



ICPAR
Unlimited possibilities

**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.**

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)	%	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%

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.

(8 Marks)

(Total: 20 Marks)

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. (4 Marks)

(Total: 20Marks)

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:

Description	Notes	Amount" FRW "	Amount" FRW "
Gross profit			956,000
Other income			
Dividends received	6		80,000
Profit on disposal	7		45,000
Total income			1,081,000
Operating Expenses			
Professional fees	1	99,500	
Repairs and Maintenance	2	205,000	
Entertainment expenses	3	50,000	
Motor Car Running costs	4	120,000	
Other Operating Expenses	5	33,000	
Depreciation	8	80,000	
Total Operating Expenses			587,500
Net profit			493,500

The following additional information has been provided

1 Profession fees included

Accountancy fees	FRW 35,000
Legal fees in Connection with issue of share capital	FRW 55,000
Legal fees for recovery of bad debts relating to trade debts	FRW 2,000
Legal fees for recovery of loan relating to former employee	FRW 3,500
Legal fees in relation to penalty for non-compliance	FRW 4,000

2 Repairs and Maintenance included

Construction of storeroom	FRW 152,000
Repair and painting of the shop	FRW 29,000
Other repairs and maintenance	FRW 24,000

3 Entertainment expenses included

Entertaining customers and suppliers	FRW 35,000
Staff Christmas Party	FRW 15,000

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.

6 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. (12 Marks)

(b) Write short notes on the following terms:

- 1. Inward processing (2 Marks)
- 2. Blue Gold Card Facility (2 Marks)
- 3. Manufacturing under bond (2 Marks)
- 4. Outward processing (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. (2 Marks)

(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)

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. (4 Marks)

(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. (6 Marks)

(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. (4 Marks)
(Total: 20 Marks)

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

BLANK PAGE