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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 2 EXAMINATIONS**

**F2.4: TAXATION**

**DATE: MONDAY, 25 JULY 2022**

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**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 working**
- 5. 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%
<b>Wear &amp; Tear Allowance</b>	
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%



## QUESTION ONE

The following is the Value Added Tax (VAT) return for Kanombe Manufacturers Limited for the tax period ended 31 July 2021

<b>Outputs</b>	<b>FRW</b>
Standard Rated	25,000,000
Zero rated	0
Exempt	0
	<b>25,000,000</b>
<b>Inputs</b>	
Local Purchases	8,500,000
Imported Purchases	16,000,000
	<b>24,500,000</b>
<b>Excess of outputs over inputs</b>	<b>500,000</b>

Your audit of this VAT return revealed the following information:

- (i) VAT on local purchase invoices dated February 2019 totaling FRW 1,700,000 have been claimed
- (ii) VAT on exports totaling FRW 3,100,000 have not been reported ;
- (iii) VAT on a credit note issued by Kanombe Manufacturers Limited for FRW 480,000 in respect of goods returned by a customer has been included in outputs ;
- (iv) VAT on repairs to a company passenger vehicle costing FRW 900,000 have been included in input VAT ;
- (v) An advance receipts/payment of FRW 1,300,000 has not been included ;
- (vi) VAT on importation of a gym equipment costing FRW 230,000 for use by the staff has been claimed ;
- (vii) VAT on Rent received of FRW 750,000 in respect of a residential house has been included in standard rated outputs ;
- (viii) VAT on Hotel bills incurred by a salesman while on a business trip to Gisenyi amounting to FRW 270,000 have been included in inputs

### Required:

- (a) In respect of (i) to (viii) above, comment on the VAT treatment adopted by Kanombe Manufacturers Limited and explain any corrections which are necessary. (10 Marks)
  - (b) Restate the VAT return based on your corrections, starting with the original excess of outputs reported. (5 Marks)
  - (c) Summarise the circumstances or rules of determining when a taxable supply of goods or services, including supply on a continuous basis, own consumption or a person who deregisters from VAT, is deemed to occur for the purposes of charging value added tax (VAT). (5 Marks)
- (Total: 20 Marks)**



## QUESTION TWO

(a) Bob Mugisha owns a clothing business called Kigali Creations. He has presented you with the following information in respect of his first period of trading and has requested that you prepare his tax return for the year ended 30 June 2021:

Details	FRW
Sales	65,000,000
Sales returns	1,800,000
Purchases	38,000,000
Purchases returned to suppliers	780,000
Wages	4,800,000
Rent of shop	1,200,000
Purchase of truck	35,000,000
Purchase of saloon car	20,000,000
Purchase of furniture and fittings	3,800,000
Personal drawings	2,400,000
Other allowable business expenses	820,000
Contribution to personal pension scheme	240,000
Children's school fees	1,800,000
Interest on business bank loan	5,800,000
Interest on late payment of VAT	170,000

The following is relevant:

1. All of the above amounts are stated exclusive of VAT.
2. Closing stock has been valued at FRW 7,400,000. An amount of FRW 1,100,000 in respect of obsolescence is considered reasonable.
3. Bob owns a commercial property and the details of its income and expenditure are :

Details	FRW
Rent received	23,200,000
Insurance paid	2,736,200
Property tax	590,370
Repairs and maintenance	2,500,000

The cost of the commercial property amounted to FRW 72,000,000 and allowances of FRW 64,000,000 have been claimed to date.

**Required:**

**In respect of Bob Mugisha for the tax year ended 30 June 2021:**

- (i) Calculate his chargeable income from rent. (3 Marks)
- (ii) Calculate his chargeable income from Kigali Creations. (9 Marks)
- (iii) Calculate his taxable income. (2 Marks)



(b) Frederick Gasana is employed as a program manager by Retirees Foundation, a charitable organisation operating in Rwanda. The foundation headquarters are based in the United Kingdom. Frederick's salary, which is paid in US Dollars, is transferred directly into his bank account. His annual salary is USD 48,000. The arrangement is that Frederick will pay the respective Pay As You Earn (PAYE) directly to the Rwanda Revenue Authority.

**Other income:**

Director's fees – Umurenge Bank (net) FRW 8,000,000

Dividend from Brwamix Plc (net) FRW 6,500,000

Interest received (Gross) FRW 4,500,000

The interest received was from a fixed term deposit account maintained during the year with Bank of Kigali Plc. The fixed term deposit is for a period of three years.

(i) State when PAYE is due and the penalties that would be payable if PAYE had not been paid on Frederick's salary during the year. (2 Marks)

(ii) State the responsibilities of an employer with regard to the payment of PAYE (2 Marks)

(iii) What is the tax treatment of the other income i.e. director's fees, dividend and Interest income earned by Frederick? (2 Marks)

**(Total:20 Marks)**

**QUESTION THREE**

(a) List six different types of duties and fees with their corresponding rates collected by RRA's Customs department on importation of goods? (3 Marks)

(b) Provide a computation of import taxes assuming value of goods imported (i.e. Cost Insurance and Flight) is equivalent to FRW 100,000. Assuming also a 25% import duty, 5% consumption tax, 18% VAT, 5% Withholding Tax, 1.5% Infrastructure Development Levy, 0.2% Quality Inspection Fees and Africa Union Levy are applicable on the imported goods. (9 Marks)

(c) Explain the features of the East African Customs Union. (4 Marks)

(d) Define rule of origin and explain the nature of goods that are accepted under the rule of origin. (4 Marks)

**(Total: 20 Marks)**



#### **QUESTION FOUR**

**(a) Explain the role of taxation in achieving budgetary objectives. (10 Marks)**

**(b) (i) What is tax incidence?**

**(ii) Suppose the government removes a tax on buyers of a good and levies a tax of the same size on sellers of the good. How does this change in tax policy affect each of the following?**

1. The price that buyers pay sellers for this good.
2. The amount buyers are out of pocket (including any tax payments they make).
3. The amount sellers receive (net of any tax payments they make).
4. The quantity of the good sold. (5 Marks)

**(c) What is taxable capacity and what are the factors that determine the taxable capacity of a country? (5 Marks)**

**(Total: 20 Marks)**

#### **QUESTION FIVE**

**(a) Explain any five types of tax audits that may be conducted by the RRA as provided for in the Income Tax Act. (5 Marks)**

**(b) What is the statutory time limit in which RRA may conduct audits and when can this limit be varied ? (2 Marks)**

**(c) Explain the reasons as to why RRA may decide to conduct a new audit. (3 Marks)**

**(d) In the establishment of the evidence there is always a burden of proof. Explain the burden of proof that lies with the taxpayer and that lies with the tax administrators. (7 Marks)**

**(e) Explain the tax recovery procedures normally conducted by the RRA. (3 Marks)**

**(Total: 20 Marks)**



## QUESTION SIX

(a) **Distinguish between tax evasion and tax avoidance.** (4 Marks)

(b) **Indicate whether the following acts can be considered as tax evasion/tax avoidance or otherwise and explain why?** (6 Marks)

1. Murenzi deposits FRW 6,000,000 in a Fixed Term deposit of three years with Ecobank. As a result of his action no withholding tax is paid on the interest, he earns over a three-year period.
2. Rutabingwa is using a motor car for his personal purposes, but charges as business expenditure.
3. Oxygen industries Ltd installed an air-conditioner costing FRW 2,500,000 at the residence of a director as per terms of his appointment but treats it as fitted in quality control section in the factory. This is with the objective to treat it as property plant and equipment for the purpose of computing depreciation.
4. QS limited maintains a register of withholding tax deduction at source withheld by it to enable timely compliance.
5. Rubavu limited issues a credit notes for FRW 900,000 for brokerage payable to Nshuti who is son of Rubavu Limited's managing director. The purpose is to increase Nshuti's total income for the year to FRW 11,000,000 and reduce the company's income correspondingly.
6. To reduce tax payable, BMK Supermarket paid FRW 2,000,000 as medical insurance premium on the policy for its employees.

(c) Mr. Masozera received the income from the following assets during the year ended 31 December 2020 :

### **Investment in Equities**

1. 100,000 shares of FRW 90 each in Horizon Limited a private company whose shares are not listed at Rwanda Stock Exchange (RSE). During the year ended, Masozera sold 26,000 shares at FRW 150 each.
2. Masozera has 160,000 shares in Quantum a listed company on the RSE market. At the end of the year, the company declared a dividend of FRW 120 per share.
3. He owns 45,000 shares of FRW 150 each in Buranga Limited a company listed on the RSE. During the year he disposed of 20,000 shares at FRW 380 each.
4. He owns shares in CJ limited a private company that is listed at RSE. During the year ended, he received a dividend income of FRW 4,500,000

### **Investment in Fixed Deposit**

5. Invested FRW 15,000,000 in a fixed deposit account in a bank for a period of eight months at an annual interest rate of 9%.
6. Masozera also owns a fixed deposit account in AFRI bank with a maturity of two years, at the end of the year he received an interest income of FRW 3,000,000

### **Investment in Government Security**

7. Received FRW 8,000,000 from the investment in Government bonds with a maturity period of two years.



8. He also invested in government securities with a maturity period of 5 years, during the year he received an interest income of FRW 6,000,000

#### **Investment in other assets and vocations**

9. During the year he sold a copy right of his App innovation at FRW 22,000,000.

10. Masozera also earned FRW 5,000,000 during the year as a Lecturer at one of the local Universities. He has a full time Job working with Space Africa

#### **Required:**

**Compute the relevant withholding taxes.** (10 Marks)

**(Total: 20 Marks)**

#### **QUESTION SEVEN**

(a) Betting House Limited is an online gaming business made the following transactions during the year ended 30 June 2021 for which company requires your advice.

<b>Particulars</b>	<b>FRW</b>
Amount Wagered	850,450,000
Winning Payouts	570,500,450
Salaries and benefits	30,000,000
Allowable general expenses	20,000,000
Interest	60,000,000
Allowable tax depreciation	90,000,000

During the European Championship, Teta betted FRW 500,000 on a football match in the month of July 2021. After the end of the game, she was awarded FRW 2,000,000 by the operator.

#### **Required:**

(i) Calculate Betting House Limited's estimated tax paid during the year on the online gaming activities. (2 Marks)

(ii) Calculate the tax deductible on Teta's winnings and state when tax is due (3 Marks)

(iii) Calculate Betting House Limited's taxable income and state when the company's Corporate Income Tax is due. (5 Marks)

(b) The principles of taxation are those formal guidelines which are widely accepted and/or discussed and should be considered whenever specific laws are proposed, discussed and implemented.

#### **Required:**

**List and discuss at least ten principles of taxation?** (5 Marks)

(c) **List and discuss five advantages of direct taxes.** (5 Marks)

**(Total : 20 Marks)**

**End of Question Paper**