



**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3: ADVANCED TAXATION

DATE: MONDAY 27, NOVEMBER 2023

INSTRUCTIONS:

1. Time allowed: **3 hours and 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 and assumptions if any.
7. 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

AD Bank Limited is a banking company registered with the Register General in 2013 and obtained an investment certificate. AD Bank Limited is a subsidiary of AD Bank registered in Turkey. The bank has recently listed 42% of its stock on the Rwanda stock Exchange and has a special tax period running from 1st November to 31st October.

Following is an extract from the Statement of profits or loss and other comprehensive of AD Bank Limited for the year ended 31/10/2022.

Item	Note	FRW “000”
Interest income	1	40,215,560
Interest expense	2	(9,125,370)
Net interest income		31,090,190
Other income	3	1,166,800
Total income		32,256,990
Provision for bad debt	4	6,548,789
Consultancy expenses		8,214,235
Depreciation and amortization	5	3,985,560
Other operating expenses	6	9,458,756
Total operating expenses		(28,207,340)
Profit before tax		4,049,650

Notes

1. Interest income includes 50,000,000 received from investment in a 2-year government bond. The amount was received net of withholding tax.
2. During the year ended 31/10/2022, the bank received a loan amounting FRW 100,000,000,000 from the parent company registered in Turkey at an interest rate of 12%. The company's equity is FRW 10,000,000,000.
3. Below are the details of other income for the year ended 31st October 2022.

Items	Note	Amount FRW “000”
Foreign exchange gain		800
Dividends	i	160,000
Fair value gain on financial assets		56,000
Other banking activities		950,000
Total		1,166,800

Notes:

20% of the dividends were received from AD Bank Muhanga Limited, a subsidiary for AD Bank Limited registered in Rwanda. The remaining was received from Zambia where the bank has some investments. The dividends were received net of 15% WHT.

4. The total amount corresponds to the provision related to non-performing loans (more than 90 days)

5. The Cost/net book values of assets as of 01/11/2021 were:

Buildings : FRW 320,000,000

Motor vehicle: FRW 85,000,000

Computers : FRW 210,000,000

Additions in the year ended 31/10/2022:

Buildings : FRW 140,000,000

Motor vehicle: FRW 120,000,000

6. Other expenses are detailed here below:

Items	Note	FRW “000”
Miscellaneous expenses	ii	24,840,365
Dividends	iii	980,000
Fines and penalties		2,500
Donation		550,000
Tax expense	iv	50
Advertising		768,900
Travel expenses	v	450,500
Salaries and wages	vi	1,340,700
Management fees	vii	970,900
Communication expense	viii	15,000
Right of Use Asset	ix	30,000
Total		29,948,915

Notes:

ii. The amount includes exchange loss for the year ended October 2022 amounting to FRW 10,500,000;

iii. These are dividends declared and paid to the parent company in the year 2022;

iv. This is an amount of taxes paid in Zambia where the bank has some investments;

v. This amount includes FRW 2,000,000 used to finance the flight for CEO's wife. The wife is not employee of the bank;

vi. Wages and salaries include provisions for the following year bonuses in the amount of FRW 25,000,000;

vii. The management fees were paid to AD Bank Turkey;

viii. 10% of the communication expenses is the airtime loaded in the mobile phones of staff working in marketing department;

ix. The bank rented a cash handling machine, rent contract is on a fixed monthly fee of FRW 2,000,000.

7. As the bank does not have the “Quitus”, its importations were subject to the Withholding tax. In the year ended October 2022, the Withholding tax paid in customs amounts FRW

12,245,000.

8. In the year ended October 2022 the bank paid the CIT quarterly prepayment amounting to FRW 9,600,000 per quarter.

Required:

- (a) **Compute the tax Liability for the period, giving your comment on the provision and thin capitalization.** (25 Marks)
- (b) **Advise the company on the when to declare and pay the computed tax liability for the year ended October 2022. Compute the amount and advise on the deadlines for quarterly prepayments in the following tax period.** (5 Marks)
- (c) **Discuss the application of the special tax period and provide guidance on the treatment of the period from the start of the usual tax period to the date of the change.** (4 Marks)
- (d) In the year ended October 2021 the bank had the turnover amounting FRW 25,245,356,000. In July 2022, it was discovered that the submitted Financial Statements were not certified. Certification was completed in December 2022 but the rectification of the return was made in February 2023, and the certified financial statements were submitted to RRA. **Discuss the certification process and compute the fine to pay.** (4 Marks)
- (e) Mr Maniriho, the junior accountant in AD Bank Limited wondered whether the disposal of the truck that took place in the year ended October 2021 can be qualified as the corporate restructuring. **Discuss the corporate restructuring as per the provisions of the law establishing taxes on income** (2 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

(a) Rwanda's treaty network has expanded. Using a table, **highlight the double taxation agreement signed between Rwanda and Morocco, Turkey and United Arab Emirates (UAE) country with the applicable rate of Withholding Tax on Dividends, Interests, Royalties, Technical, Management and professional fees.** (4 Marks)

(b) Umulisa has a permanent residence in Rwanda, therefore a resident. During the year ended 31st December 2022, She earned an income amounting to FRW 24,500,000 from her consultancy in Central African Republic (CAR) net of tax amounting to FRW 4,500,000. She also earned FRW 12,750,000 net of withholding tax from consultancy in Rwanda and an employment income amounting FRW 6,500,000 (Net of PAYE equivalent to FRW 2,500,000).

Required:

With the assumption that Rwanda has the double taxation agreement with the Central African Republic, **compute the double taxation relief and Net tax liability of Umulisa for the year ended 31st December 2023.** (10 Marks)

(c) Regional integration allows countries to overcome costly divisions integrating goods, services and factors' markets, thus facilitating the flow of trade, capital, energy, people and ideas. In the context of integration with other countries, Rwanda joined the East African Community. Steps of regional integration include the customs union and the East African Community has reached this stage.

Required:

State the bands of common external tariff (CET) rate and the type of goods applicable for each CET rate. (6 Marks)

(Total: 20 Marks)

QUESTION THREE

(a) You are a new team joiner on the tax team in an audit firm, and you overheard advisory manager saying ‘I am confused if Quitus Fiscal and tax clearance certificate are the same but used interchangeably, and if so why do we pay different amount for them’.

Required:

Use your tax knowledge to clear the confusion.

(5 Marks)

(b) During tax investigation, Revenue Authority auditors have the authority to reconstruct taxable income from incomplete records that most tax evading companies may be having. There are obviously notable ‘hard to catch’ tricks used by taxpayers and Revenue Authority officers must be very well knowledgeable to handle this. As a new tax auditor at Rwanda Revenue Authority, you have been assigned to a client who deals in retail business, maintains minimal level of records, mixes personal and business finances & Loans, uses personal assets to run business expenses and uses business expenses for personal errands.

Required:

Write a Memo to your Engagement Manager explaining your best approach to determining the taxable income for such a client.

(5 Marks)

(c) Oscar Ndahiro is businessman who runs a hardware in Kimironko, One of Kigali’s busiest streets. Over the past three years he has taken matters so lightly and not maintained his accounts in good order, The fact that most of his clients pay in cash does not make his situation any better. He is a sole owner of the shop, so there is not much of a clear split between his money and business money, but he has very good memory and everything that touches cash he has records, including Loans he is servicing currently. In fear of tax penalties, he has provided you with his the following information both personal and private, you will use the information provided to advise him of his potential tax exposure.

Particulars	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
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
Family residence house at Kinyinya	35,000	50,000	50,000
Cash at Bank	8,000	9,500	13,800
Petty cash at Office	500	200	150

Additional Information;

1. In 2022, He received FRW 3 million from sale of his shares held in Sima Limited. This helped to improve cash position in 2022. This was received net of Withholding tax.
2. Personal and family expenses using business account was about FRW 3 million every year.
3. In 2022, He received FRW 40 million cash prize won from a lottery.
4. In 2023, Mr Ndahiro was declared as the ultimate heir to a family fund and was handed a FRW 6 million check, which he deposited in the business account.
5. He negotiated a 15% Interest on his personal Loan and on the Mortgage. In recent meeting with Rwanda Revenue Authority, you were given guidance to not exceed 10% of Loan outstanding amount for acceptable Interest in cases of incomplete records.

Required:

Use computations to advise Oscar Ndahiro on the potential tax liability he may be looking at for the years 2021, 2022 and 2023?

(10 Marks)

(Total: 20 Marks)

QUESTION FOUR

In the year ended 31/12/2022 Mr Uwihoreye received the various income. His employment income was made by FRW 850,000 as a monthly basic salary plus the following:

- A monthly salary amounting to FRW 40,000 for his house boy;
- School fees for his kids amounting to FRW 700,000 per month;
- FRW 400,000 for other allowances;
- Bonus for the exceptional performance received was FRW 4,000,000
- Overtime FRW 370,000 per month;
- He received FRW 2,000,000 as reimbursement used in official mission to Kenya. He had financed the mission using his own funds;
- Leave pay FRW 1,200,000;
- He has a company car that he uses for both private and company business;
- He lives in a house provided by the employer. The house is rented, the monthly rent paid to the landlord is FRW 300,000 per month;
- Mr Uwihoreye is a tutor at XYZ Ltd, a company that provides tuitions to the professional accountants. He received FRW 3,000,000 per year, net of 30% PAYE, as the company considered him as the second employee.
- He received FRW 15,000,000 from the consultancy contract awarded by the Kigali City Council. This amount was received net of normal Withholding Tax on public tenders.
- He owns a machinery that was rented to Mr Uwimana. The monthly rent received was FRW 5,000,000. The machinery was purchased in 2022 at a cost of FRW 100,000,000. The purchase of the machine was financed by a bank loan at an interest rate of 15%. The total of quarterly prepayments during the year was FRW 3,500,000. He is not a registered investor.
- He owns a farm in Bugesera District and his agricultural income in 2022 was FRW 11,750,000

The first employer of Mr Uwihoreye did not declare the PAYE as it was an agreement between him, RRA and the employee that taxes will be paid by the employee at the end of the year, using the PIT return.

Required:

(a) **Compute the Personal Income Tax for the year 2022.** (16 Marks)

(b) Mr Uwihoreye was confused when the income is subject to the PAYE or the WHT as He doesn't know when someone is considered as a consultant, employer or an employee.

Required:

Provide explanations on who is considered as an employee, first employer and liberal professional. (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

ABC Ltd is incorporated in Rwanda and it is registered as Value Added Tax taxpayer. During the Month of October 2022, the company conducted the following transactions:

	Notes	Sales FRW “000”	Purchases FRW “000”
Cooking oil		370,000	
Sugar		136,000	30,000
Exports		86,000	
Transport		11,000	
Soap		18,000	20,000
Desktops		30,000	
Mineral supplements for animal feeding		14,500	10,000
Disposal of a commercial house		40,000	
Beans		75,000	40,000
Disposal of a residential house		100,000	
Marketing			5,800
Security services			2,200
Electricity	1		7,300
Laptops and tablets			27,800
Generators			35,000
Legal service			3,500
Accounting services			1,500
Tax advisory services			2,450
Telephone expense	2		5,560
Technical services	3		15,000
Management service	4		12,000
Software			3,000
Purchase of Land			50,000

Additional information

1. Electricity was wholly expensed for business purposes.
2. The telephone expense corresponds to the airtime loaded in mobile phones of staff in the marketing department.
3. The technical service fee was paid to a foreign consultant, the imported services could not be sourced locally.
4. The management service was imported from a Kenyan supplier. The identical service was available in Rwanda.
5. Cooking oil worth FRW 20,000,000 was returned by the client after realizing that the goods have expired. ABC Ltd issued a credit note in this regard.
6. ABC Ltd returned some soaps to the supplier, who issued a credit note. The returned goods worth FRW 30,000,000.
7. All figures above are VAT exclusive.

Required

(a) Compute the VAT payable by ABC Ltd. You are required to compute the Out/Input VAT for each of the items mentioned above. You will put zero where the VAT is not applicable. (16 Marks)

(b) Two months after, ABC Ltd hired a new CFO, who instructed a Tax Health Check. In his observations, a hired tax consultant reported the sales of sugar amounting FRW 45,000,000 that were not declared. He recommended the company to rectify the submitted return before being notified of the imminent audit by the tax administration. The CFO's opinion was different. He suggested leaving the return as it is and wait for the RRA audit.

Required:

Discuss the two points of view, focusing on the penalties to be paid in both cases, and calculate the additional tax liability in both scenarios. (4 Marks)

(Total: 20 Marks)

End of question paper

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