

**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS
A2.3 ADVANCED TAXATION
DATE: MONDAY 25, AUGUST 2025
MARKING GUIDE AND MODEL ANSWERS**

SECTION A

QUESTION ONE

(a)

Marking guide

| | |
|--|-------------|
| Mulindi Ltd | |
| Taxable Income and Tax Liability for the year ended 31 st December 2024 | |
| | Marks |
| Sales (VAT Exclusive) | 1 |
| Less cost of sales | |
| Opening Stock | 0.5 |
| Purchase | 1 |
| Less Closing stock | 1 |
| Operating Profit | |
| Less allowable expenses | |
| Loan interest (10) | 1 |
| Wages and Salaries | 1 |
| Electricity[(31-5)+6] | 1 |
| Fuel (5*80%) | 0.5 |
| Sundry expenses (113-50) | 1 |
| Omitted Rent (250,000*12) | 1 |
| Consultant fees | 1 |
| Trade license | 1 |
| Capital allowances (W1) | 0.5 |
| Profit before tax (Taxable Income) | |
| Tax liability (20%) | 1 |
| Less WHT | 1 |
| Total Marks for this section | 13.5 |

Marks on Working- Capital Allowance

| Working 1 | | | | | | | |
|-------------------------------------|--------------|---------------------|--------------|---------------|------------------------|--------------|-------------|
| Description | Building | Plant and Machinery | Heavy Truck | Motor Vehicle | Furniture and Fittings | Computers | |
| | FRW(million) | FRW(million) | FRW(million) | FRW(million) | FRW(million) | FRW(million) | Total |
| Cost/NBV | 0.5 marks | 0.5 marks | | 1 mark | | 1 mark | 3 |
| Additional | | 0.5 marks | 0.5 marks | | 0.5 marks | | 1.5 |
| Accelerated Depreciation at 50% | | 1 mark | | | | | 1 |
| Depreciation Base | | | | | | | |
| Depreciation rate | | | | | | | |
| Wear and Tear | 1 mark | 1 mark | 1 mark | 1 mark | 1 mark | 1 mark | 6 |
| Total marks for this section | | | | | | | 11.5 |

Model Answers

| Mulindi Ltd | | |
|---|--------------|----------------|
| Taxable Income and Tax Liability for the year ended 31st December 2024 | | |
| | FRW"million" | FRW"million" |
| Sales (VAT Exclusive) | | 2,284 |
| Less cost of sales | | |
| Opening Stock | 190 | |
| Purchase (VAT Exclusive) | 1,824 | |
| Less Closing stock (VAT Exclusive) | (424) | (1,590) |
| Operating Profit | | 694 |
| Less allowable expenses | | |
| Loan interest (10) | 10 | |
| Wages and Salaries | 254 | |
| Electricity [(31-5)+6] | 32 | |
| Fuel (5*80%) | 4 | |
| Sundry expenses (113-50) | 63 | |
| Omitted Rent (250,000*12) | 3 | |
| Consultant fees | 2 | |
| Trade license | 1 | |
| Capital allowances (W1) | 160.125 | 554.125 |
| Profit before tax (Taxable Income) | | 139.773 |
| Tax liability (20%) | | 27.955 |
| Less WHT | | 3 |
| Tax Payable | | 24.955 |

| Working 1 | | | | | | | |
|---------------------------------|--|---------------------|--------------|---------------|------------------------|--------------|---------|
| Description | Building | Plant and Machinery | Heavy Truck | Motor Vehicle | Furniture and Fittings | Computers | Total |
| | FRW(million) | FRW(million) | FRW(million) | FRW(million) | FRW(million) | FRW(million) | |
| Cost/NBV | 430 | 830 | - | 22.5 | - | 3 | 1,285 |
| Additional | - | 60 | 90 | - | 30 | - | 180 |
| Accelerated Depreciation at 50% | - | 30 | 45 | - | - | - | 75 |
| Depreciation Base | 430 | 890 | 90 | 22 | 30 | 3 | 1,465 |
| Depreciation rate | 5% | 5% | 5% | 25% | 25% | 50% | |
| Wear and Tear | 21.5 | 44.5 | 4.5 | 5.625 | 7.5 | 1.5 | 85.125 |
| Capital Allowance | Accelerated Depreciation + Wear and Tear | | | | | | 160.125 |

(b)

Marking Guide

| | |
|--|-------|
| Local Income-Rwanda | |
| Gross Income | |
| | Marks |
| Basic Salary | 0.5 |
| Transport Allowance | 0.5 |
| Housing Allowance | 0.5 |
| Total Gross Income | |
| Other Income | |
| Leave allowance (1 month gross salary) | 0.5 |
| Bonus (2 months gross salary) | 0.5 |
| School fees | 0.5 |
| Overtime (W1) | 0.5 |
| Copyright Royalties Income (W2) | 0.5 |
| Total other Income | |
| Total Taxable income from Rwanda | |
| Tax liability (Rwanda) | |
| Tax Liability on total taxable Income | |
| 0-360,000 | 0.5 |
| 360,001-1,200,000 | 0.5 |
| Above 1,200,001 | 0.5 |
| Total tax liability | |
| Income from UK | |
| 3 Months | |
| Main Income | 0.5 |
| Communication Allowance | 0.5 |
| Transport Allowance | 0.5 |
| Tax @25% | 1 |
| Total Taxable income (Rwanda & UK) | |
| Tax Liability on total taxable Income | |
| 0-360,000 | 0.5 |
| 360,001-1,200,000 | 0.5 |
| Above 1,200,001 | 0.5 |
| Total tax liability | |
| Foreign Tax Credit | |
| Tax that should have been paid in UK (Different between Tax liability (Rwanda &UK) and Tax Liability Rwanda) | 0.5 |
| Actual Tax paid in UK | 0.5 |
| Foreign Tax credit- Lower between 2 | 0.5 |
| Tax Payable | |
| Total Tax liability (Rwanda&UK) | 0.5 |
| Less foreign tax credit | 0.5 |
| Tax payable | |

| | |
|---------------------------|--------------|
| Working 1-Overtime | Marks |
| Days in the month | |

| | |
|-------------------------------------|-----|
| Gross salary | |
| Hours per day | |
| Total hours per month | |
| Hourly rate | 0.5 |
| Extra Hours per day | |
| Extra hours per month | |
| Extra hours per year | |
| Overtime | 1 |
| Working 2- Copyright Royalty | |
| Gross Income | 0.5 |
| Less allowable expenses | |
| License fees | 0.5 |
| Maintenance | 0.5 |
| Net Income | |

Model Answers

| Ntihemuka's Taxable Income and Tax Liability for the year ended 31st December 2024 | | |
|--|--------------------|---------------------|
| Local Income-Rwanda | | |
| Gross Income | | |
| | Monthly-FRW | Annually-FRW |
| Basic Salary | 500,000 | 6,000,000 |
| Transport Allowance | 100,000 | 1,200,000 |
| Housing Allowance | 150,000 | 1,800,000 |
| Total Gross Income | 750,000 | 9,000,000 |
| Other Income | | |
| Leave allowance (1 month gross salary) | | 750,000 |
| Bonus (2 months gross salary) | | 1,500,000 |
| School fees | | 1,000,000 |
| Overtime (W1) | | 2,250,000 |
| Copyright Royalties Income (W2) | | 2,700,000 |
| Total other Income | | 8,200,000 |
| Total Taxable income from Rwanda | | 17,200,000 |
| Tax liability (Rwanda) | | |
| Tax Liability on total taxable Income | Rate | Tax Amount |
| 0-360,000 | 0% | - |
| 360,001-1,200,000 | 20% | 168,000 |
| Above 1,200,001 | 30% | 4,800,000 |
| Total tax liability | | 4,968,000 |
| Income from UK | | |
| 3 Months | USD | FRW @1300 |
| Main Income | 4,500 | 5,850,000 |
| Communication Allowance | 600 | 780,000 |
| Transport Allowance | 900 | 1,170,000 |
| | 6,000 | 7,800,000 |
| Tax @25% | 1,500 | 1,950,000 |
| Total Taxable income (Rwanda & UK) | | 25,000,000 |
| Tax Liability on total taxable Income | Rate | Tax Amount |

| | | |
|---|-----|------------------|
| 0-360,000 | 0% | - |
| 360,001-1,200,000 | 20% | 168,000 |
| Above 1,200,001 | 30% | 7,140,000 |
| Total tax liability | | 7,308,000 |
| Foreign Tax Credit | | |
| Tax that should have been paid in UK (Different between Tax liability (Rwanda &UK) and Tax Liability Rwanda | | 2,340,000 |
| Actual Tax paid in UK | | 1,950,000 |
| Foreign Tax credit- Lower between 2 | | 1,950,000 |
| Tax Payable | | |
| Total Tax liability (Rwanda &UK) | | 7,308,000 |
| Less foreign tax credit | | (1,950,000) |
| Tax payable | | 5,358,000 |

| | |
|-------------------------------------|------------------|
| Working 1-Overtime | |
| Days in the month | 30 |
| Gross salary | 750,000 |
| Hours per day | 8 |
| Total hours per month | 240 |
| Hourly rate | 3,125 |
| Extra Hours per day | 2 |
| Extra hours per month | 60 |
| Extra hours per year | 720 |
| Overtime | 2,250,000 |
| Working 2- Copyright Royalty | |
| Gross Income | 3,000,000 |
| Less allowable expenses | |
| License fees | 200,000 |
| Maintenance | 100,000 |
| Net Income | 2,700,000 |

SECTION B

QUESTION TWO

Marking guide

| (a) | Marks |
|---|--------------|
| Award 1 mark for each well explained strategy | 4 |
| (b) | |
| Net Asset | 2 |
| Increase/ Decrease of Net Asset | 1.5 |
| Birthday gift | 0.5 |
| Interest Income (Not taxable) | 1 |
| Drawing of Goods | 1.5 |
| Capital allowance | 1.5 |
| Donation at church | 0.5 |
| Rent for her mother | 1.5 |
| Living Expenses | 1.5 |
| Wedding gift | 0.5 |
| (c) | |
| Income tax declared | 1 |
| Corrected Taxable Income | |
| Correct Income Tax @30% | 1 |
| Tax to be paid to rectify the paid one | 1 |
| Reasons | 1 |
| Total | 20 |

Model answers

(a)

1. **Digitalization of Tax Systems** by Implementing digital tools such as Electronic Billing Machines (EBMs), e-Tax systems, and e-filing to track real-time sales and reduce underreporting to reduce the manipulation of sales records and improves VAT compliance.
2. **Taxpayer Education & Sensitization** by Conducting awareness campaigns, workshops, and outreach programs to inform taxpayers about their rights, obligations, and penalties for evasion to promote a culture of voluntary compliance and reduces evasion due to ignorance.
3. **Risk-Based Audits and Compliance Check** by Using risk assessment tools to identify and audit high-risk taxpayers based on sector, transaction volume, and filing behaviour Increases detection of tax fraud and under-declaration
4. **Strengthening Legal Framework & Penalties** by Enforcing strict penalties for tax evasion, including fines, interest, and potential criminal charges to act as a deterrent and encourages proper tax reporting.
5. **Third-Party Information Sharing & Data Matching** by collaborating with financial institutions, banks, Rwanda Development Board (RDB), and other entities to cross-check taxpayer data to identify discrepancies in declared income versus actual earnings.

6. **Whistleblower Incentive Programs** by rewarding individuals who report suspected tax evasion with a percentage of the recovered amount to encourage public participation in identifying tax cheats
7. **Sector-Based Compliance Programs** by Focusing on high-risk sectors like construction, hospitality, and transport to ensure sector-specific compliance to target sectors with historically high evasion risk.
8. **Capacity Building & Staff Training** by regular training of RRA staff in forensic audits, IT systems, and fraud detection techniques to enhance the authority's ability to detect and address sophisticated evasion schemes.
9. **Use of Artificial Intelligence & Data Analytics** by leveraging AI to detect anomalies in taxpayer data and predict evasion risks to increase efficiency in tax monitoring and fraud detection.
10. **Regional and International Cooperation** by engaging in cross-border tax information exchange through Organisation for Economic Co-operation and Development (OECD)'s Global Forum on Transparency and EAC tax cooperation frameworks to reduce tax evasion through offshore accounts and transfer pricing.

(b)(i)

| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Keza | | | | |
| Taxable income for the period ended 31st December 2022,2023 and 2024 | | | | |
| Description | 2021 | 2022 | 2023 | 2024 |
| Total assets | FRW'000' | FRW'000' | FRW'000' | FRW'000' |
| Building | 50,000 | 50,000 | 50,000 | 50,000 |
| Land | 15,000 | 5,000 | 15,000 | 15,000 |
| Motor Cycles | 1,500 | 2,500 | 2,200 | 3,500 |
| Motor vehicle | 25,000 | 11,000 | 28,000 | 20,000 |
| Home furniture and fittings | 2,300 | 2,300 | 2,800 | 2,500 |
| Business furniture and fittings | 3,500 | 3,500 | 3,000 | 4,000 |
| Computers | 800 | 1,200 | 1,500 | 2,000 |
| Stock | 18,000 | 5,000 | 20,000 | 25,000 |
| Personal clothes and effects | 5,000 | 5,500 | 6,700 | 8,000 |
| Cash at bank | 3,500 | 7,000 | 5,000 | 10,000 |
| Kitchen materials | 8,000 | 4,800 | 9,000 | 12,000 |
| | 132,600 | 97,800 | 143,200 | 152,000 |
| Total Liabilities | | | | |
| Bank business loan | 80,000 | 76,000 | 72,000 | 68,000 |
| Account payables | 18,000 | 17,000 | 11,100 | 13,500 |

| | | | | |
|--------------------------------|----------------|--------------------|---------------|-----------------|
| Bank overdraft | 6,000 | 9,000 | 4,500 | 15,000 |
| | 104,000 | 102,000 | 87,600 | 96,500 |
| Net Assets | 28,600 | - 4,200 | 55,600 | 55,500 |
| Change of Net asset | - | - 32,800 | 59,800 | - 100 |
| Add | | | | |
| Interest Income | | | - | - |
| Drawings | | 500 | 550 | 605 |
| Donations | | | | 300 |
| Rent | | 300 | 330 | 363 |
| Living Expenses | | 800 | 960 | 1152 |
| Wedding gift | | | | 500 |
| | | 1,600 | 1,840 | 2,920 |
| Less | | | | |
| Birthday gift received | | | 2,200 | |
| Capital allowance | | 1,800 | 1,620 | 1,458 |
| | | 1,800 | 3,820 | 1,458 |
| Adjusted taxable income | | - 33,000 | 57,820 | 1,362 |

(b)(ii)

| Descriptions | | 2,022 | 2,023 | Total |
|--------------------------|--|--------------|--------------|--------------|
| Income tax declared | | 5,000 | 8,500 | 13,500 |
| Adjusted Taxable Income | | - 33,000 | 57,820 | 24,820 |
| Tax payable | | - | 7,254 | 7,254 |
| Net tax payable/(credit) | | - 5,000 | - 1,246 | - 6,246 |

Reasons:

Article 79 of the tax administration law of 2019, states that a taxpayer who rectifies his or her tax declaration and pays relevant tax before he or she is notified of imminent audit of his or her tax is not subject to the administrative fine. That is why no fines and penalties considered.

QUESTION THREE

Marking guide

| (a)(i) | Marks |
|--|--------------|
| Award 1 mark for each explained condition | 3 |
| (a)(ii) | |
| Award 1 mark for each explained land component | 2 |
| (a)(iii) | |
| Award 1 mark for each explained change | 3 |
| Sub Total | 8 |

(b)

| | |
|--|--------------|
| 1. Apartment at Rebero | |
| Land | Marks |
| Correct tax computed on Standard size | 0.5 |
| Correct tax computed on Extra | 0.5 |
| Building | |
| Correct tax computed on Building | 1 |
| 2. Land in Niboye | |
| Correct tax computed on Standard | 1 |
| Correct tax computed on Extra | 1 |
| 3. Land in Masaka | |
| Correct tax computed on Standard | 1 |
| Correct tax computed on Extra | 1 |
| Farm at Gahanga | |
| Total area | |
| Exempted | |
| Correct tax computed on remaining area | 1 |
| Subtotal marks | 7 |

| | |
|--|--------------|
| (c)(i) | Marks |
| Award 2 marks for correct exempted enterprise stated | 2 |
| (c)(ii) | |
| Award 1 mark for well explained circumstances. | 3 |
| Sub Total | 5 |

Model Answers

(a) (i)

The condition under which the purchase price is considered as market value of immovable property are:

1. The immovable property was bought within the previous five years in the free market.
2. The property value has not changed by more than twenty percent (20%) since the acquisition.
3. The acquisition contract is presented to the RRA.

(a) (ii)

The land component is exempted from Immovable Property Tax if:

1. The land is reserved for construction of houses in rural areas with no basic infrastructure (as defined by the District Council).
2. The first 20,000 square metres of land are used for agriculture or livestock of each parcel.
Note this means that for each parcel used for agriculture or livestock, the first 20,000 square metres are exempt and only any remaining land is taxable.

(a) (iii)

What happens if the Immovable Property changes ownership during the tax period?

1. If Immovable Property is purchased in a given tax period, the old owner must declare and pay the amount including the month of the ownership transfer.
2. The new owner must declare and pay Immovable Property Tax for the remaining months.
3. No transfer of ownership of an immovable property can take place without all due taxes having been paid to RRA.

(b)

| Immovable Property Tax to be paid by Mr Rukundo for the year ended 31 st December 2022 | | | | |
|---|-------------|-----------------------------|------------------|--|
| 1. Apartment at Rebero | | | | |
| Land | | Rate (FRW) | Tax | Comment |
| Standard size | 300 | 850 | 255,000 | |
| Extra | 200 | 1,275 | 255,000 | |
| Sub Total 1 | | | 510,000 | |
| Building | | | | |
| Value | 200,000,000 | 1% reduced by 50% i.e, 0.5% | 1,000,000 | |
| Sub Total 2 | | | 1,000,000 | |
| 2. Land in Niboye | | | | |
| Standard | 300 | 1,700 | 297,500 | Tax to be paid should start from June, period after transfer of ownership up to December and because it was remained undeveloped till 2024, 100% of the rate should be added |
| Extra | 300 | 2,550 | 446,250 | Tax to be paid should start from June, period after transfer of ownership up to December and because it was remained undeveloped till 2024, 100% of the rate should be added |
| Sub Total 3 | | | 743,750 | |
| 3. Land in Masaka | | | | |
| Standard | 300 | 850 | 148,750 | Tax to be paid up to July, period before transfer of ownership up to December |
| Extra | 150 | 1,275 | 111,563 | Tax to be paid up to July, period before transfer of ownership up to December |
| Sub Total 4 | | | 260,313 | |
| Farm at Gahanga | | | | |
| Total area | 60,000 | | | |
| Exempted | 20,000 | | | First 2 ha or 20,000 m2 should be exempted |
| Taxed area | 40,000 | 150 | 6,000,000 | |
| Sub Total 5 | | | 6,000,000 | |

| | | | | |
|--------------------|--|--|------------------|--|
| Grand Total | | | 8,514,063 | |
|--------------------|--|--|------------------|--|

(c) (i)

The enterprise exempted from a trading license is small and medium and the period that the exemption should last is the first 24 months of establishment.

(c) (ii)

The times when the same taxpayer paid the trade licence are explained below:

1. Trading License Tax is based on the locations of the profit-oriented activities. If a taxpayer has multiple business branches, even of the same business, Trading License Tax must be paid for each of the branches, as well as for the head office.
2. This principle also applies to motor vehicles, including motorcycles, and motorboats. If a taxpayer has multiple motor vehicles and motorboats used for profit-oriented activities, Trading License Tax must be paid for each.
3. On the other hand, if a taxpayer carries out multiple activities by the same company at the same premises, Trading License Tax is only paid once for that premises.

QUESTION FOUR

Marking guide

| Description | Marks |
|--|--------------|
| Award 1 mark for each item on understated output VAT | 6 |
| Award 1 mark for each item under input VAT | 8 |
| Award 1 mark for each item under output VAT | 4 |
| Award 1 mark for total output VAT | 1 |
| Award 1 mark for the correct VAT payable | 1 |
| Total | 20 |

Model answers

| Understated output VAT resulted from Surprise stock take | | | | | | | | | |
|--|--|-------------------------|-----------------------------------|---|---------------------------------------|---|----------------------------------|---------------------------------|------------------------------|
| Item Description | Stock as at 31st December 2024 (Units) | Imported (Units) | Units sold and charged VAT | Stock as at 30th April 2025 (Units) | Unit Price (FRW) VAT Exclusive | Real closing stock (Opening+Imported - Sold units) | Sold unit not charged VAT | Sales Value not declared | Undeclared output VAT |
| | A | B | C | D | E | F=A+B-C | G=D-F | H=E*G | I=H*18% |
| Lamp | 1,200 | 560 | 890 | 800 | 35,000 | 870 | (70) | (2,450,000) | (441,000) |
| Kettle | 900 | 2,000 | 1,350 | 1,250 | 25,000 | 1,550 | (300) | (7,500,000) | (1,350,000) |

| | | | | | | | | | |
|------------|-------|-----|-------|-------|---------|-------|-------|-------------|-------------|
| Iron | 650 | 560 | 380 | 650 | 13,500 | 830 | (180) | (2,430,000) | (437,400) |
| Television | 600 | 400 | 651 | 400 | 350,000 | 349 | 51 | 17,850,000 | 0 |
| Toaster | 3,000 | 670 | 1,897 | 1,675 | 85,000 | 1,773 | (98) | (8,330,000) | (1,499,400) |
| Dryer | 2,300 | 100 | 1,945 | 455 | 55,000 | 455 | - | - | - |
| Total | | | | | | | | | (3,727,800) |

| Input VAT-Purchase | | | | | | |
|---------------------------|------------|------|-----------|------|-----------|--|
| Description | Standard | Zero | Exempt | Rate | Tax | Comment |
| 1,500 Switches | 5,000,000 | - | - | 18% | 900,000 | |
| 50 Lugs | - | - | - | - | - | Not considered because VAT was claimed in April according to the taxation period, where we consider early between delivery, invoice, payment and receipt date |
| 150 Plugs | 5,500,000 | - | - | 18% | 990,000 | |
| 1,000 circuit breakers | - | - | - | 0 | - | Not considered because VAT was claimed in February according to the taxation period, where we consider early between delivery, invoice, payment and receipt date |
| 78 fans | 12,000,000 | - | - | 18% | 2,160,000 | |
| 26 computers | - | - | 3,500,000 | - | - | Exempted |
| 600 Electrical connectors | - | - | - | - | - | Not considered because VAT was claimed in January according to the taxation period, where we consider early between delivery, invoice, payment and receipt date |
| 500 fuses | 6,000,000 | - | - | 18% | 1,080,000 | |
| Electricity | 12,000,000 | - | - | 18% | 2,160,000 | |
| Total Input VAT | | | | | 7,290,000 | |

| Output VAT | | | | | | |
|----------------|-----------|------|--------|------|-----------|---------|
| Description | Standard | Zero | Exempt | Rate | Tax | Comment |
| 2,000 Switches | 6,500,000 | - | - | 18% | 1,170,000 | |

| | | | | | | |
|-----------------------------|------------|---|---|-----|-------------------|---|
| 500 Lugs | - | - | - | - | - | Claimed in April 2025 as per taxation period of considering the earlier between delivery, invoice, payment and receipt date |
| 30 Plugs | 6,500,000 | - | - | 18% | 1,170,000 | |
| 1,600 Electrical connectors | 80,900,000 | - | - | 18% | 14,562,000 | |
| 200 fuses | 2,000,000 | - | - | 18% | 360,000 | |
| Total output VAT | | | | | 17,262,000 | |

| | |
|--|-------------------|
| VAT payable or refundable | |
| Total output VAT (output VAT on Electrical Materials & Understated VAT) (17,262,000+514,800) | 17,776,800 |
| Output VAT on undeclared stock | 3,727,800 |
| Input VAT | 7,290,000 |
| VAT Payable | 13,699,800 |

QUESTION FIVE

Marking guide

| Descriptions | Marks |
|--------------------------|--------------|
| RRA Adjusted cost | 0.5 |
| Insurance | 1 |
| Transport | 1 |
| CIF | |
| Exchange rate | |
| CIF FRW | 0.5 |
| Import duty | 1 |
| Excise duty | 1 |
| VAT | 1 |
| WHT | 1 |
| IDL | 1 |
| AUL | 1 |
| Computer processing fees | 1 |

| | |
|---|---|
| (b) | |
| Award 2 marks for each effect well explained on each form of business | 4 |

| | |
|--|--------------|
| (c) | Marks |
| Sole trader | |
| Award 0.5 marks on each taxable profit | 1 |
| Award 0.5 marks on each tax liability | 1 |
| Limited liability | |
| Award 0.5 marks on each taxable profit | 1 |

| | |
|---------------------------------------|---|
| Award 0.5 marks on each tax liability | 1 |
| Advise | 2 |

Model Answers

(a)

| Item | Amount (USD) |
|--------------------------|--------------|
| FOB | 13,000 |
| RRA Adjusted cost | 15,000 |
| Insurance | 50 |
| Transport | 333 |
| CIF | 15,383 |
| Exchange rate | 1,450 |
| CIF FRW | 22,305,833 |
| Import duty | 5,576,458 |
| Excise duty | 2,788,229 |
| VAT | 5,520,694 |
| WHT | 1,115,292 |
| IDL | 334,588 |
| AUL | 44,612 |
| Computer processing fees | 3,000 |

(b)

- ✓ In the case of forced tax recovery, the tax administration is legally permitted to seize any movable or immovable property belonging to the taxpayer, whether held directly by the taxpayer or by a third party.
- ✓ Under a sole proprietorship (individual business) structure, the business and the owner are considered a single legal entity. This means that the owner's personal assets are not protected from business liabilities. Consequently, if the business fails to meet its tax obligations, the tax administration may seize *any* property registered in the owner's name, including personal assets to recover the tax debt.
- ✓ On the other hand, when operating as a limited company, the business is treated as a separate legal entity from its shareholders or directors. The liability of the owners (shareholders) is limited to the amount of their capital contribution or shareholding. Therefore, in the event of a forced tax recovery, only the assets registered under the company's name can be seized by the tax authority. The personal assets of the shareholders or directors are generally protected and cannot be used to settle the company's tax liabilities unless there is evidence of fraud, mismanagement, or personal guarantees.

Conclusion: From a tax risk perspective, forming a limited company offers greater protection for personal assets compared to operating as a sole trader. This is an important consideration for anyone concerned about safeguarding personal property in the event of tax enforcement actions.

(c)

| Sole Trader | Year 1 | Year 2 | Total |
|-------------------------|-----------------|-----------------|----------------|
| Description | FRW'000' | FRW'000' | |
| Operating Profit | 60,000 | 76,000 | 136,000 |
| Less Allowable Expenses | | | |
| Investor's salary | 12,000 | 12,000 | 24,000 |
| Loan Interest | 5,000 | 3,000 | 8,000 |
| Taxable profit | 43,000 | 61,000 | 104,000 |
| Tax Liability | 12,708 | 18,108 | 30,816 |
| Limited Company | Year 1 | Year 2 | Total |
| Description | FRW'000' | FRW'000' | |
| Operating Profit | 60,000 | 76,000 | 136,000 |
| Less Allowable Expenses | | | |
| Investor's salary | 12,000 | 12,000 | 24,000 |
| Loan Interest | 5,000 | 3,000 | 8,000 |
| Taxable profit | 43,000 | 61,000 | 104,000 |
| Tax Liability | 12,900 | 18,300 | 31,200 |

Advise:

It is advisable for the investor to operate as a sole trader, assuming all other factors remain constant.

Assumed that the mortgage loan was secured for business purposes.

End of Marking guide and Model answers