



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance



CERTIFIED PUBLIC ACCOUNTANT

LEVEL 2 EXAMINATIONS

F2.4: TAXATION

TUESDAY: 9 JUNE 2015

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		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

SG & Family Ltd recorded profits of Frw 528,040,000 in 2014 in the draft financial statements. Of the total sales, Frw 296,000,913 was debtors. The company also had audit and professional fee provision amounting to Frw 5,375,830. In December 2014, SG & Family Ltd provided for a staff bonus amounting to Frw 21,083,330. This bonus was paid in January 2015. The company had recorded accounting depreciation of Frw 15,578,222. The tax advisers had estimated tax depreciation using the tax rates at Frw 21,113,674. Because in the year 2013 the company had losses of Frw 120,000,000, there were no quarterly prepayments made. However, because the company participated in public tenders, it had a tax credit of Frw 3,059,575. It also had a tax credit of Frw 132,298,004 relating to Withholding Tax on interest income.

In March 2015 when the tax advisers were computing Corporate Income Tax (CIT) for the company, it was established that the turnover for VAT filed for the same year was less than that recorded in the financial statements by Frw 77,567,495.

- a) i) Compute Corporate Income Tax payable by SG & Family Ltd and quarterly prepayments to be made in 2015 and indicate the dates of paying the quarters. **(12 Marks)**
 - ii) Identify circumstances under which a VAT registered taxpayer can deregister for VAT **(4 Marks)**
 - b) Explain how VAT is charged and paid on exports and imports of services in Rwanda **(4 Marks)**
- (Total 20 Marks)**

QUESTION TWO

- a) With aid of examples differentiate between Tax and Administrative Fees which may be charged by the government of Rwanda. **(4 Marks)**
- b) On 31 March 2014 Zigo Company had VAT due amounting to Frw 120,000 relating to sales for the month of March 2014. The company made the payment on 30 May. Zigo VAT declarations are made monthly.

State the penalty chargeable for the late payment and the total amount to be paid by the company. **(8 Marks)**

- c) Urge the case for and against direct tax **(8 Marks)**
- (Total 20 Marks)**

QUESTION THREE

- a) With reference to Rwandan Tax Law, distinguish between the Principle of Legality and the Principle of Equality. **(4Marks)**
- b) Mrs. Mary is a resident working in Trust Industries Ltd in Rwanda. She has recently received a notice of assessment for the year 2013/14 in which the profit on her disposal of a property amounting to Frw 900,000 was assessed under profits tax. The property was purchased by Mary on 1 February 2013 and sold on 1 August 2013.

Mrs. Mary approaches you for advice.

REQUIRED:

Advise Mrs. Mary the conditions to be fulfilled for her to appeal against the tax assessment notice under Rwandan tax procedures. **(6 Marks)**

c) Discuss any four circumstances under which Rwanda Revenue Authority may deem it necessary to carry out a new tax audit on a period which has been already audited. **8 Marks)**

d) Corporate Income Tax is applicable in case when a business/company makes a profit in certain fiscal year. However, there are circumstances when a company makes loss in certain fiscal year. In relation to Rwandan tax procedures, explain tax treatment in relation to company loss. **(2 Marks)**

(Total 20 Marks)

QUESTION FOUR

Gatenga Technologies Ltd (GTL), a company incorporated in Rwanda sells processed maize. Some maize flour forms exports to East Africa and Europe. In the year 2014, GTL registered total sales of 3Billion Frw and employed 320 people as at 31 December 2014. All sales were inclusive of VAT. The company incurred the following expenses:

In December 2014, the company purchased motor vehicles at a total cost of Frw 110 Million. In the same month, the company purchased Plant and Machinery amounting to Frw 200 Million. GTL had obtained investment certificate from the Rwanda Development Board (RDB) because it had invested in the country more than USD 250,000 as initial capital. This was used in the first year of investment in 2008. All motor vehicles were used vehicles imported from Mauritius, a country that has a valid Double Taxation Agreement (DTA) with the Government of Rwanda. Value Added Tax paid on imported motor vehicle amounted to Frw 23 Million. The clearing agent, who is a brother of the CEO of GTL was paid Frw 3 Million to clear goods from Customs at Mombasa port.

Other expenses;

Other expenses incurred by the company in 2004 include Computers (Frw 80 Million), Finance Costs (Frw 110 Million), Donation to Charities (Frw 34 Million), Furniture and Fittings (Frw 17 Million), Trade License (Frw 1.1 Million), Telecommunication Equipment (Frw 30 Million), Computer Software (Frw 7 Million) and Staff Costs of (Frw 100 Million).

Other information;

GTL is a large taxpayer. Out of the total Staff Costs, Frw 14 Million was payment to the shareholders who are at the same time Board Members of the company. The company had losses carried forward from the previous year amounting to Frw 70 Million. This was part of the loss for 2008 not used by the company. The closing book value of motor vehicle as at 31 December 2013 was Frw 13 Million. GTL sold empty old sacs for Frw 64 Million in 2014 and was not recorded in sales in the sales ledger.

REQUIRED:

a) Corporate Income Tax payable by GTL for the year ended 31 December 2014. **(15 Marks)**

b) Give three categories of entities exempted from Corporate Income Tax in Rwanda **(3 Marks)**

c) What is the tax treatment of losses **(2 Marks)**

(Total 20 Marks)

QUESTION FIVE

(1) Mr. Karara is employed as an accounting manager of Y&Z Bank Rwanda Ltd, a financial institution incorporated and carrying on business in Rwanda. You have been supplied with the following information regarding the year of assessment 2014:

Annual Salary	Frw 150,000,000
Bonus	Frw 30,000,000

(2) Mr. Karara took a 12-day business trip to Kenya and his wife Mrs. Christine Karara travelled with him. Y&Z Bank Rwanda Ltd paid the following expenses in connection with the trip:

	Mr. Karara	Mrs. Karara
Description	Frw	Frw
Air tickets	1,200,000	1,200,000
Accommodation	2,200,000	Nil
Meals	2,500,000	2,500,000
Sightseeing tour	Nil	300,000

(3) Mr. Karara lived in Kabuga estates and the rentals were to be accounted at the expense of the company. In January 2014 he paid the house for his residence a monthly rent of Frw 220,000. His employer refunded Frw 1,800,000 upon production of tenancy agreement and rental receipts.

(4) Mr. Karara obtained a loan of Frw 45,000,000 from his employer at 10% interest per year to purchase a car for his own use. During the year, he paid interest of Frw 4,500,000 to his employer. If he had obtained the loan from a similar bank in Rwanda, he would have been required to pay at an interest of 18% per year.

(5) Mr. Karara had paid the following expenses during the year:

Legal charges paid to a lawyer to settle a court case	10,000,000
School fees for a Master's degree programme at ULK	140,000,000
Fines paid to National Police for violation of traffic rules	12,500,000

REQUIRED:

a) Compute tax payable by Mr. Karara for the year of assessment 2014. **(14 Marks)**

(b) Briefly explain the tax treatment of the following items under income tax in Rwanda:

(i) Use of or Availability to use a company premises by employee. **(2 Marks)**

(ii) Loan from employer to employee. **(2 Marks)**

(iii) Use of or availability to use a company car by employee. **(2 Marks)**

(Total 20 Marks)

QUESTION SIX

- The principle of territoriality of tax which defines the geographical application of tax law creates difficulties of double taxation. Explain the meaning of the term double taxation and its disadvantages to economy. **(6 Marks)**
 - Name and briefly explain four major principles of a good tax system **(6 Marks)**
 - State the circumstances under which a VAT registered person may be de-registered **(4 Marks)**
 - Explain briefly the offences and related penalties under VAT **(4 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

PM and Associates is registered tax consultancy firm operating in Rwanda. It provides organizations with advice on tax compliance especially in Business Tax, Personal Tax, VAT among others. Recently it was approached by its clients on the following matters:

- Mutura Enterprises Ltd is company dealing in manufacture of furniture in Kigali. The accountant of the company has provided the following profit and loss account for the year 2014.

Salaries and wages	756,000
Rental loss	90,000
Fire insurance	122,000
Audit fees for tax appeal	100,000
Opening stock	1,048,000
Purchases	14,076,000
Sales	31,752,000
Closing stock	2,283,000
Net Profit	17,843,000
Total	68,070,000

Additional information provided are as follows:

- Stock of goods both at the beginning and at the end of the year were overstated by 20%.
- Rental loss included:

Rental Loss		
Gross rent income received		820,000
Less:		
Sweeper wages	60,000	
Mortgage interest	170,000	
Fines for not declaring rent income	680,000	
Total	910,000	(910,000)
Rental loss suffered		(90,000)

Taxes represent VAT paid

- The management of Mutura Enterprise Ltd has approached PM and Associates tax manager and they wish to know how much tax the company would pay. **(10 Marks)**
- Ambassadors Foundation is a non-profit organization formed for the purpose of addressing people's

spiritual needs. It will derive its income from donors of all kinds and charitable walks.

They wish to know if they will be required to pay any tax. **(2 Marks)**

c) Maputo has a market stall in Kimironko market selling fruits, vegetables and other food stuffs as well as a high class butchery. He started trading on 1 December 2014 and anticipates that his turnover will be as follows:

	Frw
One month ended 31 December 2014	224,000
Quarter ended 31 March 2015	942,000
Quarter ended 30 June 2015	845,000
Quarter ended 30 September 2015	1,048,000

Advise Maputo if he should register for VAT and the benefits of VAT registration **(4 Marks)**

d) Migongo Plastic Ltd which produces plastic products wishes to sponsor research into plans that may produce plastics related materials. They have set aside Frw 20,000,000 which will be awarded to the department of biochemistry in KH University. They wish to know if there is any tax advantages which may arise.

(4 Marks)

REQUIRED:

As PM and associates tax manager, write a memorandum on each of the points for the clients consideration. **(Total 20 Marks)**

End of question paper

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