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## **CERTIFIED ACCOUNTING TECHNICIAN**

### **LEVEL 2 EXAMINATIONS**

#### **L2.4: TAXATION**

**THURSDAY: 11 JUNE 2015**

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#### **INSTRUCTIONS:**

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven** questions and only **five** questions are to be attempted.
- Marks allocated to each question are shown at the end of the question.
- 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		Tax Rate
From	To	
0	Frw30,000	0%
30,001	Frw100,000	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) Article 28 of Income Tax Act allows a tax payer to deduct an amount of bad debt when computing business profits.

### REQUIRED:

- i) Specify with reference to Rwandan Income Tax Law under what circumstances bad debts would be deducted? **(3 Marks)**
- b) State and give reasons whether or not the following would qualify for deductions against income:
- i) A company's loan to an employee, whose employment was terminated and fails to pay. **(2 Marks)**
- ii) A company's loan to a retailer to purchase equipment for use in retailing the products of the company to which the retailer, on disposing off his business fails to pay. **(2 Marks)**
- c) Gakara operates an electronics shop in Kigali City. He undertook the following transactions for the month of March 2015.

1 March 2015	Purchased 10 Cameras for a total of Frw 500, 000
4 March 2015	Purchased Flashbulbs for a total of Frw 200,000
4 March 2015	Purchased 5 Slide Projectors for a total of Frw 1,000,000
5 March 2015	Sold 5 Cameras each at 25% above cost price
6 March 2015	Purchased 200 Wrist Watches at Frw 1,500 each
8 March 2015	Sold 2 Slide Projectors for a total of Frw 500,000
9 March 2015	Sold Flashbulbs that cost Frw100, 000 for Frw 150,000
12 March 2015	Purchased 50 Stop Watches for a total of Frw 50,000
15 March 2015	Purchased 100 Alarm Clocks at a total value of Frw 80,000
18 March 2015	Sold the remaining 5 Cameras each at 25% above cost price
20 March 2015	Sold 3 Slide Projectors for a total of Frw 750,000
22 March 2015	Sold 100 Wrist Watches at Frw 2,000 per watch
25 March 2015	Sold 70 Alarm Clocks each at 30% above cost
27 March 2015	Sold 50 Stop Watches for a total of Frw 75,000

All prices are VAT inclusive.

### REQUIRED:

- i) Prepare VAT Account clearly showing the VAT payable (refundable) **(10 Marks)**
- ii) State when the tax in (i) above is due and the penalties in case when it is not paid **(3 Marks)**
- (Total 20 Marks)**

## QUESTION TWO

- a) What is set-off tax? **(4 Marks)**
- b) Mrs Kagabo Nicholas works with Inzuki SA, a well-known beverage company operating in Rwanda and has provided you with the following information for the year ended 31 December 2013

1. Pension from previous employment Frw 20,000 per month
2. Salary Frw 1,200,000 per month.
3. Mrs Kagabo and her husband Mr Kagabo own a company whose taxable income was agreed at Frw 500,000 after charging husbands salary of Frw 250,000 per month.
4. Inzuki SA provided a company house to Mrs Kagabo in Kabuga, where rent of similar houses was Frw 200,000 per month.
5. Mrs Kagabo works over time and her overtime income averages Frw 100,000 per month.
6. Mrs Kagabo enjoyed medical benefit of Frw 160,000 during the year. She is a senior manager and the company has medical cover for all its employees.
7. She obtained free consumables from the company as a Christmas gift worth Frw 300,000 during the year.
8. Mrs Kagabo owns rental property at Kagugu estates and receives Frw 500,000 as a rental income per month during the year, she incurred Frw 60,000 in renovation, repairs and painting before letting the property. She had obtained a mortgage loan from BRD amounting to Frw 3,000,000. She paid Frw 900,000 during the year of which Frw500,000 was principle.
9. Mrs Kagabo owns 20% of the shares of Inzuki SA.

**REQUIRED:**

- a) Calculate the taxable income of Mrs and Mr Kagabo for the year ended 31 December 2013. **(14 Marks)**
  - b) What is tax payable on income computed in a) above **(2 Marks)**
- (Total 20 Marks)**

**QUESTION THREE**

- a) Discuss five disadvantages of using Electronic Billing Machine (EBM) for the taxpayer **(10 Marks)**
  - b) Rwanda Revenue Authority has launched the Mobile Declaration System commonly known as M-declaration for business with low income. Discuss three advantages and disadvantages for the system for the taxpayer. **(10 Marks)**
- (Total 20 Marks)**

**QUESTION FOUR**

- a) Discuss the major roles of taxation in Rwanda **(4 Marks)**
- b) Give at least five reasons why you believe taxpayers evade taxes in Rwanda **(5 Marks)**
- c) List international trade taxes collected by the Rwanda tax authority at customs **(5 Marks)**
- d) Distinguish between the following:
  - i) A Tax and a Debt **(2 Marks)**
  - ii) A Fine and a Penalty **(2 Marks)**
  - iii) Royalty and Rental Income **(2Marks)**

**(Total 20 Marks)**



## QUESTION FIVE

- a) List six entities which are subject to corporate income tax. **(6 Marks)**
- b) i) Recently there has been an increase in the number of companies wishing to be listed on the Rwanda Stock Exchange. With respect to Rwanda taxation system, state three advantages of a company being quoted on the stock exchange. **(6 Marks)**
- ii) For Rwanda to achieve the Millennium Development Goals, social and economic conditions have to be improved in areas where the country's poor and low-income majority live. Getting the desired results requires strengthening the institutions at the local level that provide public services and enhance economic opportunities not only around capital cities and other metropolitan centers of trade and commerce but also in more remote and less privileged regions. As a result of this, some revenues and other sources of income were decentralized to local authorities.

### REQUIRED:

Mention six sources of earnings where decentralized entities may get revenue and other source of income. **(8 Marks)**

**(Total 20 Marks)**

## QUESTION SIX

- a) Differentiate Tax Base and Tax Rate. **(4 Marks)**
- b) In relation to article 13 of Law on the Finance of Districts (LFD), explain at least six tax exemptions which are allowed for the houses and buildings or part of buildings for which the owner does not have a title document and not recorded with land service. **(8 Marks)**
- c) The corporate tax rate is normally 30% of taxable profit but the Rwandan tax law provides incentives for reduction of the company's tax rate on approved investors with large number of employees in order to promote investment and encourage companies to engage employees. Explain four different categories of the number of employees for which this law is applied. **(8 Marks)**

**(Total 20 Marks)**

## QUESTION SEVEN

- a) Explain 3 reasons for the use of private bonded warehouse. **(8 Marks)**
- b) Mpanga Daniel is a professional medical doctor operating in Kigali, he has given the following financial details of his clinic for the year ended 31 December 2014.

Description	Frw
Gross professional fees received	3,000,000
Directors' fees received (deducted at source)	360,000
Interest income from AB Bank Ltd-gross	72,000
Dividend income (net	102,000
Subscription to professional association and publication	60,000
Donations to destitute children's home	30,000
Subscription to wildlife magazine	6,000
Debt collection (patients) expenses	18,000
Wages for clinic assistant	360,000
Replacement of clinic instruments	120,000
Rent for the clinic premises	420,000
Electricity and water - clinic	120,000
General expenses- clinic	210,000
Car hire expenses- for use in practice	150,000
Uniform for staff	115,000
Payment of school fees for own children	120,000
Contribution pension fund for him self	180,000
Payment of life insurance premium for him self	60,000
Terminal benefits paid to the retired receptionist	150,000
Depreciation on furniture- clinic	36,000
Rents received from sub rentals	42,000
Rent collection expenses	6,000
Wages paid to cleaners on watchman-clinic	150,000
Tarmacking of drive way - personal residence	240,000
Additional servant quarters-personal residence	<u>420,000</u>
<b>Total</b>	<b><u>6,547,000</u></b>

- (i) You are required to compute Mpanga Daniel's taxable income **(10 Marks)**
- (ii) Tax payable by Mpanga Daniel and indicate the date when tax if any is payable to RRA. **( 2 Marks)**
- (Total 20 Marks)**

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## End of question paper

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