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## **CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 2 EXAMINATIONS**

### **F2.4: TAXATION**

**DATE: MONDAY 27, NOVEMBER 2023**

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#### **INSTRUCTIONS:**

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven** questions and **only five** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings and assumption if any.
5. 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 (VAT) Rate:** 18%

### Withholding tax

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

**Gaming tax:** 13%

### Capital allowance

Description	Rate
Accelerated depreciation	50%
<b>Wear &amp; Tear Allowance</b>	
Buildings, heavy industrial equipment and machinery	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.

## QUESTION ONE

Leon, Gabis and Noah are three individuals entered into a partnership business and established a company in Rwanda called LGN Ltd. The company deals in the importing and selling of construction materials, with different shops in Kigali City. The registered share capital of the company with the Rwanda Development Board (RDB) is FRW 2,000,000,000. The partners profit sharing ratio is 3:3:4. The following accounts were captured for the year ended 31 December 2019.

Particulars		FRW (000)	FRW (000)
Sales	Cash		861,000
	Credit		1,289,000
			<b>2,150,000</b>
Opening stock		279,000	
Importation		971,000	
Closing stock		(486,000)	(764,000)
<b>Gross profit</b>			<b>1,386,000</b>
Administrative expenses		81,000	
Finance expenses		326,000	
Staff costs		380,120	
Selling and distribution		352,000	
Other expenses		69,780	
			(1,208,900)
<b>Profit</b>			<b><u>177,100</u></b>

### Additional information:

- Included in importation, were the VAT on imported goods amounting to FRW 110,809,000 and withholding of 5% amounting to FRW 41,400,000.
- Rent equivalent to FRW 6,000,000 was paid for Partner Noah. It was included in administrative expenses.
- Finance expenses included interest on partner's capital as follows:

Name	FRW (000)
Leon	37,800
Gabis	37,800
Noah	50,400
<b>Total</b>	<b>126,000</b>

- Dividend were also included in Finance expenses. They were paid to Partners as follows:

Name	FRW (000)
Leon	60,000
Gabis	60,000
Noah	80,000
<b>Total</b>	<b>200,000</b>

- Staff cost included Noah's monthly salary equivalent to FRW 2,000,000.
- Other expenses include:



Particulars	FRW (000)
Shareholders annual retreat with families	10,000
Partners Christmas gifts	7,500
Computers repairs	2,500
School fees for partners' kids	6,000
Staff communication allowance	18,000
Provision for doubtful debts	25,780
<b>Total</b>	<b>69,780</b>

**Required:**

Based on information above, **compute the taxable income and the tax liability for the partnership business and the profit shared to each partner for the year ended 31 December 2019.**

(20 Marks)

**(Total: 20 Marks)**

**QUESTION TWO**

Safe Tea Factory Ltd is a new company registered under Rwanda's Development Board since January 2020. The company received an RDB investment certificate the same year worth FRW 3,000,000,000,000. The company invested in tea manufacturing factory in Nyamasheke district. The company started its operations the same year. In the first year of operation, the company purchased the following assets.

Asset types	FRW (000)
Land for tea plantation	320,500
Factory buildings	320,500
Office buildings	60,000
Heavy factory plant and machineries	684,000
Heavy cultivators	240,000
Tractors and harvesters	218,000
Motor vehicles	60,000
Computers with useful life of 2 years	5,800
Furniture and fittings	25,000
<b>Total</b>	<b>1,933,800</b>

**Additional information:**

During the year 2021, the following assets were purchased:

1. Land for tea plantation extension of FRW 100,000,000
2. Factory machineries of FRW 478,000,000 to bust the tea production manufacturing.
3. Two cultivators of FRW 122,000,000 to be used in the new tea plantation acquired.
4. Acquisition of information system of FRW 28,000,000 to help in the plant automation.

**Required:**

**Compute the capital allowances of Safe Tea Factory Ltd for the years ended 31<sup>st</sup> December 2020 and 2021.**

(20 Marks)

**(Total: 20 Marks)**

### QUESTION THREE

Jigija Juru Noella is an employee of a manufacturing company based in the Free Economic Zone, in Kigali. She is employed as Chief Operation Officer under the following contractual terms and the information provided below is for the month of June 2020.

1. Monthly basic salary of FRW 4,000,000.
2. In the month of June 2020, she obtained a leave pay of FRW 1,000,000. The company policy allowing a leave pay equivalent to the basic salary. The payment can only be obtained when a staff is on leave, and it is prorated to the number of days, a staff take during the annual leave.
3. Monthly bonus of FRW 1,000,000.
4. She receives a communication allowance of FRW 250,000.
5. She is entitled to annual entertainment allowances FRW 2,000,000.
6. She was reimbursed for expenses incurred on a business trip amounting to FRW 1,800,000 on behalf the company. The expenses were incurred wholly on company's business marketing.
7. She is given a car allowance equivalent to a monthly lumpsum of FRW 1,200,000.
8. Jigija live in a fully furnished company house.
9. She was given an annual school fee equivalent to FRW 6,000,000, to pursue her masters' studies.

#### Required:

- (a) Compute Jigija Juru taxable income and her Pay As You Earn (PAYE) payable for the month of June 2020. (14 Marks)
  - (b) Compute Jigija Juru monthly RSSB contributions on behalf of employee and employer for the month of June 2020. (6 Marks)
- (Total: 20 Marks)**



## QUESTION FOUR

Mwiza, is a registered VAT taxpayer in Rwanda. She sells processed and unprocessed agricultural products, and other taxable products in a supermarket in Kigali. During February 2020, Mwiza submitted the following transactions to the tax authority as her VAT declaration for the month ended 31/01/2020. **Note:** VAT is exclusive.

Sales	FRW	Purchases	FRW
Processed agricultural products	3,540,000	Electricity	180,000
Unprocessed beans	1,000,000	Computers	97,000
Nido	9,000,000	Fuel	1,900,000
Locally processed milk	14,000,000	Plates and forks	4,800,000
Processed maize flour	6,000,000	Mobile phones	1,200,000
Export of processed fruit juice	8,000,000	Shop rent	2,000,000
Unprocessed avocado	800,000	Processed milk	7,200,000
Unprocessed banana fruits	1,600,000	Unprocessed agricultural food	3,100,000
<b>Total sales</b>	<b>43,940,000</b>		<b>20,477,000</b>

### Required:

- Compute the Mwiza's VAT payable/claimable for January 2020. (15 Marks)
  - Explain the conditions for the taxpayers who sell exempt or zero-rated goods and services can be exempted from VAT registration. (2 Marks)
  - List any 6 goods and/or services that are exempt for VAT (3 Marks)
- (Total: 20 Marks)**

## QUESTION FIVE

Nzabonimpa Fely is a new start up business registered in Rwanda Development Board since before Covid-19. The business obtained the sponsorship from donors' funds in the promotion of made in Rwanda products. Nzabonimpa Fely, started by cultivating maize and sell them in the country. The business has grown extensively, and today Nzabonimpa, is manufacturing maize flour, sell it locally, and he wants to expand the business by exporting his products to EAC member countries and abroad. Nzabonimpa approached you to provide an advice in terms of import and export procedures to plan for his future endeavors.

### Required:

- Explain to Nzabonimpa the documentation needed on import and export of goods/product? (5 Marks)
  - Nzabonimpa Fely is not be familiar with where products pass through during imports and export of products. With the help of two tangible examples, **differentiate between border posts and dry ports.** (6 Marks)
  - Elaborate circumstances under customs administration where imported/ exported goods can be seized by the Tax Administration. (5 Marks)
  - Explain the penalties related to submitting false documentations/ forgery upon customs declaration. (4 Marks)
- (Total: 20 Marks)**

## QUESTION SIX

Mugemanyi Julia is a registered taxpayers at the Rwanda revenue authority. He was not having enough knowledge about Rwandan tax procedure. He was in business since the year 2019, and has the following financial information:

Description	2019	2020	2021
Sales	4,600,000	6,800,000	8,000,000
Expenses	<u>2,900,000</u>	<u>5,100,000</u>	<u>6,700,000</u>
Profit	<u><u>1,700,000</u></u>	<u><u>1,700,000</u></u>	<u><u>1,300,000</u></u>

He did not declare any taxes for the last three years. He approached you to provide an advice on what he should do in order to be compliant with the tax regulations requirements.

### Required:

- Compute the tax payable, the tax administration fines and penalties applicable to Mugemanyi Julia. (12 Marks)
  - Advise the taxpayers on the conditions to be allowed to pay the tax due in installments. (4 Marks)
  - Outline the content of instalment payment application letter. (2 Marks)
  - Identify the circumstances under which the instalment contract between RRA and the taxpayer may be terminated: (2 Marks)
- (Total: 20 Marks)



## QUESTION SEVEN

(a) Uwamurera Pie is in business of trading sports products in Kigali city. Uwamurera is importing a consignment of brand sports shoes from Turkey. The Harmonized System (HS) Code is 6404.11.00 “Sports Wear”. The net weight of the consignment is 75kg. The CIF value of the consignment is as follows:

Description	USD
Cost	25,500
Insurance	1,200
Freight	3,500

The BNR exchange rate was fixed at 1USD= FRW 1,000.

### Required:

Compute the relevant customs duties and taxes that are applicable to Uwamurera Pie.

(6 Marks)

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

(7 Marks)

(i) Duty Drawback Schemes

(ii) Manufacturing under Bond Schemes

(iii) Export Processing Zones

(iv) Harmonized System (HS) Codes

(c) Define a Special Economic Zone?

(1 Mark)

(d) Explain the main economic benefits from special economic zones?

(3 Marks)

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

(3 Marks)

(Total: 20 Marks)

**End of Question Paper**