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**CERTIFIED PUBLIC ACCOUNTANT**

**ADVANCED LEVEL 2 EXAMINATIONS**

**A2.3: ADVANCED TAXATION**

**MONDAY: 3 JUNE 2019**

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**INSTRUCTIONS:**

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections; **A & B**.
3. Section **A** has **one** Compulsory Question while section **B** has four optional questions to choose any three
4. In summary attempt **four** questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings.

## SECTION A

### QUESTION ONE

- (a) Shauri Rwanda Limited (SRL), a private resident company, is engaged in the importation, distribution and sale of home and personal care products throughout Rwanda. Business operations commenced on 1 January, 2016. The main products sold include various brands of petroleum jelly, bathing and washing soap, toothpaste and multipurpose cleaning powder. The company owns a big warehouse in Gasabo district of Kigali Province. The company also owns a fleet of 20 delivery vans and 10 trucks to ease the distribution of its products.

SRL is a subsidiary of Shauri Kenya Limited (SKL), a private company based in Nairobi, Kenya, which holds 100% shares in SRL.

SRL imports all the goods from SKL, whose business is manufacturing, distribution and sale of home and personal care products throughout East Africa and beyond.

SRL's statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is as below:

	Note	Frw '000'	Frw '000'
Revenue			16,550,000
Cost of sales	1		(6,439,000)
Gross profit			10,111,000
Less expenses:			
Depreciation		543,865	
Selling & distribution	2	725,900	
Entertainment	3	150,000	
Management fees	4	200,000	
Brand & marketing	5	1,323,200	
Donations	6	435,000	
Salaries & wages		2,500,000	
Consumer market research	7	498,625	
Office consumables		56,000	
Other administrative expenses		648,568	
Finance cost	8	50,000	7,131,158
Profit before tax			2,979,842

Notes:

1. SRL pays a royalty of 5% of sales made during the year to SKL and the royalty is included in the cost of sales. SRL complied with all its tax obligations in accordance with Law No. 016/2018 of 13/04/2018 establishing taxes on income.
2. Included in selling and distribution expenses are the following amounts:
  - (i) A bad debt written off of Frw 15 million.
  - (ii) The company makes a general provision for bad debts of 10% of all the debts outstanding at the end of the year. The receivables as at 31 December, 2018 were Frw 328,629,000 and the provision for the year was included in the selling and distribution expenses.

- (iii) All the other selling and distribution expenses related directly to the business activities.

3. Entertainment expenses are comprised of the following amounts:

	Frw '000'
Maintenance of playground (staff play various games every Friday)	72,000
Staff end of year party	28,000
Client end of year party	<u>50,000</u>
	<u>150,000</u>

4. The management fees were paid to Wote International Limited (WIL) a company that is tax resident in the United Kingdom for the provision of professional advice related to the branding of the products sold on the Rwanda market. WIL is the holding company for SKL.

5. Brand and marketing expenses are comprised of the following amounts:

	Frw '000'
Contribution to Twikambe - a non-registered community self-help project	20,000
Fines paid to Rwanda Environment Management Authority for breach of the law on noise levels while advertising	35,000
Commissions paid to agents	250,000
Other expenses directly attributable to the business	<u>1,018,200</u>
	<u>1,323,200</u>

6. Included in donations are the following amounts:

	Frw '000'
Kigali Orphanage - a non-profit making organisation	200,000
Kayayo Ltd - a distributor for construction of a school	50,000
Sponsorship of the mountain bike race Kigali- Butare	<u>185,000</u>
	<u>435,000</u>

7. The company does not have supporting documents for an amount of Frw 135 million spent on activities of market research conducted on consumer behavior.

8. SKL, the parent company in Kenya, advanced a loan of Frw 500 million to the company and the finance cost is interest on the loan paid to SKL. SKL owns 100% of the shares and the share capital of the company comprises of 100,000 shares of Frw 1,000 each.

9. Information relating to property, plant and equipment for the year ended 31 December, 2018 is as below.

Tax written down values of the assets as at 1 January, 2018:

	Frw '000'
Computers and accessories, information and communication systems whose life is below 10 years.	324,000
Other business assets	<u>12,356,000</u>

Buildings - SKL purchased the warehouse building in Gasabo district at Frw 900 million on 1 December, 2018. The value of the land on which the warehouse is built at the time was Frw 50 million. The warehouse was put to use with effect from 1 January, 2016.

Other assets bought during the year ended 31 December, 2018 include:

	Frw '000'
5 trucks each costing	65,000
Furniture and fittings	3,000
Motor vehicle to be used by the Chief Executive Officer (CEO)	30,000
Information system software estimated to last for 15 years	400,000

Disposals:

Three trucks whose value had reduced to zero due to accidents were sold for a total amount of Frw 30 million.

10. The company had a tax loss brought forward from the year 2017 of Frw 375,926,000. The loss for the year ended 31 December, 2016 had been at Frw 579 million which reduced in the year ended 31 December, 2017.

**REQUIRED:**

Advise SRL on the:

- (i) Taxable income and corporate tax payable for the year ended 31 December, 2018  
(21 Marks)
- (ii) Tax treatment of the payments made to SKL and WIL and the tax due, if any.  
(4 Marks)
- (b) SRL is considering the possibility of setting up a factory in Kigali to start manufacturing health care products instead of importing them. They have received information that if they register as an investor under the law relating to Investment Promotion and Facilitation No 06/2015, there will be tax incentives provided to the company. They have requested you as a tax expert to advise them on the tax incentives available for a person who would like to set up a manufacturing entity in Kigali.

**REQUIRED:**

Discuss the requirements for a person to register as an investor and the tax incentives available for a person who would like to set up manufacturing entity in Kigali in accordance with the law relating to Investment Promotion and Facilitation No 06/2015. (11 Marks)

- (c) SRL has received communication from Rwanda Revenue Authority that they intend to audit the operations of the company since they started business in Rwanda. The company is not ready for audit and has contacted you as their tax advisor and requested you to write back to RRA and reject the audit.

**REQUIRED:**

Advise SRL on their obligations once the company has been notified of the audit (4 Marks)  
(Total 40 Marks)

## **SECTION B**

### **QUESTION TWO**

- (a) Dr. Magambo Patrick is a surgeon who started working at King Faisal Hospital in March, 2014. In February, 2017 he started providing medical consultancy services to other private hospitals within Kigali.

The following is an extract from his employment and consultancy contract for the year ended 31 December, 2018.

Incomes earned from King Faisal Hospital:

1. Basic salary Frw 1 million per month deposited in his bank account.
2. Leave pay Frw 820,000 per year paid in the month in which the leave is taken. He is entitled to take leave for 20 working days in a year and he took leave in December, 2018.
3. Medical allowance of Frw 310,000 was paid to cater for his children's medical bill at Kigali Dental Clinic.
4. He is entitled to an allowance of Frw 10,000 per hour worked overtime. A reconciliation of the hours worked shows that he worked for 20 hours overtime in the year.
5. Due to the high cost of living in Kigali, he was paid cost of living allowance Frw 4 million per year. The amount is usually paid in the first month of the year.
6. He travelled to South Africa for a 2 day sponsored surgeon's workshop and was paid Frw 10 million to cater for his up keep during the workshop.
7. He was given a Toyota Land Cruiser on 16 January, 2018 valued at Frw 80 million. He used the car throughout the year for both private and hospital work.
8. Was availed a fuel card valued at Frw 6 million to cater for his fuel needs throughout the year.
9. His annual housing allowance of Frw 4.5 million was paid in March, 2018.
10. Paid Frw 450,000 as subscription fees to Surgeon's Association of Kigali to cater for his membership of the association.
11. Was paid Frw 3,250,000 as the best performing employee for the year 2018. The amount was paid during the month of December.

Incomes earned from consultancy services and other details of the contract:

1. He provides consultancy services only on weekends.
2. He is supposed to maintain high level of confidentiality regarding information he comes across while dealing with the various hospitals. Included in his contract with King Faisal Hospital is a clause that provides for a penalty of Frw 5 million should he breach the provisions of the confidentiality clause.
3. He earned Frw 4,550,000 from the private consultancy services during the year.
4. He was reimbursed by the clients Frw 555,000 per year to cater for the transport he spends to the various private hospitals within Kigali.

#### **REQUIRED:**

Advise Dr. Magambo on his total tax payable, including other statutory payments, for the year ended 31 December, 2018. **(16 Marks)**

- (b) Dr. Magambo intends to retire from his job as a surgeon from King Faisal Hospital and start his own clinic. He intends to employ part-time workers to renovate and paint his old house located in Gicukiro in preparation for the clinic. He is proposing to pay Frw 20,000 per week to the workers and he believes that in a month's time, the work should have been completed. He will also hire a security guard who will work on contract for three years.

**REQUIRED:**

Advise Dr. Magambo on the tax implications of the above transactions.

**(4 Marks)**

**(Total 20 Marks)**

**QUESTION THREE**

- (a) During a taxation workshop organised by the Institute of Certified Public Accountants of Rwanda (iCPAR), a revenue officer from Rwanda Revenue Authority (RRA) mentioned that companies have advantages that accrue from being VAT registered, such as claiming input VAT and being preferred for business over those that are not registered. The managing director of Zavuga Ltd, a company that commenced trading in various goods on 1 January, 2018 was in attendance. He did not understand many of the things that were discussed. He would, however, like to enjoy the advantages of being VAT registered. Zavuga Ltd is not yet registered for VAT and the managing director does not know if he qualifies to register for VAT to enjoy the benefits since his business is small. He has approached you as a tax consultant to assess whether he is eligible for VAT registration.

The summary of his monthly sales for the year ended 31 December, 2018 are as below:

Month	Zero rated	Exempt	Standard rated	Total
	Frw '000'	Frw '000'	Frw '000'	Frw '000'
January	520	3,000	700	4,220
February	600	3,200	900	4,700
March	800	3,500	970	5,270
April	850	3,700	1,000	5,550
May	950	3,900	1,100	5,950
June	1,000	4,100	1,230	6,330
July	1,100	5,000	1,300	7,400
August	1,230	5,100	1,250	7,580
September	1,250	5,120	1,300	7,670
October	1,300	4,500	1,200	7,000
November	1,320	4,600	900	6,820
December	1,330	5,000	1,200	7,530

**REQUIRED:**

- (i) Advise the managing director of Zavuga Ltd on whether the company was eligible to register for VAT and if so, the month in which the registration was to take effect.

**(8 Marks)**

- (ii) Compute the VAT tax declaration for the first month of registration.

**Note:** Assume that in the first month of registration, the company had in stock standard rated goods worth Frw 3 million (VAT exclusive).

**(3 Marks)**

- (b) The managing director of Zavuga Ltd has also been informed that persons who are registered for VAT have to procure and install an Electronic Billing Machine (EBM) from which all invoices have to be issued. He is already worried that he may not be able to install and use the EBM within the first two years of registration until he receives enough money to procure one.

**REQUIRED:**

Explain to the managing director **nine** obligations of using EBMs.

**(9 Marks)**

**(Total 20 Marks)**

## QUESTION FOUR

- (a) Ashly Black is a British national who operates a juice factory in The United Kingdom (UK) under the name AB Juice Plc. He owns 80% of the shares in the company while the remaining 20% are traded on the London Stock Exchange. He has been in the beverages industry for the last 10 years and the company runs subsidiaries in Uganda, Kenya and South Africa. He visited Rwanda in December, 2016 as part of his Africa tour and holiday. He liked the country and made a decision to stay in the country for a longer period. In November 2018, he relocated to Rwanda and now stays in Huye.

Ashly Black imported a new Range Rover in January 2019. The details of the motor vehicle as per the customs documents are as summarized below:

No.	Description	Remarks
1.	Vehicle specifications:	
	Type	Range Rover
	Year of manufacture	2017
	Engine capacity	3,500 cc
	Sitting capacity	4
	Country of origin	The United Kingdom
2.	Commercial invoice details: GBP £ (£)	£
	Purchase price	75,000
3.	Other details provided:	
	Inspection fees-in The UK	5,000
	Brokerage fees- in The UK	3,000
	Shipping charges-from The UK to Dar es Salaam	10,200
No.	Description	Remarks
	Marine insurance-from The UK to Dar es Salaam	8,500
	Transport costs-from Dar es Salaam to Huye	3,100
	Road insurance-from Dar es Salaam to Huye	3,000
4.	Exchange rate:	
	£ 1 = Frw 1,100	
5.	Tax rates that may be useful	%
	Import duty	25
	Excise duty	15
	Infrastructure development	1.5
	African Union Levy	0.2
6.	Other fees:	Frw
	Registration fees	1,000,000
	Clearing agents charges-in Rwanda	1,500,000

### REQUIRED:

Advise Ashly Black on all the taxes payable on the registration of the imported Range Rover. **(8 Marks)**

- (b) AB Juice Plc will be providing technical and management services to AB Juice Rwanda Limited. This is because AB Juice Plc has been in this business and has developed expertise over the years. The support will be in the form of providing both staff and other technical information regarding formulae and other support. AB Juice Rwanda will in turn pay

management and technical fees to AB Juice Plc in United Kingdom. AB Juice Plc owns 100% of the shares in AB Juice Rwanda Limited and Ashly Black is a shareholder in both companies. Since the two companies are related parties, Ashly Black has been advised by his tax consultant to ensure that transactions between the two are conducted at 'arm's length'. He was also advised that he should document his transfer pricing policy in order to be in compliance with the requirements of Rwanda Income tax laws.

**REQUIRED:**

- (i) Explain what you understand by 'arm's length price'. **(2 Marks)**
  - (ii) What kind of documentation does AB Juice Rwanda Limited require to have in place to be compliant with the requirements of the Income Tax Law **(8 marks)**
  - (iii) Explain the powers of the Commissioner General in case where a transaction between related parties does not conform to the transfer pricing regulations. **(2 Marks)**
- (Total 20 Marks)**

**QUESTION FIVE**

- (a) Akayezu Prossy is a businesswoman with dual citizenship in both Rwanda and Uganda. She got married to Byamugisha Moses, a Ugandan, in January 2018 and they have been living together in Kisoro, Uganda. In December, 2018 she decided to sell her property and businesses in Rwanda so that she could focus on her new life in Uganda.

The following are the details of her businesses in Rwanda:

1. Sold 150,000 shares at Frw 3,000 per share that she owned in Bank of Kigali (BK) to Bakunda on 17 January, 2019. She had purchased the shares from Ngeze for Frw 2,420 per share. BK is listed on the Rwanda Stock Exchange.
2. She also sold all her shares in AP Rwanda Ltd a company she co-owned with Kabera. They originally owned the company equally, and now after selling her interest, Kabera owns 100% of the shares in the company. She had 10,000 shares valued at Frw 1,000 each of which she sold her interest at Frw 1,500 per share on 29 January, 2019.
3. She had a three storey commercial building that cost her Frw 140 million to construct and it was available for use in March 2017. She sold this building on 5 January, 2019 for Frw 175 million to Bagaza.

**REQUIRED:**

Advise Akayesu on the:

- (i) Capital gains payable for the month of January, 2019. **(4 Marks)**
  - (ii) Obligations regarding the capital gains tax. **(6 Marks)**
- (b) A team from Rwanda Revenue Authority (RRA) has written to Akayezu that they will need to verify the correctness of the capital gains tax declared before issuing her with a tax clearance certificate.

**REQUIRED:**

Identify and explain any **five** key issues that RRA audit team may be interested in to ensure that the correct capital gains tax has been paid.

**(10 Marks)**  
**(Total 20 Marks)**