

**CERTIFIED PUBLIC ACCOUNTANT**  
**LEVEL 2 EXAMINATION**  
**F2.4: TAXATION**

**TUESDAY: 7 JUNE 2016**

**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	25%

## QUESTION ONE

Karera is employed by Tigo Rwanda as the Director of Finance on the following contractual terms:

i	A Monthly salary of Frw 2,500,000
ii	Communication allowance of Frw 150,000 per month
iii	A V8 Toyota Land Cruiser purchased by the company at Frw 100,000,000. In addition, the company employs a driver who drives Karera and the company pays him a salary of Frw 250,000 per month.
iv	A company house located in Nyarutarama. Karera contributes Frw 200,000 per month on the house as rent.
v	Karera employs one House Girl and two Gardeners; each receives a monthly salary of Frw 82,000. In the contract only one Gardener and one House Girl are paid by the company
vi	On 1/8/2015, Karera received a loan of Frw 13,650,000 from the company to finish his own house. Because Karera is a senior staff, the loan was given to him at an interest free rate. The interbank interest rate is 11%
vii	The company contributes for Karera Frw 300,000 per month in the private recognized pension fund and Karera contributes 120,000 Frw per month in the same fund.
viii	Karera contributes Frw 400,000 per month as PAYE.
ix	In additional to employment income, Karera made an investment in Bank of Kigali shares and during the year he received dividend income of Frw 4,700,000 gross and he also owns fixed deposit account in the same bank. During the year ended 31/12/2015 he received a net interest income of Frw 8,200,000.

**Required:**

- Compute the taxable income for Karera for the year ended 31/12/2015 **(15 Marks)**
  - Compute his tax liability and the tax payable for the year ended 31/12/2015 **(5 Marks)**
- (Total 20 Marks)**

## QUESTION TWO

- Differentiate between period of account and the accounting period. **(2 Marks)**
- Maddex limited located in Nyamata produces juice and water. The Accountant submitted the following information for the tax assessment.

Items	Amount	Amount
	Frw (000)	Frw (000)
Sales		300,000
Cost of sales		(180,000)
Gross profit		120,000
Operating expenses:		
Salaries	30,000	
Rent	18,000	
Depreciation	10,800	
Bad debt	8,000	
Repair and maintenance	14,500	
Communication	2,900	
Directors remuneration	8,300	
Advertising	6,700	
Donation	5,400	

Dividends	6,500	
Income tax	12,800	
Electricity	1,800	
		(125,700)
<b>Operating loss</b>		<b>(5,700)</b>

Additional information:

- (i) The closing stock at the end of the year was 28,600,000 Frw. After the preparation of accounts, they discovered that, the closing stock was over stated by 15%.
- (ii) The allowable expenditure for capital allowance is 11,950,000 Frw
- (iii) Of the repair and maintenance Frw 8,000,000 was used to construct an additional building to accommodate the new machinery.
- (iv) The communication expense is partly private and business. However it is difficulty to differentiate the business calls from private calls.
- (v) The donation was made in the campaign for the Guma–Guma super star.
- (vi) The company has already made quarterly income tax contribution of 3,800,000 Frw.

**Required:**

- (a) Compute the taxable income of Maddex Limited **(14 Marks)**
  - (b) Compute the income tax liability and the tax payable **(4 Marks)**
- (Total 20 Marks)**

### QUESTION THREE

- (a) Explain the treatment of bad debts for taxation purposes **(5 Marks)**
- (b) Uwineza is a registered VAT tax payer in Rwanda. She deals in both exempt and standard taxable supplies. Her transactions for the month May 2016 are as below.

Items	Purchases inclusive of VAT Frw	Sales inclusive of VAT
Wines	12,450,000	15,600,000
Milk processed in Rwanda	3,800,000	3,790,000
Clothes	7,460,500	9,830,000
Wheel chairs	10,800,000	14,890,000
Tomatoes un processed	2,562,000	6,700,600
Tomato source from Kenya	4,120,300	6,950,100
Electricity	2,320,400	
Fuel	3,870,900	
Rent	1,782,300	
Computers	11,456,700	17,850,000
Cooking oil	9,230,600	13,400,500

- Compute the VAT payable to RRA **(15 Marks)**
- (Total 20 Marks)**

## QUESTION FOUR

- (a) Differentiate between a tax and a duty (4 Marks)
- (b) The principles and arguments in taxation rotate around utility and equitable distribution of resource.  
The capitalists say that individuals who pay tax should enjoy the lion's share.  
The socialists say those who pay the tax and those who do not pay should all enjoy the tax benefits.  
Explain the two approaches to taxation. (6 Marks)
- (c) Taxation helps the government to enhance the social, economic and environmental effect.  
Explain the social, economic and environmental objective of taxation to the economy. (10 Marks)
- (Total 20 Marks)

## QUESTION FIVE

- (a) Explain **five** cases where the government may impose fines and penalties on the misuse of EBM. (6 Marks)
- (b) In order to facilitate trade, RRA Customs Services Department adopted some special regimes.  
Explain **four** regimes that were established by the RRA customs service department to promote trade. (6 Marks)
- (c) (i) Define the term inward processing (2 Marks)
- (ii) List the records that must be kept under the inward processing (6 Marks)
- (Total 20 Marks)

## QUESTION SIX

- (a) Explain the meaning of the term "Common External Tariff" in relation to the East Africa Customs Union. (10 Marks)
- (b) State the types of taxes collected by the Customs Department of Rwanda Revenue Authority. (4 Marks)
- (c) Explain the principle of "Wholly Made" and "Value Addition" criteria for determining the rules of origin of goods imported in the East Africa Community. (6 Marks)
- (Total 20 Marks)

## QUESTION SEVEN

- (a) Explain the obligations of Excise Duty in accordance with the excise duty law of Rwanda. (6 Marks)
- (b) State the penalties and interests applicable to violation of Excise Duty in accordance with the Rwanda Excise Duty law. (6 Marks)
- (c) List the circumstances under which hardship waiver of tax liability may be granted to taxpayers. (4 Marks)
- (d) Discuss the reasons behind increase of Excise Duty on imported and local manufactured tobacco. (4 Marks)
- (Total 20 Marks)

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