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**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3 ADVANCED TAXATION

DATE: MONDAY, 25 JULY 2022

INSTRUCTIONS:

1. Time allowed: **3 hours and 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
7. The 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

Golden General Insurance Rwanda Limited (GGI) is a Rwandan Insurance company offering various General insurance products both individual and corporate. The company is 100% subsidiary of Kaizen General Insurance (KGI) based in South Africa. In 2020, the company struggled in the first year in operations of 2019 with a loss of FRW 75 million. Being a startup there is a lot of manual processes and the Management is working on automating most of their operations, The Board has advised to have a tax specialist to ensure the company does not have any tax exposure.

Below is a summary of GGI's Profit or Loss statement for the year ended 31 December 2020

Account	Notes	FRW '000	FRW'000
Gross premium	1	3,146,330	
Investment income	2	436,407	
Fees and commissions and other income	3	377,141	
Total sales and other income			3,959,878
Cost of sales		(1,573,933)	
Employee benefits expense	4	(1,060,955)	
Director's sitting allowances	5	(113,928)	
Depreciation on property and equipment	6	(206,266)	
Legal, Professional & Audit fees	7	(298,960)	
Rent expenses	8	(27,943)	
Motor vehicle & Utility expenses	9	(94,771)	
Other administration expenses	10	(352,135)	
Total expenses			(3,728,891)
Profit / (Loss) before tax			230,987

Notes:

1. Gross premium is classified as the following:

Details	FRW '000'
Gross written premium	3,636,504
Change in Unearned premium - actuarial estimates & contract provisions	153,465
Change in Unearned premium - reasonable estimate based on past experience	63,227
Reinsurance ceded - loan cover	(813,639)
Reduction in premium for unexpired risks	106,773
Total	3,146,330

2. **Investment income** is from different investments as listed below, net of respective withholding taxes where applicable.

Details	FRW '000'
Interest from investment in treasury bonds, maturing in 2 years	90,000
Interest on fixed deposits with commercial banks in Rwanda	120,294
Dividends from investments in shares, listed on Rwanda stock exchange	82,100
Capital gains from sale of shares held at NDD investments, already in secondary market	144,013
Total	436,407

3. **Fees, Commissions, and other income** is made up of the following:

Details	FRW '000'
Commissions on reinsurance ceded	250,000
Fair value gain on financial assets	62,019
Foreign exchange gain on investments in USD	12,000
Decrease in provision for untaken leave days	31,873
VAT receivable on supplier invoices	21,249
Total	377,141

4. Included in employee benefits is FRW 35 million Bonus payout to commercial team for hitting 2020 targets, corresponding provision was made in 2019 but was not allowed for tax purposes. Another FRW 42 million provision is included in 2020 to be paid out in May 2021 if ratified and approved by the Board.

5. Directors' sitting allowances is gross amount and GGI used to deduct the 15% of withholding tax (WHT) and then the directors are paid net amount of WHT, and the company expenses the gross amount.

6. **Depreciation breakdown** is summarized as below, amounts in FRW'000

Non-Current Assets	Original cost	Annual depreciation	Additions in 2020	Tax Written Down Value (TWDV) as at 01 January 2020
Investment in Land	878,294	-	249,075	878,294
Fair value of land	108,082	-	-	108,082
Buildings	928,963	66,005	282,285	883,926
Computer equipment	22,652	18,564	14,695	11,326
Other assets (pooled)	665,290	121,697	82,500	221,763
Total	2,603,281	206,266	628,555	2,103,391

7. Legal and professional services breakdown

Details	FRW '000
2020 legal consultancy retainer per contract	100,000
General provision for compensation in court case with a dismissed staff	91,030
Advance payment to software developer to be done in 2021	107,930
Total	298,960

8. Rent expense is done using IFRS 16 model developed by external auditor, the total cost indicated above is a breakdown of:

Details	FRW '000
Amortization - Right to use asset	13,250
Finance cost - Lease liability	14,693
Total	27,943

Rent contract is on a fixed monthly fee of FRW 2,500,000

9. Motor vehicles and other utilities include the following:

Details	FRW '000
Repair and maintenance	33,209
Vehicle running expenses - Fuel	23,210
Vehicle running expenses - Insurance	21,000
Utility Expense - Electricity	2,300
Utility Expense - Other utilities	14,552
Number plate registration cost for new Vehicle	500
Total	94,771

10. Included in other administrative expense is import Value Added Tax (VAT) of FRW 92 million for importation of purchased assets, this VAT is not recoverable. Also, interest expense incurred on loan acquired to construct a new Building, this is portion incurred after construction works were completed hence the CFO decided to expense it.

Required:

a) Compute the taxable income and the corresponding income tax payable thereof, as at 31 December 2020 (30 Marks)

b) The company accommodates two senior Managers Davis and Denzel in furnished company apartments and rents an SUV car at FRW 1,000,000 per month for Davis while Denzel drives a fueled company vehicle; this vehicle has an estimated carrying amount of FRW 20,000,000. These were part of their negotiated contractual benefits. Their respective gross salaries are as follows:

- Davis: FRW 8,700,000 per month
- Denzel: FRW 8,250,000 per month.

Required:

Advise the company on tax treatment of these benefits by calculating the respective taxes payable on their salaries? (10 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

(a) The Rwandan tax law and other tax laws in other countries generally provide room for tax planning, **describe key considerations for an investor who wants to choose between raising capital from a bank loan and convincing shareholders to invest more equity in the business.** (5 Marks)

(b) Kunda u Rwanda is an agriculture tourism company that has secured an investment certificate from Rwanda Development Board and has been accorded all corresponding fiscal and non-fiscal incentives. To smoothly run their operations, the company needs a at least one high power Vehicle, preferably a 7-seater mini-van.

The company has a cash budgeted cash of FRW 70,000,000 for a brand new one. However, the Financial Controller has advised to go for a financing lease with one the local banks in the interest of minimizing pressure on cash flow, being a startup.

The Bank has offered a finance lease with the following terms.

- FRW 20,000,000 per year
- Period: 4 years
- Interest rate: 15% per year

The Brand-new minivan is expected to be fully depreciated at the end of year 5.

The company does a four-year finance-planning round, and has estimated the Earnings before interest, tax, depreciation and amortization (EBITDA) for the next four years to be as follows:

- Year 1: FRW 20,000,000
- Year 2: FRW 35,000,000
- Year 3: FRW 30,000,000
- Year 4: FRW 25,000,000

Hint: Present Value Factor for an ordinary Annuity

Years	Interest rate at 15%
4	2.8550

Required:

With detailed calculations, **Advise the company on the best option between upfront buying of the Vehicle and acquiring it via financing lease if it wants to minimize tax liability?**

(15 Marks)

(Total: 20 Marks)

QUESTION THREE

Rwanda great foods is a manufacturing company running a world class fortified food processing factory for infants and breast-feeding mothers. The company imports a number of plants related major parts and technical expertise but purchases majority of their raw materials in Rwanda with a small percentage imported from Brazil. Main clients are World Food Programme and Government of Rwanda plus other retail clients. Below is a summary of their transactions for the month of December 2021;

Name of business partner	Nature	Description of product / service	Location	Currency	Invoice Amount
Ministry of Health	Customer-Public	Fortified blended food-Infants	Rwanda	FRW	350,000,000
Nyarugenge Hospital	Customer-Public	Fortified blended food-Mothers	Rwanda	FRW	415,000,000
Bralirwa	Customer Corporate	Unprocessed maize grains	Rwanda	FRW	95,300,000
Pro-foods Rwanda	Customer Corporate	Fortified blended food-Mothers	Rwanda	FRW	6,600,000
Word Food Program	Client-International	Fortified blended food-Infants	Italy	EUR	250,000
Word Food Program	Client-International	Fortified blended food-Mothers	USA	USD	295,000
Minani Gaspar	Client-Indiv	Fortified blended food-Infants	Rwanda	FRW	5,500,000
Agro maize Coop	Vendor-local	Maize grains	Rwanda	FRW	120,000,000
Agro maize Coop	Vendor-local	Soy bean grains	Rwanda	FRW	235,000,000
Food goes to Rwanda	Vendor-local	Skimmed Milk Powder	Rwanda	FRW	135,000,000
Hi Technology	Vendor-Foreign	Boiler Maintenance	Germany	EUR	65,000
Pack masters	Vendor-Foreign	Packaging line scheduled maintenance	Switzerland	EUR	50,000
Global Research LLC	Vendor-Foreign	Product development research in Rwanda and region	Switzerland	EUR	85,000
Asante Advocates	Vendor-Foreign	Trademark registration in Tanzania	Tanzania	USD	2,500
MK Estates	Vendor-local	Raw Material warehouse rental	Rwanda	FRW	25,000,000
MTN	Vendor-local	Staff airtime and Internet	Rwanda	FRW	5,200,000

Name of business partner	Nature	Description of product / service	Location	Currency	Invoice Amount
Canal Box Rwanda	Vendor-local	Home based internet routers for staff	Rwanda	FRW	900,000

Additional information:

1. All maintenance works relating to the processing plant have been approved by Government to not be available in Rwanda since plant suppliers are based in Europe as well, this ranges from all processing plant, boiler and packaging machine maintenances.
2. The exchange rates applied were FRW 1,200: EUR and FRW 1,025: USD respectively.
3. Unless specifically mentioned, the amounts above are exclusive of taxes.
4. The company holds a valid tax clearance certificate for both withholding on importation and on public tenders.

Required:

(a) Compute the VAT payable / claimable. (16 Marks)

(b) Calculate the corresponding withholding tax on imported services, please note that the company has sought special treatment approved by Ministry of Finance and Economic Planning of not paying withholding tax on services available in Rwanda.

(4 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) Blue Channel/Gold card facility is one of the international best practices that is customized by Customs administrations across the globe. It is one of the recommended trade facilitation schemes advanced by international reputable institutions such as the World Trade Organization, World Customs Organization, the World Bank and the International Monetary Fund to facilitate compliant taxpayers by not making a physical and documentary verification at the time of importations when goods are in Customs territory, but rather subject them to Post Clearance Audit.

Required:

In reference to the above paragraph, **explain how Blue Channel facility works in Rwanda; highlighting the beneficiaries, criteria for qualification, how the facility benefits taxpayers and RRA, and under what circumstances may taxpayers be denied this facility?** (10 Marks)

(b) Wu-lang Ltd is a Chinese Vehicles and other merchandize dealer that has recently opened operations in Rwanda, strategically to target future green mobility due to recent incentives on Electric Vehicles. The Company has recently imported different consignments with details below:

- 2 Containers of high-quality wines for whole sale purposes in Rwanda from South Africa, each container carries 2,000,000 Litres of Wine, with each Litre purchased at \$5 from the factory in South Africa, price includes sea flight & port charges to Dar es Salaam port.
- 2 Containers of hybrid electric saloon cars imported from China, at a cost of \$14,000 per unit CIF-Kigali. Each container carries 3 units.

Consider the following;

- Road transport + Insurance from Dar es Salaam port to Kigali is \$2,000 per container
- The exchange rate to be used is FRW 1,250: USD
- Import duty is 25%

Required:

(i) Calculate the related import taxes on the importation of wines consignment? (6 Marks)

(ii) Describe import tax incentives available for importation of hybrid electric Vehicles in Rwanda, and compute corresponding taxes if any? (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

On 14 December 2020, the Minister of Finance and Economic Planning of the Government of Rwanda gazetted the Ministerial Order No 003/20/10/TC of 11/12/2020 which establishes general rules on transfer pricing between related persons involved in controlled transactions (TP Rules). **Write brief notes on the following:**

(a) Under what circumstances will the transfer pricing documentation be deemed necessary? (6 Marks)

(b) Transactions subject to transfer pricing adjustments? (4 Marks)

(c) Beneficial tax regime? (4 Marks)

(d) Transfer pricing (TP) documentation, timing and submission of the TP documentation and the threshold for TP documentation? (6 Marks)

(Total: 20 Marks)

End of Question Paper

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