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## **CERTIFIED ACCOUNTING TECHNICIAN STAGE 3 EXAMINATIONS**

### **S3.3: TAXATION**

**DATE: FRIDAY 01, DECEMBER 2023**

## **MARKING GUIDE AND MODEL ANSWERS**

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## **SECTION A**

### **Marking Guide**

<b>QUESTIONS</b>	<b>ANSWER</b>	<b>MARKS</b>
1	A	2
2	B	2
3	D	2
4	D	2
5	A	2
6	C	2
7	C	2
8	B	2
9	A	2
10	D	2
<b>Total marks</b>		20

## **Models Answers**

### **QUESTION ONE**

#### **The correct answer is A**

The condition that the taxpayer should be registered on VAT, is not a requirement. According to Article 8: Tax period,

The tax is calculated for the calendar year, which starts on 1 January and ends on 31 December.

Upon written request, the Minister may allow in writing a taxpayer to apply any other twelve (12) months period as a tax period, if the taxpayer fulfils the following conditions:

1° he/she is an entity subject to corporate income tax.

2° he/she is required to keep books of accounts according to generally accepted accounting principles.

3° he/she presents sound reasons to change his/her tax period.

### **QUESTION TWO**

#### **The correct answer is B**

According to article 36 relating to capital gain tax,

- Capital gain tax is charged on the sale or transfer of shares.
- The capital gain on sale or transfer of shares is the difference between the acquisition value of shares and their selling or transfer price.
- The rate of capital gain on shares is 5%
- D is not correct because capital gain is not charged on the sale of properties used in a business.

### **QUESTION THREE**

#### **The Correct Answer is D**

Double taxation agreement is defined as treaty between two or more countries to avoid taxation of income and property in two different jurisdictions.

### **QUESTION FOUR**

#### **The correct answer is D**

Other payments made in respect of previous, current, or future employment, are not exempted from employment income.



## QUESTION FIVE

The correct answer is A.

Muligo Vincent who is employed in an unskilled role on a temporary basis, is a casual employee  
Is taxed at 15%.

His tax computation is as follows:

Description	Rate	FRW
30,000 and below	$(30,000 \times 0\%)$	0
Above 30,000	$(170,000 - 30,000) \times 15\%$	21,000

## QUESTION SIX

The correct answer is C

- All stated income are exempted from income tax except the excess revenue/income for an entity that carry out only activities of a religious, humanitarian, charitable, scientific, or educational character.
- This is according to article 46, law no 16/2018.
- It states that entities that carry out only activities of a religious, humanitarian, charitable, scientific or educational character, are exempt from income tax unless the revenue received exceeds the corresponding expenses or if those entities conduct a business.

## QUESTION SEVEN

The correct answer is C.

Description	FRW "000"
Cost of acquisition 31/12/2020	100,000,000
Accelerated depreciation rate 2020	50%
Accelerated depreciation 2020	50,000,000
Depreciation base	100,000,000
Depreciation rate	5%
Depreciation 2020	5,000,000
Total allowance 2020	55,000,000

## QUESTION EIGHT

### The correct answer B

Computation of investment income is as follows:

Description	Net income in FRW	Gross income in FRW
Royalty income	2,000,000	2,352,941
Dividend received	15,000,000	17,647,059
Interest income	5,000,000	5,263,158
Gross investment income		<b>25,263,158</b>
Investment expenses	20% *gross income	5,052,632
Net investment income		<b>20,210,526</b>

## QUESTION NINE.

### The correct answer is A

Computation of the tax applicable to Muhimpundu Paccy:

	FRW
Dividend received	150,000,000
Rate	5%
Withholding tax applicable	(150,000,000*5%)
Withholding tax	7,500,000

## QUESTION 10.

### The correct answer is D

The answer is none of all. WHT on payments to non-residents is subjected to the total payment. Non only to the excess.

- According to Article 60 law no 16/201, A withholding tax of fifteen percent (15%) of the total amount excluding Value Added Tax (VAT) where applicable is levied on payments or other methods of extinguishing an obligation made by resident individuals including tax exempt entities, when such payments or other methods of extinguishing an obligation are made to a person not registered in the Rwandan tax administration or to a registered person who does not have recent income tax declaration.
- Payments or other methods of extinguishing an obligation subject to the withholding tax of fifteen percent (15%) are related to the following:
  1. dividends, except income distributed to the holders of shares or units in collective investment schemes;
  2. financial interests except:



- interests on deposits in financial institutions for at least a period of one year;
- interests on loans granted by a foreign development financial institution exempted from income tax under applicable law in the country of origin
- interests paid by banks operating in Rwanda to banks or other foreign financial institutions;
- 3. royalties;
- 4. service fees including management and technical service fees except transport services;

- Article 26: Non-deductible expenses from taxable income

The following expenses are not deductible from taxable income:

- 9° management, technical services and royalty fees paid to a non-resident person exceeding two percent (2%) of the turnover of the taxpayer;

## SECTION B

### QUESTION 11

#### Marking Guide

Description	Marks
<b>Computation of employment income</b>	
Award marks to the following:	
Salary	1
Company house	1.5
A company car	1.5
Loan benefit	2
PAYE computation	1
Pension	1
Maternity leave	1
Rama	1
<b>Total Marks</b>	<b>10</b>

#### Model Answer

#### Mummararungu Taly, Computation of monthly employment income

Particulars	Workings	FRW	FRW
Basic salary			2,500,000
<u>Add benefits in kind</u>			
Company house	20%	500,000	
A company car	10%	250,000	
<u>Loan benefit</u>			
<u>Loan received</u>	(3*2,500,000)	7,500,000	
Interest benefit	(7,500,000*10%)*1/12	62,500	
Total benefit in kind			812,500
Total taxable income			3,312,500
<u>PAYE computation</u>			
0-30,000	0%	0	
30,000-100,000	20%	14,000	
>100,000	30%	963,750	
		977,750	977,750
<u>RSSB contribution</u>			
Pension	3%*(2,500,000+500,000+62,500)	91,875	



Maternity leave	$0.3\% \times (2,500,000 + 500,000 + 62,500)$	9,188	
RAMA	$7.5\% \times 2,500,000$	187,500	

## QUESTION 12.

	Marking Guide	
	Description	Marks
1	Award 0.5 mark for each well transaction and the explanation. (Maximum: 2.5 marks)	2.5
2	Award 1 mark on the following: Maximum 2.5 marks	
	Annual sales	1
	corporate tax	1
	Award 1.5 mark on the explanation	1.5
3	Award 1 mark on the following: Maximum 2.5 marks	
	Annual sales	1
	corporate tax	1
	Award 1.5 mark on the explanation	1.5
4	Award 1 mark on the following: Maximum 2.5 marks	
	Annual sales	1
	corporate tax	1
	Award 1.5 mark on the explanation	1.5
	<b>Total Marks</b>	<b>10</b>



## Model Answers

### Computation of income tax payable for year ended 31<sup>st</sup> December 2021 basing on the sales turnovers

1	EURO Supply Ltd	
	Annual sales	27,000,000
	Expenses	10,000,000
	Profit before tax	17,000,000
	corporate tax @ 30%	5,100,000
	Should be taxed in real regime, because turnover > 20,000,000	
2	Boningo Ltd	
	Annual sales	5,000,000
	corporate tax	120,000
	Should be taxed in flat regime, because turnover is between 2,000,000 and 12,000,000	
3	Bon Appetit Ltd	
	Annual sales	11,000,000
	corporate tax	-
	Should be taxed in flat regime, because the turnover is between 2,000,000 and 12,000,000. However, the income of 12,000,000 and below from farming activities is exempted from income tax	
4	Mwungeri Vivix	
	Annual sales	19,000,000
	corporate tax @3%	570,000
	Should be taxed in lump sum regime, because the turnover is between 12,000,000 and 20,000,000	

## SECTION C

### QUESTION 13

#### Marking Guide

Description	Marks
<b>i. Computation adjusted profit and income</b>	
Loss before tax	1
Prepaid salaries	1
Bank interests	1
Depreciation	1
Office furniture	1
Communication	1
Mineral tax	1
Quarterly prepayment	1
<u>Dividend received from a local company</u>	2
Allowed Depreciation expense	1
Adjusted taxable profit	1
Tax liability @ 30%	1
Less quarterly prepayments	1
Tax credit	1
<b>ii.</b>	
The deadline for the filing and payment.	1
The requirement for certification of the 2020 annual corporate income tax to the Tax Authority	1
<b>iii.</b>	
Award 1 mark on each quarterly prepayment due date. Maximum 3 marks	3
<b>Total Marks</b>	<b>20</b>



## Model Answers

### SPLX Ltd

**i) Computation of the taxable income, the tax liability, and the tax payable for the year ended 31<sup>st</sup> December 2020**

Items	FRW "000"	FRW "000"
Profit before tax		(8,220,000)
<u>Add backs disallowable expenses</u>		
Prepaid salaries	3,500,000	
Bank interests	1,600,000	
Depreciation	780,000	
Office furniture	37,000,000	
Communication	1,600,000	
Mineral tax	Allowed	
Quarterly prepayment	8,400,000	
Total additions		52,880,000
Adjusted profit		44,660,000
<u>Less non-taxable income</u>		
<u>Dividend received from a local company</u>		(12,000,000)
<u>Less allowable expenses</u>		
Capital allowance		(7,200,000)
Adjusted taxable profit		25,460,000
Tax liability @ 30%		7,638,000
Less quarterly prepayments		(8,400,000)
Tax credit		(762,000)

**ii) The deadline for the filing and payment and requirement for certification of the 2020 annual corporate income tax to the Tax Authority.**

- The deadline for the filing and payment of the annual corporate income tax to the Tax Authority is 31/03/2021.
- The requirement for certification of the annual corporate income tax, is that all taxpayers with annual turnover of FRW 600,000,000 and above should submit to the tax authority certified financial statements.

**iii) Advise on the due dates for the filing and payment for the corporate income tax quarterly prepayment for the year 2021.**

- The deadline for the filing and payment of income tax quarterly prepayment is as follows:
  - Quarter one of 2021, is filed and paid not later than 30/06/2021.
  - Quarter two of 2021, is filed and paid not later than 30/09/2021

- Quarter three of 2021, is filed and paid not later than 31/12/2021

## QUESTION 14

### Marking Guide

Description	Marks
<b>Computation adjusted income chargeable to CIT</b>	
Award marks to the following:	
Trading profit / Loss	1.5
Add back non allowable expenses	
Provision for doubtful debts	2
Finance fees / loan	1.5
Accounting Depreciation	1
Legal fee	1
Less non trading income	
Rental income (Allowed)	2
Investment income (Local dividends)	2
Tax depreciation	2
Corporate tax payable	1
Working 4: Depreciation allowance: Award 1 mark on well computed depreciation, 0.5 on each correct depreciation basis 0.5 on each correct tax rate (Maximum: 6 marks)	6
<b>Total Marks</b>	<b>20</b>



## Model Answers

### A. Computation of taxable income and tax liability of M & B Ltd for the year ended 31/12/2021

Computation of adjusted trading profit / Loss		
Adjusted trade profits	FRW(000)	FRW(000)
Profit for the period		264,500
Add back disallowable expenses		
Provision for doubtful debts	30,000	
Finance fees / loan	40,000	
Depreciation	54,000	
Legal fee	900	
		124,900
Les non-trading income		
Rental income	Allowed	
Investment income (Local dividend)	82,000	
Tax depreciation	44,600	
		-126,600
Adjusted trading profit / Loss		262,800
Corporate tax @ 30%	-	78,840

**N.B.** Article 51 of the law no 016/2018 states that income from the rent of movable and immovable assets incorporated as assets of entities which are subject to corporate income tax is consolidated in the total taxable income.

Working 1: Investment income		
Investment income	FRW	
Dividends received	82,000	WHT paid at source is the final tax

Working 2: Depreciation allowance					
Assets	Building	Machinery	Computers	Motor vehicle	Total
	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"
Cost of acquisition 31/01/2021	62,000	60,000	32,400	41,200	
Depreciation base	62,000	60,000	32,400	41,200	
Depreciation rate	5%	25%	50%	25%	
Depreciation 2021	3,100	15,000	16,200	10,300	44,600

## QUESTION 15.

### Marking guide

<b>i. Computation of of Mugemanshuro Maxime taxable income and tax liability for the year ended 31 December 2020</b>	<b>Marks</b>
Award 1 marks on a correct addback computation of the following:	
Home repair	1
Entertainment expenses	1
Depreciation	1
Income tax prepayments	1
School fees	1
Communication	1
<u>Award 1 mark on non-trading income as follows:</u>	
Dividend received	1
Interests' income	1
Income from farming activities	1
<u>Award 1 mark on other income as follows:</u>	
Income from farming activities	1
Dividends received from a local company	1
Interests' income	1
Allowable depreciation	1
Bad debts	1
<u>Award 1 mark Computation of tax for the year</u>	1
Quarterly prepayments	1
Less Withholding tax on interest	1
Tax to be paid	1
ii. Award 2 marks on explanation of the thin capitalization rules as it is applied in Rwandan taxation act.	2
<b>Total Marks</b>	<b>20</b>



## Model answers

### i) Computation of Mugemanshuro Maxime taxable income and tax liability for the year ended 31 December 2020.

Items	Workings	FRW	FRW
Profit reported			149,500,000
<u>Add non-allowable deductions</u>			
Home repair	0	17,000,000	
Entertainment expenses		1,800,000	
Depreciation		4,200,000	
Income tax prepayments		7,500,000	
School fees		4,800,000	
Communication	20% *14,000	2,800,000	
			<u>38,100,000</u>
			<b>187,600,000</b>
<u>Less non trading income:</u>			
Dividend received		<b>Taxable</b>	
Interests' income		6,400,000	
Income from farming activities		23,000,000	
			<u>(29,400,000)</u>
			<b>158,200,000</b>
<u>Add other income:</u>			
Income from farming activities	(23,000,000-12,000,000)	11,000,000	
Interests' income	6,400,000* 100/95	6,736,842	
			<u>17,736,842</u>
Total income			<b>175,936,842</b>
<u>Less</u>			
Allowable depreciation		5,000,000	
Bad debts(Allowed)		<u>800,000</u>	
			<u>(5,800,000)</u>
<b>Adjusted taxable income</b>			<b>170,136,842</b>
<u>Computation of tax to be paid</u>			
0 - 360,000	360,000*0%	0	
360,001 - 1,200,000	(1,200-360) *20%	168,000	
	(170,136,842-1,200,000) * 30%	50,681,053	
Tax for the year 2020			<b>50,849,053</b>

<b>Less</b>			
Quarterly prepayments			<u>(7,500,000)</u>
Less Withholding tax on interest	6,736,842* 5/100		(336,842)
Less Withholding tax on dividend	16,000,000*15/100		(2,400,000)
<b>Tax to be paid</b>			<b>40,612,211</b>

***N.B. Dividend received from local is taxable because it was not between 2 companies, the amount was recorded gross under profit or loss account.***

**ii) Explanation of the thin capitalization rules as it is applied in Rwandan taxation act.**

- The rules disallow a deduction for a portion of finance expenses an entity incurs in relation to its debt finance interest arising from loans between related persons. Article 26, law no 16/2018 explains that:
- Interest arising from loans between related persons either paid or due on a total loan which is greater than four (4) times the amount of equity, is not allowed. This equity should not include provisions or reserves according to the balance sheet, which is drawn up in accordance with the Generally Accepted Accounting Principles.
- The provisions of this Article do not apply to commercial banks, financial institutions and insurance companies.

**END OF MARKING GUIDE AND MODEL ANSWERS**