

**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 2 EXAMINATIONS**

A2.3 ADVANCED TAXATION

DATE: MONDAY, 23 AUGUST 2021

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

SECTION A

QUESTION ONE

Jupitor Limited was incorporated in Rwanda in the year 2000. It was registered in hospitality industry and sells food, beverages and accommodation. In addition, Jupitor offers hotel consulting services. For the years 2016, 2017, 2018 and 2019, the company did not operate because it was closed by the regulators for not meeting the required standards by the City of Kigali (CoK), however, it did not close with the tax administration. For the year 2019, it only operated for 1 month of December.

Jupitor Limited reopened again fully in the year 2020 and made accounting profits of Frw 41,769,357 in 2020. The company prepared books of accounts including ledgers.

Please read the following information related to the operations of the company for the year 2020:

- 1) The account ledger number 628000 contains telephone expenses. In total, the company incurred Frw 7,179,010 as telephone expenses of which Frw 5,000,000 was billed to guests who stayed in the hotel apartments and Frw 2,179,010 was used in the normal hotel operations by staff. Airtime is loaded on staff mobile phones.
- 2) In the year 2020, the company paid audit committee sitting allowance of Frw 1,100,000 but this was not supported. The audit committees are not included on the payroll of the company. However, in January 2021, the company was advised to tax this allowance 30% and the tax should be paid to the Rwanda Revenue Authority (RRA). The account ledger for sitting allowance in 2020 is 638000.
- 3) Jupitor Limited incurred other numerous expenses and these were recorded in the ledger number 640400. Included in this ledger is contribution of Frw 5,082,000 to the Government Covid-19 fund that was set up by the Ministry of Health for traders who are willing to contribute to the Covid-19 pandemic solutions. Jupitor Limited was willing to contribute to the Covid-19 fund.
- 4) The company incurred cash shortage in the year 2020. The shortage is contained in the ledger number 658000 and the amount lost is totalling to Frw 4,864
- 5) The company had provided for bad debts in 2020. It is very clear from the management that the debtor will not pay because he was liquidated. The debtor had evaded taxes and all his property were auctioned in the public auction. The debt will be included in the preceding year books of accounts. The amount provided for in 2020 is equal to Frw 9,033,361.
- 6) Unfortunately, Jupitor Limited will not be a going concern although it is currently a profitable business. The shareholders who are non-tax residents have decided to divest and put money in other businesses. They have therefore decided to sell Jupitor Limited and all its assets. A valuation of the business was done by experts. The book value of the assets was Frw 5,000,000,000 at the time of sell. The revalued and fair value amount was Frw 15,000,000,000. However, the hotel was disposed at Frw 9,835,312,045.
- 7) There was no accounting depreciation for the hotel. However, tax depreciation was computed by the tax advisors in order to arrive at the tax payable and the amount was Frw 97,435,906. There was no investment allowance.

- 8) The company had also provided for risk of not operating in 2019 and had added back this amount to the taxable income of 2019. These were also included in the accounts of 2020. The amount totalling to Frw 14,089,025 is contained in ledger number 790100 as risk provision.
- 9) Jupiter Limited incurred losses before its closure by the City of Kigali in 2015 and 2016 respectively. The losses were Frw 2 billion for 2015 and Frw 5 billion for the year 2016.
- 10) In 2019, the company paid tax of Frw 280,000,000 on few activities it conducted in the month of December.
- 11) Some taxes for Jupiter Limited were held at source. This is Frw 17,000,000 on public tender and Frw 46,000,000 on imports of beverages, mainly spirits and wines. Frw 60,000,000 was also withheld on payment for imported services in relation to credit card maintenance because some customer abroad booked rooms and paid online using credit cards.
- 12) Frw 165,000 was also withheld as 5% by customs on importation of juice in 2019. The company did not utilize this credit but RRA has allowed it to be used in 2020.

Required:

- a) **Compute the amount of tax payable by Jupiter Limited and the balance of tax to pay for the year 2020 in accordance with the income tax law number 016/2018 of Rwanda and Tax procedures law of Rwanda.** (22 Marks)
- b) **Some service providers who are non-tax residents negotiate contracts net of taxes with Rwandan tax residents. As a result, these importers of services in Rwanda gross up the invoice amount to cater for withholding tax. Discuss the tax treatment of withholding tax that is grossed up by importers of services in Rwanda.** (3 Marks)
- c) **Income tax law states that goods imported for commercial use only should pay 5% withholding tax at customs. Discuss how this law affects importers of all types in Rwanda and discuss how this tax is refunded.** (5 Marks)
- d) **By giving examples, discuss the tax benefits Rwanda obtains from signing double taxation agreements with other countries.** (8 Marks)
- e) **Compute VAT payable on the liquidation transaction.** (2 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

The following tax audit notification letter was received by Orix Ltd, a company incorporated in Rwanda in accordance with the Rwanda laws. Orix received the letter below from Rwanda Revenue Authority.

Tax audit notification letter

Date: 30 February 2020

Dear Orix

Subject: I refer to the years of income that have not been audited by the Rwanda Revenue Authority.

Although your company has not been involved in fraud, it is by law that RRA must audit your company to establish whether taxes were paid properly and in accordance with the law.

It is considering the above that RRA will be auditing you for the tax period 2014, 2015 and 2016.

Let us know whether you have any concerns in relation to the above.

Yours faithfully,

Commissioner General, Rwanda Revenue Authority.

Required:

- a) **You are a tax manager in one of the big four auditing and advisory firms in Rwanda. Review the above RRA notification letter and make comments on what is missing or not properly addressed in accordance with the tax procedure law of Rwanda.**
(8 Marks)
- b) **When a taxpayer receives the letter in a) above, what action should he or she take?**
(2 Marks)
- c) **Discuss the actions that should be taken by the taxpayer if he or she is not satisfied with the assessment of taxes.**
(5 Marks)
- d) **Discuss the meaning of a tax agent and give his or her responsibilities and liabilities in accordance with the Income Tax and Tax Procedure laws of Rwanda.** (5 Marks)

(Total: 20 Marks)

QUESTION THREE

Article 33 of law number 16/2018 on income taxes says that transactions between related parties should be conducted at arm's length. With this requirement, taxpayers should ensure that their controlled transactions and the supporting information thereof, fully satisfy the requirements of the Transfer Pricing Rules.

Required:

- a) **Discuss the transfer pricing methods of determining arm's length as contained in the Organisation of Economic Cooperation for Development (OECD) and Rwanda taxation laws.** (6 Marks)
- b) **Discuss the documents required to be kept by the controlled entities that are categorised as large taxpayers in Rwanda and indicate how long can these documents be kept.** (14 Marks)

(Total: 20 Marks)

QUESTION FOUR

- a) Importer/Buyer A in Rwanda contracted a buying agent to purchase 10 metric tons of chemical fertilizers from Manufacturer/Seller B in Dubai and imported them in Rwanda. The agent was paid agency fees of 3%.
 - i) Both the commercial invoice and the contract of sale and manifests show that the price of the imported goods (10 metric tons of chemical fertilizers) is USD 3,000 (ex-factory).
 - ii) The Letters of Credit (L/C) also show that A paid B USD 3,000 for 10 metric tons of chemical fertilizers.
 - iii) There is no relationship within the meaning of Article 15.4 of the Customs Valuation Agreement between A and B.
 - iv) The importer paid USD 110 from the factory to the port of Dubai. He also paid USD 500 from the port of Dubai to the point of discharge, Mombasa. From Mombasa to Kigali he incurred inland transport cost of USD 300.
 - v) He incurred inland insurance cost of USD 70

Required:

- b) **Determine the customs value of the 10 metric tons of chemical fertilizers according to the East Africa Customs laws.** (10 Marks)
- c) **By use of examples, discuss five operations and processes that do not confer rules of origin of imported goods to Rwanda.** (6 Marks)
- d) Importer X in Kigali Quartier Matheus imported 1,000 packets of Cigarettes with CIF Kigali of Frw 3,000,000. He paid inland transport from Mombasa to Kigali of Frw 500,000 and inland insurance of Frw 300,000 from Mombasa to Kigali. He sold 500 of the imported Cigarettes at a retail price of Frw 1,000 each packet in the Quartier Matheus. The packet contains 20 rods of cigarettes each. The remaining Cigarettes were sold at Rusumo border in Rwanda at Frw 900 each.

Calculate the Excise Duty paid by the importer X.

(4 Marks)

(Total: 20 Marks)

QUESTION FIVE

- a) **By use of examples, discuss the four major reasons for exempting goods and services from paying VAT.** (4 Marks)
- b) **Rwanda signed the World Trade Agreement (WTO Agreement) related to the General Agreement on Tariff and Trade (GATT Agreement). Rwanda is also a member of the World Customs Organisation (WCO), therefore, it should be using Transaction Value Method to value imported goods. Discuss the meaning of the Transaction Value Method and show how the customs appeals procedure is done if the importer is not satisfied with the valuation method used by customs to determine the Cost Insurance and Freight (CIF) of the imported goods.** (4Marks)
- c) **Discuss the types of securities used in customs regimes in Rwanda.** (4 Marks)
- d) **Discuss the meaning of a customs private bonded warehouse and give examples of a customs private bonded warehouse in Rwanda and show how different it is from a customs warehouse** (4 Marks)
- e) **Discuss the meaning of a Going Concern as per Value Added Tax Legislation.**

(4 Marks)

(Total: 20 Marks)

End of question paper

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