



CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS
A2.3 ADVANCED TAXATION
DATE: MONDAY 27, NOVEMBER 2023
MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

a	Marks
Profit before tax	0.5
Exchange loss	0.5
Dividends	0.5
Fines and penalties	0.5
Donation (W2)	0.5
Tax expense	0.5
Travel expenses	0.5
Salaries and wages	0.5
Management fees	0.5
Communication expense	0.5
Right of Use Asset	1.5
Depreciation and Amortization	0.5
Provision for non-performing loans	1
Less non-taxable income	1
Less: Allowable expenses (Rent)	1
Less non-trading income	
Dividend from Zambia	0.5
Interest from Government security	0.5
Add back Allowable incomes	
Dividend from Zambia	0.5
Interest from Government security	0.5
Capital Allowance	6
Taxable profit	
Tax Liability (@ 20%)	1
WHT paid in customs	1
Quarterly prepayments	1
Foreign tax credit (on foreign dividends)	1
W1 Total Turnover calculation	1
W2 Donation	1
W3 Management fees	1
TOTAL	25

b. Advise on the CIT declaration deadline (1 Mark), computation of the IQP (1mark), advise on when to declare the IQPs (3Marks) Max 5 Marks 5

c. 1 Mark for each valid point (max 4 Marks) 4

d. 2 Marks for discussion of the certification process and 2 marks for computation of fines to pay (max 4 Marks) 4

e. 1 Mark for each valid point (Max 2 Marks)

2

Total

40

Model Answers

a. Tax computation

	FRW “000”	FRW “000”
Profit before tax		4,049,650
Add back non-allowable expenses		
Exchange loss (allowed)	-	
Dividends	980,000	
Fines and penalties	2,500	
Donation (W2)	138,344	
Tax expense	50	
Travel expenses	2,000	
Salaries and wages	25,000	
Management fees (W3)	147,589	
Communication expense	300	
Right of Use Asset	30,000	
Depreciation and Amortization	3,985,560	
Provision for non-performing loans	-	
		5,311,343
Less non-taxable income		
Dividend from local company (20%*160,000)	(32,000)	
		(32,000)
Less Allowable expenses		
Rent expense per contract	(24,000)	
		(24,000)
Less non-trading income		
Dividend from Zambia (80% *160,000)	(128,000)	
Interest from Government security	(50,000)	
		(178,000)
Add back Allowable incomes		
Dividend from Zambia (128,000 +50)	128,050	
Interest from Government security (50,000 x100/85)	58,824	
		186,874
Less Capital Allowances:		
Tax depreciation (W5)		(294,250)
Taxable profit		9,019,617
Taxable profit rounded		9,020,000
Tax Liability (@ 20%)		1,804,000
Less		
WHT paid in customs		12,245
Quarterly prepayments		28,800
Foreign tax credit (on foreign dividends)		50

Tax payable

1,762,905

Workings

W1 Total Turnover calculation

Interest income

FRW “000”

40,215,560

Other banking activities (Note 3)

950,000

Total Turnover

41,165,560

W2 Donation

Amount donated

FRW “000”

550,000

Donation allowed (1% of the turnover)

411,656

Not allowed

138,344

W3 management fees

Amount paid

FRW “000”

970,900

Amount Allowed (2% of the turnover)

823,311

Not allowed

147,589

W4 communication

Total communication

FRW “000”

15,000

10%

1,500

Not allowed (20%)

300

**W5. Capital allowance
in FRW**

Details	Building	Motor vehicle	Computer	Total
Opening Balance	320,000,000	85,000,000	210,000,000	
Additions	140,000,000	120,000,000	-	
Accelerated depreciation	70,000,000	60,000,000	-	130,000,000
Depreciation basis	460,000,000	145,000,000	210,000,000	
Tax Depreciation Rate	5%	25%	50%	
Wear and Tear	23,000,000	36,250,000	105,000,000	164,250,000
Capital allowance				294,250,000

Comment on the Thin Capitalization: Provision and thin capitalization do not apply to commercial banks, financial institutions, and insurance companies. Hence, nothing to be added back.

b. The bank should declare the CIT for the year ended October 31 2022 not later than 31st January 2023. Quarterly prepayments to be paid in the following year must be paid on 30th April 2023 (first quarter), 31st July 2023 (second quarter) and 31st October 2023 (3rd quarter). Amount to pay is 25% of the tax for the year ended October 31 2022 (1,804,000,000: 4 = 451,000,000).

c. Article 8 of the Law N° 016/2018 of 13/04/2018 establishing taxes on income provides that 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. Where a taxpayer's tax period changes, the period from the start of the usual tax period to the date of such a change is considered as a usual tax period and is separately subject to taxation.

d. The Ministerial Order N°004/19/10/TC OF 29/04/2019 determining the annual turnover required for certification of financial statements says that Any taxpayer with an annual turnover of or above six hundred million (600,000,000) Rwandan Francs is obliged to have his or her financial statements certified by a qualified professional approved by the tax administration. However, a taxpayer operating as a distributor of beer, lemonades, soda, juice, cement, petrol and petroleum products dealer and owner of a forex bureau and an audit firm are not bound by this obligation except in case they cumulate activities.

Article 77 of the tax procedures law says that the fine amounting five hundred thousand Rwandan francs (FRW 500,000) is applicable if the taxpayer fails to submit his or her certified annual tax declarations and financial statements as required by law; the fine is paid every month until he or she submits them. In our case, the fine will be FRW 500,000 times 13 months ($500,000 \times 13 = \text{FRW } 6,500,000$).

e. Article 53 of the Law N° 016/2018 of 13/04/2018 establishing taxes on income provides that companies are subject to restructuring as follows: 1° a merger of two or more resident companies into a separate company; 2° the acquisition or a takeover of fifty percent (50%) or more of shares or voting rights, by number or value in a resident company in exchange for shares of the purchasing company; 3° the acquisition of fifty percent (50%) or more of the assets and liabilities of a resident company by another resident company solely in exchange of shares in the purchasing company; 4° the acquisition of the entire company's assets so that its existence is replaced by the purchasing company; 5° splitting of a resident company into two or more resident companies.

QUESTION TWO

Marking Guide

a. Rwanda's treaty network

Award 1 Mark on each taxable income. Max 4 Marks

Marks

Total Marks

4

Sub-total

4

b. Double taxation relief computation

Taxable employment income (6,500,000+2,500,000)

1

Consultancy fee (12,750,000*100/85)

1

Rwandan income

Foreign income (income from CAR) (24,500,000+4,500,000)

1

Total taxable income

Gross tax liability

0-360,000@0%

0.5

360,001-1,200,000@20%

0.5

Above 1,200,000@30%

0.5

Tax liability on Rwandan income (23,000,000)

0-360,000@0%

0.5

360,001-1,200,000@20%

0.5

Above 1,200,000@30%

0.5

Tax liability on foreign income

Gross tax Liability

0.5

Tax liability on Rwandan income

0.5

DTR (Double Taxation Relief):

Lower of:

Tax on foreign income

Actual tax paid

Thus, Double Taxation Relief

1

Tax Liability

Gross Tax liability

0.5

Less:

Double Taxation Relief

0.5

Withholding tax on consultant services (15% of 15,000,000)

0.5

PAYE

0.5

Sub-total

10

c. The band of Common External Tariff rate and type of goods applicable for each rate

1 mark for stating CET rate and 0.5 marks for each type of goods

6

Sub-total

6

Total Marks

20

Model Answers

a) Rwanda's treaty network has expanded as follows:

Country	Dividends	Interests	Royalties	Technical, Management and professional fees
Morocco	8%	10%	10%	10%
Turkey	10%	10%	10%	10%
UAE	7.50%	10%	10%	10%

b) The double taxation relief is computed as follows:

Taxable employment income (6,500,000+2,500,000)	9 000 000
Consultancy fee (12,750,000*100/85)	15 000 000
Rwandan income	24 000 000
Foreign income (income from CAR) (24,500,000+4,500,000)	29 000 000
Total taxable income	53 000 000
Gross tax liability	
0-360,000@0%	-
360,001-1,200,000@20%	168 000
Above 1,200,000@30%	15 708 000
	15 876 000
Tax liability on Rwandan income (24,000,000)	
0-360,000@0%	-
360,001-1,200,000@20%	168,000
Above 1,200,000@30%	6 840 000
	7,008,000
Tax liability on foreign income (29,000,000)	
0-360,000@0%	-
360,001-1,200,000@20%	168,000
Above 1,200,000@30%	8,340,000
	8,508,000
Lower of:	
Tax on foreign income	8,508,000
Actual tax paid	4 500 000
Thus, Double Taxation Relief	4 500 000
Tax Liability	
Gross Tax liability	15 876 000
Less:	
Double Taxation Relief	(4,500,000)
Withholding tax on consultant services (15% of 15,000,000)	(2,250,000)
PAYE	(2,500,000)
Net Tax Liability	6 626 000

c) The band of Common External Tariff rate and type of goods applicable for each rate are:

CET Rate	Type of goods applicable
0%	Capital goods and raw materials
10%	Intermediate goods
25%	Finished goods
Varying Rate	Sensitive Goods

QUESTION THREE

Marking Guide

	Marks
a.	
02 Marks for valid definition of Quitus Fiscal	2.0
02 Marks for valid definition of Quitus Tax Clearance Certificate	2.0
01 Mark for proper distinction in cost for each	1.0
<i>Sub-total for this section</i>	<i>5.0</i>
b.	
01 Mark for each well explained point, maximum 05 marks	5.0
c	
Stock of construction material	0.5
Office Partition with Gypsum wall	0.5
Vans for delivering products, purchased with personal cash	0.5
Money owing from two corporate clients	0.5
Family residence at Kinyinya	0.5
Cash at Bank	0.5
Cash at office	0.5
A. Total Assets	
Liabilities	
Total money owing to paint suppliers	0.5
Total money owing to Tiles suppliers	0.5
Business Working capital Loan with Bank of Kigali	0.5
Personal Loan from a friend	0.5
Mortgage taken for Home construction	0.5
B. Total Liabilities	
Net Assets (A-B)	
Net Increase / (Decrease) in Net Assets	0.5
Add:	
Cash prize from Lottery	0.5
Less:	
Inheritance	1.0
Maximum Interest on Loan	1.0
Taxable Income	1.0
<i>Sub-total for this section</i>	<i>10.0</i>
Total Marks for Question Three	20.0

Model Answers

a.

Quitus Fiscal: Is a privileged status, available upon request to taxpayers who have a good compliance record with RRA, Quitus Fiscal certificate is proof of this status. Taxpayers with Quitus Fiscal certificates are not required to pay WHT 5%, or have WHT 3% withheld and paid on their behalf, depending upon the type of Quitus Fiscal certificate. The cost for application of Quitus Fiscal is FRW 10,000

Tax Clearance Certificates are available, upon the request, to prove that taxpayers have no unpaid arrears with RRA. This may be needed in order to bid for public tenders, apply for bank loans or a range of other reasons. The cost of applying for TCCs is FRW 5,000.

b. MEMO TO ENGAGEMENT MANAGER

Topic: Determination of taxable income through back-duty cases.

Background: When taxpayers have basic Accounting and financial data, backed by supporting documentation and explanations, we can reasonably determine taxable income by using the approach in the following paragraphs.

Steps to Determination of Taxable Income:

- Add all assets of taxpayer both tangible and intangible for a given period.
- Deduct all liabilities both personal and business used to finance the assets. Net result will be Net Assets for the period.
- Calculate the growth or loss in Net assets for each period by taking the Net Assets of the period and comparing it with the Net Assets of the previous period. This represents additional assets that the taxpayer acquired or disposed in the time.
- Deduct any non-taxable income that was used to finance the above growth in Net assets e.g. income or assets from a legacy or inheritances, capital gains, gifts, money from friends and relatives. If looking for only the undeclared business profits taxable, then deduct any non-trading business income from growth in Net Assets. The net figure would represent Net Business savings.
- Add to the balance for living expenses such as water & electricity, income tax paid, interest on loans, premium on various types of insurance, rents and rates as supported by bills or invoices. Add also personal expenses such as food, services, clothing, toiletries, medical expenses, house servant, holidays, amusements, private motor vehicle running and maintenance costs, donations and any cash stolen from house or shop etc.
- If capital assets are sold at a loss, add the loss. If sold at a profit, deduct the profit. Deduct any income declared during the year – balance is undeclared income.

The increase in capital is adjusted for the following items

- **Deduct** Legacies, gifts not taxable, income already taxed at source and not subject to further taxation, relief and allowances, windfall gains, inherited wealth/property, life policies matured/surrendered.

- **Add** Taxes paid, gifts or donations made, non-allowable losses e.g. loss on sale of investments/assets, personal expenditures, unexplained payments.

c.

Oscar Ndahiro Computation of Taxable income

Assets	01.Jan.21 FRW '000	31.Dec.22 FRW '000	31.Dec.23 FRW '000
Stock of construction material	80,000	88,000	92,400
Office Partition with Gypsum wall	35,000	36,750	36,750
Vans for delivering products, purchased with personal cash	20,000	25,000	25,000
Money owing from two corporate clients	16,500	18,150	19,058
Family residence at Kinyinya	35,000	50,000	50,000
Cash at Bank	8,000	9,500	13,800
Cash at office	500	200	150
A. Total Assets	195,000	227,600	237,158
Liabilities			
Total money owing to paint suppliers	8,500	9,350	9,818
Total money owing to tiles suppliers	7,500	8,250	8,663
Business Working capital Loan with Bank of Kigali	28,000	30,800	-
Personal Loan from a friend	-	8,000	8,000
Mortgage taken for home construction	-	40,000	40,000
B. Total Liabilities	44,000	96,400	66,480
Net Assets (A-B)	151,000	131,200	170,678
Net Increase / (Decrease) in Net Assets	-	(19,800)	39,478
Add:			
Cash prize from Lottery		40,000	-
Less:			
Inheritance			(6,000)
Maximum Interest on Loan	-	(4,800)	(4,800)
Taxable Income	-	15,400	28,678

QUESTION FOUR

Marking Guide

Details	Marks
Basic salary	0.5
Leave pay	0.5
Bonus	0.5
Overtime	0.5
Other allowances	0.5
House boy	0.5
School fees	0.5
Car benefit	1
House benefit	1
Income from tuitions	1
Consultancy income	1
Rental Income	3
Agriculture income	1
Reimbursement	0.5
PIT computation	1.5
Quarterly prepayments	0.5
WHT on public tenders	1
PAYE on tuition income	1
PIT due	1
1 Mark for a Correct definition max 3 Marks	3
Total	20

QUESTION FOUR

Model Answer

a) PIT Computation

Details	Monthly	Workings	Amount
Basic salary	850,000	$850,000 \times 12$	10,200,000
Leave pay	1,200,000	$1,200,000 \times 12$	14,400,000
Bonus			4,000,000
Overtime	370,000	$370,000 \times 12$	4,440,000
Other allowances	400,000	$400,000 \times 12$	4,800,000
Total allowance			37,840,000
House boy	40,000	$40,000 \times 12$	480,000
School fees	700,000	$700,000 \times 12$	8,400,000
Car benefit		10% of 37,840,000	3,784,000
House benefit	300,000	$300,000 \times 12$	3,600,000
Reimbursement			-
Total employment Income			54,104,000
Income from tuitions		$3,000,000 \times 100/70$	4,285,714
Consultancy income		$15,000,000 \times 100/97$	15,463,918
Rental Income		W1	14,000,000
Agriculture income			-
Total income			87,853,632
Taxable income			87,854,000

Tax Bands	Tax Rate	Amount
0 - 360,000	0	0
360,001 - 1,200,000	20%	168,000
1,200,001 - 87,854,000	30%	25,996,200
Total		26,164,200
Quarterly prepayments		- 3,500,000
WHT on public tenders	$(15,463,918 \times 3/100)$	- 463,918
PAYE on tuition income	$4,285,714 \times 30/100$	- 1,285,714
PIT due		20,914,568

Workings:

W1: Rental Income

Gross Income	$5,000,000 \times 12$	60,000,000
Allowable expense	$65,000,000 \times 10\%$	6,000,000
Depreciation	25% of 100,000,000	25,000,000
Interest expense	$100,000,000 \times 15\%$	15,000,000
Taxable income from the rent of machinery		14,000,000

b) The law N° 016/2018 of 13/04/2018 establishing taxes on income has the following definitions:

- **Employee:** any person who undertakes to work for another person for payment, under the supervision and in accordance with directives of his/her employer in relation with his/her work.
- **First employer:** is defined by the income tax law as an employer who pays to an employee an annual professional income arising from a permanent work or from a longer contract than other employers may offer.
- **Liberal professional:** is a professional who exercises any duties on the basis of special skills, in an independent manner, in offering services to the clients.

QUESTION FIVE

Marking Guide

	Marks
Cooking oil	0.5
Sugar	1
Exports	0.5
Transport	0.5
Soap	1
Desktops	0.5
Mineral supplements for animal feeding	1
Disposal of a commercial house	0.5
Beans	1
Disposal of a residential house	0.5
Marketing	0.5
Security services	0.5
Electricity	0.5
Laptops and tablets	0.5
Generators	0.5
Legal service	0.5
Accounting services	0.5
Tax advisory services	0.5
Telephone expense	0.5
Technical services	1
Management service	0.5
Software	0.5
Purchase of Land	0.5
Returned (cooking oil)	0.5
Returned (soap)	0.5
VAT Payable	1
Interpretation of the tax consultant's view	1
Interpretation of the CFO's view	1
Computation of penalties as per the tax consultant's view	1
Computation of penalties as per the CFO's view	1
Total	20

Model Answers

a) VAT payable by ABC Ltd (October 2022)

Details	Sales FRW “000”	Purchases FRW “000”	Input VAT@18%- FRW “000”	Out VAT@18%- FRW “000”
Cooking oil	370 000		-	66 600
Sugar	136 000	30 000	5 400	24 480
Exports	86 000		-	-
Transport	11 000		-	-
Soap	18 000	20 000	3 600	3 240
Desktops	30 000		-	-
Mineral supplements for animal feeding	14 500	10 000	-	-
Disposal of a commercial house	40 000		-	7 200
Beans	75 000	40 000	-	-
Disposal of a residential house	100 000		-	-
Marketing		5 800	1 044	-
Security services		2 200	396	-
Electricity		7 300	1 314	-
Laptops and tablets		27 800	-	-
Generators		35 000	6 300	-
Legal service		3 500	630	-
Accounting services		1 500	270	-
Tax advisory services		2 450	441	-
Telephone expense		5 560	600	-
Technical services		15 000	2 700	2 700
Management service		12 000	0	2 160
Software		3 000	-	-
Purchase of Land		50 000	-	-
Returned (cooking oil) 20,000,000 *18/100			-	- 3 600
Returned (soap)			-5400	-
Total			17,295	102 780

Taxable sales= 725,000

Exempted sales= 155,500

General Input= 13,695

**Input VAT apportionment=Taxable sales/Total sales*General input VAT
=725,000/880,500*13695=11,276**

Total Input claimable=11,276+3,600+5,400-5,400=14,876

VAT payable = (FRW 102,780,000 - FRW 14,876,000) = FRW 87,904,000

b) The Tax Consultant recommended the company to rectify the submitted return before being notified of the imminent audit. This is in line with the article 79 (Administrative fine for understatement of tax levied after audit or investigation) of the la no N° 026/2019 du 18/09/2019 on tax procedures, which says that a taxpayer who rectifies his or her tax declaration and pays relevant tax before he or she is notified of imminent audit of his or her tax is not subject to the administrative fine referred to in this Article.

The The CFO's suggestion for leaving the return as it is and wait for the RRA audit could attract the administrative fine for understatement of tax above mentioned. The law provides that if an audit or investigation shows that there is the understatement of the amount on a tax declaration is at least ten percent (10%) but doesn't exceed twenty percent (20%) of the tax liability, the taxpayer must pay the non-paid tax and also be subject to an administrative fine of ten percent (10%) of the amount of the understatement.

Additional tax liability is computed as follows in both cases:

Tax Consultant:

VAT declared	87,904,000
VAT not declared before $(45,000,000 * 18/100)$	8,100,000
Total VAT Due	96,004,000
Late payment interests $(8,100,000 * 1.5/100 * 2)$	243,000
Total tax liability	8,343,000

CFO's view

VAT on sales declared	87,904,000
VAT not declared $(45,000,000 * 18/100)$	8,100,000
Total VAT on sales	96,004,000
% of understatement	8.4%
Administrative fine for understatement of tax	0
Late payment interests $(8,100,000 * 1.5/100 * 2)$	243,000
Total tax liability	8,343,000

END OF MARKING GUIDE AND MODEL ANSWERS

