

CERTIFIED ACCOUNTING TECHNICIAN LEVEL 2 EXAMINATION

L2.4: TAXATION

THURSDAY: 08 JUNE 2017

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This examination has seven(7) questions and only five(5) questions are to be attempted.**
- 3. Marks allocated to each question are shown at the end of the question.**
- 4. Any assumptions made must be clearly and concisely stated.**
- 5. Show all your workings.**
- 6. All iCPAR Examination rules and regulations apply.**

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		
From	To	Tax Rate
0	Frw 30,000	0%
30,001	Frw 100,000	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	3.3%
Employer's contribution	5.3%

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, jewelry 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%

Attempt any five questions

QUESTION ONE

- (a) Explain any three differences between direct and indirect taxes. **(6 Marks)**
- (b) Vangado Ltd is a prominent transport company with its office located in the central business district of Rwanda. The following is the statement of profit or loss and other comprehensive income for its operations for the year ended 31 December, 2016.

Particulars	Note	Frw '000'	Frw '000'
Revenue			600,000
Other Income	5		200,000
Less: operating expenses:			
Salaries & wages		100,000	
Rent		50,000	
Telephone expenses	1	40,000	
Repairs and maintenance	2	200,000	
Directors allowances & expenses		60,000	
Bad debts provision		30,000	
Electricity and water	3	20,000	
Traffic penalties/ fines		10,000	
Depreciation		5,000	
Transport licences fees		15,000	
Pay as you earn (PAYE)		30,000	
Total operating expenses			<u>560,000</u>
Net profit			<u>240,000</u>

Additional Information:

- (i) The company telephone was used for both business and private purposes.
- (ii) The figure for repairs and maintenance includes Frw 50,000 for replacement of company truck engine.
- (iii) During the company's external audit, it was discovered that 50% of the expenses for electricity and water did not have supporting accounting documentation.
- (iv) The company had capital allowances of Frw 4,500 for the period.
- (v) Other income includes Frw 40,000 relating to foreign exchange gains.

REQUIRED:

Compute the taxable income and tax liability for Vangado Ltd for the year ended 31 December, 2016. **(14 Marks)**

(Total 20 Marks)

QUESTION TWO

Maviga Group is tax resident in the United Kingdom (UK) with subsidiaries spread across various continents including Africa. The group is principally engaged in assembling Maviga brand motor vehicles. Maviga Rwanda Ltd (MRL) was incorporated in June, 2015 but commenced operations in January, 2016 in Nyarugenge District, Kigali Province. James Kamau, a Kenyan citizen and former operations manager at Maviga Kenya Ltd (MKL) was appointed Head of Business Development (HBD) at MRL effective 1 March, 2016. Kamau has been staying in Rwanda since 1 April, 2016 and received the following income and benefits in kind during the month of July, 2016:

- (i) On 1 July, he was given a brand new motor vehicle to facilitate his business development activities. The vehicle was valued at Frw 100,000,000.
- (ii) On 3 July, he received an interest-free loan from MRL of Frw 26,000,000 recoverable in four equal installments in order to lease a plot of land in Gitarama south province. The interbank interest rate was 8%.
- (iii) On 4 July, he bought a return ticket from Rwanda Airlines at Frw 180,000 to travel to Kenya to visit his family. While in Kenya on 5 July, Kamau bought three air tickets for his wife and two sons to travel to Rwanda each at Ksh 80,000. MRL reimbursed Kamau for all the four air ticket expenses. The exchange rate on 5 July, 2016, was 1 Ksh = Frw 7.
- (iv) On 10 July, his two sons enrolled for swimming classes at Turatsinze Swimming Club (TSC). MRL paid to TSC the subscription fees for the month of July, 2016 of Frw 100,000.
- (v) He was provided with a house in Gitarama town. On 31 July, MRL paid Frw 250,000 to the Land lord.
- (vi) Kamau is also provided with a gardener, a housekeeper and a driver. On 31 July, MRL paid each a salary of Frw 50,000.
- (vii) On 31 July,
 - Kamau was paid a basic salary of Frw 2,000,000.
 - MRL contributed Frw 100,000 to the Rwanda Social Security Board.
 - He was also paid medical and responsibility allowances of Frw 70,000 and Frw 150,000 respectively.

REQUIRED:

- (a) Determine the residence status of James Kamau in July, 2016 and give reasons to support your answer. **(4 Marks)**
- (b) Compute Kamau's taxable employment income for July, 2016 and the tax liability. **(14 Marks)**
- (c) Compute the late payment penalty if MRL failed to pay Kamau's tax liability for July, 2016 on time and did not receive extension for filing from the Commissioner General. **(2 Marks)**

(Total 20 Marks)

QUESTION THREE

- (a) In relation to the VAT law, explain four determinants of the taxation period for the supply of goods and services. **(4 Marks)**
- (b) Uwamahoro Ltd (UL) is a tax resident company in Rwanda and engages in the sale of general merchandise. UL has been trading since 2016 but is not yet registered for Value Added Tax. UL recorded the following sales in 2016.

Period	Sales (Frw)
January	1,200,000
February	800,000
March	1,890,000
April	2,000,000
May	1,500,000
June	2,890,000
July	970,000

In May, 2016 UL sold solar water heaters; supplied educational materials directly to learning institutions and sold energy saving lamps to various customers which were all valued at Frw 400,000.

REQUIRED:

- (i) Determine the period in which Uwamahoro Ltd (UL) met the VAT registration threshold. **(6 Marks)**
- (ii) State when UL was expected to file the first VAT return. **(2 Marks)**
- (iii) State the penalty for non-registration. **(2 Marks)**
- (iv) List three taxable supplies on which input tax is not allowed. **(6 Marks)**

(Total 20 Marks)

QUESTION FOUR

- (a) (i) Distinguish between prohibited and restricted goods with reference to the East African Community Customs Management Act (EACCMA). **(4 Marks)**
- (ii) List two examples of prohibited and restricted goods. **(4 Marks)**
- (b) Describe what the value of goods for export includes as per East African Community Customs Management Act. **(4 Marks)**
- (c) Mention powers of customs officers with reference to the East African Community Customs Management Act. **(8 Marks)**

(Total 20 Marks)

QUESTION FIVE

- (a) Discuss the tax obligations of a withholding tax (WHT) agent. (4 Marks)
- (b) State the penalty when the:
- (i) WHT agent does not file a tax declaration on time. (3 Marks)
- (ii) Tax in the WHT return is not paid on time. (1 Mark)
- (c) Gatera is a frequent visitor of Kamanzi Betters Ltd (KBL). On 14 April, 2017 Gatera engaged in gaming activities at KBL hoping to earn some money for the Easter Weekend. He betted Frw 100,000 but was unlucky and only won Frw 80,000.

REQUIRED:

- (i) Determine the gaming tax that KBL should pay to Rwanda Revenue Authority on this transaction. (4 Marks)
- (ii) When should KBL file and submit the declaration of tax on gaming activities? (2 Marks)
- (d) (i) Gatera invested a total sum of Frw 150,000 and won Frw 567,000 from the start until the end of the game.

REQUIRED:

- Compute the withholding tax (WHT) that KBL should deduct from Gatera's winnings. (4 Marks)
- (ii) When should KBL file and submit the declaration of tax withheld on winnings. (2 Marks)
- (Total 20 Marks)

QUESTION SIX

- (a) Mention 16 obligations of a Certified Electronic Billing Machine (EBM) user. (16 Marks)
- (b) Distinguish between small and medium taxpayer in accordance to Article II of ministerial order on modalities of use of Certified Electronic Billing machine. (4 Marks)
- (Total 20 Marks)

QUESTION SEVEN

- (a) List any five principles of a good tax system. (5 Marks)
- (b) Discuss the objections and appeals procedure in accordance with the Income Tax law of Rwanda. (15 Marks)
- (Total 20 Marks)

End of question paper



