
CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.3: TAXATION

DATE: FRIDAY 01, DECEMBER 2023

INSTRUCTIONS:

1. Time Allowed: **3 hours**.
2. This examination has **three** sections: **A, B and 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 and assumption if any.
8. The question paper should not be 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 sale of shares are taxable at the rate of 5%

Value Added Tax Rate: (VAT)18%

Withholding tax

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

Gaming tax: 13%

Capital allowance

Description	Rate
Accelerated depreciation	50%
Wear & Tear Allowance	
Buildings, heavy industrial equipment and machineries	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

The tax is calculated for each 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 for a special tax calendar that is different from the one mentioned above. **Which of the following is not a condition to be fulfilled by the taxpayer to be eligible?**

- A He/she is an entity subject to Value Added Tax.
- B He/she is required to keep books of accounts according to generally accepted accounting principles.
- C He/she presents sound reasons to change his/her tax period.
- D He is registered in the Rwandan Tax Administration.

(2 Marks)

QUESTION TWO

Which of the following statements is true regarding to capital gain tax?

- (i) Capital gain tax is charged on the sale or transfer of shares.
- (ii) The capital gain on sale or transfer of shares is the difference between the acquisition value of shares and their selling price.
- (iii) Capital gain tax is charged at 5% on the increase in the value of shares.
- (iv) Capital gain tax is charged on the selling price of commercial properties used in a business.

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

(2 Marks)

QUESTION THREE

Which of the following statements is the definition of double taxation agreement (DTA)?

- A The total exemption from income tax given in the country where income arises.
- B Double taxation relief given to taxpayers in their country of residence by way of a credit for tax suffered in the country where income arises. This may be in the form of relief for withholding tax only or for underlying tax on profits out of which a dividend is paid.
- C Double taxation relief given where a source of income is taxed in two different countries.
- D Treaties between two or more countries to avoid taxation of income and property in two different jurisdictions.

(2 Marks)

QUESTION FOUR

The following components of employment income are exempt from employment income tax, except:

- A The discharge or reimbursement of expenses incurred by the employee or his/her associate whether wholly for business activities of the employer; or those that are deducted or would be deductible in calculating the employee's income from all his/her business activities.
- B Contributions made by the employer for the employee to the public institution in charge of social security.
- C Pension payment from the public institution in charge of social security or from a qualified pension fund.
- D Other payments made in respect of previous, current, or future employment.

(2 Marks)

QUESTION FIVE

Muligo Vincent was employed as an unskilled staff on a temporary basis by the Ultimate Manufacturing company Ltd. He worked for 29 days. The company paid him FRW 170,000.

What is Muligo Vincent's income tax payable?

- A FRW 21,000
- B FRW 25,500
- C FRW 35,000
- D FRW 51,000

(2 Marks)

QUESTION SIX

Which of the following business income are exempt from income tax?

- (i) Income accruing from savings in collective investment schemes and employees' shares scheme within a company.
 - (ii) Income earned by an agriculturalist or a pastoralist on agricultural or livestock activities with the turnover not exceeding twelve million Rwanda francs (FRW 12,000,000) in a tax period.
 - (iii) The excess revenue/income for an entity that carry out only activities of a religious, humanitarian, charitable, scientific, or educational character.
- A (ii) only
 - B (iii) only
 - C (i) and (ii)
 - D (ii) and (iii)

(2 Marks)

QUESTION SEVEN

Monaco Business Enterprise Ltd, a Rwandan company, is in manufacturing business since January 2020. The company purchased heavy machinery at a cost of FRW 100,000,000 for use in its manufacturing of cosmetics products in the year ended 31, December 2020. Monaco has obtained the investment certificate the same year. **What is the total depreciation expense in respect of this machinery for the year ended 31 December 2020?**

- A FRW 50,000,000
- B FRW 5,000,000
- C FRW 55,000,000
- D FRW 52,500,000

(2 Marks)

QUESTION EIGHT

Merci Limited Co. reported the following income for the year ended 31 December 2020:

1. Royalty income of FRW 2,000,000 received net of 15% WHT.
2. Interest income of FRW 5,000,000 received net of 5% WHT from bonds in a listed company.
3. Dividend income of FRW 15,000,000 net of 15% withholding tax.
4. Investments expenses amounting to 20% of the total gross income.

What is the investment income Merci Limited Co. to be declared for the corporate income tax declaration?

- A FRW 20,210,562
- B FRW 25,263,158
- C FRW 25,210,526
- D FRW 20,210,526

(2 Marks)

QUESTION NINE

Muhimpundu Paccy is a retired professor from the University of Rwanda, College of Arts. He invested in shares in ABC Co Ltd, a private company listed on Rwanda Stock Exchange (RSE). During the year ended 31st December 2022, he received gross dividend income amounting to FRW 150,000,000. **What is the withholding tax on Dividend applicable to Muhimpundu Paccy?**

- A FRW 7,500,000
- B FRW 22,500,000
- C FRW 45,000,000
- D FRW 0

(2 Marks)

QUESTION TEN

Which of the following statements is TRUE?

- (i) Management fees, technical service fees and royalties paid to a non-resident person, where they exceed 2% of turnover – only the excess is subject to withholding tax of 15%.
- (ii) Management fees, technical service fees and royalties paid to resident persons, where they exceed 1% of turnover – where such fees exceed 1% of turnover, the excess is disallowed expenses.
- (iii) Payments related to service fees including management and technical service fees paid to a non-resident person, are not subject to the withholding tax of fifteen percent 15%, when such payments have been allowed to the corporate income tax.

- A (i) and (iii)
- B (ii) only
- C All of the above
- D None of the above

(2 Marks)

SECTION B

QUESTION 11

Mumararungu Taly is an employee for the University of Rwanda, under the following contractual terms:

1. She is entitled a monthly basic salary of FRW 2,500,000.
2. A university car which she uses for both university and personal affairs.
3. Accommodation allowance: She lives in a fully furnished university house.
4. She received a three-month basic salary as a loan from the University, at interest free. The loan should be repaid in one year. The interbank interest rate is fixed at 10%.

Required:

- (a) **Compute total monthly taxable income and monthly Pay As You Earn (PAYE) payable by Taly.** (6 Marks)
 - (b) **Calculate the total Rwanda Social Security Board (RSSB) contributions to be paid by Taly.** (4 Marks)
- (Total: 10 Marks)**

QUESTION 12

The following businesses are registered in the Rwanda Revenue Authority as small and micro businesses. They approached you as a tax consultant to advise on the tax they would pay for the year ended 31st December 2021.

1. Euro Supply Ltd, deals in selling turkey women clothes. The company had an annual turnover of FRW 27,000,000 and FRW 10,000,000 expenses.
2. Boningo Ltd, is a company dealing in coffee making and selling, with turnover of FRW 5,000,000 per tax year.
3. Bon Appetit Ltd, is a company dealing in farming and cropping, has an annual turnover of FRW 11,000,000.
4. Mwungeri Vivix, is registered as an individual business which deals in music industry. He has an annual turnover of FRW 19,000,000.

Required:

- Compute the income tax payable by each business above for year ended 31st December 2021.** (10 Marks)
- (Total: 10 Marks)**

SECTION C

QUESTION 13

SPLX Ltd, is a private company registered in Rwanda. It deals in the extraction of precious metals in mining sector. The company presented the following information for the year ended 31st December 2020.

Description	FRW	FRW
Gross profit		189,000,000
Other income		
Net dividend received		12,000,000
		201,000,000
Operating expenses		
Salaries and wages	98,000,000	
Water electricity and fuel	1,840,000	
Patent royalties paid to third parties	5,000,000	
Legal expenses	1,200,000	
Bank interests	16,000,000	
Rent	19,000,000	
Office furniture	37,000,000	
Communication	8,000,000	
Depreciation	780,000	
Mineral tax	14,000,000	
Quarterly prepayment	8,400,000	
Total expenses		(209,220,000)
Profit before tax		(8,220,000)

Additional information:

- The dividend received related to the shares the company owns in XYZ Ltd, a local company that deals in the manufacture of maize floor. The company is based in Western Province.
- Salaries amounting to FRW 3,500,000 was paid in advance.
- 10% of the bank interests, related to the penalties for delay of the bank loan repayment.
- Water, electricity, and fuel were used for business purposes.
- Capital allowance was agreed to be FRW 7,200,000 by the tax authority.

Required:

- Compute the taxable income, tax liability, and tax payable for the year ended 31st December 2020. (15 Marks)
 - Advise SPLX Ltd on the deadline for the filing, payment, and requirements for certification of the 2020 annual corporate income tax to the Tax Authority. (2 Marks)
 - Advise on the due dates for the filing and payment for the corporate income tax quarterly prepayment for the year 2021. (3 Marks)
- (Total: 20 Marks)**

QUESTION 14

M & B Ltd, is a company registered in the Rwanda Revenue Authority. It has presented the following financial accounts for tax audit purposes for the year ended 31st December 2021.

Items	Notes	FRW “000”	FRW “000”
Sales			980,000
Cost of goods sold			420,000
Gross profit			560,000
<u>Other income</u>			
Rental income	1		104,000
Investment income	2		<u>82,000</u>
			746,000
<u>Operating expenses:</u>			
Wages and salaries		146,000	
Provision for doubtful debts		30,000	
Administration fees		82,000	
Marketing fees		19,000	
Finance fees	3	40,000	
Legal fees	4	11,500	
Other expenses		99,000	
Accounting depreciation	5	54,000	
			481,500
Profit for the period			264,500

Additional information:

1. Rental income is the gross revenue received from the rent of machinery purchased during the year at a cost of FRW 60,000,000. The company took a loan of FRW 40,000,000 from the commercial bank at an annual interest rate of 17%, to use in the purchase of machinery.
2. The investment income relates to the dividends received from the shares the company owns in BCM limited, a private company operating in Rwanda. The dividends were received net of withholding tax.
3. The finance fee relates to the loan from commercial bank, the company used to purchase machinery used for renting purpose.
4. Legal fees include a fine amounting to FRW 900,000 for not meeting the public supply deadline. On a contract it has with a public institution.
5. The depreciation was from the following assets:

Items	Cost as at 1/1/2021
Building	FRW 62,000,000
Computers of 9 years of useful life	FRW 32,400,000
Motor vehicle	FRW 41,200,000

Required:

Compute the total taxable corporate income for M & B Ltd for the tax period ended 31st December 2021.

(20 Marks)

(Total: 20 Marks)

QUESTION 15

Mugemanshuro Maxime is a sole trader registered under the office of small and medium taxpayers in Rwanda Revenue Authority. Mugemanshuro has different supermarkets in Kigali City. Mugemanshuro Maxime prepares his accounts annually to 31 December. For the year ended 31 December 2020, Mugemanshuro Maxime's net profit from his financial records was FRW 149,500,000. This was arrived at after accounting for the following items:

1. Included in the profit of the year, is the proceeds from the farming activities. Mugemanshuro owns a firm in Nyagatare District, from which he obtains milk, he sells in the supermarket. The value of the activities from this Farm in 2020 is equivalent to FRW 23,000,000.
2. FRW 17,000,000 was incurred on repairs of Mugemanshuro's home. This was charged as an expense.
3. FRW 4,200,000 related to assets depreciation.
4. Entertainment expenses was FRW 1,800,000 and it was expensed on staff Christmas party.
5. Bad debts were FRW 800,000. This bad debt relates to a sale which had been made in the year ended 31 December 2018. It was due to the debtor being declared insolvent by the Rwandan court, and Mugemanshuro has taken all reasonable steps to recover the debt. The bad debt was omitted in the books of account.
6. The business paid school fees for Mugemanshuro's daughter amounting to FRW 4,800,000 at the University of Rwanda.
7. The expenses included personal income tax of FRW 2,500,000 paid each quarter.
8. Communication expenses was amounting to FRW 14,000,000.
9. Mugemanshuro received a gross dividend of FRW 16,000,000 from XYZ Ltd, a Rwandan company, dealing in mining sector. The dividend had been added in arriving at the net profit of the year.
10. Mugemanshuro received net interest income of FRW 6,400,000 during the year. The interest income was received from the long -term government bond with a maturity period of 10 years.
11. Tax depreciation for the year end has been agreed with Rwanda Revenue Authority at FRW 5,000,000.

Required:

- (a) **Compute Mugemanshuro Maxime taxable income and tax liability for the year ended 31 December 2020.** (18 Marks)
 - (b) **Explain the thin capitalization rules as it is applied in Rwandan taxation act.** (2 Marks)
- (Total: 20 Marks)**

End of question paper

BLANK PAGE

BLANK PAGE