
CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS
A2.3 ADVANCED TAXATION

DATE: MONDAY 25, AUGUST 2025

INSTRUCTIONS:

1. Time allowed: **3 hours and 45 minutes** (15 minutes reading and 3 hours 30 minutes writing)
2. This examination has **two** sections; **A&B**
3. Section **A** has one Compulsory Question while section **B** has Four optional questions to choose any Three
4. In summary attempt **Four** questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings

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 (VAT) 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%

Your answers should be based on Law N° 016/2018 of 13/04/2018 Establishing Taxes on Income where applicable.

SECTION A

QUESTION ONE

a) Mulindi Ltd commenced business on 1st January 2020, offering textile manufacturing services. On the same date, the company opened a bank account but did not maintain any books of account. The chief accountant and the promoters of the business believed that the bank account alone would be sufficient to track the money received and paid, and that it would also allow them to determine the profit at the end of the period.

In November 2024, the company approached a consultant to prepare the financial statements. The consultant managed to prepare a trial balance for the period ending 31st December 2024, as detailed below:

Description	Note	Debit (FRW' million')	Credit (FRW' million')
Share capital			450
10% secured loan for 20 years			200
Retained earnings as at 01 st January 2024			242
General Reserve as at 01 st January 2024			171
Building as at 01 st January 2021 (Cost)		430	
Plant and Machinery as at 01 st January 2021 (cost)		830	
Motor vehicle as at 01 st January 2022 (Cost)		40	
Computers with a useful life of 6 years as at 01 st January 2023 (Cost)		6	
Accumulated depreciation as at 01st January 2024:			
- Building			83
- Plant and Machinery			159
- Motor vehicle			18
- Computers			3
Opening inventory	3	190	
Sales	14		2,695
Purchases	9&14	2,152	
Dividend		15	
Loan interest	5	10	
Wages and Salary as at 01 st January 2024			135
Wages and Salaries		254	
Electricity	2	31	
Sundry Expenses	1	113	
Trade Receivables		179	
Trade Payables			195
Rent as at 01 st January 2024	6		25
Bank		126	
Total		4,376	4,376

Additional information:

1. Sundry expenses include FRW 50 million paid for fire insurance covering the year ending 31st December 2025.
2. Electricity costs exclude an invoice of FRW 6 million for the months of October, November, and December 2024, which was paid in February 2025. Additionally, the reported electricity cost includes FRW 5 million related to fuel used in the marketing manager's vehicle, which is used for both business and personal purposes.
3. Inventory as of 31st December 2024 was valued at FRW 500 million, the net realizable value while the cost was FRW 650 million and all were VAT inclusive.
4. During the year in June 2024, the following assets were acquired:
 - A heavy truck for FRW 90 million VAT exclusive
 - Additional plant and machinery for FRW 60 million VAT exclusive
 - Furniture and fittings for FRW 30 million VAT exclusive
5. Loan interest paid related to 10% secured loan for 20 years mentioned in the trial balance.
6. Mulindi Ltd signed a rental agreement to provide office space for its branch located in Rusizi District at a monthly rent of FRW 250,000. However, this expense was omitted from the books of accounts.
7. The agreed remuneration for the consultant was FRW 2 million, based on a contract signed with a completion period of three months starting from October 2024.
8. The trade license fee of FRW 1 million for the year ending 31st December 2024 was not paid.
9. The purchase cost included imported raw materials, for which Mulindi Ltd paid FRW 3 million of withholding tax at the border. However, this amount was not recorded in the books.
10. In 2023, Mulindi Ltd applied for an investment certificate from the Rwanda Development Board (RDB), which was granted in the same year.
11. At the beginning of the year, Mulindi Ltd registered with the Rwanda Stock Exchange and issued 52% of its shares to the public.
12. It is the company's policy to charge full depreciation in the year of acquisition, using the reducing balance method at the following rates:
 - 15% on Buildings, Plant and Machinery, and Heavy Trucks
 - 20% on Vehicles, Furniture and Fittings, and Computers
13. The company also prepares its financial statements in accordance with International Accounting Standard (IAS) 1.
14. Sales and purchases were VAT inclusive.
15. Where applicable the exchange rate 1 USD =FRW 1,000

Required:

As tax expert, **help Mulindi Ltd to compute taxable income and tax payable for the year ended 31st December 2024.** (25 Marks)

b) Ntihemuka is an employee of Kazeneza Ltd. In his free time, he also offers consultancy services, creates trademarks, and sells them to various investors. Occasionally, he travels abroad for work, where he earns additional income.

During the year ended 31st December 2024, the following income were earned:

Employment Contract with Kazeneza Ltd:

1. Kazeneza Ltd agreed to pay Ntihemuka a monthly basic salary of FRW 500,000, along with a transport allowance of 20% and a housing allowance of 30% of the basic salary.
2. The company also agreed to provide an annual leave allowance equal to one month's gross salary and an annual bonus equal to two months' gross salary.
3. Kazeneza Ltd committed to covering school fees of FRW 1,000,000 per year per child for each of Ntihemuka's children attending primary school. Ntihemuka has three children: one in Nursery, one in Primary, and the rest in Secondary education.
4. The company pays overtime based on extra hours worked, calculated at an hourly rate derived from the gross salary, based on 30 days per month and 8 working hours per day. Due to his workload, Ntihemuka worked 2 extra hours per day throughout the year.
5. During the year, Ntihemuka earned FRW 3,000,000 in copyright royalties from Rwiririza Ltd for the use of his artwork. He incurred annual license fees of FRW 200,000 and maintenance expenses of FRW 100,000 related to this copyright.
6. In May 2024, Ntihemuka signed a contract with a UK-based company, earning a monthly income of USD 1,500 for three months. In addition, the company agreed to pay:
 - USD 200 per month for communication allowance, and
 - USD 300 per month for transport allowance.

As per the contract, the UK-based company withheld 25% tax from the total payment. Based on the published foreign exchange rate (1 USD = FRW 1,300), which remained constant from January 2024 throughout the year.

Required:

Calculate Ntihemuka's taxable income and tax payable for the year ended 31st December 2024.

(15 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

a) Tax evasion refers to the illegal practice of deliberately avoiding paying taxes by individuals, companies, or other entities. It typically involves misrepresenting or concealing income, inflating deductions, underreporting profits, or failing to declare certain economic activities to tax authorities. Tax evasion is considered a criminal offense in most jurisdictions and undermines the integrity of national tax systems.

In Rwanda, the Rwanda Revenue Authority (RRA) is the agency responsible for tax collection and enforcement. Despite considerable progress in tax administration reforms and compliance promotion, tax evasion remains a concern. RRA continues to face challenges such as informal sector activities, under-declaration of income, fraudulent VAT claims, and illicit cross-border transactions. These practices directly impact the government's ability to finance national development agendas and reduce reliance on external aid.

Addressing tax evasion requires a combination of legal enforcement, taxpayer education, digital transformation, third-party data sharing, and international cooperation. Strengthening these systems is essential for ensuring tax fairness, transparency, and sustainable economic growth.

To continue monitoring and combating tax evasion, the RRA has established various strategies aimed at increasing voluntary compliance, strengthening enforcement, and improving transparency and taxpayer services.

Required:

Briefly discuss at least FOUR strategies that the Rwanda Revenue Authority (RRA) has implemented or plans to implement to combat tax evasion. (4 Marks)

b) Due to a low level of tax literacy, some individuals start businesses but later fail to consult tax professionals for assistance with tax-related matters. Many believe that once local taxes are paid, there is no need to pay other taxes. Others mistakenly think that taxable profit is simply the difference between total revenue and total expenses, without distinguishing between personal and business expenses.

This was the case with Keza, who started a retail shop at Kimironko Market in 2021. From then until 2024, she had only been paying decentralized taxes and calculating tax on income based solely on total income received minus total expenses.

During an RTV show featuring the Commissioner of the Rwanda Revenue Authority (RRA) in charge of domestic taxes focused on mobilizing taxpayers to file and declare income tax, Keza realized that she had never done so or done it wrongly. Upon learning about the fines and penalties associated with non-compliance, she became anxious, fearing prosecution and heavy financial penalties that could ultimately lead to the closure of her business.

Immediately, she contacted a former classmate to help her find a tax consultant who could quickly review her financial data and offer proper advice. As a result, she has approached you

to assess whether there was any taxable income she should have reported and paid taxes on since then. The following information regarding her financial position over the last four years has been provided:

Description	31 Dec 2021	31 Dec 2022	31 Dec 2023	31 Dec 2024
	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
Bank business loan	80,000	76,000	72,000	68,000
Account payables	18,000	17,000	11,100	13,500
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
Bank overdraft	6,000	9,000	4,500	15,000

Additional information:

1. In the year 2023, she received a birthday gift of USD 2,000 from her cousin in Canada. At that time, 1 USD was equivalent to FRW 1,100.
2. In 2021, she invested in Rwanda National Investment Trust Ltd. For the years 2023 and 2024, she received interest income of FRW 4,000,000 and FRW 5,000,000 respectively.
3. Drawings of goods for the year 2022 were FRW 500,000 and have been accumulating at a rate of 10% annually.
4. Capital allowances were agreed at a total of FRW 1,800,000 for the second year of operation and continue to decrease at a rate of 10% annually.
5. Donations to the church in the year of 2024 amounted to FRW 300,000.
6. Rent paid on behalf of her mother was FRW 300,000 in 2022. According to the rent contract with the landlord, a 10% inflation adjustment was to be applied each subsequent year.
7. Living expenses for Keza and her mother were estimated at FRW 800,000 in 2022 and have been increasing at a cumulative rate of 20% each year.
8. A wedding gift given to her brother in 2024 amounted to FRW 500,000.

Required:

- i) **Compute the taxable income or loss of Keza for the three-year period ended 31 December 2022, 2023, and 2024.** (12 Marks)
- ii) Keza declared income tax of FRW 5,000,000 and FRW 8,500,000 for the years ended 31st December 2022 and 2023, respectively. However, based on the results above, she now wants to rectify her tax declarations. **Calculate the total tax she is supposed to pay to the RRA in**

order to correct the declarations for 2022 and 2023 and explain the reasons for the adjustments.

(4 Marks)

(Total: 20 Marks)

QUESTION THREE

a) The Rwandan tax structure is categorized into two main types (Decentralized tax structure and Centralized tax structure). The centralized tax structure comprises taxes collected by the central government, whereas the decentralized tax structure includes taxes collected by District authorities. Under the decentralized tax structure, we also find taxes paid to decentralized entities, such as immovable property tax, trading license tax, and rental income tax.

The immovable property (Land and building) tax is assessed and paid by the owner, the usufructuary, or any other person considered to be the owner. The tax is levied on the market value of the building and the surface area of the plot of land. Buildings must be regularly valued, and their valuation and any improvements must be carried out by a certified valuer. However, there is a condition under which the purchase price of the property may be considered as its market value.

Again, the immovable property tax on the value amount or purchase price should be declared and paid not later than 31st December by the owner of the property. In case there is a change in ownership, the law also states how the immovable property tax should be paid.

Required:

i) **Briefly, discuss THREE conditions under which the purchase price is considered as the market value of an immovable property.** (3 Marks)

ii) **Describe TWO cases where the component of land is exempted from immovable tax.** (2 Marks)

iii) **Explain what will happen if the immovable property changes ownership during the tax period.** (3 Marks)

b) Mr. Rukundo is a public servant who used to invest in buying and constructing immovable properties in Kicukiro District because he believed Kicukiro to be the most favorable area that many investors target for buying plots of land and constructing buildings. During the year ended 31st December 2022, he bought and sold the following properties:

1. On 1st January 2022, he constructed a 3-floor apartment with a basement at Rebero, at a cost of FRW 200,000,000, on a 500m² plot of land.
2. On 15th May 2022, he bought a 600m² plot of land in Niboye for FRW 35,000,000, which remained undeveloped until 2024.
3. On 10th July 2022, he sold one of his plots located in Masaka, measuring 450m², for FRW 24,000,000.
4. Also on 1st January 2022, he bought a large farm that served as an agricultural area located in Gahanga, measuring 60,000m², for FRW 250,000,000.

Additional information:

1. Kicukiro District has approved a standard plot size of 300 square meters, with a tax rate of FRW 850 per square meter applicable in all areas, except for agricultural zones where the rate is set at FRW 150 per square meter.
2. For land that is purchased or sold, the transfer of ownership is effected within the same month as the transaction.

Required:

Calculate the immovable property tax to be paid by Mr. Rukundo for the year ended 31st December 2022. (7 Marks)

c) Trading License Tax, is a tax levied on any person or business conducting profit-oriented activities. Trading License Tax is required to be paid each year to receive the Trading License Tax certificate that must be displayed by all business branches.

Required:

i) **Describe the types of enterprises that are exempt from the Trading License Tax and specify the duration of the exemption period.** (2 Marks)

ii) **Explain how frequently a taxpayer is required to pay the Trading License Tax.**

(3 Marks)

(Total: 20 Marks)

QUESTION FOUR

MG Ltd is a company engaged in the supply of home appliances and electrical materials. In May 2025, the Rwanda Revenue Authority (RRA) issued a report following a surprise stock take conducted on 30th April 2025, specifically focusing on home appliances. During a subsequent meeting, the RRA team leader informed MG Ltd's management that any VAT understatement identified from the exercise must be declared and settled together with the VAT return for May 2025. As a tax expert, you have been provided with the information below to advise MG Ltd on whether it is required to pay additional VAT or is entitled to a refund for the month of May 2025.

1. Findings from the surprise stock take on home appliances

Item Description	Stock as at 31 st December 2024 (Units)	Imported (Units)- No units locally purchased	Units sold and charged VAT from 31 st December 2024 to 30 th April 2025	Stock as at 30 th April 2025 (Units)	Unit Price (FRW) VAT Exclusive
Lamp	1,200	560	890	800	35,000
Kettle	900	2,000	1,350	1,250	25,000
Iron	650	560	380	650	13,500
Television	600	400	651	400	350,000

Item Description	Stock as at 31st December 2024 (Units)	Imported (Units)- No units locally purchased	Units sold and charged VAT from 31st December 2024 to 30th April 2025	Stock as at 30th April 2025 (Units)	Unit Price (FRW) VAT Exclusive
Toaster	3,000	670	1,897	1,675	85,000
Dryer	2,300	100	1,945	455	55,000

2. Purchase presented by MG Ltd's Accountant on Electrical Materials

Description	Delivery date	Invoice date	Invoice Amount (FRW)	Payment Date	Paid Amount (FRW)
1,500 Switches	15 th May 2025	03 rd June 2025	5,000,000	16 th June 2025	3,500,000
50 Lugs	02 nd April 2025	6 th May 2025	6,000,000	25 th May 2025	6,000,000
150 Plugs	01 st June 2025	29 th May 2025	5,500,000	11 th June 2025	7,000,000
1,000 circuit breakers	30 th March 2025	20 th February 2025	60,000,000	04 th May 2025	60,000,000
78 fans	06 th June 2025	08 th May 2025	12,000,000	10 th May 2025	12,000,000
26 computers	23 rd May 2025	25 th May 2025	3,500,000	03 rd June 2025	1,500,000
600 Electrical connectors	15 th April 2025	25 th January 2025	8,900,000	17 th May 2025	10,000,000
500 fuses	01 st May 2025	05 th May 2025	6,000,000	20 th May 2025	6,800,000

3. Sales presented by MG Ltd's Accountant on Electrical Materials

Description	Sales date	Invoice date	Invoice Amount (FRW)	Payment Date	Paid Amount (FRW)
2,000 Switches	15 th May 2025	15 th May 2025	6,500,000	16 th June 2025	3,500,000
500 Lugs	02 nd April 2025	01 st May 2025	60,000,000	25 th May 2025	60,000,000
30 Plugs	01 st June 2025	29 th May 2025	6,500,000	30 th June 2025	6,500,000
1,600 Electrical connectors	15 th May 2025	25 th June 2025	80,900,000	17 th August 2025	100,000,000

Description	Sales date	Invoice date	Invoice Amount (FRW)	Payment Date	Paid Amount (FRW)
200 fuses	01 st May 2025	05 th May 2025	2,000,000	20 th May 2025	2,000,000

Additional information:

1. All transactions above were VAT Exclusive
2. On 3rd May 2025, billing staff from Energy Utility Corporation (EUCL) billed MG Ltd an amount of FRW 12,000,000 for electricity consumed, as the last meter reading had occurred in December 2024

Required:

Calculate the output VAT understated or overstated on closing stock, VAT payable or refundable by MG Ltd for the month of May 2025, and state the reasons for excluding any transactions that were not considered.

(20 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) Mugenzi is a businessperson who imports special machines for manufacturing various cosmetic products. Since he is a startup, during the transportation process his imported goods are often combined with those of other businesspersons.

In June 2025, Mugenzi imported a machine at a cost of USD 13,000, as indicated on the invoice. The machine occupied 25 square meters of a 150-square-meter container, with the remaining space used by other businesspersons. The transport company invoiced a total of USD 2,000 for shipping the container from China to the Dubai Port at Kigali–Masaka. Additionally, insurance costs amounting to USD 300 were incurred, and it was agreed that this cost would be apportioned based on the space occupied.

When the machine arrived at Dubai Port, RRA customs officers noted that the machine appeared to be new to the Rwandan market and had no existing or estimated value in the RRA test value database. Upon investigation, they discovered a similar machine listed for sale on Alibaba for USD 15,000.

Assume, import duty rate = 25%, Excise duty rate = 10%, Withholding tax rate = 5% and the exchange rate in June 2025 was USD 1 = FRW 1,450.

Required:

Compute the customs duties paid to the Rwanda Revenue Authority (RRA) for the machine imported by Mugenzi.

(10 Marks)

b) Mwalimu, a retired government employee, is planning to start a business. However, he is still uncertain about the type of business structure to adopt. He is considering either establishing a sole proprietorship or forming a limited company. During a discussion with his partner, a

concern was raised regarding the risk of losing all personal assets if the Rwanda Revenue Authority (RRA) finds the business non-compliant with certain legal provisions and proceeds with enforced tax recovery.

Required:

As a tax expert, **explain to Mwalimu and his partner the benefits of operating as a sole trader or as a limited company, particularly in the context of tax recovery by RRA.**

(4 Marks)

c) Rwanda has established a robust regulatory framework and implemented investor-friendly policies to attract and facilitate both local and international investment. Individuals are free to engage in any form of business, including sole proprietorships, partnerships, or limited liability companies.

It is important to note that the choice of business structure carries tax implications, which every investor should fully understand prior to registration or commencing operations.

One investor from Korea has developed a business plan for establishing operations in Rwanda. An extract from this plan is provided below:

Description	Year 1 FRW'000'	Year 2 FRW'000'
Operating Profit	60,000	76,000
Expenses		
Investor's Salary	12,000	12,000
Loan interest	5,000	3,000
Personal Expenses	3,000	2,000

Additional Information:

1. The investor is planning to declare PAYE and other statutory deductions on his salary.
2. The loan interest will relate to a mortgage loan he is planning to acquire.

Required:

You have been approached by an investor who is considering registering his business as a company or operating as a sole trader. **Advise him on which form of business would attract a lower tax liability.**

(6 Marks)

(Total: 20 Marks)

End of question paper