
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATION

L2.4: TAXATION

THURSDAY: 09 JUNE 2016

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, antiques, 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.	25%

QUESTION ONE

Trilogy Rwanda Ltd was set up in Rwanda in the year 2013. Trilogy is a branch of Trilogic Group Plc, a company incorporated in the UK. Trilogy Rwanda Ltd deals in international Transport & Shipment of goods.

The table below shows the profit and loss account of Trilogy Rwanda Ltd for the year 2015;

Trilogy Rwanda Ltd, Profit and Loss Account for the year ended 31 December 2015:

Description	Amount in Frw "000"
Total sales from operations	100,000
Other income	300,000
Total comprehensive income	400,000
Expenses:	
Salaries	(80,000)
House rent	(60,000)
Fuel expenses	(5,000)
Total Communication and internet expense	(10,000)
Staff meeting costs	(7,000)
Repair for Motor-vehicles	(16,000)
Finance cost	(10,000)
Other expenses	(22,000)
Total expenses	(210,000)

Notes:

- 1) Included in salaries is Frw 3,000,000, being 3% employee contribution to the Rwanda Social Security Board.
- 2) The company rents a residential house at a cost of Frw 12,000,000 p.a. The house is for the Chief Finance Officer (CFO), the house rentals are included in rental expenses. No Pay As You Earn (PAYE) is charged on this benefit to CFO.
- 3) Included in the staff meeting costs is the amount for purchase of trophies for the best five employees of the year 2015. The company recognizes the best employees of the year for the outstanding performance. The total cost of awards was Frw 1,200,000 and this was included in staff meeting costs.
- 4) Other expenses include Chief Executive Officer's reception of guests at Serena Hotel totaling to Frw 2,000,000
- 5) The company paid withholding tax of 5% at customs totaling to Frw 3,000,000 when passenger motor vehicles totaling to Frw 34,000,000 were imported in July 2015. Depreciation was not considered by the Accountant.
- 6) In 2014, the company paid income tax from profits totaling to Six Million Francs and was obliged to pay quarterly prepayments in the year 2015.

Required:

- (a) Assume that Trilogy Rwanda Ltd is a large taxpayer, compute its Corporate Income Tax payable for the year ended 2015 and show the balance of tax to pay by March 2016. **(12 Marks)**
- (b) Discuss the available indicators showing that a taxpayer is large in accordance with the Rwanda tax laws and procedures? **(4 Marks)**

- c) Discuss the nature of taxes payable by Trilogy Rwanda Ltd if it pays management fee to the Group in the UK. (4 Marks)

(Total 20 Marks)

QUESTION TWO

Muvandimwe is registered taxpayer. During the year he made the following transactions:

i	Purchased goods worth Frw 30,000,000 VAT inclusive from a registered tax payer.
ii	Sold goods to Rukundo worth Frw 28,000,000 inclusive of VAT
iii	Hired consultants from UK for Frw 5,000,000 exclusive of VAT to prepare a Procedures Manual, which service can be accessed in Rwanda.
iv	Paid electricity Frw 1,500,000 inclusive of VAT, fuel Frw 500,000 and audit fees Frw 3,000,000 exclusive of VAT.
v	Purchased home use items for Frw 12,850,000 exclusive of VAT
vi	During the year, he made a credit note of Frw 2,890,000 to Rukundo for over invoiced goods. The amount is exclusive of VAT.
vii	A bad debt of Frw 1,782,000 which had been previously included in the sales of the previous two years was written off.

Required:

- (a) Compute the VAT payable (10 Marks)

- (b) Tax payers are allowed a deduction on the output VAT. Explain **four** circumstances under which the tax payer may be allowed a deduction on the output VAT. (6 Marks)

- (c) In the context of VAT, explain the term taxable supply. (4 Marks)

(Total 20 Marks)

QUESTION THREE

After completing his CPA Examinations, Manzi was recruited as the Chief Accountant, Malcom Communications Limited, on the following terms:

i	Monthly salary of Frw 1,200,0000
ii	Transport allowance of Frw 400,000 per month
iii	A house rented by the company at a Frw 500,000 per month
iv	A monthly contribution of Frw 200,000 in a private pension fund by the employer
v	On 1/7/2015, Manzi was given a loan of Frw 10,000,000 by the company at annual interest rate 12%. The interbank interest rate is 18%.
vi	Manzi makes a monthly contribution of Frw 250,000 in a private pension fund
vii	Manzi employs two house girls each receives a monthly salary of Frw 60,000 paid by the company.
viii	Manzi makes a contribution of Frw 200,000 per month as Pay As You Earn.

Required:

- (a) Compute his annual taxable employment income (12 Marks)

- (b) Compute his tax liability and the tax payable (5 Marks)

- (c) Compute his pension contribution (3 Marks)

(Total 20 Marks)

QUESTION FOUR

- (a) Discuss five reasons behind Value Added Tax exemptions and zero rating. (10 Marks)
- (b) Discuss penalties for violations Electronic Billing Machine as stipulated by the law. (10 Marks)
- (Total 20 Marks)**

QUESTION FIVE

- (a) Discuss the reasons why the government of Rwanda collects decentralized taxes from different tax sources. (6 Marks)
- (b) State the penalties for violation of Withholding Tax in accordance with the tax laws of Rwanda. (2 Marks)
- (c) List six countries that have signed the double taxation agreement with the Government of Rwanda (6 Marks)
- (d) Under what circumstances may the tax administration (RRA) reject taxpayer rights to obtain a “quitus fiscale”? (6 Marks)
- (Total 20 Marks)**

QUESTION SIX

- (a) Explain how interest income is taxed in Rwanda in accordance with the income tax law. (6 Marks)
- (b) State the taxable base in relation to the personal income tax (Pay as You Earn tax)? (7 Marks)
- (c) Discuss four different types of benefits in kind given to employees and show how they are taxed in Rwanda. (4 Marks)
- (d) Explain the meaning of tax residence in relation to PAYE in Rwanda. (3 Marks)
- (Total 20 Marks)**

QUESTION SEVEN

MZA Investment Limited is registered under the Rwanda Company Law as a manufacturing company located in Bugesera. The company manufactures and processes soft drinks. The following information relates to the company for the year ended 31/12/2013.

Assets	Land	Buildings	Machineries	Motor Vehicles	Computers	Furniture
Cost	40,800,000	85,000,000	61,600,000	38,300,000	15,750,000	10,900,000
Depreciation	12,500,000	20,400,000	14,500,000	17,550,000	10,100,000	8,650,000
WDV 2013	28,300,000	64,600,000	47,100,000	20,750,000	5,650,000	2,250,000

In 2014, the company purchased the following assets:

Assets	Machineries	Motor vehicle (Lorry)	Computers	Furniture
Cost	30,500,000	10,800,000	8,000,000	10,000,000

In 2015 sold two computers which were bought at Frw 1,500,000 each. The computers were sold at Frw 1,000,000 each. Old furniture that cost the company Frw 3,000,000 was sold at Frw 2,500,000.

Required:

Compute the capital allowances of the company for the years ended 31/12/2014/2015. (Total 20 Marks)

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