

---

---

**CERTIFIED ACCOUNTING TECHNICIAN  
STAGE 3 EXAMINATION**

**S3.3 TAXATION**

**DATE: FRIDAY, 27 AUGUST 2021**

---

---

**INSTRUCTIONS:**

1. Time allowed: **3 hours**
2. This examination has **three** sections: **A, B and C.**
3. Section A has **10** multiple choice questions equal to 2 marks each.
4. Section B has **2** questions equal to 10 marks each.
5. Section C has **3** questions equal to 20 marks each.
6. All questions are compulsory

## **SECTION A**

**1 Which two of the following items would be allowable expenses in computing corporate income tax?**

- 1 Repair of a large piece of machinery following a breakdown. The repair cost Frw 600,000
- 2 A computer upgrade costing Frw 300,000
- 3 A building extension costing Frw 15,000,000
- 4 The purchase of a second-hand delivery van costing Frw 1,000,000

- A 1 and 2
- B 2 and 3
- C 3 and 4
- D 1 and 4

**(2Marks)**

---

**2 Interbank Plc is a registered commercial bank in Rwanda. The bank pays its UK parent company a management services charge of Frw 50,000,000 per year. This figure is 25% higher than what other banks in Rwanda pay for the same services to their parent companies. In addition, this is higher than the other group subsidiaries pay, even though the services provided by the parent to all its subsidiaries in East Africa are similar in scope.**

**What transfer pricing adjustment, if any, would be made by the Rwandan Revenue Authority?**

- A Interbank Plc's taxable income upwards by Frw 10,000,000
- B Interbank Plc's taxable income downwards by Frw 10,000,000
- C Adjust the UK parent company's taxable income downwards by Frw 10,000,000
- D Interbank Plc's taxable income upwards by Frw 50,000,000

**(2Marks)**

---

**3 Which one of the following employment incomes is exempted?**

- A James has taken three days off work due to the Covid-19 vaccination and receives sick pay
- B Mutesi is reimbursed for the purchase of airtime she made on behalf of her employer
- C Chantal receives a bonus for being the employee of the year
- D Jane is given 10 kgs of rice as an extra month's pay as compensation for being made redundant

**(2Marks)**

---

**4 State which of the following statements is false.**

- A A Ltd, unregistered microfinance company, pays corporate income tax at a rate of 30% after 3 years
- B B Ltd, which exports USD 10 million to China, will pay corporate income tax at a rate of 25%
- C S Ltd listed on the Rwanda Stock Exchange last year and sold 35% of its shares publicly. It will pay corporate income tax at a rate of 25%
- D K Ltd listed on the Rwanda Stock Exchange six years ago and sold 48% of its shares publicly. It will pay corporate income tax at a rate of 20%.

**(2Marks)**

---

**5 A landlord receives rental annual income of Frw 5,200,000 and has a bank loan for construction of the property giving rise to annual interest payments of Frw 900,000. Which of the following tax payable is correct?**

- A Frw 644,000
- B Frw 686,000
- C Frw 374,000
- D Frw 822,000

**(2Marks)**

---

**6 Which of the following statements relating to payment of PAYE are correct?**

- 1 Quarters for taxpayers declaring PAYE on a quarterly basis run to the end of March, June, September and December
- 2 Most employers declare and pay PAYE on a monthly basis
- 3 Employers with annual turnover  $\leq$  Frw 200,000,000 may choose to pay quarterly

- A 1, 2 and 3
- B 1 and 2
- C 2 and 3
- D 1 and 3

**(2Marks)**

---

**7 FJ Ltd had initially agreed a long-term contract for Frw 20,000,000 and had estimated the costs to fulfil the contract would be Frw 15,000,000. At the end of year 1 the contract was still in progress and costs incurred to date were Frw 10,500,000. Accordingly, the contract was deemed 70% complete and Frw 3,500,000 of profit was recognized and taxed during the year. The company generated Frw 3,000,000 of taxable profit on its other business activities in Year 1. In year 2 the contract was completed, and FJ Ltd incurred some unexpected costs which it had not initially anticipated. The total costs actually incurred were Frw 22,000,000. This gave an overall loss of Frw 2,000,000.**

The project was accounted for correctly, and a loss on this contract was recognized in Year 2 of 5,500,000.

FJ Ltd has other business profits in year 2 of Frw 2,750,000, and investment income of Frw 250,000.

**If FJ Ltd wants to claim relief for the loss as early as possible, how will the loss of Frw 5,500,000 be used?**

- A It will be offset in full against total business profits of Frw 6,500,000 in Year 1
- B It will be offset against total income in Year 2 of Frw 3,000,000, and then the remaining Frw 2,500,000 will be offset against the contract profit in Year 1
- C It will be carried forward and used against future business profits
- D It will be offset against business profit in Year 1 of Frw 2,750,000, and then the remaining Frw 2,750,000 will be offset against the contract profit in Year 2

**(2 Marks)**

---

**8 Which of the following may lead to the hardship waiver of penalties of a company?**

- A A sudden death of the owner of the company
- B Significant delays by the tax administration to refund the company Withholding tax so that the company can use the refund to pay taxes
- C The company has appealed and requested for amicable settlement with the tax administration and is waiting for the decision of the Commissioner General of Rwanda Revenue Authority.
- D None of the above

**(2 Marks)**

---

**9 Which of the following payments would a withholding tax rate of 15% apply to?**

- 1 A patent royalty payable to an overseas resident parent company by a Rwandan resident subsidiary where the parent company is in the country where Rwanda has no Double Taxation Agreement.
  - 2 A dividend payable to a Rwandan individual by a company whose shares are listed on the Rwandan capital market
  - 3 Interest payables by the Unguka Bank Plc to Umurerwa Jane, a Rwandan resident individual, on her 5-year long-term bank deposit
  - 4 An appearance fee payable by the organizers of a Rwandan concert to Queen Jane, an Australian resident singer. Jane is not registered with the Rwandan tax administration.
- A 1 and 4
  - B 2 and 3
  - C 2 and 4
  - D 1 and 3

**(2 Marks)**

---

- 10 Angelique International Ltd bought a heavy machinery for Frw 1,000,000 in the year ended 31 December 2019 which it rents out. During the year ended 31 December 2020 it received monthly rental income of Frw 20,000. When it bought the machinery Angelique International Ltd took out a Frw 800,000 loan to help purchase the machine and it pays interest on this loan at a rate of 4% per annum.

**What is Angelique International Ltd's rental income to be included in its taxable income calculation?**

- A Frw 134,000
- B Frw 240,000
- C Frw 184,000
- D Frw 158,000

**(2 Marks)**

---

## **SECTION B**

- 11 Tuyisenge Chantal is a sole trader with an annual profit of Frw 60,000,000 after the deduction of tax depreciation. She also invests in shares and has received dividends of Frw 10,000,000 in the tax period 2020. Chantal has been registered with the Rwanda Revenue Authority (RRA) for four years and her tax declarations are up to date, although in 2018 she paid late declaration fine of Frw 100,000. No Withholding tax has been deducted from the dividends.

Part of Chantal's trading income was derived from winning a tender from RRA, and 3% withholding tax was deducted on a payment of Frw 800,000 including VAT. Chantal has paid Frw 20,000,000 in quarterly prepayments to date.

**Calculate Chantal's personal income tax position for the year 2020 and show dates of payment of this tax.** (10 Marks)

**(Total: 10 Marks)**

- 12 a) Aline Mukashema is employed by a micro insurance company in Kigali. She receives a monthly basic salary of Frw 80,000, a cash living allowance, accommodation of Frw 9,000, and a car benefit in kind of Frw 6,800 per month.

Aline has voluntarily elected to make medical contributions to the Rwanda Social Security Board (RSSB). Assume Aline's net pay is Frw 70,000

**Required:**

**Calculate the monthly amounts which Aline will pay over to the RRA in employer and employee contributions to the various applicable Rwanda Social Security Board schemes.** (5 Marks)

b) An insurance company IC Ltd is a Rwandan Entity that imports legal, IT and tax advisory services from a related party AD Inc which is not a Rwanda resident taxpayer. AD Inc also does not have these services inhouse, it outsources them from different service providers. AD Inc sends these invoices to IC Ltd every year for payment.

Last year 2020, the invoices by IC Ltd totaled to USD 10,000 for services imported from AD Inc. In addition, AD Inc charges 5% mark up on top of the cost to IC Ltd. 50% of the imported services relate to Information Technology.

**Required:**

**Compute and discuss the taxes applicable to IC Ltd in relation to the above services.** (5 Marks)

**(Total: 10 Marks)**

## SECTION C

13 a) Calculate the amount of flat tax or turnover tax that the following businesses would pay if they are operating in the small business regime in accordance with the income tax law of Rwanda. If a flat tax or turnover tax are not applicable, state why.

- i) **Placide Niwenshuti, a fruit vendor with annual turnover of Frw 17,200,000 and expenses of Frw 3,500,000 per tax year** (2 Marks)
- ii) **Nkuranga Alex, an accountant with annual turnover of Frw 14,800,000 per tax year** (2 Marks)
- iii) **Bishogwe Ltd, a company specializing in the car rentals, with turnover of Frw 22,000,000 and expenses of Frw 4,000,000 per tax year** (2 Marks)
- iv) **Caleb Manzi, a tomato farmer with annual turnover of Frw 19,000,000** (2 Marks)

b) **Categorize the following expenses as either allowable or disallowable in the tax computation for Tresor Ltd, a Rwandan Corporate business with turnover of Frw 130,000,000 in the tax period. If an expense is partially disallowed, state the amount that would be added back to profit and the reason**

(12 Marks)

<b>Expense</b>	<b>Allow in full</b>	<b>Disallow in full</b>	<b>Disallow part</b>	<b>Amount to add back Frw'000</b>	<b>Reason</b>
Accounting depreciation of Frw 2,000,000, tax depreciation of Frw 3,000,000					
Staff Subscription to ACCA membership USD 200					
Donation of Frw 10,000,000 to Covid fund set up by the Government of Rwanda					
Staff Housing benefit of Frw 700,000 not taxed on payroll					
Payment for funeral services of a deceased staff Frw 1,000,000					

Expense	Allow in full	Disallow in full	Disallow part	Amount to add back Frw'000	Reason
Realized Exchange gain and unrealized exchange loss of Frw 7,000,000 and Frw 5,000,000 respectively.					
A bad debt with a value of Frw 1,000,000, where the sale was recognised in income in the prior year and the amount written off in the books in the current year. No court order that the debtor is bankrupt					

**(Total: 20 Marks)**

- 14 a) Grace Ltd incurred Frw 7,000,000 trading loss in the year ended 31 December 2019. For the year ended 31 December 2020 the company made taxable trading profits of Frw 4,000,000 and has investment income (gross) of Frw 3,500,000 and rental come of Frw 4,000,000. Grace Ltd is registered with Rwanda Development Board (RDB).

Below is an extract of Grace Ltd's Incorporation certificates at 31<sup>st</sup> January 2020 and 30<sup>th</sup> December 2020 showing the shareholding structure of the company.

Grace Ltd Incorporation certificate as at 31st January 2020

TIN	999999999
Registration date	22/2/2016
Company name	Grace Ltd
Category	Private
Type	Limited by Shares
Address	Nyarugenge, Kigali
Manager	Ms Getrude Nkuba
Main business activity	Manufacture of wheat grain
Shareholders	Grace Ltd-70% GreenCo Ltd-28% Ms Getrude Nkuba-2%



TIN	999999999
Registration date	22/2/2016
Company name	Grace Ltd
Category	Private
Type	Limited by Shares
Address	Nyarugenge, Kigali
Manager	Ms Getrude Nkuba
Main business activity	Manufacture of wheat grain
Shareholders	Grace Ltd-60% GreenCo Ltd-10% Ms Getrude Nkuba and Sons-30%

**Required:**

**Calculate Grace Ltd's Corporate Income Tax for the year ended 31 December 2020**  
(7Marks)

In the certificates of Incorporation shown above, the company registration type is indicated as Limited by Shares. **What does this imply and what are the other registration options available at RDB if companies do not wish to incorporate as Limited by Shares?**  
(4Marks)

**b) Explain how Excise Duty (ED) is charged on imported cigarettes in Rwanda**  
(3Marks)

**c) Grace Ltd occasionally imports Fruit Juice (maracuja) from Kenya. List the taxes and their correspondent rates in order of customs taxation the company pays at customs and indicate whether the tax is a final tax or not**  
(6Marks)

**(Total: 20 Marks)**

**15 a) Discuss the tax and commercial savings that the VAT registered taxpayer have over VAT exempt taxpayers.**  
(4Marks)

**b) What is the meaning of royalty income? How is this income taxed in Rwanda?**  
(4Marks)

**c) Discuss five payments subject to Withholding tax in Rwanda and show how the tax is applied.**  
(5Marks)

**d) For customs warehousing, give 6 examples of goods which cannot be warehoused in a customs warehouse**  
(3Marks)

**e) Last Month, Emmanuel Rutabana was going to Bugesera District located in the Eastern province of Rwanda. He saw a sign post written on it "Private Customs Bonded Warehouse". Explain to Mr. Emmanuel what this means from a customs perspective?**  
(4 Marks)

**(Total: 20 Marks)**

**End of question paper**



