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**CERTIFIED ACCOUNTING TECHNICIAN**

**STAGE 3 EXAMINATIONS**

**S3.3: TAXATION**

**DATE: FRIDAY 29, AUGUST 2025**

**MARKING GUIDE AND MODEL ANSWERS**

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## **SECTION A**

### **Marking guide**

<b>Question No</b>	<b>Correct Answer</b>	<b>Marks</b>
1	A	2
2	B	2
3	D	2
4	C	2
5	A	2
6	D	2
7	D	2
8	B	2
9	A	2
10	C	2

### **Model answers**

#### **QUESTION ONE**

**Rwanda Revenue Authority's electronic system is used by taxpayers to declare Corporate Income tax (CIT)?**

**The correct answer is A**

- A. Electronic Tax system (E-tax) the system used to declare Income tax including CIT
- B. Rwanda Electronic Single Window (RESW)= used on import and export
- C. Electronic Billing Machine (EBM) = used to produce electronic invoices
- D. Rwanda Local Government Management System (RLGMS)= used to declare local government taxes

#### **QUESTION TWO**

**The correct answer is B**

According to Article 24 of the Income Tax Law of 2018, a loss incurred in the tax period in which a long-term contract is completed may be carried back and offset against previously taxed business profits from that contract, to the extent that it cannot be absorbed by business profit in the year of completion.

Therefore, the total profit earned from 2021 to 2023 of FRW 105,000,000 (FRW 50M + 10M + 45M) will be offset against the loss of FRW 80,000,000 incurred at the end of the contract period. As a result, the net profit recorded at the end of the contract is FRW 105M - 80M = FRW 25M.

Option A is not correct, tax on long-term contracts is based on the cumulative profit/loss over the entire contract period, not just last year of the contract.

Option C is not correct, because it considers only the profits earned over the three years and ignores the loss incurred at the end of the contract period.

Option D is not correct, because the loss incurred at the end of the contract is offset by the profit of 2023 and the remaining balance considered as loss.

### QUESTION THREE

**The correct answer is D**

A business incurs a loss when its accounting profit or loss, after adjustments for tax purposes and deduction of tax depreciation, results in a negative figure. The taxable profit for the period in which the loss occurs will be **nil**, and the loss is **carried forward** to be offset against future taxable business profits over the next five tax periods.

But if 50% or more of the shares or voting rights in a company change hands (directly or indirectly), the company loses the right to carry forward those losses..

Therefore:

- **Statement 1 is false** because it incorrectly states that the loss should be carried **backward**, which should be **carried forward** in next five years.
- **Statement 2 is true.**

### QUESTION FOUR

**The correct answer is C**

Rwandan resident individuals and companies are liable to Rwandan taxes on their worldwide taxable sources of income. Non-resident persons only pay tax on Rwandan income, including (for companies) the activities of Rwandan permanent establishments. Therefore, statement 1 is true while statement 2 is false.

### QUESTION FIVE

**The correct answer is A**

Selling Price: FRW 250,000,000

Cost: FRW 190,000,000

Other Costs:

- Commission: FRW 3,000,000
- Notary Fees: FRW 300,000

Capital Gain = FRW 250,000,000 – 190,000,000 – 3,300,000 = FRW 56,700,000

Capital Gains Tax @30% = FRW 56,700,000 × 30% = FRW 17,010,000

- Option B is not correct because it applied 5% to the difference between the selling price and the cost.
- Option C is also not correct because it applied 5% to the difference between the selling price, the cost, and other costs.
- Option D is not correct because it applied 30% to the difference between the selling price and the cost, ignoring the other costs (commission and notary fees).

## QUESTION SIX

**The correct answer is D**

The National Bank of Rwanda (BNR) is the official and competent authority responsible for publishing exchange rates to be used for tax and accounting purposes in Rwanda, others are not the competent ones.

## QUESTION SEVEN

**The correct answer is D**

Option D is a condition that applies to bad debts of less than FRW 3,000,000, not those exceeding FRW 3,000,000. The debt in question is FRW 3,500,000, so Option D is not applicable and is therefore not a valid justification in this case.

Options A, B, and C are required conditions for claiming bad debt relief on amounts over FRW 3,000,000, such as the one provided.

## QUESTION EIGHT

**The correct answer is B**

Under Rwanda's transfer pricing regulations, transactions between related parties (such as a parent company and its subsidiary) must follow the arm's length principle. This means that the pricing should reflect what would have been charged between independent entities under similar circumstances.

- Since the local market price is FRW 20,000,000, and the transfer price from the related party is FRW 15,500,000, the RRA will adjust the cost to FRW 20,000,000 to reflect the arm's length value.
- The option C of FRW 4,500,000 is the difference and should be considered a transfer pricing adjustment, not the actual cost.

## QUESTION NINE

**The correct answer is A**

Under Rwanda's Income Tax Law, the straight-line depreciation rate for buildings is typically 5% per year of the acquisition cost.

Even though part of the building is used by the Director, this does not affect depreciation. However, it will be considered a benefit in kind when computing the Director's taxable income

Calculation of Capital Allowance:

- Cost of the building = FRW 40,000,000

- Depreciation rate = 5%
- Claimable depreciation = FRW 40,000,000 × 5% = FRW 2,000,000

Even though an investment certificate was granted, the condition for accelerated depreciation (50%) is not met, because:

The asset must have a value exceeding FRW 50,000,000, which is not the case here (value is FRW 40,000,000). Therefore, accelerated depreciation does not apply.

**Option B** is incorrect because it considered 100% depreciation at 5% plus an additional 50% accelerated depreciation, which is not permitted due to the value threshold not being met.

**Option C** is incorrect because it considered 80% of the building cost at 5% depreciation, Considering the private use portion.

**Option D** is incorrect because it considered 80% of the cost at 5% plus 50% accelerated depreciation, which again is not allowed due to the value being below FRW 50,000,000.

#### **QUESTION 10**

**The correct answer is C.**

Development Bank of Rwanda is not liable for corporate income tax, others are liable. Uner Law No. 027/2022 of 20/10/2022 article 45 establishing taxes on income

## **SECTION B**

### **QUESTION 11**

#### **Marking guide**

<b>Description</b>	<b>Marks</b>
(a)(i)	
Award 1 mark for each computed Investment allowance	4
(a)(ii)	
Award 2 marks of well explained effect	2
(b)	
Award 1 mark for each exception	4
<b>Total</b>	<b>10 Marks</b>

#### **Model answers**

**a)i)**

<b>Description</b>	<b>Cost (FRW)</b>	<b>Rate of Investment Allowance</b>	<b>Investment Allowance (FRW)</b>	<b>Comment</b>
Commercial building	80,000,000	50%	40,000,000	
Two motor vehicles	60,000,000	50%	-	Cost of individual asset is less than FRW 50M
Heavy machinery	70,000,000	50%	35,000,000	
30 computers	54,000,000	50%	-	Cost of individual asset is less than FRW 50M
<b>Total</b>			<b>75,000,000</b>	

**ii)**

If XYZ Ltd claims an investment allowance on a building but subsequently disposes of it after two years, the investment allowance claimed in 2024 will be withdrawn. The tax reduction obtained through the investment allowance must be repaid to the tax administration, along with any applicable interest and penalties for underpayment of tax.

#### **b) The exceptions are:**

1. Distributions to holders of shares or units in collective investment schemes
2. Dividends on shares listed on the Rwanda capital market,
3. Where the recipient is resident in Rwanda or elsewhere in the East African Community (EAC)

4. Where the recipient is registered with the Rwanda Revenue Authority (RRA) and has a Tax Identification Number (TIN) Where Rwanda has a double taxation agreement (DTA) with the country of the recipient that reduces the tax rate

## QUESTION 12

### Marking guide

Description	Marks
Taxable income for the period end 30th June 2023	
Tax Liability @30%	
Due date to file the tax return	2 marks
IQP (Tax Liability/4)	
1st Quarter	2 marks (1 mark for the IQP and 1 mark for due date)
2nd Quarter	2 marks (1 mark for the IQP and 1 mark for due date)
3rd Quarter	2 marks (1 mark for the IQP and 1 mark for due date)
<b>Total</b>	<b>10 Marks</b>

### Model answers

- a) Due date to file the tax return is 30<sup>th</sup> September 2023  
b) Instalment prepayments for the subsequent tax period

IQP of Isooko Ltd	FRW	Due Date
Taxable income for the period end 30th June 2023	120,000,000	
Tax Liability @30%	36,000,000	
Due date to file the tax return		30-Sep-23
IQP (Tax Liability/4)	9,000,000	
1st Quarter	9,000,000	31-Dec-23
2nd Quarter	9,000,000	31-Mar-24
3rd Quarter	9,000,000	30-Jun-24

## SECTION C

### QUESTION 13

#### Marking guide

<b>a)Rental Income- Individual</b>	<b>Marks</b>
Gross Rental	1
Less	
Deemed expenses @10%	1
Interest (5M*10%*6/12)	1
Depreciation (5M*25%)	1
<b>Rental Taxable Income</b>	
<b>Tax Liability</b>	
<b>Tax ban</b>	
0-360000	0.5
360,001-1,200,000	0.5
Above 1,200,001	1
<b>Rental Income- M Rental Company Ltd</b>	
Gross Rental	1
Deemed expenses 50%	1
<b>Rental Taxable Income</b>	
<b>Tax liability @30%</b>	1
<b>Total Tax Liability</b>	1
<b>Sub Total</b>	<b>10</b>
<b>b)</b>	<b>Marks</b>
Awards 2 marks for each well computed WHT	10
<b>Grand Total</b>	<b>20</b>



## Model answers

a)

<b>Rental Income- Individual</b>				
	<b>Period</b>	<b>No of Machine</b>	<b>Monthly Rental Per Machine (FRW)</b>	<b>Total</b>
Gross Rental	Jan-June 2-24	2	500,000	6,000,000
Less				
Deemed expenses@10%				(600,000)
Interest (5M*10%*6/12)				(250,000)
Depreciation (5M*25%)				(1,250,000)
<b>Total deduction</b>				<b>(2,100,000)</b>
<b>Rental Taxable Income</b>				<b>3,900,000</b>
<b>Tax Liability</b>				
<b>Tax ban</b>	<b>Tax rate</b>	<b>Tax Amount</b>		
0-360000	0%	-		
360,001-1,200,000	20%	168,000		
Above 1,200,001	30%	810,000		
		<b>978,000</b>		
<b>Rental Income- M Rental Company Ltd</b>				
	<b>Period</b>	<b>No of Building</b>	<b>Month Rental (FRW)</b>	<b>Total</b>
Gross Rental	July-Dec 2024	1	800,000	4,800,000
Deemed expenses @50%				2,400,000
<b>Rental Taxable Income</b>				<b>2,400,000</b>
<b>Tax liability @30%</b>				720,000

b)

<b>Ubwiza Bank</b>			
<b>Transaction Date</b>	<b>Amount Paid (FRW)</b>	<b>WHT Rate</b>	<b>WHT Amount (FRW)</b>
3-Apr-24	13,500,000	15%	2,025,000
7-Apr-24	8,500,000	Exempted	-
10-Apr-24	300,000,000	Exempted	-
15-Apr-24	167,000,000	Exempted	-
20-Apr-24	14,000,000	Exempted	-
<b>Total</b>			<b>2,025,000</b>

## QUESTION 14

### Marking guide

<b>a)Reported Profit</b>	<b>Marks</b>
Profit	1
<b>Add non allowable expenses</b>	
Electricity	1
Water Bill	1
Fuel	1
Bad debt	1
Depreciation	1
50 chairs and tables	1
4 staff computers	1
2 motor cycles	1
Value Added Tax	1.5
Withholding Tax on import	1.5
<b>Less omitted expense</b>	
Capital allowance	1
Fee for audit firm (50% of 8.6M)*100/118	2
<b>Sub Total</b>	<b>15</b>

<b>b)</b>	<b>Marks</b>
Award 1 mark for each company listed	5
<b>Grand Total</b>	<b>20</b>

### Model answers

a)

Muganza Co., Ltd Taxable Income for the year ended 31st December 2024		
<b>Description</b>	<b>FRW'000'</b>	<b>FRW'000'</b>
<b>Reported Profit</b>		<b>59,600</b>
<b>Add non allowable expenses</b>		
Electricity (1,800*20%)	360	
Water Bill (1,200*20%)	240	
Fuel (10,200*20%)	2,040	
Bad debt	6,000	
Depreciation	4,500	
50 chairs and tables	10,000	
4 staff computers	5,600	
2 motor cycles	5,000	
Value Added Tax	24,000	
Withholding Tax on import	14,000	71,740

		<b>131,340</b>
<b>Less omitted expense</b>		
Capital allowance		3,400
Fee for audit firm (50% of 8.6M) *100/118		3,644
<b>Taxable profit</b>		<b>124,296</b>

b)

**List of companies that may qualify for a 0% corporate income tax rate, provided all other conditions are fulfilled:**

2. A registered investment entity operating in a free trade zone or
3. A foreign company with headquarters/ office in Rwanda which fulfils certain investment criteria in Rwanda.
4. Registered venture capital companies.
5. Approved micro-finance companies for 5 years from their time of approval.
6. Companies undertaking large investments (at least US\$50 million) in certain sectors (eg energy, tourism, health) for 7 years from their time of approval.

## QUESTION 15

### Marking guide

<b>a)</b>	<b>Marks</b>
Award 0.5 marks for each category of direct taxation	2
Award 0.5 marks for each source of employment income	3

<b>b)</b>	
<b>Description</b>	<b>Marks</b>
Basic salary	0.5
Transport allowance	1
Housing allowance	1
Tender committee allowance	1
Communication allowance	1
Sick pay	1
Annual bonus	1
Leave allowance	1
Personal Gym Contribution	1
Refund	0.5
Payment to personal driver	0.5
<b>Total taxable employment Income</b>	
<b>PAYE</b>	
0-30,000@0%	0.5
30,001-100,000@20%	0.5
100,001 and above@30%	0.5
<b>RSSB (Gross-Transport Allowance)</b>	
Employee contribution@3%	1

Employer contribution@5%	1
<b>Maternity Leave (Gross-Transport Allowance)</b>	
Employee contribution@0.3%	1
Employer contribution@0.3%	1
<b>Total</b>	<b>15</b>

#### Model answers

a)

#### Four categories of direct taxation are:

1. Personal income tax
2. Corporate income tax
3. Withholding tax and
4. Capital gains tax

#### Three sources of employment Income are:

1. Income generated from performing services (including employment)
2. Activities of a craft person, singer, artist or player
3. Sports, cultural or leisure activities
4. Income of Rwandan permanent establishments
5. Income from the use, lease and disposal of moveable assets by a Rwandan business
6. Sale, lease and free transfer of immovable Rwandan business assets
7. Farming, fishing and forestry Usufruct (right of use of an asset) and other rights attached to Rwandan business assets Income from investments in shares (i.e dividends)
8. Sales or transfer of shares and debentures.
9. Change of partnership profits into shares, such that a partner's interest increases
10. Distributions of partnership profits to partners
11. Income from lending and deposits (ie interest)
12. Transfer, sale and lease of intellectual property

b)

Munezero Employment Income	
<b>Description</b>	<b>Amount (FRW)</b>
Basic salary	700,000
Transport allowance	100,000
Housing allowance	100,000
<b>Gross</b>	<b>900,000</b>
<b>Other Benefits</b>	
Tender committee allowance	50,000
Communication allowance	30,000
Sick pay	250,000
Annual bonus	650,000
Leave allowance	450,000
Personal Gym Contribution	80,000
Refund	Exempted
Payment to personal driver	45,000
<b>Total taxable employment Income</b>	<b>2,455,000</b>
<b>PAYE</b>	<b>FRW</b>
0-30,000 @0%	-

30,001-100,000 @20%	14,000
100,001 and above@30%	706,500
	<b>720,500</b>
<b>RSSB (Gross-Transport Allowance)</b>	
Employee contribution@3%	24,000
Employer contribution@5%	40,000
	<b>64,000</b>
<b>Maternity Leave (Gross-Transport Allowance)</b>	
Employee contribution@0.3%	2,400
Employer contribution@0.3%	2,400
	<b>4,800</b>

**End of marking guide and model answers**