



**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS
A2.3: ADVANCED TAXATION
DATE: MONDAY, 28 MARCH 2022**

INSTRUCTIONS:

1. Time allowed: **3 hours and 45 minutes** (15 minutes reading and 3 hours 30 minutes writing)
2. This examination has **two** sections: **A&B**
3. Section **A** has one Compulsory Question while section **B** has Four optional questions to choose any **Three**
4. In summary attempt **Four** questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings where necessary.
7. 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

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 Rate: 18%

Withholding tax

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

Gaming tax: 13%

Capital allowance

Description	Rate
Accelerated depreciation	50%
Wear & Tear Allowance	
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%

SECTION A

QUESTION ONE

Modern Breweries (MB Ltd) was incorporated in Rwanda in the year 1999. It was listed on the Rwanda Stock Exchange in 2019 and listed only 20% of its shares to the public. In the year 2020, the company produced and sold 2,000,000 Hectolitres (HL) of wine at FRW 10,000 per HL. In the same year, the company had bank savings in form of bank deposits of two years totalling to FRW 1,000,000,000 in the Bank of Kigali (BK) at the interest rate of 10% p.a. Twenty percent (20%) of wine sales was realised in February 2020.

During the year 2020, the expenses incurred by MBL Ltd were as follows.

S/N	BM Ltd Expenses
1	Paid dividends of FRW 100,000,000 to its shareholders. Forty percent (40%) of the dividends were paid to Rwandans residing in Rwanda
2	Paid FRW 20,000,000 to its staff who retired at the age of sixty years. This was a one-off payment, and these staff subscribe to the Rwanda Social Security Board (RSSB) and their accounts in RSSB are up to date.
3	Paid royalty fee of FRW 500,000,000 to its head office in Germany for using its wine brand called "soft sweet" in February 2020.
4	Paid FRW 15,000,000 as a contribution for burial to one of its staff who succumbed to Covid-19 pandemic in March 2020.
5	BM Ltd distributed free wines with a value of FRW 40,000,000 in February 2020 for sports promotion which was given to Rwanda volleyball players when they were celebrating their victory over another foreign team.
6	The chief accountant expensed VAT of FRW 30,000,000 on imported motor vehicles in February 2020. The value of the motor vehicles was FRW 110,000,000 CIF Mombasa.
7	The company incurred research and training expenses of FRW 170,000,000 on production of a new wine brand called "bavettes". This wine is not yet sold on the market. Out of the total research costs, 30% relates to the purchase of a house to accommodate researchers.
8	Three directors stay in MB Ltd houses located at Kacyiru in Kigali City and these directors paid rent to MB Ltd totalling to FRW 60,000,000 in February 2020. These houses are fully depreciated, and the company is considering selling them. This income was not recorded in the books of accounts of MB Ltd.
9	The company paid telephone costs totalling to FRW 60,000,000 in the month of February 2020
10	MB Ltd paid Corporate Income Tax (CIT) of FRW 160,000,000 in the year 2019

11	MB Ltd had a loss of FRW 300,000,000 in the year 2019 and accountant has not utilised it since he is still waiting for advice from the company tax advisor.
	Additional information
1	MB Ltd has a policy of paying contribution to its staff who retire in order to motivate the remaining staff to work hard for the company for many years and minimise staff attrition
2	MB Ltd pays all its directors cash allowance for accommodation, and it is taxed on payroll
3	The cost of telephone relates to airtime for staff who work at night in the plant/manufacturing department. Twenty percent of communication cost was incurred in the month of February 2020
4	MB Ltd accounting profit in the year 2020 was FRW 200,000,000 before wear and tear allowances.
5	Forty Percent (40%) of unutilized losses relates to the loss carried from 2014 and 2015 tax periods.
6	Total payables for the company as of August 2020 were FRW 250,000,000. These are the invoices for raw materials purchased in January 2020
6	The company acquired 100 shares in one of the insurance companies in the year 2002 at a cost of FRW 4,000,000 per share and sold 20% of these shares in 2018 at a price of FRW 3,500,000 per share.
7	The net book value of the plant at 31 st December 2019 was FRW 200,000,000. MB Ltd constructed a fence in 2020 to protect the company assets at a cost of FRW 50,000,000. The fence expense was paid to Rwanda non-tax residents. The opening book value of the buildings in the year 2020 was FRW 120,000,000. The opening book value of Motor vehicle as at 1 st January 2020 was FRW 90,000,000. BM Ltd has Company incorporation certificate from Rwanda Development Board. All computers of the company had a book value of FRW 400,000.
8	MB Ltd has a building in Kigali City where it earns rental income of FRW 20,000,000 per month and this income was not recorded in the books of the company.

Required:

- (a) **Compute the Corporate Income Tax for BM Ltd for the year 2020 and show the deadline for payment of the tax.** (20 Marks)
 - (b) **Compute VAT payable by MB Ltd for the month of February 2020** (8 Marks)
 - (c) **What mandatory documents should MB Ltd keep and for how long in accordance with Rwanda tax laws?** (2 Marks)
 - (d) **Compute the withholding tax for MB Ltd for the 2020** (5 Marks)
 - (e) **Compute the capital gains tax (CGT) paid by MB Ltd and show how it is declared to RRA** (5 Marks)
- (Total: 40 Marks)**

SECTION B

QUESTION TWO

(a) Ingando Ltd is a company that was incorporated in Rwanda in the year 2010. The company's principal business activity is manufacturing of assorted construction materials and provision of other construction services. In the month of June 2020, the company realised sales from manufacturing and construction services totalling to FRW 1,000,000,000, out of which 25% was realised from exports of materials to the Democratic Republic of Congo (DRC). In addition, the company transports its goods to different distributors in Rwanda and 10% of total sales relates to income generated from transport services that were provided to distributors. In June 2020, Ingando Ltd incurred input VAT related to electricity totalling to FRW 30,000,000. The company also imported services for motor vehicle repair totalling to FRW 50,000,000 from its parent company based in the Netherlands.

Ingando Ltd imported and sold exempt goods totalling to FRW 200,000,000 in the same month. These goods were imported to Rwanda, stored in the same warehouse with other goods and were later exported to Burundi without any alteration or modification because they were not fit for the project in Rwanda.

Ingando Ltd owed to a Chinese construction company FRW 300,000,000 in June 2020. Ingando Ltd agreed with the Chinese construction company to settle the debt by surrendering its warehouse located in Kinyinya, Kigali City at the same amount VAT inclusive. In the same month, Ingando Ltd was subcontracted to construct a road leading to the new International Airport of Rwanda in the Eastern province. It was given an advance payment of FRW 700,000,000 as mobilisation fee. Construction was to start in the subsequent month of July 2020.

Other expenses incurred by Ingando Ltd included telephone costs of FRW 25,000,000 inclusive of VAT.

All related staff from Netherland stayed in the Hotel des Milles Colline in Kigali in June 2020. The hotel bill for the company totalled to FRW 41,000,000 in June 2020 inclusive of VAT. Out of this amount of hotel expense, food consumption by the staff of Ingando Ltd accounted for 20%. The accountant of Ingando Ltd forgot to claim input VAT of FRW 15,000, 000 in May 2020 from other suppliers.

Required:

Calculate Ingando Ltd's VAT by showing the amount payable or claimable for the month of June 2020 (10 Marks)

(b) In the month of October 2020, a newly recruited staff of Ingando Ltd issued an invoice to a client totalling to FRW 20,000,000. The client was from Burundi and the staff understanding was that exports are zero rated and therefore no Electronic Billing Machine was used.

In addition, the same staff issued an invoice to the Ministry of Education for the construction of a primary school building in Kayonza, Eastern Province. The amount billed to the Ministry was FRW 70,000,000. The staff again did not charge VAT because her understanding was that education materials and services related to education are exempted from VAT.

Required:

You are a tax adviser of Ingando Ltd, **advise the company on the consequences of this invoice issued by the intern including amount payable or refundable together with penalties if any, and the way forward** (10 Marks)

(Total: 20 Marks)

QUESTION THREE

a. Mutuyeyezu Patrick is an employee in one of the reputable banks in Rwanda and works as a technical engineer. In addition to his formal job in Rwanda, he occasionally provides some Information Technology (IT) Services to a company based in Togo, West Africa. In the year 2020, he earned the following income.

He earns annual gross salary of FRW 37,000,000 from the bank in Rwanda. This salary is made up of the following payments by the bank.

Medical Insurance FRW 2,000,000

Cash payment FRW 20,000,000

House rent allowance FRW 5,000,000

Communication allowance FRW 700,000

The bank pays school fees for his young children totalling to FRW 3,300,000 per year

Transport allowance FRW 6,000,000

Patrick also got an interest free salary advance of one month from the bank in June 2020 and this was paid by August 2020 by deducting instalments from his salary. The Central Bank rate to Commercial bank rate (REPO rate) was 6% in 2020.

From his IT consulting business in Togo, Patrick earned USD 30,000 in 2020. He paid taxes in Togo at 35%.

- i) Using exchange rate of 1USD=FRW1,000, compute the tax liability of Mutuyeyezu Patrick to be paid in Rwanda in 2020 in Rwanda** (7 Marks)
- ii) Calculate Patrick Mutuyeyezu Social Security contributions to the Rwanda Social Security Board (RSSB) by the bank** (6 Marks)

b. Mugirente Alex is a Rwandan importer who imports cooking oil from Egypt. In the month of July 2020, he imported 10 tons of cooking oil from Egypt and has a Common Market for East and Southern Africa (COMESA) Certificate of origin and each tone cost him as follows.

Ex-Factory Price USD 40,000

Transport to the loading site at the sea USD 200 per tone

Buying commission USD 500

Selling commission USD 500

Insurance to Mombasa 1% of Free On Board (FOB)

Sea transport charges to Mombasa USD 1,000

Freight Charges from Mombasa to Rwanda USD 2,000

Mombasa Port charges USD 200

Using international tariff classification, it was found out by the Customs Department that the packaging drums for cooking oil are separate from the product and were given its value of USD 1,700 by the Customs valuation officers

Required:

Compute the Transaction Customs Value that will be used to determine customs duties in Rwanda and show how much taxes Alex will pay related to VAT, Customs Duty, Excise Duty and Withholding tax assuming that the rate for Excise Duty on imported edible oil is 3%. Apply exchange rate of USD1=FRW1,000 (7 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) GMC HB, an investor from German is considering investing in the Energy Generation in Rwanda. GMC HB has obtained the investment law of Rwanda but has not understood it properly. The investor has approached you to advise on the below article in the investment code “An investor who invests United States of America (USD) Fifty Million in Rwanda in one of the priority sectors is entitled to a reduced Corporate Income Tax rate of fifteen percent if thirty percent of the total investment is in form of equity”. The investor is undecided on whether to invest in energy generation in Rwanda using the following options.

Option 1: use thirty percent equity contribution as required by the investment code and seventy percent as loan.

Option 2: use the entire amount as loan from Rwandan banks where interest is 18%. The German investor estimates to make a profit of USD 20,000,000 in the first year of investment in Rwanda

Required:

i) **Advise GMC HB which option it should adopt in the first year of investment in Rwanda for tax saving purposes and support your advice** (9 Marks)

ii) The registered share capital of the GMC HB in (a) above is FRW 10,000,000 with the Rwanda Development Board (RDB). This is exclusive of reserves and retained earnings. For the second option of financing business by loan, he intends to get the loan from a parent company which is located in Germany and will pay 10% of profit as dividends in the first year of operation. Use exchange rate of USD 1=FRW 1000.

Required:

Would this decision by the investor change your advice in (i) above? Support your argument (6 Marks)

(b) Muhayimana Jonan is a businessman and is considering investing his FRW 200,000,000 in Rwanda. He is estimating that in the first year of investment in renting a commercial building, he will generate revenue of FRW 300,000,000. He is indecisive on whether to invest in a commercial property (for rentals) or in renting an agricultural machinery and do agricultural produce. For the rental of agricultural machinery, the returns will be FRW 200,000,000 and agricultural produce will be FRW 100,000,000. Jonan will pay interest on loan for both options of FRW 50,000,000. The cost of the commercial property is FRW 100,000,000.

Required:

Advise Jonan on which area of investment is more profitable in the first year of investment in accordance with the Rwanda tax laws, leaving other factors constant

(5 Marks)

(Total: 20 Marks)

QUESTION FIVE

(a) Ineza Hotel Ltd was incorporated in Musanze District in Rwanda, Western Province in the year 2000. The hotel recorded the following transactions in the financial year 2019:

Total Sales from accommodation of FRW 20,000,000

Sales from food and beverages FRW 7,000,000

Sales from outside catering FRW 12,000,000

Cost of sales totalling to FRW 25,000,000

Administration expenses of FRW 10,000,000

Finance cost FRW 8,000,000

Additional information

The hotel has a contract to supply food and beverages to Rwandair in 2019 worth 25,000,000. Ineza Hotel had a tax clearance certificate (quitus fiscal) in the year 2019.

In the fiscal year 2019, the Corporate Income Tax return was not submitted on time by Ineza Hotel finance team. When Rwanda Revenue Authority notified the hotel that it was to be audited, the chief accountant submitted the tax return for 2019 in May 2020. He declared a loss of FRW 22,000,000 for the year 2019.

The VAT return for the month of December 2019 shows a total refund VAT of FRW 4,000,000 arising from telephone calls by both the hotel guests and the hotel staff where 20% of total calls were for staff usage. Guests call costs are part of the room fee charge but the phone in the room is configured such that it does not exceed a limit of USD 20.

All records of the company related to the above transactions were lost in 2019. This was due to the change of accountant who was fired and did not handover the assets of the company

including hotel documents and tax files. He was sued by the hotel management, but the case is not yet decided in the courts of law.

RRA particularly asked Ineza Hotel Ltd to provide information and submit a copy of the contract it had to supply Rwandair food and beverages. This was not provided by the hotel.

Required:

- i) You are an audit manager at RRA and has been assigned as a group leader to audit Ineza Hotel Ltd for the year 2019. What type of audit would you conduct and why?**
(3 Marks)
- ii) Compute the rectification note to the taxpayer as a result of audit and show the related penalties and interests, if any, up to 31st December 2020**
(9 Marks)
- iii) State the conditions to be fulfilled by the taxpayer for a VAT refund to be accepted by RRA**
(2 Marks)

(b) 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. What do you understand by the term “Post clearance audit” and what is its purpose?**
(2 Marks)
- ii. Discuss the penalties applicable to the hotel as a result of the Post Clearance Audit that was conducted**
(2 Marks)
- iii. Discuss the meaning of the term “uncustomed goods”**
(2 Marks)

(Total: 20 Marks)

End of question paper

