



ICPAR
Unlimited possibilities

CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 2 EXAMINATIONS

F2.4: TAXATION

DATE: MONDAY 27, NOVEMBER 2023
MARKING GUIDE AND MODEL ANSWERS

QUESTIONONE

Marking guide

Items	Marks
Reported profit	0.5
Add: Non-allowable deductions:	1
Value added tax	1
Withholding tax on imports	1
Noah's rent	1
Interest paid to:	
Leon	1
Gabis	1
Noah	1
Dividend paid to:	
Leon	1
Gabis	1
Noah	1
Noah' salary	0.5
Shareholders annual retreat with families	0.5
Partners Christmas gifts	0.5
School fees for partners' kids	0.5
Staff communication	1
Provision for doubtful debts	0.5
Total add backs	
Adjusted taxable income	
Tax liability @30%	0.5
Less withholding tax on imports	0.5
Tax to be payable	
Profit after tax	
Computation of the profit to each partner, award 0.5 Marks to each response	5
Total Marks	20

Model answers

Computation of LGN Ltd taxable income and tax liability for the year ended 31 December 2019.

Items	Workings	FRW "000"	FRW "000"
Reported profit			177,100
Add: Non-allowable deductions:			
Value added tax		110,809	
Withholding tax on imports		41,400	
Noah's rent		6,000	
Interest paid to:			
Leon		37,800	
Gabis		37,800	
Noah		50,400	
Dividend paid to:			
Leon		60,000	
Gabis		60,000	
Noah		80,000	
Noah' salary		24,000	
Shareholders annual retreat with families		10,000	
Partners Christmas gifts		7,500	
School fees for partners' kids		6,000	
Staff communication (assumed that it is not separable with private and business)	(18,000,000*20%)	3,600	
Provision for doubtful debts		25,780	
Total add backs			<u>561,089</u>
Adjusted taxable income			738,189
Tax liability @30%			221,457
Less withholding tax on imports			<u>(41,400)</u>
Tax to be payable			<u>180,057</u>
Profit after tax			<u>558,132</u>

Profit sharing to partners:

Leon at 30%, Gabis at 30% and Noah at 40%

Details	Leon	Gabis	Noah	Total
	FRW"000"	FRW"000"	FRW"000"	FRW"000"
Interest on partner's capital	37,800	37,800	50,400	126,000
Dividend paid to partners	60,000	60,000	80,000	200,000
Salary	0	0	24,000	24,000
Profit to be shared	62,440	62,440	83,253	208,132
Total	160,240	160,240	237,653	558,132

QUESTION TWO

Marking guide

Question two	Marks
Computation of Safe Tea Factory Ltd capital allowance for the years 2020 and 2021	
Award 1 Mark for each well computed allowance and wear & tear for 2020 (Maximum: 10 Marks)	10
Award 1 Mark for each well computed allowance and wear & tear for 2021 (Maximum: 10 Marks)	10
Total Marks	20

Model answers

Computation of Safe Tea Factory Ltd capital allowance for the years 2020 & 2021

Assets	Land	Factory & office buildings	Factory plant and machinery	Tractors, cultivators & harvesters	Motor vehicles	IT systems	Computer & accessories	Furniture & fittings	Total
	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"	FRW "000"
Cost 2020	320,500	380,500	684,000	458,000	60,000	-	5,800	25,000	1,933,800
Accelerated depreciation 2020	-	50%	50%	50%	50%	-	-	-	
Capital allowance expense 2020	-	190,250	342,000	229,000	30,000	-	-	-	791,250
Wear & tear base 2020	-	380,500	684,000	229,000	30,000		5,800	25,000	
Wear & tear rate 2020	-	5%	5%	25%	25%		50%	25%	
Wear & tear expense 2020	-	19,025	34,200	57,250	7,500	-	2,900	6,250	127,125
Total allowance 2020		209,275	376,200	286,250	37,500	-	2,900	6,250	918,375

Assets	Land	Factory & office buildings	Factory plant and machinery	Tractors, cultivators & harvesters	Motor vehicle	IT systems	Computer & accessories	Furniture & fittings	Total
WDV 01/1/2021	320,500	171,225	307,800	171,750	22,500	-	2,900	18,750	
Additions	100,000	-	478,000	122,000	-	28,000	-	-	
Capital allowance rate 2021	-	-	50%	50%	-	-	-	-	
Capital allowance expense 2021	-	-	239,000	61,000	-	-	-	-	300,000
Wear & Tear base 2021	-	380,500	1,162,000	232,750	22,500	28,000	2,900	18,750	
Wear & Tear rate 2021	-	5%	5%	25%	25%	10%	50%	25%	
Wear & Tear expense 2021	-	19,025	58,100	58,188	5,625	2,800	1,450	4,688	149,875
Total allowance 2021	-	19,025	297,100	119,188	5,625	2,800	1,450	4,688	449,875

QUESTION THREE

Marking guide

Question three	Marks
(a) Computation of Jigija Juru Noella taxable income and PAYE payable for the month of June 2020	
Award 1 Mark for each transaction as follows: (Maximum: 14 Marks)	
Salary	1
Communication allowance	1
Bonus	1
Leave pay	1
Entertainment allowances	1
Reimbursement of expenses	1
Total employment income	1
Benefits in kind	1
Company car	1
House allowance	2
School fees to herself	1
Tax to pay	2
(b) Computation of Jigija RSSB contributions both on behalf of employee and on behalf of employer.	
Pension: 1 mark for employee portion and 1 mark of employer portion	2
Maternity leave: 1 mark for employee portion and 1 mark of employer portion	2
Medical scheme: 1 mark for employee portion and 1 mark of employer portion	2
Total Marks	20

Model answer

(a) Computation of Jigija Juru taxable income and her PAYE payable for the month of June 2020

Particulars	Amount in FRW
Salary	4,000,000
Communication allowance	250,000
Bonus	1,000,000
Leave pay	1,000,000
Entertainment allowances (2,000,000:12)	166,667
Reimbursement of expenses	-
Total employment income	6,416,667
<u>Benefits in kind</u>	
Company car	1,200,000
House allowance (6,416,667*20%)	1,283,333

School fees to herself (6,000,000:12)	500,000
Total taxable employment income	9,400,000
<u>Computation of tax to be paid</u>	
0 - 30,000 @0%	0
30,001 - 100,000 @20%	14,000
100,001 and above @30%	2,790,000
Tax liability	2,804,000

(b) Computation of Jigija RSSB contributions both on behalf of employee and on behalf of employer.

RSSB Contribution:	Employee	Employer	Total
Pension	@ 3%	@5%	@8%
Pension Base = all employment income except transport allowance (FRW 9,400,000-FRW 1,200,000) = FRW 8,200,000.	246,000	410,000	656,000
Maternity leave	@ 0.3%	@ 0.3%	@0.3%
Basis: all employment income except transport allowance	24,600	24,600	49,200
Medical scheme	@ 7.5%	@ 7.5%	@15%
Base: Basic salary of FRW 4,000,000	300,000	300,000	600,000

Pension Base = Basic Salary + Benefit in Kind House + Benefit in Kind Others + Cash Allowance House + Cash Allowance Others.

QUESTION FOUR

Marking guide

Computation of Mwiza Mugisha's VAT payable or claimable for January, 2020

Question five (a)	Marks
(a) Computation of VAT on sales	
Award marks as follows:	
Sales of processed agricultural products	1
Sales of unprocessed beans	0.5
Sales of Nido	1
Sales of locally processed milk	0.5
Sale of processed maize flour	1
Export of processed fruit juice	1
Sale of unprocessed avocado	0.5
Sale of unprocessed banana fruits	0.5
Total	0.5
Computation of VAT on purchases	

Electricity	0.5
Computers	0.5
Fuel	0.5
Purchase of plates and forks	0.5
Mobile phones	0.5
Shop rent	0.5
Purchases of processed milk	0.5
Purchase of unprocessed agricultural food	0.5
Total	0.5
VAT inputs allowed	2
VAT due	2
(b)	
Award 0.5 Marks on each of the conditions that taxpayers that only sell exempt or zero-rated goods and services can be exempted from VAT registration	2
(c)	
Award 0.5 mark on any 6 goods and/or services that are exempt for VAT	3
Total Marks	20

Model answer

(a) Computation of deductible inputs, and the VAT payable for the month of December 2021.

Output VAT computation in FRW

Particulars	Standard VAT exclusive	zero rated	exempt	VAT on sales
Sales of processed agricultural products	3,540,000	-	-	637,200
Sales of unprocessed beans	-	-	1,000,000	-
Sales of Nido	9,000,000	-	-	1,620,000
Sales of locally processed milk	-	-	14,000,000	-
Sale of processed maize flour	6,000,000	-	-	1,080,000
Export of processed fruit juice	-	8,000,000	-	-
Sale of unprocessed avocado	-	-	800,000	-
Sale of unprocessed banana fruits	-	-	1,600,000	-
Total	18,540,000	8,000,000	17,400,000	3,337,200

Input VAT computation in FRW

Particulars	Standard	zero rated	exempt	Input VAT
Electricity	180,000	-	-	32,400
Computers		-	97,000	-
Fuel	-	-	1,900,000	-
Purchase of plates and forks	4,800,000	-	-	864,000
Mobile phones	-	-	1,200,000	-
Shop rent	2,000,000	-		360,000
Purchases of processed milk	-	-	7,200,000	-
Purchase of unprocessed agricultural food	-	-	3,100,000	-
Total	7,077,000	-	13,497,000	1,256,400

Total VAT outputs (A)	3,337,200	
Total VAT inputs	1,256,400	
Total sales	43,940,000	
Total taxable sales	26,540,000	
Total exempted sales	17,400,000	
VAT inputs allowed=Taxable Sales/Total sales*Input VAT (B)		758,872
VAT due (C=A-B)		2,578,328

(b) The conditions that taxpayers that only sell exempt or zero-rated goods and services can be exempted from VAT registration.

a) Taxpayers exclusively making exempt or zero-rated sales may write to the Commissioner General of RRA requesting exemption from the requirement to register for VAT. This letter should:

- Identify the taxpayer's name and TIN, and state the request to be exempted from the requirement to register for VAT.
- Contain all supporting documents proving the taxpayer does not make any taxable sales.
- This exemption from the requirement to register for VAT is only valid when confirmed in writing by the Commissioner General and may be rescinded, also in a letter from the Commissioner General, at any time.

(c) List of goods and/or services that are exempt for VAT

- Goods and services related to health purposes
- Educational materials and services
- Books, newspapers and magazines
- Transportation services

- Financial and insurance services
- Energy supply equipment
- Unprocessed agricultural and livestock products
- Locally processed milk
- Industrial machinery
- Mobile telephones and SIM cards.

QUESTION FIVE

Marking guide

Question six	Marks
(a) The documentation needed on import and export of goods/ product?	
Award 1 mark on one document; (Maximum: 5 Marks)	5
(b) Differentiate between border posts and dry ports. (6 marks)	
Award 1 Mark to each well explained dry port, 1 Mark on 2 examples, and 1 Mark capacity threshold. (Maximum: 3 Marks)	3
Award 1 Mark to each well explained border post, 1 Mark on 2 examples, and 1 Mark capacity threshold. (Maximum: 3 Marks)	3
(c) Circumstances under customs administration where imported/ exported goods can be seized by the Tax Administration	
Award 1 Mark to each good response. (Maximum: 5 Marks)	5
(d) Explain the penalties related to submitting false documentations/ forgery upon customs declaration.	
Award 1 Mark to each well explained penalty. (Maximum: 4 Marks)	4
Total Marks	20

Model answer

(a) The documentation needed on import and export of goods/ product.

On exporting goods, taxpayers must provide valid documents. The mandatory documents within the EAC are:

- Commercial invoice, or equivalent documents

Which shows the values and description of all goods within the consignment.

- Packing list which list all the goods being transported within the consignment.

Additional documents from taxpayers importing goods from outside EAC.

- Freight invoice showing the cost of transportation and insurance for the consignment if not included on the commercial invoice.
- Bill of lading / Airway bill, which is a contract between the owner of the ship / plane transporting the consignment and the importing taxpayer.

The only document that taxpayer exporting goods must provide to RRA.

- Commercial invoice, or equivalent documents

showing the values and description of all goods within the consignment

Additional documents include the certificate of origin.

(b) Nzabonimpa Fely may not be familiar of with where products pass through during imports and export of products. With a help of two tangible examples, differentiate between border posts and dry ports.

Importing and/ or exporting goods can only be done at authorized RRA border posts, customs offices outside Rwanda and dry ports.

✓ Border posts are the RRA offices at the border with a neighboring country. They are capable of handling imports of small value. RRA has a threshold import that can be processed using border posts depending on the capacity of a border posts. Normally the threshold is between FRW 3,000,000 and FRW 01.

Examples:

- Gatuna, Kagitumba, Cyanika, Buziba neighboring with Uganda
- Rusumo neighboring Tanzania
- Akanyaru, Nemba, Ruhwa Neighboring Burundi
- La Corniche, Bugarama, Rusizi, neighboring DRC

✓ Dry ports are RRA inland customs offices. Not all imports and exports are processed at border posts. Some consignments are declared and processed at dry ports, because of the nature and the value of the products. Dry ports are capable of handling high value consignments without associated warehouse. Examples of dry ports:

- Masaka, Gikondo, Customs HQ, Rubavu inland Office, Mutara
- Airports: Kigali & Rusizi
- Oil Depots in Gatsata, Kabuye, Rusororo, & Jabana

(c) Elaborate circumstances under customs administration where imported/ exported goods can be seized by the Tax Administration.

RRA has the right to seize any of the following types of goods.

1. Prohibited goods.
2. Restricted goods dealt with contrary to regulations.
3. Uncustomed goods, where goods have not followed full and correct customs procedure.
4. Concealed goods or goods mislabeled or contained in any way likely to deceive any offer goods
5. Goods subjected to customs control which are without authorization moved, altered, or interfered with
6. Smuggled goods
7. Falsely documented or declared.

(d) Explain the penalties related to submitting false documentations/ forgery upon customs declaration.

- Pay unpaid customs duties
- Imprisonment not exceeding three years
- Fines not exceeding USD 10,000 (ten thousand dollars)
- Additional fines provided under VAT and excise duty laws.

QUESTION SIX

Marking guide

Question six	Marks
(a) Compute the tax payable; the tax administration fines and penalties applicable to Mugemanyi Julia.	
Award 1 mark on the following; (Maximum: 12 marks)	
Flat tax to be paid 2019	1
Administrative fine for non-declaration 2019	1
Fines for non-declaration and payment 2019	1
Total tax, fines and penalties (excluding interests) 2019	1
Flat tax to be paid 2020	1
Administrative fine for non-declaration 2020	1
Fines for non-declaration and payment 2020	1
Total tax, fines and penalties (excluding interests) 2020	1
Flat tax to be paid 2021	1
Administrative fine for non-declaration 2021	1
Fines for non-declaration and payment 2021	1
Total tax, fines and penalties (excluding interests) 2021	1
(b) Advise the taxpayers on the conditions to be allowed to pay the tax due in installments	
Award 1 Mark to each well explained condition. (Maximum: 4 Marks)	4
(c) Outline the content of application letter for instalment payment	
Award 0.5 Mark to each content of the application letter. (Maximum: 2 Marks)	2
(d) Identify the circumstances under which the instalment contract between RRA and the taxpayer may be terminated.	
Award 0.5 Mark to each well explained reason. (Maximum: 2 marks)	2
Total Marks	20

Model answer

(a) Computation of the tax payable, the tax administration fines and penalties applicable to Mugemanyi Julia.

Because Mugemanyi Julia, turnover is between FRW 2,000,000 and 12,000,000, He is supposed to pay a flat tax as follows:

Particulars	2019	2020	2021
	FRW	FRW	FRW
Sales	4,600,000	6,800,000	8,000,000
Flat tax to be paid	120,000	120,000	210,000
Administrative fine for non-declaration	100,000	100,000	100,000
Fines for non-declaration and payment- more than sixty (60) days	72,000	72,000	126,000
Total tax, fines and penalties (excluding interests)	292,000	292,000	436,000

(b) The taxpayer who requests for payment in instalment, must fulfil the following conditions:

1. Request submitted to the Commissioner General.
2. Provide proof of payment of an amount worth at least 10% of the amount to be paid.
3. Should not have implicated in tax evasion.
4. Provide a guarantee acceptable to the Tax Administration. The Commissioner General may allow a taxpayer to pay in instalments without necessarily executing a guarantee provided in item four of paragraph one of this article.

(c) The content of application letter for instalment payment

- The application letter to pay in instalments should indicate the following elements:
- The type of tax;
- The tax amount;
- The instalment payment plan requested;
- Tax period;
- Reasons for not being able to pay the whole tax due at once.

(d) The contract may be terminated by the law, and without other notice, by the administration, under the following circumstances:

- Payment is not made as per the pre-fixed schedule.
- Any current return is not filed on time or any current tax is not paid on time while this instalment contract is in effect.
- The tax administration discovers information provided by taxpayer as the basis for this contract was not accurate.
- Updated information requested by the tax administration is not provided on time:
- Collection of the tax debt is in jeopardy for example, assets are shifted, or transferred, the taxpayer is fleeing Rwanda, there is risk to the guarantee, or there is risk to the taxpayer's solvency.

QUESTION SEVEN

Marking guide

Question seven	Mark s
(a)	
Import duty	1
Handling fee	1
VAT	2
WHT 5%	1
IDL	1
AUL	1
Computer processing fee	1
Total Duties	1
(b)	
i. Duty Drawback Schemes	1
ii. Manufacturing under Bond Schemes	1
iii. Export Processing Zones	1
iv. Harmonized System (HS) Codes	1
(c) Award 1 Mark on definition of a Special Economic Zone	1
(d) Award 1 mark on one economic benefit from special economic zones (Maximum: 3 marks)	3
(e) Award 1 mark on one explanation of the functions of the free ports. (Maximum: 3 marks)	3
Total Marks	20

Model answer

(a) Computation of the customs taxes and duties are applicable to Uwamurera Pie.

Description	USD	Exchange	FRW
Cost	25,500	1,000	25,500,000
Insurance	1,200	1,000	1,200,000
Freight	3500	1,000	3,500,000
CIF	30,200		30,200,000

Thus,

Details	Workings in FRW	Amount FRW
Import duty	30,200,000*25%	7,550,000
Handling fee	FRW 10/1kg *75kg	750
VAT	(30,200,000+ 7,550,000+750)*18%	6,795,135
WHT 5%	30,200,000*5%	1,510,000
IDL	30,200,000*1.5%	453,000
AUL	30,200,000*0.2%	60,400
Computer processing fee		3,000
Total duties		16,372,285

(b) Explain the following concepts as used in customs administration.

(i) Duty Drawback Schemes

The Partner States agree that, upon exportation to a foreign country, drawback of import duties may be allowed in such amounts and on such conditions as may be prescribed by the competent authority.

Duty drawback is paid:

- (a) Upon submission of an application to the competent authority within such a period from the date of exportation or performance of the conditions on which drawback may be allowed as the competent authority may prescribe; and
- (b) On goods or any material used in the manufacture or processing of such goods may be granted in accordance with and subject to such limitations and conditions as may be prescribed by the competent authority.

(ii) Manufacturing under Bond Schemes

The Partner States agree to support export promotion by facilitating manufacturing under bond schemes within their respective territories. The procedure for manufacturing under bond allows imported goods to be used in a customs territory for processing or manufacture. Duty and taxes are payable on compensating products at the rate of import duty appropriate to them.

(iii) Export Processing Zones

The Partner States agree to support the establishment of export processing zones. Entry into an export processing zone allow total relief from payment of duty on imported goods used directly in the production of goods for export by a person authorised to carry out that activity in the zone.

(iv) The Harmonized System (HS) Code

The Harmonized System (HS) Code is an internationally standardized to classify traded products. The taxpayer provides a description of the type of goods to the clearing agent, who is trained to select the correct HS code, in the customs declaration system.

(c) Define a Special Economic Zone?

Special Economic Zone (SEZ) refers to a geographically specified and physically secured area administered by a single body, offering certain incentives including more liberal and simplified economic regulations for businesses to physically locate and operate within it.

(d) Explain the main economic benefits from a special economic zone?

- Increase foreign and domestic private sector investment
- Job creation
- Income generation – both direct (within the zone) and indirect through backwards and forwards linkages with businesses outside the zone
- Export growth and diversification and increase in foreign exchange
- Industrial development and other sectors requiring serviced, specialized infrastructure
- Skills upgrade and technological transfer
- Increased tax revenue through expanded tax base hence reducing the budget deficit
- Environment protection
- Import substitution due to increase in manufacturing of products for local consumption
- Reduced balance of payment deficit

(e) The functions of free ports include the following.

1. Promotion and facilitation of trade in goods imported into free ports;
2. Provision of facilities relating to free ports including storage, warehouses and simplified customs procedures; and
3. Provision for the establishment of international trade supply chain centres, where persons from within and outside the Community access and harness market opportunities and enhance competitiveness in import and export trade within the global setting.

END OF MARKING GUIDE AND MODEL ANSWERS