FRW 150,000 of reimbursed expenses that she has spent in the business of the company.
- iii. John has received his basic salary with FRW 500,000 termination benefits because his contract terminated.
- iv. Keza has received her basic salary and one company car to use in her affairs.

From the above scenario, choose the employee who received the income that is both taxable and exempt from employment income.

- A (i) only
- B (ii) only
- C (iii) only
- D (iii) and (iv)

(2 Marks)

QUESTION SEVEN

As at 31 December 2020 Mutobo Company Limited (MC Ltd) recorded the service fees cost worth FRW 28,000,000 in the books of account obtained from its parent company located in outside of the country, however due to the cashflows constraints there is no payment that was made and the service fees were accrued in the books of accounts as at 31 December 2021.

Which of the following figures qualifies to be a withholding tax due to RRA?

- A FRW 4,200,000
- B FRW 0
- C FRW 2,800,000
- D None of the above.

(2 Marks)

QUESTION EIGHT.

James Company Limited (JC Ltd) is a registered taxpayer who runs a consulting firm in Rwanda, during the month of December 2020, JC Ltd employed the following persons and paid them net of Withholding taxes of 15% as follows:

- i. Eagle who is a citizen of Kenya has received the FRW 1,000,000.
- ii. Amza a Rwandan consultant who is not registered under tax administration has received FRW 3,000,000.
- iii. George who is an independent consultant and has been registered under tax administration but does not have a recent income tax declaration has received FRW 2,000,000.
- iv. King one of the shareholders who registered in Rwanda Revenue Authority (RRA) and with a unique Taxpayer Identification Number (TIN) has provided a service to James Company Limited and has received FRW 2,500,000.

Which of the above payment is not subject to the withholding tax?

- A (i) only
- B (i) and (ii)
- C (iv) only
- D (i), (ii), and (iii)

(2 Marks)

QUESTION NINE.

Karake Company Limited a sole trader has 3 employees of which he pays the employment income, in the month of December, the due date for declaring and paying tax of employment income that was received in the month of December 2021 was on Saturday 15, 2022 and he failed to declare because it was on weekends and he lately declared and paid the due tax on Tuesday 18 January, 2022 and has been charged with fines and penalties of late declaration.

Which of the following date was due date for declaring and payment of PAYE?

- A 16/01/2022
- B 17/01/2022
- C 18/01/2022
- D 15/01/2022

(2 Marks)

QUESTION 10

Which of the following entities are not subject to Corporate Income tax?

- A Ets co Limited that imports sugar, cooking Oil and salt and sell them to the retail and wholesalers.
- B Navigation Co that provides Human resource services to the different clients in Rwanda
- C Gasabo District's conference hall with its unique TIN that is rented to the staff of the district and other people in the country.
- D None of the above

(2 Marks)

SECTION B

QUESTION 11

The following are the extracts from Mirimo Company Limited (MC Ltd) payroll for the month of April 2022.

S/N	Employee First Name	Basic Salary in FRW	Transport Allowance in FRW	Housing Allowance in FRW
1	Joseph	1,032,000	147,429	147,429
2	Jean Baptiste	143,400	20,486	20,486
3	Octave	173,400	24,771	24,771
4	Emmanuel	235,000	33,571	33,571
5	Claude	276,000	39,429	39,429
	Total	1,859,800	265,686	265,686

Additional information:

1. A company has contributed to a qualified fund known as Alliance a staff retirement benefits of 80% of the basic salary for each employee.
2. Emmanuel and Octave have borrowed FRW 3,000,000 and FRW 2,500,000 respectively from the company for their own use at interest rate of 2% per annum, a rate offered to commercial banks by the National Bank of Rwanda is 8% per annum.

Required:

- a) **Compute a total taxable employment income (Gross salary) for each employee as at April 2022** (7 Marks)
- b) **Based on the computation in (a) above, calculate a total tax payable to RRA and indicate the deadline for paying the calculated tax.** (3 Marks)
(Total: 10 Marks)

QUESTION 12

(a) Kanyamibwa is a sole trader who is operating in Kigali City, in the year ended 31 December 2020 She made a sales turnover worth FRW 30,000,000 and has incurred the following operating expenses:

S/N	Descriptions	Amount
1	Wages and salaries	1,000,000
2	Telephone bills	300,000
3	Transport	200,000
4	House rent	600,000
5	Depreciation of assets	3,000,000
6	Drawings	2,000,000
7	Fuel of his own car	1,500,000
8	School fees of his children	300,000
	Total	8,900,000

Additional information;

1. It is not possible to separate telephone bills related to business and private
2. The assets were depreciated based on the rate as per provision of the income tax law.

Required:

- i. Differentiate between sole traders and partnership and elaborate their basis of tax assessment. (2 Marks)
- ii. Compute the taxable income for Kanyamibwa. (3 Marks)
- iii. States the conditions that an expense should fulfill for it to be allowed as a deductible expense from taxable business profit, and give two examples of non-deductible expenses according to the article 25 and 26 of the law no 16 of 13/04/2018 establishing taxes on income in Rwanda. (2 Marks)

(b) Hingaweze is a Rwandan partnership of 2 two farmers namely James a Ugandan resident and John a Rwandan resident and they were engaged in the production of fresh maize, banana and sorghum, in the year ended 31 December 2020, their turnover was FRW 25,000,000 and they agreed to share the profit on the ratio of 50:50 and to distribute all the profits after tax

Required:

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

(Total: 10 Marks)

SECTION C

QUESTION 13

(a) The article 32 of the law n^o 16 of 16/04/2018 states that if the computation of business profit results in a loss in a tax period, the loss may be deducted from the business profit in the next five (5) tax periods, earlier losses being deducted before later losses. However, the Tax Administration may authorise the taxpayer who so applied for, the loss carried forward of more than five (5) tax periods if s/he fulfils requirements determined by an order of the Minister.

Required:

Explain the conditions to be fulfilled by a taxpayer for him/her to be granted the right to carry forward the loss incurred in the period of more than 5 years. (4 Marks)

(b) The following is an extract of income statements of Cyubahiro Comany Limited in the period from 2016 up to 2021 that shows the performance of the company for each period

Extract of Profit and loss accounts

Description	2016 FRW "000"	2017 FRW "000"	2018 FRW "000"	2019 FRW "000"	2020 FRW "000"	2021 FRW "000"
Gross Profit	2,828	2,676	4,413	4,823	5,161	7,230
Other Income	65	928	0	0	0	0
Total Income	2,893	3,604	4,413	4,823	5,161	7,230
Operating Expenses	4,059	2,489	4,332	3,595	7,106	3,457
Depreciation	166	213	199	158	133	141
Total Expenses and Depreciation	4,225	2,702	4,531	3,753	7,239	3,598
Net profit or loss	-1,332	902	-118	1,070	-2,078	3,632

Required:

Calculate the adjusted net profit or loss for each period considering that the loss of 2016 is carried out forward according to the taxation laws of Rwanda. (5 Marks)

(c)

i. Define the following terms that are used in Rwanda taxation law:

- Real tax regime
- Flat tax regime and
- Lump sum tax regime

(3 Marks)

ii. In the period ended 31 December 2018, the books of account of Atete who is a sole trader operating in Rubavu City has an annual turnover of FRW 5,000,000 and expenses worth FRW 2,000,000.

Required:

Calculate the income tax payable for the period of 2018. (3 Marks)

iii. Later in 2019, the business has grown up and the turnover was increased from FRW 5,000,000 up to FRW 15,000,000 and expenses also were increased from FRW 2,000,000 to FRW 7,000,000 while the quarterly prepayment was FRW 60,000.

Required:

a. **Calculate the tax payable for the period of 2019.** (3 Marks)

b. **Advise Mrs Atete on which date the due tax of 2018 and 2019 will be paid?** (2 Marks)

(Total: 20 Marks)

QUESTION 14

a. **With practical examples differentiates between Capital expenditures and revenue expenditures and indicate how each of these affects taxable business profits.** (5 Marks)

b. According to the article 31 of the law no 16 of 13/04/2018 on income tax, Bad debts to be an allowable expense must fulfill some conditions. **Explain those conditions.** (5 Marks)

c. **Explain the impact of the term “transfer pricing rule”** (2 Marks)

d. Rino Business Limited (Rwanda) (RBL) is a registered company in Rwanda and it is a subsidiary of Rino Business Limited based in Kenya, RBL pays its management fees to the parent company (RBL Kenya) amount worth FRW 30,000,000 per annum as per the agreement, this figure is 10% higher than what other companies in the same industry pay for the same services to their parent’s companies.

Required:

As per the transfer pricing rule, calculate the transfer pricing adjustment if any (3 Marks)

e. Amini Company Limited (ACL) has made the following transactions during the month of January 2021:

a) 2/01/2021 Purchased goods from foreign suppliers worth 15,000 USD on credit

b) 10/01/2021 Received payments from main customer worth 8,000 USD, the goods were supplied on 03/01/2021.

c) 15/01/2021 paid his supplier the amount worth 15,000 USD

The exchange rate are as follows; (RWF per USD)

2/01/2021 910.45

3/01/2021 911.01

10/01/2021 913.23

15/01/2021 914.05

Required:

Prepare Journal entries and indicate the exchange difference that would be taxable or deductible for ACL

(5 Marks)

(Total: 20 Marks)

QUESTION 15.

Imena Company Limited is a registered company operating in Kigali city and it sells tyres and Batteries to different customers in Kigali and outside of Kigali. The following information was presented as at 31 December 2018.

Profit and Loss account as at 31/31/2018

Description	2018
Business Revenue/Sales	1,381,774,000
Opening Stock	167,777,000
Purchases	842,562,000
Closing Stock	(219,489,000)
Cost of Goods/Services sold	790,850,000
Gross Profit	590,924,000
Operating Expenses	452,184,000
Net Operating Income	138,740,000
Other income	9,610,000
Taxable Income	148,350,000

Additional information:

1. The audit found that 12% of the closing stock was not supported by evidences
2. Included in the operating expenses are:
 - The telephone charge worth FRW 10,500,500.
 - Fines and penalties worth FRW 28,000,000 incurred by the company.
 - Donation worth FRW 15,000,000 that was given to the charitable organizations
 - Provision for bad debts that was increased FRW 12,000,000 to FRW 15,000,000 and this is under operating expenses.
 - Bad debt worth FRW 28,000,000 that was written off from the books of accounts and there were no steps undertaken by Imena co Limited to recover the debts
 - Management fees worth FRW 29,000,000 that was paid to the parent company in Belgium.

Required:

(a) Compute the adjusted taxable income and the tax payable for Imena Limited for the period ended 31 December 2018. (14 Marks)

(b) Rwanda Revenue Authority conducted a tax audit for Imena Company Limited and The Company was not satisfied with the audit results and is not aware of what actions should be undertaken. As a tax expert, advise the company on what to do in case a taxpayer is dissatisfied with audit results? (2 Marks)

(c) As a tax expert, prepare an appeal letter addressing the issue raised in (b) above to Rwanda Revenue Authority. (4 Marks)

(Total: 20 Marks)

End of question paper