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**CERTIFIED PUBLIC ACCOUNTANTS**  
**FOUNDATION LEVEL 2 EXAMINATIONS**  
**F2.4 TAXATION**

**DATE: MONDAY 25, NOVEMBER 2024**

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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** should be attempted.
3. In summary attempt five **questions**.
4. Marks allocated to each question are shown at the end of the question.
5. Show your workings clearly where necessary.
6. 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  
taxGains 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%
<b>Wear &amp; Tear Allowance</b>	
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.

## QUESTION ONE

a) As a tax expert, explain the tax treatment of the following terms as per the income tax law of Rwanda.

i) Training and research expenses (2 Marks)

ii) Taxation in case of corporate restructuring (2 Marks)

iii) Depreciation of the leased assets (2 Marks)

b) Karibu Ltd is the company registered under the Rwanda registration in 2018, in the same year, they applied and obtained an investment certificate. It deals with the manufacturing of the textiles and it sells the final products both locally and East Africa Community (EAC) countries. During the financial year ended 31<sup>st</sup> December 2020, the company's accountant has presented the following income statement for the tax purpose.

Descriptions	Notes	Amount " FRW 000"	Amount " FRW 000"
Sales			1,520,000
Cost of sales	1		(1,121,000)
<b>Gross profit</b>			<b>399,000</b>
Other income	2		865,200
<b>Total income</b>			<b>1,264,200</b>
<b>Expenses</b>			
Salaries and wages	3	46,237	
Interest expenses		3,000	
Water and Electricity	4	2,000	
Bad debts	5	11,000	
Tax paid	6	250,352	
Repair and maintenance	7	16,800	
Donation	8	5,000	
Communication	9	16,000	
Dividend paid		15,230	
Entertainment	10	12,600	
Fines and penalties		5,600	
Purchase of delivery van		35,000	
VAT		18,560	
Fuel	11	7,500	
Office rent		65,000	
Insurance	12	235,000	
Miscellaneous expenses		156,200	
Depreciation	13	14,000	
<b>Total expenses</b>			<b>(901,079)</b>
<b>Operating Profit</b>			<b>363,121</b>

**Additional Information:**

1. The cost of sales includes the closing stock of FRW 120,542,000, the auditors realized that the amount has been understated by 10%.
2. Other income includes the following:

<b>Descriptions</b>	<b>Notes</b>	<b>Amount 'FRW'</b>
Local dividend		236,800,000
Agriculture income		56,500,000
Interest income	(i)	156,852,000
Foreign exchange gain		204,547,380
Foreign dividend	(ii)	210,500,620
<b>Total</b>		<b>865,200,000</b>

- 20% of the interest income were received from the investment the company has made to the 5 years government treasury bonds, the remaining was received from 2 years bank deposit. The amount was received net of withholding tax where applicable.
  - Foreign dividend was received from the investment made in South Africa; the amount was received net of 35% withholding tax.
3. Salaries and wages included the bonus provision of FRW 12,000,000 which will be payable upon the board approval in March 2021.
  4. Water and electricity bill is mixed for both Managing director's home usage and for the office.
  5. Bad debt related to the one major client who disappeared long time ago, the company tried to recover the amount but failed to trace the client.
  6. Tax paid relates to the amount that was paid to the imported goods as shown below:

<b>Descriptions</b>	<b>Amount 'FRW'</b>
Custom duty	95,000,000
Excise duty	47,852,000
Infrastructure development levy	2,500,000
Value added Tax	80,000,000
5% Withholding tax	25,000,000
<b>Total</b>	<b>250,352,000</b>

7. Repair and maintenance related to the amount paid to renovate the company building.
8. Donation was given to the recognised charitable organisation in Rwanda.
9. Communication was related to the airtime loaded to the staff telephone for business use, however there is no control measures that were put in place to monitor whether the amount was used fully for business.
10. Entertainment relates to the amount paid to the general sports for all staff.
11. Fuel was entitled to the commercial and sales department staff in their daily operations, the company cannot identify the business and personal usage.

12. Insurance amount is for 1 year that will expire on 31<sup>st</sup> March 2021.
13. The capital allowance agreed by the tax administration was FRW 8,500,000.

**Required:**

**Compute Karibu Ltd's taxable income and the tax payable for the year ended 31<sup>st</sup> December 2020.**

(14 Marks)

**(Total: 20 Marks)**

**QUESTION TWO**

a) Mr. Rowe, a resident of the United States of America (USA), visited Rwanda in January 2020 as part of the "Visit Rwanda" Campaign to explore wildlife in Akagera National Park. Impressed by Rwanda's rapid development, he decided to invest in the country after receiving information from Rwanda Development Board members about the benefits outlined in the investment code.

Mr. Rowe stayed in Rwanda for a year, conducting feasibility analyses to identify profitable business opportunities that would provide advantageous tax benefits.

**Required:**

i) As the tax expert, **clearly explain five incentives available to the registered investors and give criteria for each allowance where applicable.**

(10 Marks)

ii) **Advise Mr. Rowe if he qualifies for being a resident as per the Rwanda tax law.**

(4 Marks)

b) The article 17 of the law no 026/2019 of 18/09/2019 on tax procedures states that any person who carries out any taxable activity must issue an invoice generated by an electronic invoicing system certified by the Tax administration.

**Required:**

i) **Outline the obligations for the users of the electronic invoicing system.**

(2 Marks)

ii) **Explain the applicable fines to the person failed to comply with modalities and conditions for the use of electronic invoicing system.**

(4 Marks)

**(Total: 20 Marks)**

### QUESTION THREE

Kalinganire is a successful businessman specializing in real estate, particularly in constructing commercial buildings and apartments for rent in Musanze Town. He funded these projects primarily through inherited wealth, occasionally supplemented with bank loans to manage cashflow.

In 2020, he completed a new residential apartment building with four floors, totaling 12,500 square meters. The rental fee per square meter was fixed to USD 320 per month. Starting from May 2020, half of the building had already been leased to the clients.

During construction, Kalinganire utilized a bank loan of FRW 450,000,000 secured in January 2020 at an annual interest rate of 12%. Additionally, he funded another commercial building entirely with his personal finances that generated FRW 100,000,000 in revenue for the period of 2020.

#### **Additional information:**

1. Kalinganire owns another residential building in the same district where he lives with his family. It is valued at FRW 85,000,000 and covers an area of 632 square meters.
2. The value of Kalinganire's residential apartment is assessed at FRW 500,000,000 based on the latest valuation report.
3. The commercial building owned by Kalinganire is valued at FRW 250,675,500 according to the recent valuation report with 8,750 square meters.
4. The district council has determined a tax rate of FRW 80 per square meter.
5. The current exchange rate is 1 USD to FRW 1,150.

#### **Required:**

- i) **Compute the rental income tax payable for the year ended 31<sup>st</sup> December 2020.**  
(10 Marks)
  - ii) **Explain the deadline for declaration and payment of the tax computed above.**  
(1 Mark)
  - iii) **Compute the immovable properties tax for the year ended 31<sup>st</sup> December 2020.**  
(7 Marks)
  - iv) **Explain the exemption available from the trading license as per the decentralized tax law.**  
(2 Marks)
- (Total: 20 Marks)**

## QUESTION FOUR

a) In December 2021, the accountant of Gubwaneza Group Ltd, a Rwanda-based company that produces both alcoholic and non-alcoholic beverages, provided the following details regarding the manufacturing and sales of their products.

Descriptions	Quantity produced (Bottles)	Quantity sold (Bottles)	Production cost per bottle	Total costs (FRW)
Local beers	56,432	40,000	350	19,751,200
Local wines	25,000	22,000	380	9,500,000
Akandi juice	85,230	67,200	280	23,864,400
Akaryoshye juice	62,310	58,200	265	16,512,150
<b>Total</b>	<b>228,972</b>	<b>187,400</b>	<b>1,275</b>	<b>69,627,750</b>

For the manufacturing of the above products, the ingredient sourced in Rwanda covers 90% of the total ingredients. Note that all the production was made in the last decade of the month and the company added 10% markup on the cost.

Use the following excise tax rates for the purpose of this question.

Descriptions	Excise rate
Local beers	30%
Local wines	30%
Akandi juice	39%
Akaryoshye juice	39%

### Required:

i) Compute the excise tax payable to the tax administration for the month of December 2021 indicating the deadline for its declaration and payment. (9 Marks)

ii) Give at least 4 products which are exempted from the excise tax in Rwanda. (4 Marks)

b) The main objective of tax administration is to fund the national budget, with a recent publication, 51.2% of the national budget is intended to be financed by tax administration. Revenue collection has been increasing annually due to measures implemented by the tax administration.

### Required:

i) Explain the reasons why the Rwandan constitution allow the government to levy taxes. (5 Marks)

ii) Explain the term tax incidence as per the tax law (2 Marks)

(Total: 20 Marks)

## QUESTION FIVE

On 30<sup>th</sup> January 2018, Mrs. Nyiramirimo decided to invest in Volcano Lodge Ltd (VLL), a private company heavily involved in tourism and operating hotels across various locations in the country. He purchased 1,000,000 shares at FRW 1,000 each.

Earlier, on 20<sup>th</sup> March 2018, Mrs. Nyiramirimo acquired three excavator machines for FRW 450,000,000. These machines have been leased out starting from 1<sup>st</sup> April 2018, generating income worth FRW 5,200,000 each per month.

Mrs. Nyiramirimo opened a savings account in a local commercial bank at Gisenyi where tenants are required to deposit their rent at the beginning of each month. The savings account earns interest at a rate of 12% per annum, compounded quarterly. She intends not to withdraw any funds from this account for three years. Quarterly interest earned is credited to her personal accounts.

Expected gross interest by end of June, September and December 2018 is as below:

Descriptions	FRW '000'
June	405
September	810
December	1,050

On 30<sup>th</sup> September 2018, VLL distributed dividends of FRW 100 per share. However, the company announced that they might not pay dividends for the next two years due to their plans to construct another hotel in Akagera National Park as an expansion. This decision prompted Mrs. Nyiramirimo to divest from her investment in VLL.

On 30<sup>th</sup> October 2018, Mrs. Nyiramirimo sold 500,000 of her shares to Mr. John for FRW 750,000,000. On the same date, she opted to invest in government treasury bonds for a 5-years period, which will yield an 11% annual interest on her investment.

### Required:

- As a tax expert, **explain the tax treatment for each investment from the above scenario and your explanation should be supported by the calculations where applicable.** (12 Marks)
  - Explain the exemption available for each investment in the above scenario.** (3 Marks)
  - Give a brief note on the tax treatment of Bad debts as per the income tax law.** (3 Marks)
  - Give 2 persons exempted from withholding tax.** (2 Marks)
- (Total: 20 Marks)**



## QUESTION SIX

a) Define the term "long-term contract" as per income tax law. (2 Marks)

b) Provide examples to illustrate how long-term contracts are treated under income tax law. (3 Marks)

c) Customs administration involves the management of imports and exports. In Rwanda, customs administration is governed by two laws: the East African Customs Act, which regulates trade within the East African Community, and the Rwanda Customs Act, which governs trade outside the community. The Customs Services Department oversees customs administration in Rwanda.

### Required:

Explain the objectives of the Customs Services Department under the tax administration. (5 Marks)

d) Pangolin Ltd is a registered large taxpayer under Rwandan company registration law and it was established in 2017, the company experienced substantial growth, eventually meeting the criteria to be classified as a large taxpayer.

For the fiscal year ending 31<sup>st</sup> December 2019, Pangolin Ltd reported a turnover of approximately FRW 2,000,000,000. However, due to the accountant's inadequate tax knowledge, the company did not file its income tax return as required by the tax administration.

In May 2021, Pangolin Ltd received an audit notice from the tax administration, informing them that Rwanda Revenue Authority (RRA) auditors would conduct an audit specifically for corporate income tax for the period ending 31<sup>st</sup> December 2019.

Following the audit, the RRA auditors assessed Pangolin Ltd.'s taxable income to be FRW 34,500,000.

### Required:

As a tax expert, compute the tax, interest, fines and penalties that will be assessed by the tax administration. Assume that the interest will be counted to 15<sup>th</sup> November 2022.

(10 Marks)

(Total: 20 Marks)

## QUESTION SEVEN

a) Ms. Kayitesi, a Certified Public Accountant, served as the Finance Manager of Real Deals Ltd, a wholesale company specializing in rice, sugar, and cooking oil, for over five years. During her tenure, she earned an annual basic salary of FRW 42 million. In addition to her salary, she was entitled to a company-provided, fuelled vehicle and a rented furnished house valued at FRW 850,000 per month. However, Real Deals Ltd contributed only FRW 450,000 per month toward the housing costs, leaving Ms. Kayitesi responsible for the remaining amount.

She was acting as the Head of Finance from March to July 2023, and was allowed a 15% increase in her Basic salary during that period. She was also entitled to the following monthly allowances:

1. Communication allowance of FRW 150,000
2. Overtime allowance of FRW 185,000
3. Cost of living allowance of FRW 540,000

Mrs Kayitesi resigned from Real Deals Ltd on 31<sup>st</sup> July 2023, and received cash gifts from the management and colleagues of FRW 950,000 as appreciation.

### **Required:**

**Compute Mrs Kayitesi taxable employment income for the month of July 2023.**

(7 Marks)

b) Inyota Ltd, a soft drinks processing plant based in Kigali, imports most of its raw materials at a significant cost to ensure high product quality. The company is wholly owned by Aqua Drinks Ltd, a South African company.

In the year 2022, Inyota Ltd obtained a loan of FRW 100 million from its parent company, Aqua Drinks Ltd, to finance its working capital requirements. As of the end of 2021, the company's equity stood at FRW 20 million. Throughout 2022, Inyota Ltd incurred interest expenses amounting to FRW 1 million on the loan from Aqua Drinks Ltd.

### **Required:**

i) **Explain the tax implication of the above scenario using the computations where applicable.** (4 Marks)

ii) **Clearly explain the following terminologies as used in taxation: Arm's length principle and Thin capitalization** (4 Marks)

c) Under the customs legislations, the countries in the same community may agree to support export promotion schemes in the Community for the purposes of accelerating development, promoting and facilitating export-oriented investments, producing export

competitive goods, developing an enabling environment for export promotion schemes and attracting foreign direct investment.

The countries agree that goods benefiting from export promotion schemes should primarily be for export and in the event that such goods are sold in the customs territory such goods attract full duties, levies and other charges provided in the Common External Tariff.

**Required:**

**Discuss and explain the various export promotion schemes in the context of international trade**

(5 Marks)

**(Total: 20 Marks)**

**End of the question paper**

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