

CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 2 EXAMINATIONS

F2.4: TAXATION

TUESDAY: 06 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. Show all your workings.**
- 5. Any assumptions made must be clearly and concisely stated.**
- 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		Tax Rate
From	To	
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%

Attempt any five questions

QUESTION ONE

Delta Manufacturers Rwanda Ltd (DMRL) is a privately owned water purifying and bottling company, incorporated in Rwanda. Its head office is located in Kigali city and has branches in Gisenyi, Butare, Byumba and Rwamagana. DMRL is not a registered investor.

The following is DMRL's statement of profit or loss and other comprehensive income for the year ended 31 December, 2015:

	Note	Frw "000"
Revenue		6,980,187
Cost of sales		(2,920,037)
Gross profit		4,060,150
Other income	1	892,800
Operating income		4,952,950
Operating expenses:		
Staff costs	2	(1,282,946)
Depreciation and amortization	3	(484,976)
Rent		(230,000)
Provision for bad debts	4	(53,000)
Advertising		(944,500)
Donations	5	(50,000)
Repairs and maintenance	6	(85,000)
Other operating expenses	7	(676,672)
Total operating expenses		(3,807,094)
Profit before tax		1,145,856

Notes:

1. Other income includes:

- Foreign exchange gains Frw 566,725,000.
- Gain on sale of shares held in Bralirwa Ltd, a company listed on the Rwanda Securities Exchange of Frw 126,075,000.
- Interest income on fixed deposit account in the bank Frw 200,000,000.

2. An amount of Frw100,000,000 paid to the directors as their bonus and sitting allowances for the year ended 31 December, 2015 has been included in staff costs.

3. The book value of the depreciable assets owned by the company as at 1 January, 2015 were:

	Frw "000"
Computers and software	350,425
Other assets	2,735,450

The cost of the factory building that was constructed in 2010 when the company commenced production was Frw 2,000,000,000. The company did not purchase any other assets during the year.

4. The company sold packed water to Mr. Karekezi who had a wholesale shop in Remera, Kigali for Frw 53,000,000 on credit during the month of February, 2015. Mr. Karekezi travelled to the United States in March, 2015 and had not returned by the end of the year. The wholesale shop has been closed and it is not clear whether he will come back into the country.

5. The donation was made to Vuruga Ltd, one of the customers for the company who is engaged in general trading business.

6. Included in repairs is an amount of Frw 50,000,000 for the reconstruction of the main factory store in Kigali.

7. Other operating expenses include:

	Frw "000"
Fines to Rwanda Environment Management Authority (REMA)	40,000
Mobile telephone expenses (the company is unable to track the business and private use)	35,000
Other expenses (all deductible)	601,672
Total	676,672

The company made the quarterly tax payment of Frw 200,000,000 during the year.

REQUIRED:

(a) Compute the taxable income and the tax liability for Delta Manufacturers Rwanda Ltd for the year ended 31 December, 2015. (19 Marks)

(b) Indicate the due date for the payment of the tax. (1 Mark)

(Total 20 Marks)

QUESTION TWO

Kamanzi Traders Ltd (KTL) operates a grocery shop in Ruhengeri Town. They sell assorted goods ranging from household items, scholastic materials, foods and beverages. They are registered for VAT and have been filing and paying taxes ever since January, 2016.

During January, 2017 they had the following transactions:

1. Sales (VAT Exclusive):	
(i)	Cooking oil Frw 9,000,000
(ii)	School books Frw 1,500,000
(iii)	Tinned milk that was imported from Denmark Frw 1,100,000
(iv)	Energy saving lamps Frw 1,200,000
(v)	Soda Frw 3,800,000
(vi)	Beans Frw 2,200,000
(vii)	Sugar Frw 4,620,000
(viii)	Bananas Frw 120,000

2. Donated sugar worth Frw 100,000 to the neighbours as part of burial contributions.

Purchases (VAT Exclusive & from VAT registered persons where applicable):

3. Purchases (VAT Exclusive & from VAT registered persons where applicable):	
(i)	Two fridges Frw 4,000,000
(ii)	School books worth Frw 2,300,000
(iii)	Soda Frw 4,100,000
(iv)	Bananas Frw 100,000
(v)	Energy saving lamps Frw 2,000,000
(vi)	Sugar Frw 3,000,000
(vii)	Tinned milk from Denmark Frw 2,000,000
(viii)	Beans Frw 3,100,000

REQUIRED:

(a) Compute the VAT Payable or Claimable for January, 2017. (11 Marks)

(b) Identify any four features found on the receipts generated by a Certified Invoicing System (CIS). (4 Marks)

(c) Explain how KTL would seek for VAT refunds in the subsequent periods from the Revenue Authority. (5 Marks)

(Total 20 Marks)

QUESTION THREE

Chantal, a medical doctor by profession was offered a five-year job contract with Amazing Grace Health Care Ltd (AGHC). The effective date of the contract was 1 January, 2016 and it is subject to renewal upon satisfactory performance for another five-year period. During the year ended 31 December, 2016, Chantal received the following benefits:

(a)	A monthly basic salary Frw 5,000,000.
(b)	Performance bonus Frw 12,000,000 per annum.
(c)	Leave pay of Frw 6,000,000 payable in the last month of the year in the contract.
(d)	Subsistence allowance Frw 700,000 per annum.
(e)	A company car valued at Frw 10,000,000.
(f)	A monthly fuel card Frw 1,200,000.

Other relevant information:

1	Chantal travelled to Nairobi for holiday with her family and incurred Frw 900,000. The company refunded her half of the costs incurred.
2	The company paid school fees for her daughter amounting to Frw 1,000,000.
3	Obtained a reimbursement on her medical expenses Frw 600,000.
4	Accommodation at Nyarugenge Frw 2,000,000 per annum.

REQUIRED:

(a) Compute Chantal's chargeable income and tax payable for the year ended 31 December, 2016. (12 Marks)

(b) Compute the total amount of contributions that shall be paid to the Rwanda Social Security Board (RSSB) in respect to Chantal's income. (3 Marks)

- (c) Identify any five taxable payments that are specifically excluded from employment income. (5 Marks)
- (Total 20 Marks)

QUESTION FOUR

- (a) Explain the reasons why the government of Rwanda levies taxes on the citizens. (6 Marks)
- (b) Distinguish between direct and indirect taxes, giving the advantages of each type of classification. (14 Marks)
- (Total 20 Marks)

QUESTION FIVE

- (a) Briefly, explain the meaning of “Rules of origin” as per the Customs Management Act. (2 Marks)
- (b) Explain the criteria used in order to determine the origin before goods are accepted to be consigned from a partner state. (8 Marks)
- (c) With examples, distinguish between prohibited goods and restricted goods. (10 Marks)
- (Total 20 Marks)

QUESTION SIX

- (a) Nsengiyunva Damian, a resident in Rwanda, owns rental apartments in Nyarutarama, Kigali. He completed the construction of the apartments in December, 2014 and the first occupants entered the apartments in January, 2015. The total cost of construction of the apartments was Frw 1.2 billion. Part of the construction costs was funded by a mortgage loan from Bank of Kigali of Frw 500,000,000 repayable in 15 years at an interest rate of 15% per annum. There is sufficient documentation to support the interest paid during the year.

The rental income earned for the year ended 31 December, 2015 was Frw 185,250,000.

The expenses incurred during the year were:

	Frw ‘000’
Cleaning and garbage disposal	8,000
Security services	52,000
Other general maintenance expenses	70,000
Total	130,000

REQUIRED:

Compute the taxable rental income and tax payable by Nsengiyunva Damian for the year ended 31 December, 2015 and state the due date of payment. (10 Marks)

- (b) Nsengiyunva Damian was not in position to pay the rental tax due in time because of unforeseen circumstances. He was advised that it is possible to defer the tax payment without incurring any fines.

REQUIRED:

- (i) Explain the procedure for requesting for deferral of rental tax payment. (3 Marks)
- (ii) State the penalty Nsengiyunva has to pay if he omits or delays to submit a return of rental income beyond the due date. (4 Marks)
- (iii) Explain the consequences of paying the rental income tax later than the due date. (3 Marks)

(Total 20 Marks)

QUESTION SEVEN

- (a) Explain the term trade license tax and who is liable to pay the tax. (2 Marks)
- (b) Explain the regulations/ guides that govern the operation of license tax in accordance with the Law No 59/2011 of 31/12/2011 establishing the source of revenue and property of decentralised entities and governing their management. (6 Marks)
- (c) List the fixed assets that are exempted from the payment of fixed asset tax. (6 Marks)
- (d) Mr. Makuza Emmanuel owns the following fixed assets in Kigali City, Nyarugenge District and their values as at 1 January, 2016 were:

Asset	Value (Frw)
A commercial building that houses 10 shops	400,000,000
A residential house	200,000,000

REQUIRED:

Calculate the total fixed asset tax payable by Mr. Makuza for the year ended 31 December, 2016 and indicate the due dates for payment. (6 Marks)

(Total 20 Marks)

End of question paper

