
CERTIFIED PUBLIC ACCOUNTANT**FOUNDATION LEVEL 2 EXAMINATIONS****F2.4: TAXATION****MONDAY: 9 JUNE 2014**

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 workings**

TAX RATES AND ALLOWANCES:

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

Personal Income Tax Rates

Monthly Taxable Income		
From	To	Tax Rate
0	Rwf 30,000	0%
30,001	Rwf 100,000	20%
100,001	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

National Social Security Contribution

Employees contribution	3%
Employer's contribution	5%

Corporate Income Tax Rate

30%

Capital gains tax

Net aggregate gains are taxable at the company rate of tax

Value Added Tax Rate

18%

Annual tax depreciation allowances

Depreciable assets	Rate
Land, fine arts, antiquities, jewellery and any other assets that are not subject to wear and tear or obsolescence.	0%
The cost of acquisition or construction and the cost of refining, rehabilitation, reconstruction of buildings, equipment and heavy machinery fixed in walls	5%
The cost of acquisition or development and the cost of improvement, rehabilitation, and reconstruction of intangible assets including goodwill that is purchased from a third party	10%
Computers and accessories, information and communication systems, software products and data equipment	50%
All other assets (the tax depreciation is granted on reducing balance basis).	25%

Investment Allowance	Rate
Investment within Kigali	40%
Investment within priority sectors, or registered business located outside Kigali.	50%

QUESTION ONE

- a) State the entities which are exempted from corporate income tax according to article “38.3 of LAW N° 16/2005 OF 18/08/2005 2005 “Direct Taxes on Income”(7 marks)
- b) The following figures have been extracted from the books of Bank of Muhazi as at 31 December 2013:
- c)

	Frw”000”	Frw “000”
Interest on loans		200,000
Interest on overdrafts		100,000
Discounts earned on bills discounted		50,000
Commission exchange & brokerage received		10,000
Interest paid on deposits	150,000	
Exchange and commission paid	60,000	
Stationery & advertising	30,000	
Miscellaneous expenses	20,000	
Salaries & wages	80,000	

Additional Information:

- 1) Rebate on bills discounted and purchased for unexpired terms amounted to Frw 50,000.
- 2) A provision for doubtful debts Frw 300,000 is required.
- 3) Included in the miscellaneous expenses is a traffic fine for Frw 200,000 and attendance fees made to the members of the Board of Directors for Frw 400,000
- 4) Included in the commissions exchange & brokerage received is dividend from Yowe Ltd for Frw 2,000,000.
- 5) Bank of Muhazi is a newly listed company on the capital market and sells 40% of his shares to the public.

Required:

- i) Adjusted taxable profit and loss for the year ended 31 December 2013. (10 Marks)
- ii) Calculate the corporate income tax for the year 2013. (3 Marks)

(Total: 20 Marks)

QUESTION TWO

- a) What do you understand by the term resident taxpayer? (2 Marks)
- b) Mr. George Besiimira is a trader in Nyabugogo, Kigali. He recorded a turnover of Frw 5,700,000 per quarter in the year 2011 which doubled to Frw 12,400,000 in the year 2012 and Frw 24,000,000 in 2013. Besiimira has not registered for VAT and he sells tinned milk and tomato sauce only.

Required : What advice would you give to Mr. George Besiimira in relation to VAT? (3 Marks)

- c) State the sanctions applicable to Mr. Besimira for operating without registering for VAT in accordance with the Rwanda VAT legislation. **(3 Marks)**
- d) State the minimum contents of a tax invoice as stipulated in the tax legislation **(4 Marks)**
- e) What are the conditions to be fulfilled for a VAT refund to be given to the taxpayer by RRA? **(4 Marks)**
- f) Describe the process of VAT registration. **(4 Marks)**
- (Total 20 Marks)**

QUESTION THREE

- a) Differentiate between exempted and zero rated goods in case of Value Added Tax Law and give two examples for each category. **(8 Marks)**
- b) XYZ is a limited company registered for Value Added Tax and is engaged in Banking activities. For the month of April 2014, the following information has been provided :

Taxable sales :

Particulars	Amounts (Frw) with VAT
Commissions on loans	4,410,850
Sales of saving bankbooks	494,665
Sales of non tax liability certificates	24,247
Sales of internal notebook checks	141,087
Sales of tax liability certificates	6,881
Sales of bank statements	63,771
Study fees	921,826

Exempted sales :

Particulars	Amounts (Frw)
Interest on advances (loans, overdrafts)	94,406,836
Interest on government securities	36,355
Interest on placement	3,538,700
Net gain arising from foreign currency dealings	1,819,272
Dividend income	18,742,684

Local purchases during the month

Supplier Tin	Supplier Name	Nature of Goods-Services	Amounts with VAT
101890926	Dereva Hotel	Conference room for staff training	2,371,000
102243878	BIGS	Partition	2,507,500
101412024	TOPSEC Investment Ltd	Security	1,679,500
101839309	Nyirabizimana Zilipa	Rent	1,200,000
101497064	Anvirocleaners international	Cleaning	496,749
100024398	Rwandatel	Adbanking connection	360,000
102333526	EWSA	Electricity	180,000
102263282	Paper World	Office stationery	63,000

Additional information:

- Input tax for electricity is allowable at 40%
- VAT tax rate is 18%
- Proportionality of taxable sales over total sales is 4%

Required : Value Added Tax (VAT) payable/refund for the month of April 2014. **(12 Marks)**

(Total: 20 Marks)

QUESTION FOUR

- Differentiate between forward shifting and backward shifting of tax. **(5 Marks)**
- Give and explain two examples of taxes that cannot be shifted forward. **(5 Marks)**
- Define progressive tax and give its advantages in as far as government collections are concerned. **(5 Marks)**
- State examples of goods that can be seized by the government. **(5 Marks)**

(Total: 20 Marks)

QUESTION FIVE

- Briefly explain the rationale behind the “benefit theory” of taxation. **(4 Marks)**
- What problems are experienced in attempting to achieve justice in taxation? Support your answer with the four main theories which explain why it is difficult to exercise justice in taxation. **(12 Marks)**
- Differentiate between customs duty and excise duty. **(4 Marks)**

(Total: 20 Marks)

QUESTION SIX

- a) Discuss the advantages and the disadvantages of using e-filing in tax. (8 Marks)
- b) Currently, the Rwanda Revenue Authority has obliged all taxpayers registered for Value Added Tax (VAT) to use the Electronic Billing Machine in making invoices. Discuss the importance of this machine in revenue collection. (8 Marks)
- c) Calculate PAYE according to the following information for the month of April 2014:

Names	Basic Salary	Transport allowances
Mr X	65,000	15,000
Mr Z	200,500	35,000
Mr Y	25,000	5,000
Mr P	2,000,000	29,500

Additional information :

- a) The workers have no other jobs. (4 Marks)

(Total: 20 Marks)

QUESTION SEVEN

Modern tax systems comprise many types of taxes. Proper classification of the taxes is essential to understand the nature and incidence of different taxes. Taxes may be classified on the basis of various criteria : (form, nature, aim and methods of taxation).

Required :

Referring to the following criteria give examples to support the different classifications of taxes based on:

- a) The nature of the taxable product and/or the individual situation of the taxpayer. (8 Marks)
- b) The economic concept of capital (economic form of the wealth measures). (6 Marks)
- c) The choice of the legal technique of imposition by the Tax Authorities. (6 Marks)

(Total 20 Marks)

End of question paper

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