



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA  
*Driving Sustainable Performance*



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# CERTIFIED PUBLIC ACCOUNTANT ADVANCED LEVEL 1 EXAMINATION

## A2.3: ADVANCED TAXATION

**MONDAY: 6 JUNE 2016**

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### INSTRUCTIONS:

- 1. Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
- This examination has two sections; A & B.
- Section A has one Compulsory Question while section B has four optional questions to choose any three.
- In summary attempt four questions.
- 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%

## SECTION A

*This section has one compulsory question*

### QUESTION ONE

Mangingi Limited is a manufacturing company located in Burera District. The company started its operation on 1/9/2014. The company has not submitted its financial statement for corporation tax assessment until 31/12/2015. The Accountant of the company has provided the following information for tax purpose for the period ended 31/12/2015:

Particulars	Notes	Amount	Amounts
		Frw(000)	Frw(000)
Sales	1		650,800
Cost of sales	2		(385,000)
Gross profit			<b>265,800</b>
Other incomes			
Profits	3	64,200	
Dividends	4	11,500	
Interest	5	20,600	<b>96,300</b>
Gross income			<b>362,100</b>
Operating expenses:			
Deprecation	6	71,500	
Salaries and wages	7	50,800	
Electricity		12,100	
Insurance	8	8,600	
Repair and maintenance		13,300	
Donation	9	6,800	
Transport		4,200	
Communication		9,000	
Advertising		21,100	
Bad debt	10	8,700	<b>(206,100)</b>
Profit before tax			<b>156,000</b>

### Notes to the financial statement

- The sales figure is inclusive of VAT
- Included in the cost of sales is the closing stock of 55,600,000 Frw. At the end of the year they realized that the closing stock was understated by 8%.
- The profit was received from the branch in Kenya and it was received net of 35% corporate tax.
- 60% of the dividend income was received from local subsidiaries whereas the remaining dividend was received from foreign subsidiaries. It was received net of 15% tax
- During the period the company made investment in government bonds. The interest income was received from long term government bond and it was received net of tax.
- The depreciation was calculated from the following assets:

Assets	Land	Building	Motor Vehicles	Computers & Accessories	Furniture & Fittings	Plant and Machinery
1/9/2014 cost	50,000,000	150,000,000	98,000,000	30,000,700	19,870,000	105,895,500

- i) The motor vehicles include small car for the manager, others are heavy trucks
  - ii) Plant and machineries are fixed in one position
  - iii) The company had purchased 20 hectors of land at 50,000,000 Frw. During the year 2015 it disposed of 5 hectors that had no use at 12,000,000 Frw the value of remaining land is 48, 000,000 Frw. The incidental cost on sale is 800,000Frw.
7. 5,000,000 Frw of the salaries and wages remained outstanding
  8. 40% of the insurance expense relates to the accounting period commencing 1/1/2016
  9. The donation was made to recognized charitable organization
  10. The bad debt expense is a provision that was made at the end of the period after failing to trace the customers

Note: All expenses and revenues accrue evenly during the period

**Required:**

- i) Compute the taxable income of the company **(33 Marks)**
  - ii) Compute the tax liability and the tax payable **(7 Marks)**
- (Total 40 Marks)**

**SECTION B**

*This section has four questions to attempt any three*

**QUESTION TWO**

Rwanda's taxation policy does not require any new tax proposals to increase collections but rather a compliance with the existing law. In addition, governments often provide exemptions and tax holidays some as high as 7 years to companies in order to attract investment.

Every June, the Finance Ministers of East African Community Partner States read their National Budgets and make pronouncements on tax changes. The Rwandan budget for fiscal year 2015/16, approved by Parliament at end June 2015 amounted to Frw 1,768.2 billion. In economic classification terms, total revenue and grants were estimated at Frw 1.462.5 billion comprising Frw 1,104.1 billion of total Domestic Revenue and total Grants of Frw 358.4 billion. Total expenditure and net lending was put at Frw 1,741.1 billion made up Frw 865.5 billion of recurrent spending, Frw 747.3 billion of capital expenditure and Frw 128.3 billion of net lending outlays. These projections were expected to result in an overall cash deficit of Frw 290 billion for the fiscal year 2015/16. The deficit was to be financed with Net Foreign Loans of Frw 215.2 billion and Net Domestic Finance of Frw 74.9 billion.

Implementation of the budget in the first half of 2015/16 fiscal year was affected by the general economic performance of the period which impacted on revenue collections on one hand and donor disbursement patterns on the other hand that affected the spending profile. Balance of payments is still a challenge based on Rwanda's low exports and high imports. This continues to exert pressures on Frw exchange rates. For monetary policy, well coordinated monetary and fiscal policies have supported economic growth and stable inflation. However, the high lending rates due to high operating costs in banking sector as well as high provisions on bad loans

remain key concern.

To streamline VAT collection, the Government of Rwanda has introduced robust measures such as the use of Electronic Billing Machine (EBM) in invoicing by taxpayers. This is equivalent to Electronic Tax Register (ETR) or Electronic Signature Device (ESD) used in the region. Article 24 of Rwanda VAT law on use of certified electronic billing machines states that Value Added Tax registered persons are obliged to use a certified electronic billing machine that generates invoices indicating the tax as agreed by the tax administration.

The purpose of EBM invoicing system is to increase compliance and streamline VAT collection. All VAT registered taxpayers must use EBM to improve efficiency in accounting for and paying VAT. This is a good practice and it ensures equity and fairness in business. As a result of the EBM law, VAT registered taxpayers cannot claim input VAT on invoices not generated by EBM. This has reduced disputes of VAT refund among taxpayers and eased VAT special audit. When a VAT registered taxpayer fails to use EBM, sanctions are applied by the Rwanda Revenue Authority (RRA).

As a partner in Government projects, Rwanda Private Sector Federation (PSF) encourages all registered taxpayers to use EBM. Law N° 002/13/10/TC of 31 07/2013 on modalities of use of Electronic Billing Machines is under review and penalties are being revised as well.

RRA has embarked on activities targeting broadening of the tax base through taxpayer registration focusing on specific sectors. These included commercial houses (for VAT on Rental Income), Garages, and Car Washing Bays, Private Schools and Driving Schools. As a result, the number of taxpayers increased by 9,726 (7.4%) by December 2015 when compared to June 2015.

9,966 VAT registered taxpayers had EBM by December 2015, there was an increase of 23.1% in a period of 6 months from 8,096 by June 2015. This was a result of a number of actions undertaken to encourage taxpayers to use EBMs; that included putting in place a strong EBM monitoring team and field visits, identifying VAT registered taxpayers who had declared a positive turnover but did not have EBM, implementing EBM lottery, monitoring big Importers, Restaurants, Bars And Supermarkets among others to ensure that merchandise leaving shops have EBM receipts.

RRA conducted sensitization and education to various Local Administration Offices such as Sectors and the general public to improve their understanding on tax matters and improve taxpayer's compliance. As a result, VAT collection totalled to Frw 151.8 billion against a target of Frw 148.2 billion.

- a) Discuss measures that were undertaken by the tax administration to improve performance of Value Added Tax collection in Rwanda in the recent past. **(6 Marks)**
- b) Discuss the meaning of a fiscal policy and give relevant examples of fiscal policies the Rwandan Government is implementing to enhance tax collection. **(6 Marks)**
- c) Discuss the challenges faced by Rwanda Revenue Authority in increasing taxable base. **(6 Marks)**
- d) "Rwanda's taxation policy does not require any new tax proposals to increase collections but rather a compliance with the existing law". Do you agree? **(2 Marks)**

**(Total 20 Marks)**

### QUESTION THREE

- a) John owns a small shop in Nyarugenge market. He has been offered two alternatives of accounting method by the tax administrators which are the cash basis and the accrual basis. John is interested in minimizing his tax liability by using the gaps in the accounting methods. John has approached you as a tax consultant seeking your advice on the type of accounting method to adopt. Write a simple memo to John explaining how he can use these two accounting methods to minimize his tax liability legally. (5 Marks)
- b) Mandev Limited is a small enterprise. During the board meeting, the Director of Finance brought a motion to change from the lump sum tax of 3% to a real tax regime. You have been engaged as a tax consultant to advise the board of directors on whether the company should continue with lump sum tax or it should change to a real tax regime. Give explanations to the board on which tax regime to use in order to legally minimize the tax burden. (5 Marks)
- c) Madditex Enterprises are a registered company in East Africa. The company wants to establish its activities in Rwanda. In the research carried out, the company has identified two profitable projects in which to invest which are Agricultural project and Juice processing industries. The following information is relevant to each project.
- i) The Agricultural project requires an investment of Frw 60,000,000 in new assets and it will be carried out in Nyamagabe District. The project will generate a turnover of Frw 185,650,200 per year and a profit of Frw 105,230,100 per year. They have identified that in the first ten months they will need to hire 380 employees.

**N.B:**

- Each of the employees are earning more than Frw 30,000 per month.
- This amount has already been considered in the determination of profit.

- ii) The juice project will require an investment in new assets of Frw 54,800,500 and it will be established in Kigali in the export processing zone. The project will generate an annual turnover of Frw 185,650,200 and a profit Frw 105,230,100 per year.

**Required:**

Carry a tax plan and advise the management of Madditex on which project giving reasons to support your answer. (10 Marks)

**(Total 20 Marks)**

### QUESTION FOUR

“Of particular concern for African economies is the tax avoidance schemes implemented by multinationals to deprive the countries much-needed revenues to provide services”

- a) Discuss the above statement in relation taxation of multinationals operating in Rwanda. (4 Marks)
- b) Discuss measures that the Government of Rwanda should put in place to stop revenue leakage by multinationals. (6 Marks)
- c) Discuss the challenges affecting EAC in relation to tax fraud. How can this fraud be combatted by the partner states? (6 Marks)
- d) Putting in place heavy penalties may not be the best way to increase compliance among the taxpayers. Discuss this statement in relation to penalties charged in the Rwanda tax procedure law. (4 Marks)

**(Total 20 Marks)**

## QUESTION FIVE

- a) Explain the tax treatment of loss on contract at the end of the period (5 Marks)
- b) Made in Europe Rwanda Limited imports and exports commodities from and to Europe. The company has been operating since 2010. The following information relates to the company for the last five years

	2010	2011	2012	2013	2014
Profit/loss before tax	(14,205,000)	6,000,000	9,850,000	(8,210,000)	10,000,000
Withholding taxon imports	7,850,000	11,300,000	14,780,000	6,420,100	5,790,000
Instalment income tax	2,150,000	1,050,200	3,420,000	1,700,000	2,500,000

### Required:

Prepare a tax payment plan. (8 Marks)

- c) Mutesi has been given the following offers on her new job

	First Offer	Second Offer
Monthly salary	1,200,000	1,200,000
House	Yes	No
Motor vehicle	No	Yes
Transport allowance	300,000	No
House allowance	No	200,000
Communication allowance	150,000	150,000

### Required:

Advise Mutesi on which offer to take. (7 Marks)

(Total 20 Marks)

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## End of question paper

