
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.4: TAXATION

THURSDAY: 6 JUNE 2019

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

Brand Bottling Company (BBC), a soft drinks manufacturer, is a limited liability company established and operates in Rwanda. BBC produces a number of products, each with its own production line and income stream from which BBC prepares consolidated financial statements for each year of income ending 31 December. The following is an extract from their statement of comprehensive income for the period ending 31 December, 2018.

Details	Note	Frw '000'
Revenue		66,978
Cost of sales		(36,721)
Gross profit		30,257
Other income		1,980
Selling & distribution expenses		(3,666)
Administration expenses	1	(12,858)
Other operating expenses	2	(1,799)
Profit before interest and tax		<u>13,914</u>

Notes:

1. Administration expenses include:
 - (i) New furniture and fittings valued at Frw 5,000,000.
 - (ii) End of year staff entertainment costs Frw 58,000.
 - (iii) Business overhead expenses (telephone, water, and electricity) Frw 850,000.
 - (iv) Bad debts written off during the year Frw 1,000,000 for which all reasonable steps to recover were taken over a period of three years without success.
2. Included in other operating expenses are:
 - (i) Frw 21,000 paid to Rwanda Revenue Authority for late declaration of income tax returns for the period ended 31 December, 2017.
 - (ii) Depreciation expense charged on business assets of Frw 832,000.
 - (iii) Research and training expenditure of Frw 60,000.
3. The book values for pool assets on 1 January, 2018 were as follows:

Asset	Frw '000'
Land	25,000
Computer and computer accessories (estimated useful life 4 years)	8,000
Building and machinery	18,000
Other business assets	20,500

REQUIRED:

- (a) Compute BBC's tax liability for the period ended 31 December, 2018. **(15 Marks)**
 - (b) Explain the sources of taxable income in accordance with the provision of the law N^o. 016/2018 of 13/04/2018 establishing taxes on income. **(5 Marks)**
- (Total 20 Marks)**

QUESTION TWO

Umwiza Limited (UL) has been in the business of retailing and wholesaling general merchandise and has several outlets in various districts in Rwanda. UL is registered for VAT and had the following transactions in the month of February 2019.

Sales:

1. Sold goods and services of Frw 1,230,000 to a Tanzanian diplomat accredited to Rwanda and both goods and services were for the use of the Tanzanian mission in Rwanda.
2. Sold mobile telephones and SIM cards of Frw 340,000,000 to Rwanda Telephone Limited, a leading mobile telephone services provider in Rwanda.
3. Sold standard rated goods and services of Frw 569,654,000 VAT inclusive.

Purchases and expenses:

1. Imported services of a management consultant based in Kenya to assist with drafting a Balanced Scored Card tool for Frw 500,000 to be used to assess the performance of UL's staff. It should be noted that this service was readily available on the Rwandan market.
2. Paid electricity bills of Frw 987,000 VAT inclusive.
3. Purchased standard rated goods of Frw 6,500,000 VAT inclusive.
4. Purchased zero rated services of Frw 3,200,000.
5. Bought standard rated goods of Frw 2,400,000 VAT exclusive.
6. Paid Frw 420,000 as Employers' Trade Union subscription fees for 2019.

REQUIRED:

- (a) Compute the VAT payable or claimable by UL in the month of February 2019.
(16 Marks)
- (b) In accordance with Article 15 of the ministerial order N°.002/13/10/tc of 31/07/2013 on modalities of use of certified electronic billing machine, explain **four** fixed administrative fines imposed on persons who fail to use a certified electronic billing machine.
(4 Marks)
(Total 20 Marks)

QUESTION THREE

- (a) Jacqueline Kamanzi is an employee of Alba Breweries Limited (ABL) as a quality controller. In July 2018, she was promoted to a position of senior quality controller upon completion of a master's degree in Production Bio-Engineering from a prestigious university in California – USA. Upon her return and promotion, her terms of employment were reviewed in relation to her new role. The following are her new entitlements both in cash and kind effective 1 July, 2018:

1. Annual gross salary of Frw 34,140,000 payable monthly by electronic funds transfer directly to her bank account.
2. A monthly travel allowance of Frw 100,000 payable monthly with salaries.
3. In the month of July 2018, she incurred travel expenses of Frw 430,000 for which she submitted claims to ABL, which has not yet been paid.
4. ABL makes a contribution of 5% of her gross remuneration to the Rwanda Social Security Board (RSSB) as retirement benefit.

5. ABL made available to her, as part of her employment benefit, a fully furnished apartment in Kibagabaga, a suburb of Kigali. Similar apartments are valued at a monthly rent of Frw 250,000. She is yet to occupy the apartment.
6. She was advanced a salary loan of Frw 2,500,000 on 1 July, 2018 at a discounted rate of 5% per annum. The central bank rate provided at the time of taking the facility is 11% for the year and she is required to pay back both the interest and principal within one year.
7. Is provided with a brand new motor vehicle valued at Frw 25,000,000 available for her effective 1 July, 2018.
8. Was responsible for the development of a new beer brand, 'Imbaraga Lager' for which she was paid a bonus of Frw 1,250,000 which was approved by ABL board in May 2018 and credited to her account in July 2018.
9. ABL pays for her a leisure club annual membership fee of Frw 1,999,200.
10. In addition to her regular role, she is also a member of the Brand Approval Committee at ABL for which she is paid a sitting allowance of Frw 100,000 per sitting. In the month of July 2018, the committee had two sittings. She was only available for one sitting due to her tight work schedules during the month.

REQUIRED:

- (a) Compute Kamanzi's employment income and tax payable for the month of July 2018. **(16 Marks)**
- (b) In accordance with the law N°. 016/2018 of 13/04/2018 establishing taxes on income, an individual's liability to income tax is determined by their residence.

REQUIRED:

Explain the considerations in determining residence status of an individual for the purpose of income tax.

(4 Marks)
(Total 20 Marks)

QUESTION FOUR

Rosemary Uzamukunda has been in the business of importing textiles from India to Rwanda for close to 5 years. In January 2019, Uzamukunda travelled to Mumbai India and was able to purchase a consignment of assorted textiles for India rupee (INR) 12,000,000 ex works. Uzamukunda then transported the consignment by road from Mumbai city to Mumbai port for INR 90,000 and port loading charges were INR 40,000.

The consignment was transported by sea to the port of Mombasa for US dollar (USD) 6,000 and from Mombasa through Uganda to Rwanda for Kenya shilling (KShs) 224,900. Uzamukunda travelled by air back to Rwanda for USD 3,000 and paid for insurance to cover the consignment from Mumbai to Mombasa of INR 20,000.

Assume the import duty rate was 25%, withholding tax at 5% and excise duty rate 80%, VAT at the standard rate and the exchange rates as follows:

INR 1 = Frw 13
USD 1 = Frw 895
Kshs 1 = Frw 8.89

REQUIRED:

- (a) Compute the customs duties paid by Uzamukunda. **(13 Marks)**
 - (b) Explain any **six** roles of a customs clearing agent. **(5 Marks)**
 - (c) Mention any **two** documents required by the customs department for clearance of goods **(2 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) Ms. Olivier Bakunda owns a general trade business in Gasabo district of Kigali province. She received an estimated assessment from the Rwanda Revenue Authority (RRA) of Frw 5,000,000 in the month of September 2018. She is, however, dissatisfied with the assessment.

REQUIRED:

- (i) Explain to Ms. Bakunda the circumstances under which the tax administration may start an estimated assessment procedure. **(5 Marks)**
- (ii) Given that half of the assessed amount relates to late declaration of a value added tax (VAT) return for the month of July 2018; and also that sales records from Ms. Bakunda's company indicate her VAT liability for the period is Frw 3,500,000 with an annual turnover of Frw 18,000,000.

Compute Ms. Bakunda's penalty for late declaration. **(7 Marks)**

- (iii) Given also that the remaining half of the assessed tax relates to late payment of income tax which was due on 30 June, 2018.

Compute the penalty due by 30 September, 2018 on the late payment of tax. **(6 Marks)**

- (b) Explain the options available to a taxpayer who is dissatisfied with the tax assessment notice issued by the tax administration **(2 Marks)**
- (Total 20 Marks)**

QUESTION SIX

Leon Kamiri is a renowned musician in East Africa with several sources of income. Besides the music business, Kamiri owns shares in several companies incorporated in Rwanda. He usually advances loans to fellow musicians. In addition to granting rights to media houses that play his music, the media houses pay him royalties in return. The following are details of the various incomes earned by Kamiri during the year ended 31 December, 2018.

	Frw
Dividends	280,000
Interest	312,900
Royalties	234,500

REQUIRED:

- (a) Determine Kamiri's total tax liability for the year ended 31 December, 2018. **(6 Marks)**
- (b) In accordance with the law establishing tax No. 29/2012 of 27/07/2012 on gaming activities, explain the following terms:
 - (i) Winnings. **(1 Mark)**
 - (ii) Gaming activities. **(1 Mark)**
 - (iii) Wager. **(1 Mark)**
- (c) In December 2018, Kamiri engaged in gaming activities in Kigali city at Fatboys Casino. He wagered Frw 100,000,000 and was awarded Frw 125,000,000 as winnings.

REQUIRED:

Compute Kamiri's gaming tax for December, 2018. **(2 Marks)**

- (d) In January 2019, Kamiri sold a commercial property that he owned in Kigali city for Frw 500,000,000. Kamiri had bought this building from Nzabamwita in 2012 for Frw 345,678,000. He paid brokerage fees of Frw 65,897,000 and legal fees of Frw 10,000,000 to complete the building acquisition transaction.

In February 2019, Kamiri sold shares held in Rwanda Telecom Limited (RTL) for Frw 20,450,000. He had bought these shares in 2017 for Frw 18,900,000.

REQUIRED:

- (i) Define the term capital gains. **(2 Marks)**
- (ii) Explain **two** circumstances where the disposal of business asset does not give rise to capital gains tax. **(2 Marks)**
- (iii) Compute the capital gains tax payable by Kamiri. **(4 Marks)**
- (iv) State the period when is RTL is required to declare and pay the capital gains tax on the shares sold by Kamiri. **(1 Mark)**

(Total 20 Marks)

QUESTION SEVEN

In accordance with the law No. 75/2018 of 07/08/2018 establishing the source of revenue and property of decentralized entities and governing their management:

- (a) Explain **three** bases for trading license tax for taxpayers not registered for value added tax (VAT). **(3 Marks)**
- (b) Apex Rwanda Limited (ARL) is registered for VAT and operates through its head office located in Kamonyi, south province. ARL also operates through three branches in northern province in the districts of Burera, Gakenke and Gicumbi. It is important to note that each branch operates in its own premises. ARL's turnover for the year ended 31 December, 2018 for the head office was Frw 35,000,000. Turnover for the three branches was distributed as follows:

	Frw'000
Burera district branch	276,000
Gakenke district branch	130,000
Gicumbi district branch	50,000

REQUIRED:

Determine trading license tax payable by ARL for the year ended 31 December, 2018 for each branch and the head office. **(4 Marks)**

- (c) State and explain **three** characteristics of trading license tax. **(3 Marks)**
- (d) Eric Mugabo is a transporter operating in the Northern province of Rwanda. Mugabo parks his fleet in a designated parking lot for which he makes monthly payments. For the month of May 2019, he parked five small vehicles, three small lorries, one heavy truck (without trailers), and two heavy vehicles with trailers in the parking lot.

REQUIRED:

- (i) Compute the parking fees payable by Mugabo for the month. **(5 Marks)**
- (ii) Apart from parking fees and trading licenses, mention **five** other fees levied by local government units in Rwanda. **(5 Marks)**

(Total 20 Marks)

