



**CERTIFIED PUBLIC ACCOUNTANT  
ADVANCED LEVEL 2 EXAMINATIONS**

**A2.3 ADVANCED TAXATION**

**DATE: MONDAY, 28 MARCH 2022**

**MARKING GUIDE AND MODEL ANSWERS**

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## SECTION A

### QUESTION ONE

#### Marking guide

a.

	<b>Marks</b>
Accounting profits	1
Add back	
Income from rent by directors	1
Income from building rent in Kigali City	1
Dividends	1
Free wine	1
Loyalty fees (excess of 2% of turnover)	2
Burial expenses	1
Retired staff contribution	1
VAT on motor vehicle	1
Research cost (30% for buying house)	1
Telephone cost (20%)	1
Less	
Tax depreciation	2
Loss Carried forward (60% of 300m)	1
Tax @28%	1
Less Quarterly prepayments	1
Withholding tax on customs (110,000,000*5%)	1
Tax payable by 31 March 2021	1
Deadline for paying tax	1
<b>Total marks for this section</b>	<b>20</b>

b.

20% Feb sales	1
Free wines	1
Royalty payment	1

Directors rent	1
Revenue from building	1
Tax at 18%	1
Less input tax on telephone	1
Tax payable	1
<b>Total marks for this section</b>	<b>8</b>
<b>c.</b>	
0.5 marks for each point up to 2 marks	2
<b>Total marks for this section</b>	<b>2</b>
<b>d.</b>	
WHT from deposits. Exempt if more than 1 year	1
Dividends (60%) taxed 15%	0.5
Dividends (40%) taxed 5%	0.5
Payables older than 6 months (15%)	0.5
WHT 5% on customs	0.5
WHT on royalty 15%	0.5
WHT on non-residents-fense 15%	0.5
Total WHT paid by MBL ltd in 2020	1
<b>Total marks for this section</b>	<b>5</b>
<b>e.</b>	
CGT Cost	0.5
20% of cost	0.5
Sale	0.5
20% of sale	0.5
Loss	1
CGT	1
Making a declaration for loss	1
<b>Total marks for this section</b>	<b>5</b>
<b>Total marks</b>	<b>40</b>

## Model answers

a)

MBL Ltd Corporate Income Tax for the year 2020

Description	FRW	
Accounting Profit	200,000,000	
<b>Add back</b>		
Income from rent by directors	60,000,000	Not declared
Income from building rent in Kigali City	240,000,000	20M*12months
Dividends	100,000,000	
Free Wine	40,000,000	
Loyalty fees (excess of 2% of turnover) W1	100,000,000	
Burial expenses	15,000,000	
Retired staff contribution	20,000,000	
VAT on motor vehicle	30,000,000	
Research cost (30% for buying house)	51,000,000	
Telephone cost (20%)	12,000,000	
<b>Rectified profit</b>	<b>868,000,000</b>	
<b>Less</b>		
Tax depreciation W2	(162,800,000)	
Loss Carried forward (60% of 300m)	(180,000,000)	
<b>Rectified profit</b>	<b>525,200,000</b>	
Tax @28%	147,056,000	Listed company
Less Quarterly prepayments	(120,000,000)	160M*25%*3
Withholding tax on customs (110,000,000*5%)	(5,500,000)	
Tax payable by 31 March 2021	21,556,000	

### W1 Royalty expense

Royalty Computation	
Production in HL	2,000,000
Cost per HL	10,000
Turnover	20,000,000,000
Total Royalty paid	500,000,000
Allowed (2%)	400,000,000
Disallowed Loyalty	100,000,000

## W2 Depreciation

Details	Building	Plant	Motor vehicle	Computer	Total
<b>Opening Balance</b>	120,000,000	200,000,000	90,000,000	400,000	
<b>Addition</b>	50,000,000(Fence)	-	110,000,000	-	
	51,000,000 { 30% * 170,000,000 (house for researcher)}				
<b>Total</b>	101,000,000	-	110,000,000	-	
Accelerated depreciation @ 50% for addition assets	50,500,000	-	55,000,000	-	105,500,000
Depreciation basis	221,000,000	200,000,000	145,000,000	400,000	
Wear and Tear @	5%	5%	25%	50%	
	11,050,000	10,000,000	36,250,000	-	57,300,000
<b>WDV</b>	<b>159,450,000</b>	<b>190,000,000</b>	<b>108,750,000</b>	-	
<b>Total Capital allowance</b>	<b>61,550,000</b>	<b>10,000,000</b>	<b>91,250,000</b>	<b>0</b>	<b>162,800,000</b>

b)

VAT	FRW
<b>Output Tax</b>	
20% February sales	4,000,000,000
Free wines	40,000,000
Royalty payment	0
Directors rent	60,000,000
Revenue from building	20,000,000
<b><u>Total Taxable sales/Income</u></b>	<b>4,120,000,000</b>
<b><u>Tax @18%</u></b>	<b>741,600,000</b>
<b>Input tax</b>	
Telephone (40%) @ 18%	4,320,000
VAT on Vehicles	30,000,000
<b>Total Input VAT</b>	<b>34,320,000</b>
VAT payable	<b>707,280,000</b>

c)

- Audited financial statements
- Withholding tax payment evidence (to be kept for 10 years)
- Transfer pricing documentation
- Production records for excise duty
- Tax stamps

➤ Records should be kept for 10 years, because RRA can require them in five years but in case of suspected fraud, this can extend to 10 years.

d)

<b>Withholding Tax (WHT)</b>	<b>Gross</b>	<b>FRW (Taxes)</b>
From deposits. Exempt if more than 1 year		0
Dividends (60%) taxed 15%	60,000,000	9,000,000
Dividends (40%) taxed 5% -residents of Rwanda	40,000,000	2,000,000
Payables older than 6 months (15%)	250,000,000	37,500,000
WHT 5% on customs	110,000,000	5,500,000
WHT on royalty (15%)	500,000,000	75,000,000
WHT on non-residents-fence 15%	50,000,000	7,500,000
<b>Total WHT paid by MBL Ltd in 2020</b>		<b>136,500,000</b>

e)

<b>Capital Gain Tax (CGT)</b>	<b>Value of shares</b>	<b>FRW</b>
Cost	100*4,000,000	400,000,000
20% of cost		80,000,000
Sale	100*3,500,000	350,000,000
20% sale		70,000,000
Loss		(100,000,000)
CGT		0

The CGT payable is zero because shares were sold at a loss. However, a declaration must be made by the insurance company showing the loss. It is the responsibility of the company to withhold CGT

## QUESTION TWO

### Marking guide

a.

	<b>Marks</b>
Sales from construction	0.5
Exempt/zero rated sales from exports	0.5
Sale of house	1
Total sales for June	1
Less exempt sales from export	0.5
Zero rated sales to DRC	0.5
Transport services zero rated	0.5
Sales not subject to VAT	0.5
Taxable sales for June          rectified	0.5
VAT on imported services	1
Electricity apportionment	1.5
Telephone input VAT	1
VAT payable for June 2020	1
<b>Total marks for this section</b>	<b>10</b>
<b>b.</b>	
Treatment of export to Burundi	2
Penalties	
Amount not collected	1
Fixed penalty	1
VAT charged on the Ministry of education	2
Late payment penalty (10%)	2
Fixed penalty	1
Advice on the way forward	1
<b>Total Marks for this section</b>	<b>10</b>
<b>Total Marks</b>	<b>20</b>

## Model answers

a)

Activity	FRW exclusive of VAT	VAT FRW
Sales from Construction	1,000,000,000	
Exempt sales from export	200,000,000	
Sale of a house to a Chinese company (300,000,000*100/118)/ (300,000,000*18/118)	254,237,288	45,762,712
Total sales for June	1,454,237,288	
Less		
Exempt sales from export	200,000,000	
Zero rated Sales to DRC	250,000,000	
Transport services -zero rated	100,000,000	
Sales not subject to VAT	550,000,000	
Taxable sales for June 2020	904,237,288	162,762,712
Add VAT on imported service		9,000,000
<b>Total Output VAT</b>		<b>217,525,424</b>
Less Input VAT		
Electricity-apportionment	30,000,000*40%	(12,000,000)
Telephone	25,000,000*18/118*4 0%	(1,525,424)
VAT Payable for June 2020		204,000,000

- The above VAT should be paid to RRA by 15 July 2020.
- Refund on hotel accommodation not allowed
- Advance payment is not charged VAT
- The house given to a Chinese company should be treated as sale at fair value
- Apportion of input tax because of exempt sales

b)

Export to Burundi.

The understanding of the new staff was correct because exports are zero rated. However, any registered taxpayer must use EBM when Invoicing clients whether local or for export. Therefore, although exports could have been charged 0% and no tax was evaded, fixed penalties for not complying with EBM apply.

These penalties are:

- Principal amount not collected FRW 0
- Fixed penalty for not using EBM FRW 200,000

For not charging VAT to the Ministry of Education, there are serious consequences because construction of a school building is not exempt. Ingando Ltd should have charged VAT and the Ministry of education could have retained it at source and submit it to RRA

**Therefore, Ingando Ltd would be penalised as follows:**



- FRW 70,000,000\*18%\*10 (penalty)=126,000,000
- Plus, fixed penalty FRW 200,000

As a way forward, Ingando Ltd should rectify the VAT return and pay the correct amount and related penalties to avoid accumulation of interest

### QUESTION THREE

#### Marking guide

(a)(i)	Marks
Chargeable pay	1
Total gross tax liability	1
Chargeable pay for Rwanda	1
Tax liability for Rwanda	1
Tax paid in Togo	1
Tax on foreign income	1
Double taxation Relief	1
<b>Total marks for this section</b>	<b>7</b>
(a) (ii)	
chargeable pay	1
Employer contribution	0.5
Employee contribution	0.5
MLB employer	0.5
MLB Employee	0.5
CBHI Scheme	2
Net pay	1
<b>Total marks for this section</b>	<b>6</b>
<b>b.</b>	
Transaction value -cost	0.5
Local transport in Egypt	0.5
Selling commission	0.5
FOB	0.5
Insurance	0.5
Freight to mombasa	0.5
Drums	0.5
CIF/Customs value	0.5
Customs duty	1
Excise duty	1
WHT	1
<b>Total marks for this section</b>	<b>7</b>

## Model answers

a) i)

	FRW	%	FRW	FRW
Gross salary	37,000,000			
Less medical Insurance	2,000,000			Income exempt
Chargeable pay from the bank in Rwanda	35,000,000			After adding Togo income
Togo Earning	30,000,000 (1,000x30,000)			
Total Chargeable pay	65,000,000			
First band	360,000	-	-	Exempt
Second band	840,000 (1,200,000-360,000)	20	168,000	Taxed at 20%
Additional band	63,800,000	30	19,140,000	Taxed at 30%
<b>Total Gross tax liability</b>			<b>19,308,000</b>	
Tax liability for Rwanda only				
		%	FRW	
Gross salary	37,000,000			
Less medical Insurance	2,000,000			Exempt
Chargeable pay	35,000,000			
First	360,000	0%	-	
Second	840,000	20%	168,000	
Excess	33,800,000	30%	10,140,000	
Total tax liability in Rwanda			10,308,000	
Tax paid in Togo	30,000,000	35%	10,500,000	
Gross tax			19,308,000	
Rwanda Tax			(10,308,000)	
Difference			9,000,000	
Actual Tax on Foreign Income			10,500,000	
<b>Double Taxation Relief</b>				

Lower of;				
Actual Tax on Foreign income			10,500,000	
Difference between Gross tax and Rwanda Tax (Tax that should be paid in Togo)			9,000,000	
Thus, Double Taxation Relief will be the lower between Tax paid in Togo and the difference between the gross tax and Rwanda tax			9,000,000	

ii)

Answer

	FRW	%	FRW	Comments
Gross pay	37,000,000			
Chargeable pay	(37,000,000-2,000,000-6,000,000)			Transport is exempt
Employer contribution	29,000,000	5%	1,450,000	
employee contribution	29,000,000	3%	870,000	
Maternity Leave benefit employer	29,000,000	0.30 %	87,000	
Maternity Leave benefit employee	29,000,000	0.30 %	87,000	
CBHI Scheme	23,735,000	0.50 %	118,675	Consider net pay as a basis after PAYE and RSSB deductions
<b>Workings</b>	<b>PAYE</b>			
Gross pay	37,000,000			
	PAYE	%		
Chargeable pay	35,000,000			
First band	360,000	0%	-	
Second band	840,000	20%	168,000	
Third band	33,800,000	30%	10,140,000	
<b>Total PAYE</b>			<b>10,308,000</b>	
Partially Net Pay (Before reduction of CBHI contribution)			23,735,000	(37,000,000-10,308,000 Paye-2,957,000 RSSB & Medical Insurance)

**b) Answer**

Transaction (TV)	Value	USD	
Cost		40,000	
Local Transport in Egypt		2,000	
Selling Commission		500	
FOB		42,500	
Insurance		425	
Freight to Mombasa		1,000	
Drums cost		1,700	
CIF Mombasa/Customs Value		45,625	
exc. Rate 1,000		45,625,000	
Customs duties		0	Have Cert of origin
VAT		8,494,875	(CIF 45,265,000+ID 0 +ED 1,368,750+Port charges 200,000) 18%
Excise Duty		CIF 45,625,000	Being 0 import Duty + CIF 45,625,000
		ED= 1,368,750	3% of above
WHT		2,281,250	5% of CIF

## QUESTION FOUR

### Marking guide

(a)(i)

	<b>Marks</b>
<b>Option 1</b>	
Capital required	1
18% interest on loan expense	1
Profit determination	1
Tax at 30%	1
<b>Option 2</b>	
Equity 30%	1
70% loan	1
Interest on loan	1
Profit determination	1
Tax at 15%	1
<b>Maximum for this section</b>	<b>9</b>

(a) (ii)

Registered share capital	0.5
Allowed loan	0.5
Disallowed loan	0.5
Interest on allowed loan	0.5
Interest on disallowed loan	0.5
Interest disallowed	0.5
Rectified profit	1
Tax at 30%/15%	1
Choosing option for related party	1
<b>Total marks for this section</b>	<b>6</b>

**b.**

50% wear and tear	0.5
Interest on loan	0.5
Taxable income	0.5
Tax at 30%	0.5
Agriculture deduction (10%)	0.5
Interest on loan	0.5
Taxable value of machinery	0.5
FRW 12 m exemption on produce	0.5
Taxable income	0.5
Tax at 30%	0.5
<b>Total marks for this section</b>	<b>5</b>
<b>Total Marks</b>	<b>20</b>

## Model answers

a) i)

	Option 1	USD	Option 2	USD
Capital required	Investment	50,000,000	Investment	50,000,000
	30% equity	15,000,000	0% equity	0
18% interest on loan expense	70% loan	35,000,000	100% loan	50,000,000
Profit	Loan interest 18%	6,300,000	Loan interest 18%	9,000,000
Profit after interest on loan	Profit	20,000,000		20,000,000
Tax at 30%	Profit after interest on loan	13,700,000		11,000,000
	Tax at 15%	2,055,000	Tax at 30%	3,300,000

Option 1 is viable as it leads to more tax savings (USD 3,300,000 -2,055,000)=USD 1,245,000= FRW 1,245,000,000

ii) Answer

Thin Capitalization	FRW'000'	FRW'000''
Total loan		35,000,000
Registered share capital	10,000	10,000
Allowed loan		40,000
Disallowed loan		(35,000,000-40,000) 34,960,000
Interest on allowed loan 18%		7,200
Interest on disallowed loan 18%		6,292,800
Interest Disallowed	Being interest on loan part > 4xEquity=6,292,800-7,200	6,285,600

Re-computation of profit

	Option 1 FRW'000'	Option 2 FRW'000'
Profit	20,000,000	20,000,000
Less interest	9,000,000	7,200
Add disallowable interest	-	-
Rectified profit	11,000,000	19,992,800
Tax at 30%/15%	3,300,000	2,998,920

Option 2 of borrowing from related party is still viable as it yields more tax benefit.

This is because of the advantage of using 15% reduced tax rate

**b) Answer**

	FRW	FRW	FRW
House for rent (Commercial)	300,000,000	300,000,000	
	Less 50% allowable deduction	150,000,000	
	Interest on loan	50,000,000	
Taxable income		100,000,000	
Taxes			
First band 0%		180,000	0
Second band 20%		820,000	164,000
Remining amount 30%		99,000,000	29,700,000
Total tax from rentals			29,864,000
	Agricultural machinery	200,000,000	
	Less 10% allowable deduction	20,000,000	
	less interest on loan	50,000,000	
	Taxable value of Machinery	130,000,000	
	Produce	100,000,000	
	Less FRW 12,000,000 Exempt	88,000,000	
Total taxable income		318,000,000	
First band 0%		360,000	0
Second band 20%		840,000	168,000
Remaining 30%		316,800,000	95,040,000
Total taxes			95,208,000

Investing in the building is more viable as less tax is paid.

## QUESTION FIVE

### Marking guide

a.

	<b>Marks</b>
i). 1 mark each point well explained up to 3 marks only	3
<b>Total marks for this section</b>	<b>3</b>
ii).1 mark for adding back cost of sales	1
1 mark for adding administration expenses	1
1 mark for adding back finance cost	1
1 mark for calculation of tax using 30%	1
1 mark for computing understatement fine	1
1 mark for computing penalties for not filing tax return and not paying on time	1
1 mark for computing interest for late payment	1
1 mark for computing fixed fine for medium taxpayers	1
1 mark for computing 5% penalty for not providing Rwandair contract	1
<b>Total Marks for this section</b>	<b>9</b>
iii). 0.5 marks for each point well explained up to a maximum of 2 marks	2
<b>Total marks for this section</b>	<b>2</b>
b.	
i. 1 mark for explaining post clearance audit	1
1 mark for explaining its purpose	1
ii. 1 mark for each point well explained up to a maximum of 2 marks	2
iii. 2 marks for explaining the meaning of uncustomed goods	2
<b>Total marks</b>	<b>20</b>

### Model answers

a)

— The audit suitable for Ineza Hotel Ltd is audit without notice procedure

This audit is suitable where there are serious indications of tax evasion, the Tax Administration may conduct an audit without notice. The following are major grounds for this type of audit.

Ineza Hotel Ltd did not;

— File return on time

— Filed a loss return late

— Had no records required

Therefore, it can be concluded that there are serious indications of fraud



b) i)

		FRW	Reason
	Loss declared	(22,000,000)	
Add back	Cost of sales	25,000,000	No supporting document (lost)
	Admin expenses	10,000,000	No supporting document
	Finance Cost	8,000,000	No supporting document
Rectified profit		21,000,000	
Tax @30%		6,300,000	
Understatement fine	6,300,000*40%	2,520,000	
Penalty for non-declaration and non-payment	6,300,000*60%	3,780,000	
Interest for late payment	6,300,000*1.5% *9months	850,500	
Fixed admin fine	Medium taxpayer	300,000	
5% penalty for not providing Rwandair contract=25,000,000*5%	Failure to provide require information	1,250,000	

ii)

- Must claim VAT in the month it happens
- Must use EBM properly by including all required information
- The claim must not be on unrestricted VAT such as on accommodation, motor vehicle
- On customs, must have declared the goods and paid VAT in customs
- For newly VAT registered taxpayers, can claim VAT on goods that were in stock three months prior to registration
- On imported services, the importer must demonstrate that similar services are not locally available

c) Ineza Hotel Ltd imported wines and liquors in the year 2019. A post clearance audit was conducted by the customs officers and discovered that some of the consignments were uncustomed goods.

i) Answer

- Post Clearance audit is part of the customs verification procedure where import documents are verified by the customs officers after goods have been released from customs.
- From importers perspective, it helps in trade facilitation because importers get their goods without delays in customs
- From customs perspective, it helps to recover revenue that might not have been declared by the importer

— It also Creates enough space for cargo at the port

**ii) Answer**

— Section 206 of EACCMA provides that a person who finds any uncustomed goods on which the full duties due have not been paid shall report such discovery to the nearest officer. Therefore, Ineza Hotel upon discovering the discrepancies must notify its clearing agent and rectify the declaration accordingly.

— Section 206 of EACCMA also states that a person who, on finding any uncustomed goods and fails to report such discovery to the nearest officer commits an offence and shall be liable to a fine not exceeding US\$ 2,500 related to the goods not declared

— The tax clearance certificate (quitus fiscal) will be revoked

**iii) Answer**

— Section 200 of the East African Management Act defines uncustomed goods as “dutiabale goods on which the full duties due have not been paid, and any goods, whether dutiable or not, which are imported, exported or transferred or in any way dealt with contrary to the provisions of the Customs laws;

## **END OF MARKING GUIDE AND MODEL ANSWERS**

