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## **CERTIFIED ACCOUNTING TECHNICIAN (CAT)**

### **LEVEL 2 EXAMINATIONS**

#### **L2.4: TAXATION**

**THURSDAY: 7 JUNE 2018**

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#### **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.

## QUESTION ONE

Axiom Telecom Limited (ATL) is located in Gasabo, Kigali province. The company offers network infrastructure and internet services. The company has invested heavily in the telecom sector of Rwanda and has over one million clients. ATL had the following transactions for the year ended 31 December, 2017.

	Frw '000'	Frw '000'
Revenue	2,500,000	
Other revenue (Note 1)	<u>700,000</u>	
Total revenue		3,200,000
Cost of sales (Note 2)		<u>(1,000,000)</u>
Gross profit		2,200,000
Expenses:		
Rent	200,000	
Depreciation	250,000	
Finance costs (Note 3)	90,000	
Staff costs (Note 4)	400,000	
VAT (Note 5)	150,000	
Other administration costs (Note 6)	200,000	
Professional fees	20,000	
Penalty for late payment of tax	<u>10,000</u>	<u>(1,320,000)</u>
Operating profit		<u>880,000</u>

Notes:

1. Included in other revenue was realised foreign exchange gains Frw 20,000,000 and Frw 15,000,000 interest income earned by Mr. Ndabarinzi, the managing director.
2. Cost of sales includes Frw 150,000,000 which relates to patent rights incurred in the development of the company's new computer software application for its mobile money platform.
3. Finance costs include Frw 15,000,000 for attendance fees to the members of the board of directors and Frw 20,000,000 for bad debts provision.
4. The figure for staff costs includes Frw 110,000,000 which relates to PAYE. The accountant posted gross salaries in the income statement.
5. The company is registered for VAT and all the VAT incurred is recoverable.
6. Included in other administration costs is Frw 12,000,000 for research costs incurred on land acquired by the company for expansion and Frw 50,000,000 as a donation to an orphanage.

Additional information:

- (i) The accountant did not include in the financial statements Frw 20,000,000 which relates to management fees for consultancy services offered by Axiom Telecom Limited to its sister company in Nairobi.
- (ii) The company acquired 20 computers at Frw 3,000,000 each, computer software Frw 45,000,000, a database server of Frw 60,000,000 and 2 external hard drives at Frw 250,000 each.

- (iii) The company bought 2 double cabin pickups at Frw 90,000,000 each, office furniture and fittings Frw 50,000,000 and a piece of land worth Frw 300,000,000 for construction of its new headquarter offices
- (iv) They bought a building in Rwamagana, a district in the eastern province, at Frw 160,000,000 which is used for both stores and offices.
- (v) The tax written down values for depreciable assets as at 1 January, 2017 were as follows:

	Frw '000'
Computers, software and data equipment	200,000
Other business assets	350,000

**REQUIRED:**

- (a) Compute Axiom Telecom Limited's taxable income and tax liability for the year ended 31 December, 2017. **(18 Marks)**
- (b) Explain the conditions for allowing bad debts as a deduction for tax purposes. **(2 Marks)**

**(Total 20 Marks)**

**QUESTION TWO**

Vienna Rwanda Limited (VRL) was incorporated in March, 2015 and commenced operations immediately. VRL is in the business of wholesaling electronics but also owns trucks used to provide transportation services. The company was registered for VAT effective 1 August, 2016. VRL's sales and purchases recorded in December, 2017 are summarized below. Sales were VAT inclusive; purchase and expenses VAT exclusive.

1. Grain Millers Uganda Limited engaged VRL to transport maize grain from Rwanda to Uganda for Frw 1,000,000.
2. VRL sold an old refrigerated vehicle for Frw 15,000,000 to Giramata Dairy Farm Limited.
3. Purchased spare parts from General Garage Rwanda Limited for repair and maintenance of company owned passenger vehicles for Frw 179,000.
4. Purchased 15 Fridges suitable for commercial and household use worth Frw 500,000 each.
5. Purchased wind energy electronic systems as business stock for Frw 340,000.
6. Exported 10 fridges to Master Electronics Uganda Limited for Frw 600,000 each and were also contracted by Master Electronics to transport the fridges to Uganda for Frw 650,000.
7. Paid rent and electricity for the business premises for December, 2017 Frw 800,000 and Frw 150,000 respectively.

**REQUIRED:**

- (a) Compute the VAT payable/ claimable by VRL in December, 2017. **(10 Marks)**
- (b) With examples, distinguish between zero rated and exempt goods and services. **(5 Marks)**
- (c) Explain to VRL what the Rwandan VAT law considers being the taxation period for the supply of goods and services. **(5 Marks)**

**(Total 20 Marks)**

### QUESTION THREE

The Old Times Rwanda Ltd (OTRL) is a government owned newspaper that was set up in 2006. The newspaper employs staff of diverse cultures with a sizeable number of staff from Uganda. Charles, a Ugandan citizen, was recruited in December, 2016 as a chief news editor with his effective date of appointment as 1 January, 2017. On 23 December, 2016 Charles and his entire family relocated to Rwanda. In the month of January 2017, Charles was remunerated in cash and in kind as follows:

1. Was paid a bonus for exceeding his weekly targets. By the end of January, 2017 he had received a total bonus of Frw 60,000.
2. OTRL makes a monthly contribution of Frw 40,000 to Rwanda Social Security Fund (RSSF) on his behalf.
3. He is paid a monthly salary of Frw 600,000 and monthly entertainment allowance of Frw 300,000.
4. On the 15 January, 2017 OTRL paid Frw 100,000 to Charles for accepting to resign his job in Uganda to start working with OTRL.
5. On 16 January, 2017 Charles received a salary advance of Frw 20,000,000 payable in twelve equal installments at no interest. The rate of interest offered to commercial banks by the National Bank of Rwanda in 2017 was 10%.
6. On 25 January, 2017 Charles bought five air tickets from Air Rwanda for his wife, his two daughters, a son and himself to facilitate his family's travel to Mombasa for holiday at Frw 400,000 per ticket. On 31 January, 2017 OTRL reimbursed the total cost of the air tickets to Charles.
7. Charles' two daughters go to New Light Nursery School located in Giramata in south province. In January, 2017 OTRL paid for all their music class lessons Frw 52,000 per child.
8. Charles incurs work related expenses on stationery and food while collecting news in the course of his employment. At the end of January 2017, he had over Frw 65,000 of expenses owing to the stationery and food vendors but this amount was settled by OTRL.
9. His son is a member of the Rwanda Young Bikers Association (RYBA). OTRL pays monthly membership fees of Frw 20,000 to RYBA.
10. On 1 January, 2017 OTRL provided a company owned house to Charles for his accommodation and a Toyota Kulger car to facilitate his movement.

#### REQUIRED:

- (a) Compute Charles' taxable employment income for the month of January, 2017 and the tax liability.  
**(15 Marks)**
- (b) Mention any **two** persons who are obliged to withhold and pay tax on employment income.  
**(2 Marks)**
- (c) State the date(s) when are the persons mentioned in (b) above are required to file a tax declaration and transmit the tax withheld to the Rwanda Revenue Authority.  
**(2 Marks)**
- (d) Mention the tax rate that should be applied by an employer who is not a first employer of the taxpayer.  
**(1 Mark)**

**(Total 20 Marks)**

## QUESTION FOUR

- (a) Mass Breweries Limited, located in Kigali, is one of the leading importers of sparkling wine in Rwanda. During the month of May, 2018 the company imported cartons of wine from China and it incurred the following costs.

	USD
Free on board	450,000
Insurance to Mombasa	30,000
Freight to Mombasa	50,000
Freight to Kigali	55,000

Note:

The applicable exchange rate is USD1 = Frw 866.

Import duty rate	25%
Excise duty rate	70%
VAT rate	18%
Withholding tax rate	5%

### REQUIRED:

Compute the customs taxes that Mass Breweries Limited is supposed to pay on importation of wine for the month of May, 2018.

**(10 Marks)**

- (b) The management of Mass Breweries Limited is interested in understanding customs procedures in order to ensure smooth running of its business.

### REQUIRED:

Explain to the management of MBL:

- (i) The procedures to follow for vehicles arriving overland.
- (ii) The purposes for entering goods which have been warehoused.

**(4 Marks)**

**(6 Marks)**

**(Total 20 Marks)**

## QUESTION FIVE

Uzamukunda Traders deal in general merchandise with business outlets in Kayonza, Kicukiro located in East and Kigali provinces respectively. They have been operating for the last 10 years largely as an informal business. Uzamukunda Traders were recently audited by Rwanda Revenue Authority and issued with a tax audit report.

According to the report, it was revealed that;

1. The business did not file income tax declaration for the years ended 31 December, 2013 and 31 December, 2014. The due taxes were Frw 20,000,000 and Frw 25,000,000 respectively for both years. As a result, Rwanda Revenue Authority issued notices of assessments and also raised penalties.
2. The income tax declaration for the year ended 31 December, 2016 had been filed on time but tax payments of Frw 50,000,000 therefrom had not been made on time.
3. They understated tax for the years ended 31 December, 2015, 2016 and 2017 as shown in the following table.

Year	Amount (declared)	Amount (actual)
	Frw '000'	Frw '000'
2017	80,000	32,000
2016	50,000	35,000
2015	30,000	27,600

4. Withheld tax Frw 120,000,000 from its suppliers of merchandise but was never remitted to Rwanda Revenue Authority.

### REQUIRED:

- (a) Compute the relevant penalties applicable to Uzamukunda Traders with reference to the tax health check report.  
(14 Marks)
- (b) Explain the due date for filing of their annual income tax declaration and the circumstances under which the company may apply for waiver of its penalties/ interest.  
(4 Marks)
- (c) The procedure to be followed in objecting and appealing to the notices of assessments issued against them by RRA.  
(2 Marks)

(Total 20 Marks)

## QUESTION SIX

Sebarenzi was resident in Rwanda in the year ended 31 December, 2017 and earned the following investment income from various business undertakings.

1. He is a shareholder in Rwanda Telecommunication Limited (RTL), a private company, and held 100 shares as at 31 December, 2017. For the year ended 31 December, 2017, RTL declared and paid dividends to its shareholders of Frw 1,000 per share
2. He invested in government securities and earned interest income of Frw 800,000.
3. Sebarenzi developed a formula for making juice and charges Mango Juicers Limited (MJL) for granting them a right to use this special formula in their business. MJL pays an annual

royalty fee of 5% of annual sales generated. MJL recorded annual sales of Frw 20,000,000 in the year ended 31 December, 2017.

4. In March 2017, Sebarenzi also earned interest income of Frw 80,000 from a fixed deposit account held with Crested Bank Limited (CBL).
5. Sebarenzi sold shares held in Gold Betting Limited, an entity listed on the Rwanda Stock Exchange. The shares were sold under a secondary market transaction for a gain of Frw 640,000.

**REQUIRED:**

- (a) Compute Sebarenzi's tax liability on specific sources of income listed in 1 - 5 above.  
**(15 Marks)**
- (b) Mention **five** examples of other revenue sources as per the Rwandan Income Tax law.  
**(5 Marks)**

**(Total 20 Marks)**

**QUESTION SEVEN**

The government of Rwanda passed its maiden national petroleum law in 2016 to revitalise investments and exploration in oil, as it seeks to share regional oil production prospects.

Oil exploration in Rwanda was initially conducted by Vanitoil, a Canadian firm, which explored the northern part of Lake Kivu for six years.

The company pulled out of the contract with government in 2013 after hitting a few "dry wells" and incurring heavy costs in the due course.

Vanitoil Rwanda Limited (VRL) recently resumed oil exploration activities around Lake Kivu and is importing vital services from foreign markets. In May 2018, VRL imported an oil exploration service from Vanitoil Canada, its parent company, and that service is not readily available in the Rwandan local market. VRL paid USD155, 600 for this service and the exchange rate in May 2018 was 1USD=866.

**REQUIRED:**

- (a) Compute the VAT payable/claimable by VRL in May 2018.  
**(7 Marks)**
- (b) As a student of Taxation, explain to management of VRL the instances where input tax incurred is not allowed as per the VAT Act.  
**(5 Marks)**
- (c) Explain the following penalties associated with the certified electronic billing machine (EBM):
  - (i) Failure to use the EBM. **(4 Marks)**
  - (ii) Failure to comply with any of the EBM obligations. **(4 Marks)**

**(Total 20 Marks)**

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**END OF QUESTION PAPER**

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