CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL EXAMINATIONS

F2.4: TAXATION

DATE: MONDAY 25, NOVEMBER 2024

MARKING GUIDE & MODEL ANSWERS

QUESTION ONE.

Marking Guide.

Descriptions	**Marks**
Award 2 Marks for a well definition max 6	6
Award 0.5 Mark for each of the following transactions	
Profit before tax	0.5
Understatement of Closing stock	0.5
Bonus provision	0.5
Water and Electricity	0.5
Bad debts	0.5
Value added tax on importations	0.5
5% Withholding taxes on importations	0.5
Repair and maintenance	0.5
Donations	0.5
Communication	0.5
Entertainment	0.5
Fuel	0.5
Prepaid insurance	0.5
Depreciation	0.5
Dividend	0.5
Fines and penalties	0.5
Purchase of delivery van	0.5
VAT	0.5
Local dividend	0.5
Agriculture income	0.5
20% Interest income received net	0.5
Add 20% Interest grossed up	0.5
Less Foreign dividend	0.5
Add Foreign dividend grossed up	0.5
Capital allowance	0.5
WHT paid on Interest (5%)	0.5
WHT on foreign dividend (30%)	0.5
5% Withholding taxes on importations	0.5
Total Marks	**20**

Model Answer

a. Explanation of the tax treatment of the following terms:

i) Training and research expenses

During a tax period, all training and research expenses incurred by a taxpayer, which promote business activities, **are considered as deductible from taxable income** if they have been declared and planned in the activity plan of that tax period.

Expenses on training and research for the promotion of business activities do not concern the purchase of land, houses, buildings and other immovable properties including refining, rehabilitation and reconstruction as well as assets exploration expenses.

ii) Taxation in case of corporate restructuring

- In case of restructuring of companies, the transferring company is exempt from tax in respect of capital gains and losses realized on restructuring.
- The receiving company values the assets and liabilities involved at their book value in the hands of the transferring company at the time of restructuring.
- The receiving company depreciates the business assets according to the rules that would have applied to the transferring company as if the restructuring did not take place.
- In case of restructuring, the receiving company is entitled to carry over the reserves and provisions created by the transferring company, subject to the conditions that would have applied to the transferring company as if the restructuring did not take place.
- The receiving company assumes the rights and obligations of the transferring company in respect of such reserves and provisions.

iii) Depreciation of the leased assets

Depreciation of leased assets shall be allowed to the lessee in case of finance lease and to the lessor in case of operating lease.

b. Computation of Karibu Ltd taxable income and tax payable for the year ended 2020.

Descriptions	Workings FRW "000"	Amount FRW ""000"
Profit before tax		363,121
Add back non-allowed expenses		
Understatement of Closing stock	W2	13,394
Bonus provision		12,000
Water and Electricity		400
Bad debts		11,000
Value added tax on importations		80,000
5% Withholding taxes on importations		25,000
Repair and maintenance		16,800
Donations	W1	Allowed
Communication		3,200
Entertainment		Allowed
Fuel		1,500
Prepaid insurance	3/12*235,000	58,750
Depreciation		14,000
Dividend		15,230
Fines and penalties		5,600
Purchase of delivery van		35,000
VAT		18,560
Total additions		**310,434**
Deductions		
Local dividend		(236,800)
Agriculture income		(12,000)
20% Interest income received net	156,852*20%	(31,370)
Add 20% Interest grossed up	31,370*100/95	33,021
Less Foreign dividend		(210,501)
Add Foreign dividend grossed up	210,501*100/65	323,847
Capital allowance		(8,500)
Total deductions		**(142,303)**
Taxable income		**531,252**
Tax payable @ 30%		**159,376**
Less Tax paid at source		
WHT paid on Interest (5%)	1,651	(1,651)
WHT on foreign dividend (30%)		(97,154)
5% Withholding taxes on importations		(25,000)
Total credit		**(123,805)**
Tax payable		**35,571**

Note:

Foreign Exchange Gain:

Foreign exchange is considered as unrealized foreign exchange gain. However, whoever considered it as realized, will be awarded because the question is silent on whether it has been realized or not.

W1

Descriptions	Amount FRW 000
Donation given	5,000
Donations allowed	15200
Excess donation	NA

W2

Descriptions	Amount FRW 000
Recognized stock is at 90%	120,542
Correct stock value is 120,542*100/90	133,936
Understated Closing Stock	13,394

QUESTION TWO

Marking Guide

Descriptions	Marks
a i Award 2 marks for each incentives explained well max 5	10
a ii. Award 1 Mark for each conditions of being resident max 4	4
Sub total	**14**
bi Award 1 Mark for each obligation given max 2	2
bii Award 2 Marks for fines applicable to non VAT registered users	2
bii Award 2 Marks for fines applicable to VAT registered users	2
Sub total	**6**
Total Marks	**20**

Model Answer

(i) **Available incentives for the investors are as follows:**

1. **Preferential corporate income tax rate for export investments**

The following preferential corporate income tax rates for export investments apply to registered investors exporting goods and services:

1 º twenty-five per cent (25%) corporate income tax is applied to a registered investor with at least thirty per cent (30%) of total turnover of goods and services and less than fifty per cent (50%) of total turnover coming from export of goods and services.

2 º fifteen per cent (15%) corporate income tax is applied to a registered investor with at least fifty per cent (50%) of total turnover coming from the export of goods and services

2. **Corporate income tax holiday of up to five (5) years**

A specialized innovation park developer or a specialized industrial park developer is entitled to a corporate income tax holiday of a period of five (5) years maximum from the first year that the project makes a positive net income.

Licensed microfinance institutions are entitled to a corporate income tax holiday of a period of five (5) years from the date of their license

3. Preferential withholding tax of five per cent (5%)

A preferential withholding tax of five per cent (5%) is applicable to dividends and interest income paid to an investor investing in a company listed on the Rwanda Stock Exchange.

4. Preferential withholding tax of ten per cent (10%)

A preferential withholding tax of ten per cent (10%) is applicable to specialized innovation park developers or specialized industrial park developers on interest on foreign loans, dividends, royalties, and a service fee, including management and technical service fees

5. Accelerated depreciation

A registered investor is entitled to a flat accelerated depreciation rate of fifty per cent (50%) for the first year for new or used assets, if he or she meets the following criteria:

a) To invest in business assets worth at least fifty thousand United States Dollars (USD 50,000) each.
b) To operate in at least one of the sectors below and meet the requirements:

a) Export projects.
b) Manufacturing.
c) Telecommunications.
d) Agro processing.
e) Education.
f) Health.
g) Transport excluding passenger vehicles with less than nine (9) people seats.
h) Tourism investments worth at least one million eight hundred thousand United States Dollars (USD 1,800,000).

c) To keep the assets for at least three (3) years after benefiting from the accelerated depreciation.

ii. An individual is considered to be a resident in Rwanda if he/she fulfils one of the following conditions:

1° He/she has a permanent residence in Rwanda.
2° He/she has a habitual abode in Rwanda.
3° He/she is a Rwandan representing Rwanda abroad.

4 An individual who stays in Rwanda for more than one hundred eighty-three (183) days in twelve (12) month period, either continuously or intermittently, is considered to be a resident in Rwanda for the tax period in which the twelve (12) month period has ended.

Because Mr. Rowe will spend a year in Rwanda, he will be considered as a resident and will be liable on the income sourced both locally and foreign.

(b) (i) The obligations of the users of the electronic invoicing system

The following are the obligations of the users of the electronic invoicing system.

1. To possess an electronic invoicing system.
2. To issue an electronic invoice to every buyer regardless request thereof.
3. To indicate real name of goods and related tax rates on the electronic invoice for VAT registered persons.
4. To indicate real name of goods and related prices on the electronic invoice for VAT unregistered persons.
5. To notify the Tax Administration of failure of electronic invoicing system within a time not exceeding six (6) hours.
6. To refrain from deleting invoice except for sound grounds.

(b) (ii) Fines applicable to the person failed to comply with modalities and conditions for the use of electronic invoicing system

Fines for Failure to comply with modalities and conditions for the use of electronic invoicing system.

Non-VAT registered.

- Any person who is required to issue an invoice generated by an electronic invoicing system recognized by the Tax administration who fails to do so is liable to an administrative fine of two (2) times the value of the transaction.
- Any value addition tax unregistered person who carries out a taxable transaction and delivers an electronic invoice with an undervalued price or quantity of goods or services is liable to an administrative fine of two (2) times the value of the under-valued transaction.
- Persons referred to in Paragraphs One and 2 of this Article are liable to two times the respective fine in case they repeat of the fault.

For VAT registered

- A person registered for the Value Added Tax who sells goods or services without issuing an electronic invoice is liable to an administrative fine of ten (10) times the value of the evaded Value Added Tax.
- In case of the fault is repeated, the defaulter is liable to an administrative fine of twenty (20) times the value of the evaded Value Added Tax.

QUESTION THREE

Marking Guide.

Descriptions	**Marks**
Award 2 Marks for computation of rental income for Apartment	2
Award 1 Mark for computation of 50% allowed expenses for each asset	2
Award 1 Mark for computation of financial interest for each asset	2
Award 1 Mark for computation of rental income tax for each asset	2
Award 1 Marks for working on rented square meter and Month rented	2
Award 1 Mark for deadline	1
Award 1 Mark for computation of tax on land for each asset	3
Award 1 Mark for computation of tax on building for each asset except apartment, for apartment award 2 Marks	4
Award 2 Marks for a well explanation given	2
Total Marks	**20**

Model Answer

(i) **Compute the rental income tax payable for the year ended 31 December 2020**

Descriptions	**Residential apartment**	**Commercial building**
Rented square meter	6,250	
Rate per square meter per month	320	
Months rented	8	
Total income in USD for 2020	16,000,000	
Rental income in FRW for 2020	18,400,000,000	100,000,000
Less 50% Expenses	(9,200,000,000)	(50,000,000)
Less Financial interest	(54,000,000)	-
Taxable income	9,146,000,000	50,000,000
Rental income tax	2,743,664,000	**14,864,000**

Workings for residential apartment.

Rented square=12500/2=6250
Months rented =From May-December =8 Months
Total income in USD= (6250*320*8) =16,000,000
Total income in FRW= 16000,000*1150=18,400,000,000
Rental income tax-Residential = (9,146,000,000)-1,000,000) *30%+164,000=2,743,664,000
Rental income tax-Commercial= (50,000,000)-1,000,000) *30%+164,000= 14,864,000

Total Rental Income Tax: FRW 2,758,528,000

(ii) **Tax declared should be declared and paid not later than 31st January 2021**

(iii) **Compute the immovable properties tax.**

Descriptions	**Market Value FRW**	**Number of sqm**	**Tax on building FRW**	**Tax on Land FRW**
One residential building	85,000,000	632	Exempted	50,560
Residential apartment	500,000,000	12,500	1,250,000	1,000,000
Commercial building	250,675,500	8,750	752,027	700,000

Workings.

For commercial and residential buildings, we used rate of 2020 which are 0.3% and 0.5% respectively, however for apartment with 4 floors, the rate reduces at 50% i.e. 0.25%

(iv) **Trading license exemptions**

Non-commercial State organs, as well as small and medium enterprises during the first two (2) years following their establishment, are exempted from trading license tax.

QUESTION 4.

Marking Guide.

Descriptions	**Marks**
a	
Award 1 Mark for computation of selling price for each product	4
Award 1 Mark for computation of total excise tax for each product	4
Award 2 Marks for deadline provided	1
Award 1 Mark for each exempted product given max 4	4
b	
Award 1 Mark for each reason explained ma5	5
Award 2 Marks explanation of the tax incidence	2
Total Marks	**20**

Model Answer

(i) **Computation of the excise tax payable.**

Descriptions	Quantity produced (Bottles)	Quantity sold (Bottles)	Production cost per bottle	Selling price	Excise tax per bottle	Total excise duty
Local beers	56,432	40,000	350	385	115.5	4,620,000
Local wines	25,000	22,000	380	418	125.4	2,758,800
Akandi juice	85,230	67,200	280	308	120.12	8,072,064
Akaryoshye juice	62,310	58,200	265	292	113.88	6,627,816
Total	**228,972**	**187,400**	**1,275**	**1,403**	**421**	**22,078,6800**

Workings.

Descriptions	Quantity sold (Bottles)	Production cost per bottle	Selling price per bottle	Excise rate
Local beers	40,000	350	(350*110/100)	30%
Local wines	22,000	380	(380*110/100)	30%
Akandi juice	67,200	280	(280*110/100)	39%
Akaryoshye juice	58,200	265	(265*110*100)	39%
Total	**187,400**	**1,275**		

Deadline for declaration and payment is 5th January 2022

(ii) **4 products which are exempted from the excise tax in Rwanda**

The following goods are exempt from the excise duty:

1. Goods for charitable organizations.
2. Vehicles assembled in Rwanda.
3. One (1) personal vehicle of former diplomats returning from foreign diplomatic missions.
4. One (1) vehicle of Rwandan refugees or returnees from a foreign country who fulfil exemption conditions set forth under the Customs Law.
5. Vehicles of the following categories:
6. Minibus and bus that can carry not less than fourteen (14) persons, lorries and single cabin pickups manufactured to carry goods, refrigerating vehicles, tourist vehicles, ambulances and vehicles designed for persons with disabilities.
7. Products specifically manufactured for export.

b i.the reasons why the Rwandan constitution allow the government to levy taxes.

Tax supports common defense

One of the primary functions of national governments is to provide for the national defense of the country. To do this, countries normally have a standing army and other military services; this involves expenses for salaries, supplies, training and housing. This also includes expenses incurred on the research and development of new technologies and weapons. Reference to the Rwandan Budget

Law demonstrates that national security, including the military and police, involves significant levels of expenditure in Rwanda.

Tax is intended to fund Government Programs

Governments provide a number of services to their citizens that are paid for with taxes. The exact composition of specific services will vary from government to government depending on the scope of the government, such as whether it is a local government or a national government, and its reach, by which we mean how much power the citizens believe their government should have. Typically, however public expenditure in most countries will include spending on security forces, education services and health services. The government also has a role to protect corporations and their products through trade regulations and copyright laws. In order to uphold copyrights, the government must set up a court to hear the cases and determine damages. For this reason, tax will assist in paying judges and funding court expenditures. Such services also cover judicial activities in criminal as well as civil law cases.

Debt Payments

Most governments carry significant debt which they are required to pay interest on. This is a contemporary reality in most low-income countries like Rwanda, though for higher income economies too debt repayment and associated interest payments is becoming increasingly problematic. Unexpected expenses such as wars or a recession will limit the tax revenue but not the need for services, so the government needs to borrow money to pay for them and the amount of that debt will increase significantly during times of economic downturn in most circumstances.

Tax and its effect on individuals

Taxation is an indirect way for governments to affect the behaviors of its citizens as well as bringing in money from them. Citizens must choose what to spend their limited supply of money on so by offering tax breaks or imposing tax increases on certain products the government can affect what people buy. For example, if the government wants to reduce the number of alcoholic drinks that are sold, it can impose extra taxes on these products. Or if it wants to increase the sale of milk products it offers a tax incentive for farmers for them to increase their productive capacity at cheap price.

Tax and its effect on Companies

Taxation policy can play a very important role in business creation and development policy. Through taxes, Government can affect the choices that individuals make but taxes can also be developed with the aim of affecting the way that corporations do business. For example, if the government wants to encourage employers to create more employment opportunities to those who are unemployed, it can propose a law that provides a tax break to companies encouraging the employment of more people. Similarly, if the government wanted to increase the production of food and livestock produced within its borders, it could pass a higher tax, or tariff, on any imported food to make it easier for food and animal products produced in the country to compete.

(b) (ii) Explain the term tax incidence as per the tax law

Tax Incidence

To determine the fairness of a tax regime, it is necessary to consider the economic incidence of taxation. It is important to make a difference between those who have the liability to pay a particular tax and those who suffer the economic incidence or burden of the tax.

Determining tax incidence depends on a good understanding of how various markets operate in a given economy, particularly the ability of different kinds of taxpayers to shift the cost of the tax to other economic actors. The person who bears taxes depends on the relative supply and demand elasticity of consumers and suppliers.

In many cases, the tax burdens fall on individuals in their role as consumers, producers and factor suppliers, not on companies or other institutions. For example, although the VAT law require firms to pay VAT to the government, in practice the real economic incidence of VAT falls on the consumer. Companies will be required by law to add on VAT to their selling prices.

In the same way, although computer equipment taxes are almost always collected at some point in the economic distribution chain (for example, at the point of import), the burden of the tax is ultimately borne by consumers. The tax is again included in the selling price. However, in certain cases, it is not clear who actually bears the economic costs of taxation. For example, the economic incidence of property taxes may be borne either by the landlords or owners of capital (who also bear the legal incidence) or by the users or renters of the property, depending upon market conditions.

QUESTION FIVE

Marking Guide

Descriptions	Marks
a	
Award 1 Mark for explanation of dividend income treatment	1
Award 2 Marks for computation of WHT on dividend income	2
Award 1 Mark for explanation of rental income treatment	1
Award 2 Marks for computation rental income tax	2
Award 2 Marks for explanation of Bank interest treatment	2
Award 1 Mark for explanation of capital gain treatment	1
Award 2 Marks for computation capital gain tax	2
Award 1 Mark for explanation of Gov. Bond interest treatment	1
Sub total	**12**
b. Award 1 mark for exemption on capital gain, bank interest and rental income	3
c. Award 1 Mark for each conditions on Bad debts treatment explanation	3
d. Award 1 Mark for each Person exempted from withholding tax	2
Total Marks	**20**

Model Answers

a) The tax treatment for each investment

1.Dividend income	**Amount**
Number of shares	1,000,000
Price per share	1,000
Total investment	1,000,000,000
Gross Dividend declared by VLL (100*1000000)	100,000,000

Dividend will be subjected to 15% Withholding taxes before are being distributed to the recipient this means that
Withholding tax= 100,000,000*15%=FRW 15,000,000

2. Rental income from movable assets.

During the tax period, all revenues derived from rent of machinery and other equipment including agriculture and livestock equipment in Rwanda, are included in taxable income, reduced by: 1° ten percent (10%) of gross revenue as deemed expense; 2° interest paid on loans; 3° depreciation expenses.

Descriptions	One Machine FRW	Second machine FRW	Third Machine FRW
Cost	150,000,000	150,000,000	150,000,000
Monthly rental income	5,200,000	5,200,000	5,200,000
Months rented	9	9	9
Annual rental income	46,800,000	46,800,000	46,800,000
Less 10% expenses	- 4,680,000	- 4,680,000	- 4,680,000
Finance costs	-	-	-
Depreciation @ 25%	- 37,500,000	- 37,500,000	- 37,500,000

Descriptions	One Machine FRW	Second machine FRW	Third Machine FRW
Taxable income	4,620,000	4,620,000	4,620,000
Tax payable	**1,194,000**	**1,194,000**	**1,194,000**

3.Bank deposit Interest

The interest received from the bank are subject to the 15% Withholding if the deposit period is below One year.
There is not calculation because the interest income received by NYIRAMIRIMO will be exempted from tax as the period is for 3 years.

4. Capital gain tax

The capital gain on sale or transfer of shares is the difference between the acquisition value of shares and their selling or transfer price. The tax rate on capital gain is five percent (5%) applicable on the gain

Computation of the capital gain

Descriptions	No of share	Price per share	Total price 'FRW'
Share cost	500,000	1,000	500,000,000
Selling price	500,000	1,500	750,000,000
Capital gain			250,000,000
Capital gain tax @ 5%			12,500,000

5 Interest from Government treasury

Interests derived from treasury bonds with a maturity of at least three (3) years is taxed at 5% withholding tax, however if the period is below 3 years the withholding tax applicable is 15%.

b) The exemption available for each investment

Dividends income
Dividends income is not exempted however benefit from a reduced WHT tax rate from 15% to 5% if they are received from the company which is listed on the capital market

Rental income from movable assets
Rental income which is not exceeding 360,000 is taxed at 0%
Interest income from Bank deposit
Bank interest from a deposit of 1 year and above is exempted from the Withholding taxes

Capital gain tax.
Capital gain from the company listed on the capital market is exempted from Withholding tax
Interest income from Bank deposit

Interest from government treasury bonds is not exempted, however it benefits from a reduced tax rate of 5% if the period is equal or more than 3 years

c. Bad debts treatment

In the determination of business profit, a deduction is allowed for bad debts if the following conditions are fulfilled:
1 If an amount corresponding to the debt was previously included in the income of the taxpayer
2 If the debt is written off in the books of accounts of the taxpayer.
3 If the taxpayer has taken all possible steps in pursuing payment and has shown a court decision declaring the insolvency of his/her debtor.

However, for an individual whose debt is less than three million Rwandan francs (FRW 3,000,000) in addition to the conditions referred to in points 1° and 2° of Paragraph One of this Article, the taxpayer must provide proof that he has taken all reasonable steps over a period of three (3) years to recover the debt.

d. Persons exempted from withholding tax

Persons exempted from Withholding tax are:
a) Those who have tax clearance certificate
b) Those whose business profit is exempted from taxation

QUESTION SIX

Marking guide

Descriptions	**Marks**
a	
Award 2 Marks for explanation of long term contract	2
b	
Award 1 Mark for explanation on percentage of completion	1
Award 2 Marks for explanation on loss carry backward	2
c. Award 1 Mark for each objective of customs dep't given max 5	5
d	
Award 1.5 Marks for the tax payable computations	1.5
Award 1.5 Marks for the fixed fines computations	1.5
Award 1.5 Marks for the non-declaration and payment fines computations	1.5
Award 1.5 Marks for the understement fines computations	1.5
Award 1.5 Marks for the late payment interest computations	1.5
Award 1.5 Marks for computations of fines for non-certification of FS	1.5
Award 1 Mark for the total tax due	1
Sub total	**10**
Total Marks	**20**

Model Answers

a) long-term contract definition

long term contract is defined as a contract for manufacture, installation or construction, or for the performance of related services, which is not completed in the tax period in which work under the contract commenced, excluding contracts estimated to be completed within the twelve (12) months as of the date on which work under the contract commenced

b) Tax treatment for long term contract

Business profits relating to a long-term contract are computed on the basis of the percentage of activities completed during any tax period.

The percentage of activities completed during any tax period is determined by comparing the total expenses allocated to the contract and incurred before the end of the tax period with the estimated total contract expenses including any variations of fluctuations.

A loss in a tax period in which a long-term contract is completed may be carried back and offset against previously taxed business profit from that contract to the extent it cannot be absorbed by business profit in the tax period of completion.

c) Explain the objectives of the Customs Services Department under the tax administration are:

1. Enforcement of Customs legislation and other relevant laws.
2. Facilitation of legitimate trade
3. Protection of society from illegal entry and exit of prohibited goods.
4. Compilation of trade statistics for economic planning
5. Take all actions necessary to identify and combat evasion of duties and to combat fraud in its many forms.
6. Ensure efficiency and effectiveness of the Customs Services department through enhanced management controls, training and increased accountability.

d) Computation of fines and penalties

Descriptions	**Amount FRW**
Turnover	2,000,000,000
Taxable income	34,500,000
Tax payable	10,350,000
Fixed fines for non-filing	500,000
Non declaration and payment fines @ 60%	6,210,000
Interest for Late Payment @ 1.5%10,350,000×1.5%×*32 months Thus, Interests for late payment accrue shall not exceed one hundred percent (100%) of the amount of tax. **(Article 76)**	4,968,000
Non-Certification of the financial statements (500,000 each month*32)	16,000,000
Total tax due	**38,028,000**

- From **31st March 2020** to **31st March 2021**: 365 days (2020 was a leap year).
- From **31st March 2021** to **31st March 2022**: 365 days.
- From **31st March 2022** to **15th November 2022**: 229 days.
- **Total days of interest = 365 + 365 + 229 = 959 days= 32 months**

QUESTION SEVEN

Marking Guide

Descriptions	**Marks**
Award 0.5 Mark for Basic salary	0.5
Award 0.5 Mark for Housing allowances	0.5
Award 0.5 Mark for Increment of 15%	0.5
Award 0.5 Mark for Communication allowances	0.5
Award 0.5 Mark for Overtime allowances	0.5
Award 0.5 Mark for cost of living allowances	0.5
Award 0.5 Mark for Cash gift	1
Award 2 Marks for Company car	2
Taxable income	1
Award 1 Mark for explanation of the tax implication	1
Award 1.5 Marks for computation of allowable and non allowable interest	3
Award 2 Marks for the explanation of Arm's length principle	2
Award 2 Marks for the explanation of THIN Capitalization	2
Award 1 Mark for each scheme explained max 5	5
Total Marks	**20**

Model Answers

a) Computation of Mrs. Kayitesi Taxable income for the month of July 2023.

Descriptions	**Monthly FRW**
Basic salary	3,500,000
Housing allowances	450,000
Increment of 15%	525,000
Communication allowances	150,000
Overtime allowances	185,000
cost of living allowances	540,000
Cash gift	950,000
Total Cash allowance	6,300,000
Company car (10% of 6,300,000)	630,000
Taxable income	**6,930,000**

Note: Assumed the gift is from the management. Whoever assumed as from colleagues, He/she will be rewarded the total marks.

b) The tax implication is as follows:

Descriptions	**Amount FRW**
Inyota Ltd share capital	20,000,000
Interest paid	1,000,000
Loan allowed	80,000,000
Loan received	100,000,000
Excess loan	20,000,000
Non allowed interest	200,000
Allowed Interest	800,000

From the scenario, the loans that should have taken from related party should not exceed 4 times of the company's equity, the interest that correspond to the excess loan are not allowed for the computation of the income tax purpose. i.e FRW 400,000 is not allowed

b ii.

Explanation of the following terminologies

1. **Arm's length principle** is a principle according to which the conditions of the income-generating transaction between related persons do not differ from the conditions that would have been applied between independent persons in comparable transactions carried out under comparable circumstances.

2. **Thin capitalization** refers to a financial strategy where a company funds its operations with a higher proportion of debt compared to equity. Specifically, it involves a situation where a company's debt-to-equity ratio is considered excessive, often leading to tax advantages in certain jurisdictions but also potentially increasing financial risk.

In practical terms, thin capitalization rules are often implemented by tax authorities to prevent multinational corporations from reducing their taxable income through excessive interest payments on loans. These rules typically set limits on the amount of interest expense that a company can deduct for tax purposes based on its debt-to-equity ratio. In Rwanda taxation debt ratio should be 4:1

c. Here are the export promotion schemes in the context of international trade, along with explanations:

1. **Export Subsidies**:

These are financial incentives provided by governments to domestic companies to encourage exports. Subsidies can be direct payments, tax breaks, or grants aimed at reducing the costs of exporting.

2. **Duty Drawback**:

Exporters can reclaim customs duties paid on imported raw materials or components used in products that are subsequently exported. This lowers production costs and enhances competitiveness in international markets.

3. **Export Processing Zones (EPZs) / Free Trade Zones (FTZs)**:

These are designated areas where companies enjoy benefits such as tax exemptions, relaxed regulations, and streamlined customs procedures to facilitate manufacturing for export.

4. **Duty and Value Added Tax Remission Schemes**

The Partner States agree to support export promotion by facilitating duty and value added tax remission schemes. For purposes of this Article the Partner States may establish duty and value added tax remission schemes. The implementation of this Article shall be in accordance with the duty and value added tax remission schemes specified in the customs law of the Community

5. 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.

End of making guide and model answers