



**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 3 EXAMINATIONS**  
**S3.3 TAXATION**

**DATE: FRIDAY, 02 DECEMBER 2022**

**INSTRUCTIONS:**

1. Time Allowed: **3 hours**
2. This examination has three sections; **A, B & C.**
3. Section A has **10** multiple choice questions equal to **2 Marks** each
4. Section B has **2** questions equal to **10 Marks** each
5. Section C has **3** questions equal to **20 Marks** each
6. All questions are compulsory
7. Show all your workings where applicable.
8. The question paper should be not taken out of the examination room

## TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

### Personal Income Tax Rates (PIT)

Monthly Taxable Income		Tax Rate	Annual Taxable Income		Tax Rate
From (FRW)	To (FRW)	%	From (FRW)	To (FRW)	%
0	30,000	0	0	360,000	0
30,001	100,000	20	360,001	1,200,000	20
100,001	and above	30	1,200,001	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

### RSSB contribution - Pension

Employer's contribution	5%
Employee's contribution	3%

### RSSB contribution – Maternity leave

Employer's contribution	0.3%
Employee's contribution	0.3%

**Corporate Income Tax Rate:** 30%

### Capital gains tax

Net aggregate gains are taxable at the company rate of tax

Gains on the sale of shares are taxable at the rate of 5%

**Value Added Tax (VAT) Rate:** 18%

### Withholding tax

Standard	15%
Government securities	5%
Import	5%
Public Tender	3%

**Gaming tax:** 13%

### Capital allowance

Description	Rate
Accelerated depreciation	50%
<b>Wear &amp; Tear Allowance</b>	
Buildings, heavy industrial equipment and machinery	5%
Intangible assets	10%
Information and communication systems whose life is over ten (10) years	10%
Computers and accessories, information, and communication systems whose life is under ten (10) years	50%
Other business asset	25%

Your answers should be based on Law N° 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.



## **SECTION A**

### **QUESTION ONE**

Malik Shema earns a monthly income of FRW 3,000,000. He is provided with an education allowance for his son of FRW 300,000 per month and the company rents a house for him for FRW 350,000 per month, the value of a house is FRW 60,000,000. Mr. Shema contributes FRW 85,000 to decent capital, a qualified pension fund. **What's Malik Shema's monthly taxable income?**

- A FRW 3,565,000
- B FRW 3,815,000
- C FRW 3,300,000
- D FRW 3,650,000

**(2 Marks)**

### **QUESTION TWO**

**Which of the following is exempt employment income under law number 016/2018 establishing taxes on Income?**

- A Prosper does a driving gig with the Premium transport company for FRW 5,000 per day, he works 7 days in July 2021.
- B Yvette is the finance manager in a Manufacturing company, she submits to Human resources fuel expenses for which she gets reimbursement in the monthly payroll. This is attached to a company vehicle; on which she has a taxable benefit in kind.
- C Jane receives FRW 50,000 extra pay for being redundant during the recent lockdown
- D Edmond takes 4 days off of his 18 days of statutory annual leave provided for in his contract and gets paid for the four days leave per the contract.

**(2 Marks)**

### **QUESTION OF THREE**

**Which of the following statements are true about an employee with more than one employer as per the direct taxes on Income law?**

- i. The employer who pays the highest taxable income is considered as the first employer
- i. The first employer taxes the employee at a flat rate of 30% for PAYE
- ii. The first employer treats the employee as a permanent employee and taxes them per the normal PAYE tax brackets
- iii. The employee can choose who should be the first and the second employer

- A (i) and (ii) only
- B (i) and (iii) only
- C (i), (ii), and (iv)
- D All the above are correct

**(2 Marks)**

### **QUESTION FOUR**

**Which of the following components of investment income is not exempt from income tax?**

- A Income from registered collective investment schemes and employee share schemes
- B Income from agricultural activities above FRW 12 million in a tax period.
- C Capital gains from secondary market transactions in listed securities.
- D Pension payments from Rwanda Social Security Board.

**(2 Marks)**

---

**QUESTION FIVE**

Sezibera owns a commercial property in Gacukiro. He receives a monthly rent of FRW 1,200,000 and in 2020 the property was occupied for the whole year. The property was constructed using a loan of FRW 20,000,000 obtained from ECR bank at 16.5% interest rate per annum, he keeps complete records of his expenses with appropriate backup documents.

**What's the annual income tax liability Mr. Sezibera is supposed to pay?**

- A FRW 1,034,000
- B FRW 1,898,000
- C FRW 1,170,000
- D FRW 3,194,000

**(2 Marks)**

---

**QUESTION SIX**

**Which of the following different categories of taxpayers are exempt from a 3% withholding tax on Government public tenders?**

- i. Businesses whose profits are exempt from taxation.
- ii. Taxpayers who have a tax clearance certificate issued by the Commissioner of Rwanda Revenue Authority.
- iii. Taxpayers with valid Investment certificate issued by Rwanda Development Board.
- iv. Manufacturing companies engaged in the manufacture of essential commodities like pharmaceuticals.

- A (i) and (iii) only
- B (i) and (ii) only
- C All the above
- D (ii), (iii), and (iv)

**(2 Marks)**



## QUESTION SEVEN

Article 31 of Law 16/20/2018 provides for certain conditions that need to be fulfilled for bad debts to be allowable deductions for corporate income tax. **Which of the following scenarios fulfils the conditions for allowable bad debts?**

- A Provision for FRW 8,000,000 owing from Bytrax Ltd, a manufacturing company whose operations were affected by Covid-19 and is on the verge of closing doors.
- B A client owing the company FRW 1,800,000 aging over 40 months, the company has tried all necessary measures to recover the money but in vain. The company has written off this debt.
- C A write-off of a debt owed from Yakubu Supermarket for the supply of fruits over the past 6 months. A local newspaper recently published an article showing that the supermarket was in huge debt and that was planning to officially file for bankruptcy.
- D Dispatch Transport Company writes off debts exceeding 4 months old from the receivables based on company policy and experience in the transport sector.

**(2 Marks)**

## QUESTION EIGHT

Valens Minani is a sole trader in Kigali Quartier Commercial. His business cor's cumulative value was FRW 2,000,000 at the start of 2020. During the year 2020, he purchased two Vehicles at a cost of FRW 6,600,000 each and then disposed of two used cars at a total value of FRW 5,900,000. **What's the tax depreciation Minani is entitled to claim in the financial year 2020?**

- A FRW 2,325,000
- B FRW 930,000
- C FRW 850,000
- D FRW 4,640,000

**(2 Marks)**

## QUESTION NINE

**Which of the following entities are exempt from corporate income tax in Rwanda?**

- i. The city of Kigali and the districts
- ii. Manufacturing companies operating in Special Economic Zones
- iii. Churches and schools, even if their income exceeds their corresponding expenses in a tax period.
- iv. Churches and schools, unless their income exceeds their corresponding expenses in a tax period or if they conduct business.

- A (i) and (iii)
- B (i) and (ii)
- C (i) and (iv)
- D (i), (ii) and (iii)

**(2 Marks)**

**QUESTION 10**

Telex Ltd is a Rwandan resident company established 10 years ago. In 2020 the company recorded a turnover of FRW 650,000,000 and posted an accounting profit of FRW 135,000,000. You are also given the following information on some of the transactions deducted to get the above accounting profit.

Particulars	FRW
Accounting depreciation	4,200,000
Dinner & entertainment between the head of sales and prospective corporate client	1,000,000
Staff communication allowance (airtime), used for both business and personal calls	2,950,000
Dividends paid to Shareholders	3,250,000
Donations to Agaciro fund, Rwanda's Non-profit sovereign solidarity fund	2,800,000
Market research for new Kenyan market for a new product	1,800,000

Which one of below represents Telex Ltd's tax profit before tax depreciation?

- A FRW 144,040,000  
 B FRW 145,840,000  
 C FRW 148,640,000  
 D FRW 139,840,000
- (2 Marks)**



## **SECTION B**

### **QUESTION 11**

CPA Valentine Umulisa is Financial Planning and Analysis (FP&A) manager at Delux printing services effective from 01 January 2020. You are provided with the following information regarding her job during November 2020.

- (1) Monthly basic pay FRW 3,500,000
- (2) Communication allowance per month FRW 80,000
- (3) Overtime-pay provided per month FRW 120,000
- (4) A company car that she uses as her own for both work and personal errands. However, she contributes FRW 35,000 per month for after sales services of the Vehicle.
- (5) Up to 2,400 Liters (200 per month) of fuel reimbursement, she files with the Human resources department and is refunded in every subsequent month's salary. The average fuel price for November was FRW 1,050 per Litre. This fuel refund is part of the Vehicle benefit, where staff use their cash for fuel and get a refund in the subsequent months via payroll.
- (6) CPA Valentine lives in company staff houses, because of her seniority. The house is fully furnished.
- (7) During November, CPA Valentine got a loan of FRW 9,500,000 from the company at a rate of 5%, the central bank interbank rate is 10%
- (8) The company contributes FRW 75,000 per month to a statutory pension scheme for CPA Valentine, she also contributes FRW 120,000 per month to a private recognized pension scheme. She also pays PAYE worth FRW 152,000 per month to RRA
- (9) During November 2020, she filed a claim for a total of FRW 425,000 being her personal cash that she spent while she was on a business trip in Zanzibar.

**Required:**

**Calculate;**

**(a) Monthly taxable employment income for November 2020** (8 Marks)

**(b) Income tax payable for November 2020** (2 Marks)

**(Total: 10 Marks)**

### QUESTION 12

Jean Paul Mudenge is a smart businessman who owns different assets. **You are required to compute the relevant withholding taxes on the following investment assets and Incomes**

- (a) Amount worth FRW 28,000,000 invested in a fixed deposit bank account for 7 months at an interest rate of 7.5% per annum. (2 Marks)
- (b) Jean Paul invested FRW 30,000,000 in shares at a par value of FRW 200 in a private company that is not listed on the Rwanda Stock exchange. In 2020, Jean Paul sold 7,500 of his shares at FRW 310 per share. (3 Marks)
- (c) Jean Paul owns a tax hailing App that he developed a couple of years ago, during the year, he sold copyrights of his App at FRW 15,500,000. (2 Marks)
- (d) Jean Paul is very ambitious and at times he tries his chances on betting activities. One weekend, they betted FRW 1,000,000 on a football match between Manchester United and Chelsea, at the end of the match the result was in their favor and they won FRW 6,500,000. (3 Marks)

**(Total: 10 Marks)**



## SECTION C

### QUESTION 13

(a) In line with Law N° 008/2021 of 16/02/2021 governing partnerships, write brief notes on the following;

- i. Partnership agreement (1 Mark)
- ii. Limited liability partnership (1 Mark)
- iii. Tax treatment of non-resident partners (2 Marks)

(b) Explain the different drives of taxable income of an individual in accordance with article 11 Law N. 16/2018 establishing taxes on income? (6 Marks)

(c) The following information relates to Mrs. Aline Uwingeneye, a famous business lady in Gisozi modern market for the year ended 31 December 2020. She is taxed under the personal income tax regime. She however has a well-organized corporate culture with an independent board of advisors.

Particulars	FRW '000	FRW '000
Revenue from sales		520,000
Cost of goods sold		(322,510)
<b>Gross profit</b>		<b>197,490</b>
<b>Expenses:</b>		
Staff costs	62,000	
Income tax consultancy fees	6,250	
Rent of office premises	12,000	
Travel costs	6,400	
Communication costs	3,200	
Bad debts	9,910	
Value added tax paid	6,000	
Legal fees	10,000	
Advertising	2,500	
Donations	67,600	
Total expenses		(139,070)
<b>Operating profit</b>		<b>11,630</b>

The following additional information is helpful;

- 1) Staff costs include FRW 5,200,000 bonus provision, subsequently to the year end, it was resolved in January to payout 50%
- 2) Amount worth FRW 3,500,000 of legal fees related to a personal land dispute with her brother over a family land, on which the largest warehouse is located.

- 3) Communication costs relate to airtime, which Mrs. Aline uses for both business and personal calls.
- 4) Rent payment is for 6 months period from October 2020
- 5) The Donation was made to a startup fruit selling business in a bid to support the Government in helping small business make it through the tough times of Covid\_19.
- 6) Travel costs related to ‘women in Entrepreneurship’ training that happened in Tanzania, this was intended to equip Mrs. Aline with more financial management skills.
- 7) Bad debts relate to provision for the amount owing from a tourism client, whose business was severely affected by Covid\_19. The client has since stopped operations and in Mrs. Aline’s view, there’s no chance this can be received.

**Required:**

**Compute the taxable income and the income tax liability for Mrs. Aline Uwingeneye for the financial year 2020 under the Personal Income tax regime.** (10 Marks)

**(Total: 20 Marks)**

**QUESTION 14**

- (a) **Define corporate restructuring in accordance with Article 53 of Law 16/2018 and explain the tax treatment of assets transfers between restructured companies.** (6 Marks)
- (b) MDF Ltd is a Rwandan tax resident company with specialization in original furniture manufacturing. Below is MDF Ltd’s audited profit or loss account for the year ended 30 September 2020.

	Note	FRW '000	FRW'000
Annual Turnover			1,030,000
Cost of Goods sold			(620,000)
<b>Gross profit</b>			<b>410,000</b>
Other income	1		89,500
<b>Total income</b>			<b>499,500</b>
<b>Operating expenses:</b>			
Salaries and wages		142,000	
Legal and other consultancies		9,890	
Miscellaneous expenses	2	42,000	
<b>Total operating expenses</b>			<b>(193,890)</b>
<b>Profit for the period</b>	3		<b>305,610</b>



**Notes to the financial statements:**

**1) Other income includes the following;**

- i. Dividends received from shares owned by MDF Ltd in Libuyu, a Rwandan furniture company specializing in quality Beds. The dividend amount received and included in other income was FRW 30,500,000, the dividend was subject to withholding tax.
- ii. Royalty income of FRW 25,000,000 net of 15% withholding tax.
- iii. Interest income on 5 years fixed deposit in Bank of Kigali of FRW 30,000,000. The bank did not charge Withholding tax while disbursing these funds to MDF Ltd's account.
- iv. The rest of 'other income' relates to rental income from letting out a cutting machine to other companies, the machine cost FRW 25,000,000 and is included in the company's 'Other assets' pool

**2) Included in miscellaneous expenses are the following costs;**

- i. FRW 20,000,000 used to acquire furniture and fittings for new offices.
- ii. FRW 10,000,000 Legal fees provision for ongoing litigation with a client who sued the company after a new wardrobe broke before the expiry of warranty time and injured an hour maid. The company lawyer has indicated that there are high chance the company would lose the case.

**3) The following relates to the company's tax profit and loss history for the past 4 years;**

- i. Year ended 30 September 2016: Loss of FRW 320,000,000
- ii. Year ended 30 September 2017: Loss of FRW 110,000,000
- iii. Year ended 30 September 2018: Profit of FRW 150,000,000
- iv. Year ended 30 September 2019: Profit of FRW 200,000,000

**Required:**

- i. Calculate the taxable income before any adjustments of prior years' losses and show all the necessary workings. (10 Marks)
- ii. Show how the losses in 2016 and 2017 are utilized against the profit made in years 2018, 2019, and 2020. (4 Marks)

**(Total: 20 Marks)**

### QUESTION 15

(a) Define Permanent establishment as per the income tax law and highlight three (3) activities that may not be considered as a permanent establishment in Rwanda. (5 Marks)

(b) Explain three (3) conditions under which training and research expenditure for business are allowable for tax purposes. (3 Marks)

(c) M&N Ltd is a Rwandan resident company. The company has provided you with the following information on its assets at the start of the financial year 2020.

- 1) Business premises: Tax Written Down Value (TWDV) of FRW 87,360,000. The original cost was FRW 145,600,000 and an investment allowance of 50% was claimed on acquisition.
- 2) Computer servers of FRW 9,341,600 with an estimated productive useful life of 20 years have a TWDV of FRW 6,539,120
- 3) Grouped computers and other IT equipment with productive useful lives of 5 years have TWDV of FRW 4,150,000
- 4) Office furniture, Curtains, and other company assets have an opening TWDV of FRW 11,125,000

During the year, the following transactions took place;

- 5) Purchase of office furniture of FRW 7,890,000
- 6) Disposal of a batch of laptops for staff use at a cumulative value of FRW 3,750,000

**Required:**

- i. Total tax depreciation for the year 2020. (10 Marks)
  - ii. Calculate the closing Tax written down values for each asset individually or as a pool. (2 Marks)
- (Total: 20 Marks)**

**End of question paper**