



**CERTIFIED PUBLIC ACCOUNTANTS  
FOUNDATION LEVEL EXAMINATIONS**

**F2.4 TAXATION**

**DATE: MONDAY, 28 MARCH 2022**

**MARKING SCHEME AND MODEL ANSWERS**

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## QUESTION ONE

### Marking Guide

#### a.

<b>Employment income</b>	<b>Marks</b>
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Salary computation	1
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#### **Add back**

House benefit	1
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Education for kids	1
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Electricity allowance	1
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Lunch allowance	1
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Other incomes(net)	1
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#### **Computation of tax liability**

0 to 360,000 at 0%	0.5
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360,001 to 1 200,000 at 20%	1
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1200,001 to 36,108,000 at 30%	1
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<b>Total tax liability</b>	<b>0.5</b>
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#### **Workings on Other income**

Bookkeeping income	1
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#### **Less: Operating expenses**

Office rent	1
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Transport expenses	1
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<b>Total Marks for this section</b>	<b>12</b>
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#### b.

1 mark for each of the four correct points on Self-employment	4
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1 mark for each of the four correct points on Employment	4
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<b>Total marks for this section</b>	<b>8</b>
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<b>Total marks</b>	<b>20</b>
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## Model Answers

### a). Nsabimana Eric

#### Taxable income and the tax liability

#### For the year 2020

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<b>Employment income</b>	<b>Amount (FRW)</b>
Salary (1,800,000*12)	21,600,000
<b>Add: Benefits</b>	
House benefit (60,000*12)	720,000
Education for kids (150,000*12*3)	5,400,000
Electricity allowance (120000*12)	1,440,000
Lunch allowance (20,000*20*12)	4,800,000
<b>Total employment income</b>	<b>33,960,000</b>
Other incomes(net) (W1)	7,700,000
<b>Taxable income</b>	<b>41,660,000</b>

<b>Computation of tax liability</b>	<b>Amount (FRW)</b>
0 to 360,000 at 0%	-
360,001 to 1,200,000 at 20%	168,000
1,200,001 to 41,660,000 at 30%	12,138,000
<b>Total tax liability</b>	<b>12,306,000</b>

**Tax liability of Mr. Eric for the tax year 2020 is Rwf 12,306,000**

#### W1

#### Workings on Other income

Bookkeeping income	10,500,000
Less: Operating expenses	
Office rent (230000*8)	-1,840,000
Transport expenses (120000*8)	-960,000
<b>Net Bookkeeping fees</b>	<b>7,700,000</b>

**b.**

**Basis of Distinction between self-employment and employment**

**Factors Indicating Self employment**

1. Whether the worker provides his own equipment and if that is the case, it indicates self-employment.
2. Whether the worker hires his own helpers and if that is the case, it indicates self-employment.
3. What degree of responsibility for investment and management the worker has. If most of responsibility is the worker's, it indicates self-employment.
4. Whether the worker can work when he chooses. If he/she can do so, indicates self-employment

**Factors Indicating Employment**

1. The degree of control exercised over the person doing the work. In most cases, a high level of control indicates employment.
2. Whether the worker must accept further work if offered and if yes, indicates employment.
3. Whether the worker is entitled to employment benefits such as sick pay, holiday pay and pension facilities, such entitlements indicate employment.
4. Whether the worker works for just one person or organization and such working conditions indicates employment.

## QUESTION TWO

### Marking guide

a.

#### Input VAT

Dates	Marks
On 02/09	1
On 06/09 less returns	1.5
On 10/09 less returns	1.5
On 28/09	1
<b>Total</b>	

#### Output VAT

Dates	Marks
On 02/09 less returns	2
On 16/09	1
On 25/09	1
On 28/09	1
On 28/09	1
<b>Total</b>	
<b>VAT Payable/(recoverable)</b>	1
<b>Total</b>	<b>12</b>

b.

2 marks for each of the two correct points on Determinants of taxable value of goods and services

**Total Marks** **4**

c.

1 mark for each of the four correct points on categories of persons considered owners of a property

**Total marks** **4**

## Model answers

a.

### Jessy Trading Ltd Computation of VAT payable or Receivable For the month of September 2020

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#### Input VAT

Dates	Amount (FRW)	VAT Amount (FRW)
On 02/09	2,400,000	366,102
On 06/09	640,000	85,424
Less returns	(80,000)	
On 10/09	4,500,000	610,169
Less returns	(500,000)	
On 28/09	1,500,000	228,814
<b>Total</b>		<b>1,290,508</b>

#### Output VAT

Dates	Value	VAT
On 02/09	960,000	137,288
Less returns	(60,000)	-
On 16/09	960,000	146,441
On 25/09	2,400,000	366,102
On 28/09	218,000	33,254
On 28/09	2,600,000	396,610
<b>Total</b>		<b>1,079,695</b>
<b>VAT Payable/(recoverable)</b>		<b>210,814</b>

b.

### Determinants of the taxable Value of Goods and Services

1. The taxable value on goods or services is the consideration paid in money by the recipient of those goods or services.
2. The fair market value, exclusive of the value added tax, if goods or services are supplied for: A non-monetary consideration; a monetary consideration for one part and non-monetary for the other and the Consideration that is less than the market value of the goods or services.

c.

**Categories of persons who are considered owners of a property.**

1. The holder of immovable property where the property title deed has not yet been transferred in his/ her own name.
2. A person who occupies or who has used the immovable property for a period of at least two (2) years as if he/she is the owner if the identity of the legally recognized owner of such property is not known.
3. A proxy who represents an owner of property who lives abroad.
4. A usufructuary; an administrator of an abandoned property.

**QUESTION THREE**

**Marking Guide**

a.

	<b>Marks</b>
Net profit	0.5
Add: Dis-allowable expenses	
Depreciation	0.5
Legal fees for recovery of loan relating to former employee	1
Legal fees in relation to penalty for non-compliance	1
Construction of storeroom	1
Entertaining customers and suppliers	1
Motor Car Running costs	1
Donation to political parties	1
Trade debt	1
<b>Total</b>	
<b>Less:</b>	
Wear and Tear	0.5
Profit on disposal	0.5
Dividends	0.5
Total	
<b>Taxable income</b>	
<b>Add</b>	
<b>Taxable Income Non-Trading Income:</b>	
Dividends-Gross (80,000*100/85)	1
<b>Total</b>	

**Total Taxable Income/Loss****Calculation of tax payable**

Tax Liability= 14,785*30%= 4,435	0.5
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Tax Payable/Claimable= FRW 4,435-FRW 14,118(tax paid on dividend) = (FRW 9,683)	0.5
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**Working on Capital Allowances:**

Cost at the beginning            8,000,000	
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Wear and Tear Allowance: 833,333(8M*25%*5/12)	0.5
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NBV at the end of the year    7,166,667	
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<b>Total Marks for this section</b>	<b>12</b>
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**b.**

1. 2 marks on any correct definition of Inward processing	2
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2. 2 marks on any correct definition of Blue Gold Card Facility	2
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3. 2 marks on any correct definition of Manufacturing under bond	2
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4. 2 marks on any correct definition of Outward processing	<u>2</u>
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<b>Total marks for this section</b>	<b>8</b>
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<b>Total marks</b>	<b>20</b>
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**Model Answers****a.****Kigali Trading Company Ltd****Computation of taxable profit****For the year ended 31 December 2020**

	Amount (FRW)
Net profit	493,500
Add: Dis-allowable expenses	
Depreciation	80,000
Legal fees for recovery of loan relating to former employee	3,500
Legal fees in relation to penalty for non-compliance	4,000
Construction of storeroom	152,000
Entertaining customers and suppliers	35,000
Motor Car Running costs (75%*120000)	90,000
Donation to political parties	10,000
Trade debt	11,000
<b>Total</b>	<b>879,000</b>
<b>Less:</b>	
Wear and Tear	(833,333)



Profit on disposal	(45,000)	
Dividends	(80,000)	
Total		<u>(958,333)</u>
<b>Taxable income</b>		<b><u>(79,333)</u></b>
<b>Add</b>		
<b>Taxable Income Non-Trading Income:</b>		
Dividends-Gross (80,000*100/85)	94,118	
<b>Total</b>		<b>94,118</b>
<b>Total Taxable Income/Loss</b>		<b><u>14,785</u></b>

**Calculation of tax payable**

**Tax Liability= 14,785\*30%= 4,435**

**Tax Payable/Claimable= FRW 4,435-FRW 14,118= (FRW 9,683)**

**Working on Capital Allowances:**

Cost at the beginning           8,000,000  
Wear and Tear Allowance:   833,333(8M\*25%\*5/12)  
NBV at the end of the year   7,166,667

**b.**

1. Inward processing: It is the customs procedure under which certain goods can be brought into customs territory conditionally relieved from payment of import duties and taxes on the basis that such goods are intended for manufacturing, processing or repair and subsequent exportation.
2. Blue Gold Card Facility: Blue channel is a facility accorded to compliant taxpayers by not subjecting their consignments to physical and documentary verification during the customs clearance process but rather allow their goods to clear faster and follow up with a customs post clearance audit.
3. Manufacturing under bond: It is a facility extended to manufacturers to import plant, machinery, equipment, and raw materials tax free exclusively for use in the manufacture of goods for export.
4. Outward processing: The Commissioner may authorize goods to be exported temporarily from a Partner State as the Commissioner may prescribe in order to undergo processing operations and the compensating products be re-imported and be released for home consumption with total or partial relief of duties.

## QUESTION FOUR

### Marking guide

a)

	<b>Marks</b>
1 mark on any correct definition of Quick release with deposit	1
1 mark on any correct definition of Quick release without deposit	1
<b>Total marks for this section</b>	<b>2</b>

b)

2 marks on any three correct examples of Quick release	6
<b>Total marks for this section</b>	<b>6</b>

c)

1 mark for any five correct Conditions for a taxpayer to be granted a blue gold card facility	5
<b>Total marks for this section</b>	<b>5</b>

d)

1 mark for any seven correct examples of goods that can be warehoused in a public bonded warehouse	
<b>Total for this section</b>	<b>7</b>
<b>Total Marks</b>	<b>20</b>

### Model Answers

a) Quick release with deposit. This is where goods can be granted quick release after payment of the deposit.

Whereas **Quick release without deposit**, refers to the goods that are granted quick release without payment of the deposit.

**b) Examples of goods that can qualify for Quick release with or without deposit include:**

1. Perishable goods
2. Factory machinery spare parts or other factory material that may stop the functioning of the factory in case of shortage
3. Fragile goods that can be damaged when offloaded e.g., glasses

Examples of goods that can be offered this special regime include the following:

1. Goods exempted from payment of duties and taxes
2. Goods that belong to the Government of Rwanda
3. Bank coins and notes

**c) For a taxpayer to be granted a blue gold card facility, the following should be in place:**

1. Volume of transactions.
2. Maintaining proper books of accounts.

3. Past compliance records in Customs and Tax matters.
4. To have a well-established physical and permanent address.
5. Compliance to quality standards.

**d) Examples of goods that may not be warehoused in a public bonded warehouse:**

1. All acids which may constitute danger for personnel or goods placed in the customs bonded warehouse.
2. Arms, military explosives, and fireworks.
3. Chalk.
4. Cement.
5. Dried fish.
6. Chemical and Sulphur- content matches.
7. Fertilizers.
8. Salt.

**QUESTION FIVE**

**Marking guide**

**a)**

**Marks**

2 marks on each of the three correct responsibilities of tax administration over tax-payers' debtor. 6

2 marks on each of the two correct obligations of a debtor upon receipt of notification from tax administration. 4

**Total marks for this section 10**

**b)**

2 marks on each of the five examples of properties exempted from immovable property tax. 10

**Total marks for this section 10**

**Total marks 20**

**Model Answers**

**a) Responsibilities of the tax administration over a taxpayer's debtor for the purpose of recovering the taxpayer's tax dues.**

1. Send a notification to that person.
2. Ask the debtor to give a clear explanation of the debt due to the taxpayer.
3. Inform the debtor that he or she is required to pay to the tax administration in accordance with the terms and conditions of the contract with the taxpayer or with respect to obligations of the taxpayer.

**Obligations of a debtor upon receipt of notification from tax administration with regards to tax recovery.**

1. Give written explanations to the Tax Administration of the amount due or.
2. Notify the Tax Administration in writing that he or she owed no debt to the taxpayer by the time when the Tax Administration notified him or her.
3. Pay the debt which is equivalent to the tax in accordance with the contract with the taxpayer or with respect to obligations to the taxpayer.

**b) Examples of properties that are exempted from Immovable property tax.**

1. One building whose owner intends for occupancy for dwelling purposes and its annex buildings located in a residential plot for one family. That building remains considered as his/her dwelling even when he/she does not occupy it for various reasons.
2. Immovable property determined by the District Council and donated to vulnerable groups.
3. Immovable property belonging to the State, Province, decentralized entities as well as public institutions except if they are used for profit-making activities or for leasing.
4. Immovable property belonging to foreign diplomatic missions in Rwanda if their countries do not levy tax on immovable property of Rwanda's diplomatic missions.
5. Land used for agricultural and livestock activities whose area is equal to or less than two hectares (2ha).

**QUESTION SIX**

**Marking guide**

**a.**

	<b>Marks</b>
1 mark for each of any three contents of notice of assessment	3
1 mark for each of any three reasons for issuing notice of assessment	3
<b>Total marks for this section</b>	<b>6</b>

**b.**

2 marks for each of any five triggers of tax assessment without notice.	10
<b>Total marks for this section</b>	<b>10</b>

**c.**

1 mark for each of any four correct grounds for desk audit.	4
<b>Total marks for this section</b>	<b>4</b>
<b>Total marks</b>	<b>20</b>

## **Model Answers**

### **a) Contents of the Notice of Assessment**

1. The taxpayer's name, taxpayer identification number and address.
2. The modalities of calculation of the tax and the amount of tax to be paid.
3. The tax declaration or its rectification note, the assessment notice on which the declaration is based.

### **Reasons for Issuance of a Notice of Assessment**

1. The tax declared on time has not been paid.
2. The audit by the Tax Administration indicates an additional tax to be paid.
3. There are serious indications that the taxpayer has the intention to evade tax.

### **b) Red lights for assessment procedure without notice:**

1. No tax declaration has been made.
2. A tax declaration was filed after the day mentioned in the Law on Taxes and there was no proof given of "force majeure" justifying the delay in filing.
3. The tax declaration was not signed by a competent person.
4. The tax declaration was not accompanied by all necessary documents.
5. The taxpayer was unwilling to cooperate with a tax audit officers or did not provide the information requested.

### **C) Grounds for Desk audit:**

1. Turnover of Value Added Tax is not corresponding to the turnover of income tax without justification.
2. Tax declarations are not corresponding to paid taxes.
3. The taxpayer deducted from tax base non-deductible expenses.
4. One or more invoices were not declared.

## QUESTION SEVEN

### Marking guide

a)		<b>Marks</b>
2 marks for any <b>four</b> correct determinants of taxable capacity in Rwanda.		8
<b>Total marks for this section</b>		<b>8</b>
b)		
2 marks for any <b>six</b> correct obligations to establish as a dealer in oil products in Rwanda.		12
<b>Total marks for this section</b>		<b>12</b>
<b>Total marks</b>		<b>20</b>

### Model Answers

#### a) Determinants of the taxable capacity in Rwanda.

1. Size of income and wealth: generally, the larger wealth and income of the country, greater is its taxable capacity. Hence rich nations have a higher taxable capacity than poor nations.
2. Stability and Growth of income: basically, if the economy operates smoothly and progresses well, and ensures a stable and growing income, the taxable capacity of the community will be higher.
3. Price level: if the price level is reasonably low and stable, a high income means greater taxable capacity. But, if prices are rising fast, a very high income may also pose a low capacity in real terms.
4. Political condition: Generally, when people appreciate the government, they will be willing to undergo many hardships and bear heavier taxes to in order to enable the government to undertake welfare measures beneficial to the common people, hence the taxable potential automatically expands.

#### b) Obligations of Oil products dealers:

1. Allow the Authority easy access to all premises and petrol stations for evaluation and inspection purposes.
2. Make a declaration to the Authority before any petrol station is started up so that its premises may be inspected first.
3. Present any document providing details as to what is required by the Authority's inspection.
4. Report beforehand to the Authority and in writing any changes, damage, increase or decrease of tanks and pumps.

5. Make a declaration to the Authority as regards any premise used for the sale of oil products.
6. Have underground tanks be tested.

**END OF MARKING GUIDE AND MODEL ANSWERS**