

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

DATE: MONDAY, 28 MARCH 2022

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 where necessary.
- 5. The question paper should not be taken out of the examination room.

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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)	CPARAPRIL 202 0 CPARAPRIL	From (FRW)	To (FRW)	ARAPO L2022 CPARA ARAPO 2022 CPARA	
$^{ m RI}_{ m C}$ 20221CPARAPRIL RI $^{ m C}$ 20221CPARAPRIL	30,000	$2020^{\mathrm{1}\mathrm{CPARAPRIL}}_{20}$	20021CPARAPRIL 2022002 1CPARAPRIL 202	360,000	ARAPPIL20221CPARA ARAP O IL20221CPARA	
30,001 PARAPRIL	100,000	20 PARAPRIL	360,001	1,200,000	ARAP 20 2022iCPARA ARAP 20 2022iCPARA	
100,001 ARAPRII	and above	20230CPARAPRIL 20230CPARAPRIL	1,200,001	And above	ARAP3020221CPARA ARAP3020221CPARA	

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 PRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	022iCPARAPRIL2022iC 5 %
Employee's contribution PRIL20221CPARAPRIL20221CPARAPRIL20221CPARAPRIL20	D22iCFARAPRIL2022iC3%
RSSB contribution — Maternity leave PRIL2022iCPARAPRIL2022iCPARAPRIL20	D22iCPARAPRIL2022iCPAR
Employer's contribution PRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	0221CPARAPRIL202 0.3%
Employee's contribution PRIL20221CPARAPRIL20221CPARAPRIL20221CPARAPRIL20	92216 PARAPRIL202216 PAR 92216 PARAPRIL202 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: 18%

Withholding tax

Standard RAPRIL2022iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iC	15%
Government securities RAPRIL20221CPARAPRIL20	5%
Import Parapril 2022 i Cparapril 2022 i	5% R
Public Tender 2022 i CPARAPRIL 2022 i CP	3%AR

Gaming tax: 13% Capital allowance

Description RIL 2022 CPARAPRIL 2022	TCPARAPRIL20221CPARAPRIL20221CPARAPRIL20 TCPARAPRIL20221CPARAPRIL20221CPARAPRIL20	Rate
Accelerated depreciation	TCPARAPRIL2022;CPARAPRIL2022;CPARAPRIL20 ;CPARAPRIL2022;CPARAPRIL2022;CPARAPRIL20	50%
Wear & Tear Allowance	TCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20 TCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	22iCPAR. 22iCPAR.
Buildings, heavy industrial equipment and	CPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20 CPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	22i 5%
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Intangible assets 221CPARAPRIL20221CPARAPRIL202	ICPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20 ICPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	10%
Information and communication systems	iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	10%
whose life is over ten (10) years CPARAPRIL 202	iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	
Computers and accessories, information, and	iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	50%
communication systems whose life is under	icPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	
kil20221CPARAPRIL20221CPARAPRIL20221CPARAPRIL2022 k ten (10) years L20221CPARAPRIL20221CPARAPRIL2022	icparaprilzuzzicparaprilzuzzicparaprilzu icparapril2022icparapril2022icparapril20	
Other business asset PARAPRIL20221CPARAPRIL202	1CPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	25%

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QUESTION ONE

Nsabimana Eric was employed on 01 January 2020 as Director for Finance by Delta Engineering and construction ltd, a company that is registered in Rwanda in construction sector. His three-year contract provided for a basic salary of FRW 1,800,000 per month. He was also entitled to the following allowances:

- 1. Housing allowance per month of FRW 60,000
- 2. Education allowance per child per month of FRW 150,000
- 3. Electricity allowance per month of FRW 120,000
- 4. Lunch allowance per day of FRW 20,000

Eric has three children all in primary level in a private school. He agreed with his employer to work for five days in a week and twenty days in a month for the purposes of computing his lunch allowances.

During the staff party at the year end, Eric was nominated the employee of the year on 31 December 2020. His employer awarded him a monthly fuel of FRW 60,000 in form of cash which he was entitled to every month for a period of one-year effective January 2021.

In May 2020, Mr Eric begun offering part-time bookkeeping services. From these services, he generated a turnover of FRW 10,500,000. During the period of conducting bookkeeping services, he incurred the following expenses:

- 1. Office rent of FRW 230,000 per month
- 2. Hire of a staff van from Kigali Transport services ltd at FRW 120,000 per month
- 3. School fees for his wife at ULK of FRW 550,000 paid once in 2020
- 4. Administrative fees for late submission of bookkeeping report to one of his clients of FRW 250,000 as provided for in the contract.
- 5. Subscriptions to Kigali golf club of FRW 50,000

Required:

(a) Advise Mr. Eric his taxable income and the tax liability for the tax year 2020.

(12 Marks)

(b) For the purpose of ascertaining the employment income of an individual, it is important for one to understand the employment status of that person. The distinction between employment and self-employment is then looked at by considering all the facts of the engagement an individual has undertaken.

In relation to employment income, advise Mr Eric any Four considerations on each case for which one would be distinguished as employed and self-employed.

(Total: 20 Marks)

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QUESTION TWO

Jessy Trading Ltd started business in 2017 and its turnover had consistently fallen below the Value Added Tax registration threshold in the first two years. However, in the year 2020, the company was registered in VAT under voluntary registration. The following results were recorded for the month of September 2020:

On 02 September 2020, Purchased goods worth FRW 2,400,000 from ERI Rwanda Ltd.

On 02 September 2020, Sold goods to Shagasha Tea Company worth FRW 960,000 on credit. Goods worth FRW 60,000 were found to be defective and were hence returned.

On 06 September 2020, Purchased office furniture for FRW 640,000. One Office cabinet worth FRW 80,000 was defective and was returned to the seller.

On 10 September 2020, Purchased office furniture for FRW 4,500,000 on credit from a manufacturing company. Goods worth FRW 500,000 were damaged in transit and were thus not saleable. It cost the company FRW 240,000 to transport the goods.

On 16 September 2020, Sold goods for cash worth FRW 960,000

On 25 September 2020, Sold goods worth FRW 2,400,000

On 28 September 2020, Purchased goods worth FRW 1,500,000 from Adma Ltd.

On 28 September 2020, Sold goods worth FRW 218,000 to Le pritemps Ltd.

On 28 September 2020, Sold goods worth FRW 2,600,000 to Simba Supermarket ltd.

Note: Except where stated, prices are quoted VAT inclusive

Required:

- (a) Compute the amount of VAT Payable or receivable for the month of September 2020 by Jessy trading Ltd. (12 Marks)
- **(b)** For the purpose of obtaining the amount of VAT payable or receivable, it is important for one to determine the taxable value of goods and services in question.

With reference to Rwandan VAT Law No37/2012 of 09/11/2012 as amended to date, **Explain** any two determinants of the taxable value of goods and services. (4 Marks)

(c) With reference to the Law governing taxes of Immovable properties in Rwanda especially in its articles 44/2018 and 75/2018 of 07/08/2018, list any **Four** categories of persons who are considered owners of a property.

(Total: 20Marks)

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QUESTION THREE

Muganga Alex recently retired from Ruhango Business Ltd a mining company located in Southern Province of Rwanda and immediately set up a company "Kigali Trading company ltd (KTC ltd) dealing in supply of office stationaries and utensils. Said being the managing director with assistance of MM partners CPA ltd, has always been preparing financial statements to 31 December each year.

For the year ended 31 December 2020, the summarized statement of profit or loss was as follows:

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4 Motor Car Running costs:

Alex uses the company car for private purposes and partly for business. It has been agreed with commissioner general that said has 25% of business use.

5 Other operating expenses:

Included in other operating expenses, there was a donation of FRW 10,000 to one of prominent political parties in the country, trade debt written off amounting to FRW 11,000 and the balance relates to revenue allowable expenses.

620 Dividends:

A mount of Dividends received was net

7 Profit on disposal:

This relates to an amount earned after disposal of old furniture

8 Depreciation:

Depreciation relates to a truck which was acquired on 1 August 2020 worth FRW 8,000,000. The truck was meant for assisting with transportation of stationeries to customers.

Required:

(a) Advise Kigali trading company ltd the taxable business income and the tax payable if any for the year 31 December 2020.

(b) Write short notes on the following terms:

1. Inward processing RAPRIL 2022 CPARAPRIL 2022 CPA	O221CPARAPRI (2 Marks)
2. Blue Gold Card Facility 2022 CPARAPRIL 2022 CPAR	022iCPARAPRII (2 Marks)
3. Manufacturing under bond 21CPARAPRIL20221CPARAPRIL20221CPARAPRIL2	022iCPARAPRII (2 Marks)
4. Outward processing PRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL20	022iCPARAPRII (2 Marks)
	(Total: 20 Marks)

QUESTION FOUR

To ease trade and quicken Customs clearance processes, Rwanda Revenue Authority (RRA) customs department adopted special regimes which in turn eliminate any potential risk of losses arising from a taxpayer delaying receiving the imported goods.

- (a) With reference to the Import procedures, distinguish between Quick release with deposit and Quick release without deposit.
- (b) List any Three examples of goods which may be granted Quick release regime with or without deposit. (6 Marks)
- (c) Give any Five conditions necessary for a taxpayer to be granted a Blue Gold Card Facility (5 Marks)
- (d) List any Seven examples of goods that may not be warehoused under public bonded warehouses. (7 Marks)

(Total: 20 Marks)

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QUESTION FIVE

(a) In an event that a taxpayer fails to pay tax on time, the Rwandan Tax administration has a right to engage taxpayers' third parties including debtors to be able to recover the tax due.

Required:

- i. Examine any Three responsibilities of the tax administration over a taxpayer's debtor for the purpose of recovering the taxpayer's tax dues. (6 Marks)
- ii. Examine any Two obligations of a debtor upon receipt of notification from tax administration with regards to tax recovery.
- (b) The Law establishing and governing Immovable Property taxes, exempts some of the properties to be subjected under this tax.

Required:

Explain any Five properties that are exempted from Immovable property tax. (10 Marks) (Total: 20 Marks)

QUESTION SIX

- (a) By giving any Three contents of a Notice of Assessment, mention any Three reasons as to why a Notice of Assessment can be issued.
- (b) Explain any Five incidences that may trigger tax assessment procedure without notice. (10 Marks)
- (c) Examine any Four grounds in which a desk audit can be conducted. PARAPRI (4 Marks) (1202210PARAPRIL2020210PARAPRIL202210PARAPRIL202210PARAPRIL202210PARAPRIL202210PARAPRIL202210PARAPRIL202210PARA

QUESTION SEVEN

- (a) In relation to taxable capacity, Explain any Four determinants of taxable capacity in Rwanda. (8 Marks)
- (b) Explain Six obligations for one to establish as a dealer of Oil products dealers in Rwanda.

(12 Marks)

(Total: 20 Marks)

End of question paper

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