



**CERTIFIED ACCOUNTING TECHNICIAN**

**STAGE 3 EXAMINATION**

**S3.3 TAXATION**

**DATE: FRIDAY, 01 APRIL 2022**

**MARKING GUIDE AND MODEL ANSWERS**

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**SECTION A**

**Marking guide**

<b>QUESTIONS</b>	<b>ANSWER</b>
1	B
2	B
3	D
4	B
5	C
6	D
7	B
8	B
9	A
10	A

**Each question has                      2Marks**

**Total marks                              20 Marks**

## Models Answers

### QUESTION ONE

#### The correct answer is B

Marie Merci is reimbursed for the purchase of some stock she made on behalf of her employer. Because this is the discharge or reimbursement of expenses incurred by the employee or his/her associate that is wholly for business activities.

#### Payments exempted from employment income tax according to the tax law

The following payments are not included in the calculation of taxable employment income:

- 1° the discharge or reimbursement of expenses incurred by the employee or his/her associate:
  - a. wholly for business activities of the employer;
  - b. those that are deducted or would be deductible in calculating the employee's income from all his/her business activities;
- 2° contributions made by the employer for the employee to the public institution in charge of social security;
- 3° pension payment from the public institution in charge of social security or from a qualified pension fund;
- 4° employment income received by an employee who is not a Rwandan citizen from a foreign Government or a non-governmental organization under an agreement signed by the Government of Rwanda, when the income is received for the performance of aid services in Rwanda.
- 5° employment income received from an employer who is not a resident in Rwanda by a non-resident individual for the performance of services in Rwanda, unless such services are related to a permanent establishment of the employer in Rwanda.

### QUESTION TWO

#### The correct answer is B

Directors' remunerations are taxed at the rate of 30%  $(1,345,400 \times 30\%) = 403,620$

### QUESTION THREE

#### The correct answer is D

The declaration and payment due date for WHT and / or PAYE is 15<sup>th</sup> day of the following month. i.e 15/09/2020.

## **QUESTION FOUR**

**The correct answer is B**

Conditions to be met by a taxpayer to use a tax period that is not 31 December are as follows:

1. The taxpayer must write to the Minister in Charge of Finance for permission.
2. The taxpayer must notify Rwanda Revenue Authority of the change.

## **QUESTION FIVE**

**The correct answer is C**

**The two are not considered as a person's permanent establishment based on tax law.**

A place of operation aimed purposely at purchasing goods or merchandise or collecting information related to his/her business.

He carries out activities through a broker, general commission agent or any other private agent in accordance with procedures of the ordinary course of the activities of such an agent.

## **QUESTION SIX**

**The correct answer is D**

Taxpayer whose annual turnover of FRW 600,000,000 and above are required to certify their financial statements. This condition is not included.

## **QUESTION SEVEN**

**The correct answer is B**

Mukarubuga has a habitual abode in Rwanda, therefore, is qualified to be a Rwandan resident for tax purposes for the year 2020.

## QUESTION EIGHT

**The correct answer is B**

Deductible expenses:

Description	FRW	Comment
Dividends paid	0	Not deductible
Salaries and wages	7,980,000	They are all deductible
Communication	960,000	20% Not deductible
Donation	3,860,000	Deductible as it was below 1% of sales.
Advertising	2,400,000	Deductible
Depreciation	1,870,600	Deductible
Bad debts	0	Not deductible
Electricity	3,360,000	20% Not deductible
Income tax	0	Not deductible
Total deductible expenses	20,430,600	

## QUESTION NINE

**The correct answer is A**

Entities subject to corporate income tax are:

- 1° Companies established in accordance with Rwandan or foreign law;
- 2° Cooperative societies and their branches;
- 3° Commercial public institutions;
- 4° Partnerships;
- 5° Entities established by Districts and the City of Kigali, as long as these entities perform an income generating activity;
- 6° De facto companies or associations and any other type of entities that are established to realize profits.

Therefore, cooperative societies and their branches include among taxpayers that are supposed to pay corporate income tax, therefore, not exempted from corporate tax.

## QUESTION 10

### The correct answer is A

Transfer pricing is defined as conditions, including the prices of commercial or financial transactions between related persons, whether residing in the country or abroad;

According to the article 3 law no 16/2018, a related person is

- ✓ An individual and his/her spouse and their direct lineal ascendants or direct lineal descendants, and their relatives in the collateral lineage until at least the 3rd degree;
- ✓ One of the persons who participates directly or indirectly in the management, control or capital of the other;
- ✓ Third person who participates directly or indirectly in the management, control or capital or both control and capital of another person;
- ✓ such persons referred to under sub-items a), b) and c) who participate directly or indirectly in the management, control or capital of an enterprise;

while article 33: states that transfer pricing between related persons involved in controlled transactions must have documents justifying that their prices are applied according to arm's length principle.

Therefore, in this case, A company and its controlling shareholder who is an individual, could be subjected to transfer pricing principle. And should present documents justifying that their prices are applied according to arm's length principle.

## SECTION B

### QUESTION 11

#### Marking guide

	<b>Marks</b>
a (1) Award 01 mark on a well calculated corporate income tax due on the partnership profit.	01
(2) Award 1 mark on profit after tax distributable to partners	01
Award 01 mark on well calculated profit distributable to Romeo	01
Award 01 mark on well calculate profit distributable to Johnathan	01
(3) Award 1 mark on calculation of WHT to be paid by Romeo as a non-resident partner	01
Award 1 mark on WHT to be paid by Johnathan.	01
Award 2 mark on explanation.	02
b Award 01 mark on well explained definition of the term flat tax regime.	01
Award 01 mark on business entities that are subject to flat tax regime	01
<b>Total marks</b>	<b>10</b>

#### Model answers

##### (a)

i. Corporate income tax due on the partnership profit

$$30\% * 100,000,000 = 30,000,000$$

ii. The distribution payable to each partner

$$\text{Profit after tax: } 100,000,000 - 30,000,000 = 70,000,000$$

$$\text{Romeo: } 40\% * 70,000,000 = 28,000,000$$

$$\text{Johnathan: } 60\% * 70,000,000 = 42,000,000$$

iii. Romeo is a non-resident partner, so WHT at 15% will be due on the dividend

$$28,000,000 * 15\% = 4,200,000$$

Johnathan will also pay WHT on the dividend of  $42,000,000 * 15\% = 6,300,000$

However, if Jonathan is registered on personal income tax, this dividend will not be part of his employment income. The tax declaration will identify this as an exempt dividend as it has come from a Rwandan company.

(b)

A flat tax Regime is a regime of taxation where the tax is assessed based on the turnover of the business.

The Flat Tax regime is available to taxpayers with an annual turnover between FRW 2,000,000 and FRW12,000,000. The taxpayer must pay a specific 'Flat' amount of annual tax due depending upon their annual turnover, as displayed below:

<b>Annual Turnover- FRW</b>	<b>Annual Tax Due- FRW</b>
2,000,000 – 4,000,000	60,000
4,000,001 – 7,000,000	120,000
7,000,001 – 10,000,000	210,000
10,000,001 – 12,000,000	300,000

Note that taxpayers with annual turnover below FRW 2,000,000 are required to submit their Income tax declaration, but are not required to pay any Income Tax

## QUESTION 12

### Marking guide

	<b>Marks</b>
Award 0.5 mark to each item of capital allowance. Total items: 5 (Maximum 2.5 Marks)	2.5
Award 0.5 mark to each item of Dep Value after capital allowance. Total items: 5. (Maximum 2.5 Marks)	2.5
Award 0.5 mark to each item of wear and tear. Total items: 5. (Maximum marks: 2.5 Marks)	2.5
Award 0.5 mark to each item of total allowance (wear & tear + Cap allowance) Total items: 5. (Maximum 2.5 Marks)	2.5
<b>Total marks</b>	<b>10</b>



## Model answers

Mwongenu engineering, Computation of capital allowance for the year ended 31/12/2020

Assets	Land	Building	Plant & machinery	Motor vehicle	Furniture and fittings	Computer & accessories	Capital allowances
	<b>FRW "000"</b>	<b>FRW "000"</b>	<b>FRW "000"</b>	<b>FRW "000"</b>	<b>FRW "000"</b>	<b>FRW "000"</b>	<b>FRW "000"</b>
Cost	200,000	420,500	600,000	114,360	69,800	92,800	
Add					0		
Total cost	200,000	420,500	600,000	114,360	69,800	92,800	
Accelerated depreciation Rate		50%	50%	50%	50%	50%	
<b>Accelerated depreciation allowance</b>		<b>210,250</b>	<b>300,000</b>	<b>57,180</b>	<b>34,900</b>	<b>46,400</b>	<b>648,730</b>
Depreciation Value		420,500	600,000	57,180	34,900	46,400	
Wear & Tear rate		5%	5%	25%	25%	50%	
<b>Wear &amp; Tear Allowance</b>		<b>21,025</b>	<b>30,000</b>	<b>14,295</b>	<b>8,725</b>	<b>23,200</b>	<b>97,345</b>
<b>Total allowance (Capital Allowance)</b>		<b>231,275</b>	<b>330,000</b>	<b>71,475</b>	<b>43,625</b>	<b>69,600</b>	<b>745,975</b>

## SECTION C

### QUESTION 13

#### Marking guide

		<b>Marks</b>
a	Award 02 marks on computation of Malimingi Company as follows: 0.5 Selling and Distribution, 0.5 on Administration, 0.5 marks on general expenses, 0.5 marks on Profit before tax and 1 mark on Tax liability (Maximum 3 marks)	03
b	Award 02 marks on the correct date to file CIT tax declarations	02
c	Award 01 mark on fixed Penalties for non-declaration	01
	Award 01 mark on Penalties for non-declaration	01
	Award 01 mark on interests for 1 months	01
	Award 01 mark on Total tax penalties	01
	Total tax to be paid for the year ended 2020 including fees and penalties	01
d	Award 02 marks on explanation of the term self-disclosure	02
	Award 04 marks on explanation of advantages self-disclosure	04
	Award 02 marks on taxpayers qualified to make self-disclosure	02
e	Award 02 marks on explanation of the term transfer pricing	02
	<b>Total marks for Question 13</b>	<b>20</b>

#### Model answers

(a)

Computation of Malimingi Company Ltd tax liability for the year ended 31 December 2020.

Particulars	Workings	Amount (FRW)
	FRW	FRW
Sales		470,000,000
Cost of sales		<u>120,000,000</u>
Gross Profit		350,000,000
Less Operating Expenses		
Selling and Distribution	15,000,000	
Administration	30,000,000	
General expenses	<u>20,000,000</u>	
		65,000,000
Profit before tax		285,000,000
Tax liability	285,000,000*30%	85,500,000

- (b) Malimingi Company Ltd should file its tax declarations on or before 31 March 2021
- (c) Computation of penalties, fine and interests applicable to MALIMINGI COMPANY LTD for failure to meet tax obligations.

Particulars	Workings	Amount (FRW)
Fixed Penalties for non-declaration		300,000
Penalties for non-declaration	85,500,000*20%	17,100,000
interests for 1 months	85,500,000*1.5%*1	1,282,500
Total tax to penalties		18,682,500

Total tax to be paid for the year ended 2020 including fees and penalties	-	<u>104,182,500</u>
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**(d) Self-disclosure means Waiver of penalties for a taxpayer who makes self-disclosure**

- ✓ The default interests and administrative fine related to the non-payment and non-declaration of tax do not apply to the taxpayer who makes self-disclosure to the Tax Administration and pays due taxes that he or she didn't pay before being notified that he or she is notified of imminent audit.
- ✓ The self-disclosure leads to exemption from the payment of default interests and administrative fine only if it is done by a taxpayer not registered with the Tax Administration or by another registered taxpayer who is no longer audited in accordance with the provisions of this Law.
- ✓ Interests for late payment do not apply on a taxpayer who discloses himself or herself and pays the due taxes before he or she is notified of imminent audit.
- ✓ The disclosure leads to exemption from interests only if it is done by a taxpayer who is not registered with the Tax administration and who discloses himself/herself in a period not exceeding one (1) year starting from the date the tax was due.

- (e) **Transfer pricing:** is defined by the Rwandan tax law as conditions, including the prices of commercial or financial transactions between related persons, whether residing in the country or abroad;

## QUESTION 14

### Marking guide

		<b>Marks</b>
<b>a</b>	On computation of taxable Annual Employment Income of Kazeneza Douce for the year ended 31 December 2020, award 0.5 mark on each working and 0.5 mark on each answer.	15
<b>b</b>	Award 1 mark on computation of the tax liability	01
	Award 1 mark on the computation of the tax paid	01
	Award 2 marks on the computation tax to be paid	02
	Award 1 mark on well explained advantage of on-time declaration and payment of taxes to the tax administration.	1
	<b>Total marks</b>	<b>20</b>

### Model answers

(a) Computation of Taxable Annual Employment Income of Kazeneza Douce for the year ended 31 December 2020.

<b>Particulars</b>	<b>Workings</b>	<b>Amount in FRW</b>
Salary	3,000,000 x 12	36,000,000
Communication allowance	100,000 x 12	1,200,000
Overtime allowance	250,000 x 12	3,000,000
<b>Employment income</b>		<b>40,200,000</b>
Company car	10% * 40,200,000	4,020,000
Furnished house	20% * 40,200,000	8,040,000
Loan benefit	(12% - 6%) * 15,000,000	900,000
House girl	80,000*12	960,000
<b>Total annual taxable employment income</b>		<b>54,120,000</b>

**(b) Computation of Kazeneza Douce tax liability and the Tax Payable**

**(4 Marks)**

<u>Computation of tax to be paid</u>		
0 - 360,000	-	
360,001 - 1,200,000	$(1,200,000-36,000)*20\%$	168,000
	$(108,860,920-1,200,000)* 30\%$	15,876,000
<b>Tax liability</b>		<b>16,044,000</b>
<u>Less</u>		
<b>Tax paid</b>	$200,000*12$	<b>2,400,000</b>
<b>Tax to be paid</b>		<b>13,644,000</b>

(c) - To avoid un-necessary payment of tax penalties for non / late declaration and late payment

- Patriotism

**QUESTION 15**

**Marking guide**

	<b>Marks</b>
On computation of taxable income and tax liability of Agenecor Ltd award 0.5 mark on each working and 0.5 mark on each answer. Except:	20
On Tax paid abroad award 2 marks,	
Income tax quarterly prepayments, award 1 mark,	
Tax liability/ tax credit, award 2 marks	
<b>(Maximum 20 Marks)</b>	
<b>Total marks for question 15</b>	<b>20</b>

## Model answers

### Agencor Ltd

#### Computation of taxable income and tax liability for the year ended 31/12/2020

Items	Workings	Amount "000" FRW	Amount "000" FRW
Operating income			(428,674 )
<u>Add non-allowable deductions</u>			
Salaries and wages	Allowed	-	
Duplicated Rent	50% x 84,000	42,000	
Bad debts		284,000	
Depreciation		145,200	
Value added tax		95,000	
Technical fees	128,000- (726,442*2%)	113,472	
Legal fees		24,000	
Repair and maintenance		119,000	
Communication	20% *10,896	2,179	
			824,851
			396,176
<u>Less non-operating income</u>			
Profit from abroad		(234,200)	
Interest received		(89,400)	
			(323,600 )
			72,576
<u>Add other income:</u>			
Interest income	89,400* 100/85	105,176	

<b>Items</b>	<b>Workings</b>	<b>Amount "000" FRW</b>	<b>Amount "000" FRW</b>
Profit received from abroad	234,200*100/72	325,278	
			430,454
Total income			503,031
<u>Less</u>			
Capital allowance			(53,500)
Adjusted taxable income			449,531
Computation of tax to be paid	449,531* 30%		(134,859)
Less			
Double taxation relief			
Tax paid abroad	28%*325,278	(91,078)	
WHT on interests received	15%*105,176	(15,776)	
Income tax quarterly prepayments		(58,000)	
			(164,854)
<b>Tax liability / Tax credit</b>			<b>(29,995)</b>

**END OF MARKING GUIDE AND MODEL ANSWERS**