
CERTIFIED ACCOUNTING TECHNICIAN (CAT)
STAGE 3 EXAMINATION
S3.3 TAX
PILOT PAPER

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 – All TEN questions are compulsory and MUST be attempted

1. Josie Smith is an aid worker, born in England. She spent two months in Rwanda as a tourist in October and November 2018. She organised a temporary secondment to Rwanda for three months commencing on 15 April 2019, and returned to the UK on 16 July 2019. She then accepted a job based in East Africa, and spent the first four months of the calendar year 2020 in Rwanda, before being assigned to Tanzania and then Uganda for the remainder of 2020. She plans to be based in Rwanda permanently from 1 February 2021 and so will sign a contract to purchase a small apartment in the Northern province in January 2021. She has lived in temporary accommodation, usually hotels, for all of her Rwandan stays until the purchase of her apartment.

From which tax period, if any, will Josie first be treated as a resident in Rwanda?

- A 31 December 2018
- B 31 December 2019
- C 31 December 2020
- D 31 December 2021
- E None of the above

(2 marks)

2. Law 6/2015 relating to investment promotion and facilitation (the Investment Code of Rwanda) specifies certain conditions that must be met in order for the investment allowance to be claimed on an asset. Which of the following are valid conditions?

- (i) The asset must be purchased new, not second hand.
- (ii) Expenditure on the asset must be at least RWF50,000.
- (iii) The assets must be retained by the business for at least three years.
- (iv) The business must apply for and hold a valid investment certificate specifying the incentives to which they are entitled.

- A (iv) only
- B (iii) and (iv)
- C (i) and (ii)
- D (i), (ii), (iii) and (iv)
- E None of the above

(2 marks)

3. Ubukungu Ltd is a Rwandan resident gold mining company and regularly exports its gold to overseas customers. Invoices are sent in the customer's own currency, exposing Ubukungu Ltd to foreign exchange fluctuations.

At 31 December 2019, Ubukungu Ltd had the following outstanding invoices to customers:

		<i>Exchange rate at invoice date</i>	<i>Exchange rate at 31/12/19</i>
Customer 1 (UK), invoiced 31/08/19	£50,000	RWF1,200/£1	RWF1,170/£1
Customer 2 (US), invoiced on	US\$20,000	RWF890/\$1	RWF912/\$1

30/09/19

What is the total exchange gain or loss that will be taxable or deductible for Ubukungu Ltd in respect of these two invoices?

- A RWF1,060,000 gain taxable
- B RWF1,060,000 loss deductible
- C RWF1,940,000 loss deductible
- D RWF440,000 gain taxable
- E None of the above

(2 marks)

4. Niyonsenga Thomas runs a business in Rwanda as a sole trader. His bad debts account for the tax period to 31 December 2019 is as follows:

	RWF'000
Increase in specific provision	500
Write off of bad debt – Antonio PLC	4,000
Write off of bad debt – Mukakigeli Cissy	1,000

Both of the bad debts written off were recorded in Thomas's taxable income for the tax period to 31 December 2016. Thomas has taken many steps to recover both debts, but now believes them to be irrecoverable. Mukakigeli Cissy was declared insolvent by a court during the year ended 31 December 2019, but insolvency proceedings are still ongoing for Antonio PLC.

What amount is required to be disallowed in respect of bad debts in the computation of Thomas' taxable income for the period to 31 December 2019?

- A RWF1,000,000
- B RWF1,500,000
- C RWF4,500,000
- D RWF5,500,000
- E None of the above

(2 marks)

5. Troy Ltd is a Rwandan resident 100% subsidiary of Helen Ltd, a UK resident parent company.

Troy Ltd's capital structure is as follows:

Equity share capital	RWF30,000,000
Reserves	RWF40,000,000
Debt – bank loan	RWF60,000,000
Debt – owed to Helen Ltd	RWF80,000,000

The bank loan bears interest at 7% per year (a market rate for a company of Troy Ltd's size and risk). Helen Ltd charges Troy Ltd 10% interest per year on its loan financing.

What amount of interest must be disallowed in the calculation of Troy Ltd's taxable profit?

- A RWF2,000,000
- B RWF12,200,000
- C RWF2,400,000

- D RWF3,800,000
E None of the above

(2 marks)

6. Ruzindana Robert rented out two properties during the tax period to 31 December 2019.

Property 1 was rented out for the whole year, for monthly rent of RWF250,000. Robert paid for insurance and gardening at a cost of RWF150,000 for the year.

Property 2 was purchased by Robert in April 2019, and refurbished at a cost of RWF1,000,000 before it was let out. His first tenants occupied the property on 1 July 2019, and they pay rent of RWF600,000 per quarter (in advance).

Which of the following represents Robert's income liable to rental income tax for the tax period to 31 December 2019?

- A RWF3,050,000
B RWF950,000
C RWF2,700,000
D RWF4,200,000
E None of the above

(2 marks)

7. Which of the following three statements are true in relation to the system of penalties for tax violations?

- (i) A fixed fine of RWF100,000 would apply if a taxpayer with annual turnover of RWF25,000,000 failed to pay quarterly prepayments on time
(ii) Fixed fines are RWF500,000 for a taxpayer with annual turnover in excess of RWF600,000,000 committing their first violation
(iii) Penalties for late payment of tax may be waived where a taxpayer is having cash flow difficulties

- A (i) only
B (i) and (ii)
C (ii) only
D (ii) and (iii)
E None of the above

(2 marks)

8. Which of the following items of expenditure would be added back in a taxpayer's adjustment of profits as capital expenditure?

- (i) Patent royalties paid
(ii) The purchase of tools with a useful life of two years, costing RWF300,000
(iii) The replacement of broken window panes due to vandalism
(iv) Resurfacing a field to create a car park next to the business premises

- A (iv) only
B (i) and (iii) only
C (ii) and (iv) only
D (ii) (iii) and (iv)
E None of the above

(2 marks)

9. Environ Ltd, a new company, recently purchased the assets of a sole trader's business for a total cost of RWF200,000,000. Environ Ltd did not obtain a valid investment certificate in relation to this acquisition. The purchase price was allocated to the following assets:

	<i>Price paid</i> RWF'000	<i>NBV in sole trader accounts</i> RWF'000
Goodwill	20,000	0
Office Premises	50,000	40,000
Computer equipment (expected life 5 years)	10,000	15,000
Motor vehicles	30,000	40,000
Stock and other current assets	90,000	90,000
Total	200,000	

What amount of tax depreciation is available to Environ Ltd for the tax period ended 31 December 2019?

- A RWF13,000,000
- B RWF17,000,000
- C RWF39,500,000
- D RWF19,500,000
- E None of the above

(2 marks)

10. Dative, a sole trader with a turnover of RWF40,000,000, has incurred the following expenses in the year ended 31 December 2019:

- (i) Motor costs for her own car, used for both business and private journeys, totalling RWF800,000
- (ii) Payment to a hotel for accommodation of her clients for a sporting event costing RWF200,000
- (iii) Staff training in health and safety procedures costing RWF150,000
- (iv) Charitable donations totalling RWF550,000

What is the amount that must be added back in Dative's adjustment of profit in respect of these expenses?

- A RWF310,000
- B RWF510,000
- C RWF910,000
- D RWF1,550,000
- E None of the above

(2 marks)

Section B – All TWO questions are compulsory and MUST be attempted

11. Umwali Brigitte has recently left university and has received two separate full-time job offers. This employment will be her only source of income, and she is keen to maximise her after-tax cash pay.

The two job offers are:

Offer 1

Brigitte will work for FCD Ltd, a business very near to her home in Rwamagana. She will cycle to work each day, and estimates that this will cost RWF62,000 per year in maintenance costs (oil, tyres, etc). FCD Ltd is not opted in to the medical element of RSSB contributions.

FCD Ltd has offered her the following employment package:

- Salary of RWF15,000,000 per year
- Employer contribution to an unqualified pension scheme of 10% of her salary

Offer 2

Brigitte will work for the Rwandan Government in central Kigali, which is a 25-mile journey from her home. She will be provided with a car by her employer, but must pay for the fuel costs herself. She has approximated this cost to be RWF1,400,000 pa.

Her employment package would consist of:

- Salary of 20,000,000 (gross) per year
- Car

As Brigitte is keen to start saving into a pension scheme, she will contribute RWF1,500,000 per year to a private qualified fund if she opts for Offer 2.

Required

Determine which employment offer will result in higher annual after-tax income for Brigitte. Provide a recommendation based on this and any other factors you feel may be important to Brigitte.

Total (10 marks)

12. Igishoro Ltd is a Rwandan resident company in the textiles industry, and it is undergoing a programme of expansion. Its tax depreciation balances at 1 January 2019 were as follows:

<i>Asset/Pool</i>	<i>Cost</i> RWF'000	<i>TWDV</i> RWF'000
Head office building	150,000	120,000
Nyamata factory	270,000	189,000
Fixed machinery (Nyamata factory)	35,000	24,500
Heavy industrial equipment	20,000	18,000
Computer equipment pool	8,000	2,500

Other assets pool	12,000	5,000
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During the tax period ended 31 December 2019, the following transactions and events occurred:

1. The factory building in Nyamata was sold for proceeds of RWF320,000,000. Legal fees were paid on its disposal, amounting to 1% of the gross selling price. The fixed machinery within the factory was sold separately to the same buyer for RWF22,000,000.
2. A replacement, larger factory was bought in Kinazi at a cost of RWF450,000,000. New, more efficient fixed manufacturing machines were installed in this factory at a cost of RWF50,000,000. A valid investment certificate was applied for, and obtained, in respect of this investment project.
3. The heavy industrial equipment was relocated to the new site at a cost of RWF2,000,000.
4. Two desktop computers were sold for RWF100,000 each.
5. A car was acquired for use by the company sales director, for both business and private use. The car cost RWF18,500,000.

Required

Calculate the tax depreciation and investment allowance available to Igishoro Ltd for the tax year 2019. Calculate the capital gains tax due on the disposal of the building.

Total (10 marks)

Section C – All THREE questions are compulsory and MUST be attempted

13. You are the tax manager of a firm of accountants in Ruhengeri, in the Northern province of Rwanda. Mutsinzi James is a new client of your firm. He has started a business on 1 February 2019 as a sole trader, providing mountaineering tours of the Virunga mountain range, mainly to overseas tourists. His business has been fairly successful, and he has come to you for advice in relation to his tax affairs.

You have ascertained that James will not be treated as a large taxpayer by the RRA.

You have received the following email from James:

Hi,

I need some help with my tax forms. I simply don't understand what I need to do.

I have always been an employee before, so I have never had to submit any forms to the RRA. I guess that they need to know that I'm now self-employed?

My first 11 months of trading have gone fairly well, and I have generated income of RWF75,000,000. I know that I need to declare this and pay tax on it, and so I've kept copies of all the invoices to my clients. I also have receipts for all my cash outflows, and I'm hoping I can deduct some (if not all) of the following:

1. The cost of a minibus to transport my clients from the airport to the base camp
2. Fuel, maintenance and insurance for the minibus
3. Website creation costs and internet service fees
4. Leaflets, travel magazine adverts and Facebook advertising
5. A launch party held for prospective clients
6. Camping and climbing safety equipment
7. My clothing and hiking boots
8. Food provided for myself and my clients
9. Business liability insurance
10. Wages paid to my wife for administrative duties

Could you give me an idea of how much my income tax will be, please? I'm guessing that after deducting these costs, I'll have approximately RWF30,000,000 of profit remaining. I'll also need to know when I need to pay my tax.

Going forward, my wife would like to take a more active role in the business, assisting me with marketing and organising sightseeing trips for clients alongside their climbing experience. I could pay her a bigger salary, or we could think about a partnership – can you tell me how partnerships are structured and how we withdraw money to spend?

Thanks,

James

Required

Prepare a response to James' email, covering the following points:

- (a) Explain to James why he must register with the RRA, and the deadline for registration. **(2 marks)**
- (b) Explain how taxable profits are calculated under the real regime, and which of the expenses described in James' email are deductible for the purposes of calculating his taxable business profits. On the assumption that business profits are RWF30,000,000, calculate his personal income tax liability for the tax year 2019. State what date this will need to be paid and explain whether there will be instalment quarterly prepayments required for the year. **(14 marks)**
- (c) Provide an outline of how Rwandan partnerships are structured and how Rwandan resident partners are taxed on their share of partnership profits. **(4 marks)**

Total (20 marks)

14. Furntastic Limited (FL) is a South African resident company, manufacturing and selling bespoke designed furniture across several African countries. It is planning to expand its operations into Rwanda during the tax period ending 31 December 2020 and requires advice as to the strategy it should take both now and in the future to minimise its liability to Rwandan corporate and withholding taxes.

The company is initially planning to hire independent Rwandan resident individuals as agents. Their duties will be to advertise the company at local trade events and take bookings for designs and cash deposits on behalf of FL; and to arrange for the import and delivery of the finished product to FL customers. They will be paid on a commission basis as self-employed freelancers.

Should the initial operations prove successful, FL will rent premises on a ten-year lease in central Kigali and appoint permanent employees to carry out the duties of the agents. FL hope to recruit some of the freelance agents as permanent employees. The premises will be owned by FL and all income and expenses will be recorded in that company's accounts.

In the longer term, and depending on profitability, FL may set up a 100% owned subsidiary company in Rwanda (to be called Furntastic Rwanda Ltd (FRL)). This would be both debt and equity funded. FRL would receive all the income from sales to Rwandan customers, and FL would charge FRL interest and extract some of the profits as dividends. Manufacturing operations would continue to be solely carried out in South Africa.

FL estimates that approximately RWF150,000,000 of loan financing would be used to provide funding for FRL to acquire the relevant assets to use in its trade. This would take the form of loan notes, bearing interest at 8% per year, and they would not be listed on the Rwandan stock exchange.

Each piece of furniture costs FL approximately RWF180,000 in materials and RWF80,000 in design fees. Shipping an item from South Africa to Rwanda (including insurance) would cost RWF60,000. FRL would be charged the full cost plus 10% by FL.

Required

- (a) Define a permanent establishment in accordance with Rwandan law and explain whether the proposed structures of the business will be classed as permanent establishments. **(5 marks)**
- (b) Explain whether either of the proposed initial business structures (prior to incorporation) will result in a liability to Rwandan corporate income tax for FL. Explain how taxable profit would be calculated (if applicable). **(5 marks)**
- (c) Explain the withholding tax implications of the proposed imports of goods to Rwanda, and of the payment of interest and dividends from the Rwandan company to FL. Provide illustrative calculations based on the import of 1,000 units of furniture and one full year's interest payable. **(10 marks)**

Total (20 marks)

15. Assume it is currently September 2019.

You work for a firm of accountants in Kigali. Your caseload includes the following three clients, all of whom require advice about their tax affairs:

Kamena Ltd

Kamena Ltd is the Rwandan resident subsidiary of Mata Inc, a US resident parent company. It prepares its financial accounts to 30 June each year to correspond with the rest of its group. It has permission from the Minister of Finance to use the year ended 30 June as its tax period for corporate income tax purposes. In the year to 30 June 2018, it paid CIT of RWF180,000,000.

For the year ended 30 June 2019 it has the following sources of income:

	RWF'000
Trading profit before tax depreciation	750,000
Bank interest (net)	85,000
Dividends from Rwandan companies	10,000
Capital gain on the sale of office building	30,000

Allowable tax depreciation for the period is RWF50,000,000.

Uwamahoro Charlotte

Charlotte has been a self-employed clothing maker for ten years. She filed and paid all of her taxes on time until the tax period ended 31 December 2017, when her mother fell ill and required care. Charlotte continued to trade whilst caring for her mother, but has not yet filed any personal income tax declarations for the years ended 31 December 2017 and 2018. She is concerned about incurring penalties and interest, and wants to get her tax affairs up to date, so she has approached your firm for assistance and advice.

Charlotte has advised you that her income for the tax period to 31 December 2017 was RWF18,000,000, and for the tax period to 31 December 2018 it was RWF9,000,000. She has always used the applicable small business regime.

Gucenga Ltd

Gucenga Ltd is a mining company, and a new client of your firm.

You have received handover information from the previous advisers to Gucenga Ltd, including previous tax declarations and supporting invoices. On inspection of these documents you suspect that the accounts department of the company have been falsifying purchase invoices. The company's profit margins are significantly lower than those of your other mining clients. You have approached the directors for clarification but the answers they have provided are inconsistent with your evidence. They have also suggested that more work would be awarded to your firm if you ask no further questions.

The tax liability declared and paid on Gucenga's most recent tax declaration was RWF75,000,000. Based on the false documentation, you have estimated that the correct tax liability should have been approximately RWF110,000,000.

Required

- (a) Calculate the corporate income tax liability of Kamena Ltd for the year ended 30 June 2019. Explain the dates and amounts of tax payable and the date by which the tax declaration is due. **(8 marks)**
- (b) Outline the penalty and interest implications for Charlotte of her failure to declare and pay her PIT liabilities for the years ended 31 December 2017 and 31 December 2018. **(6 marks)**
- (c) Outline the monetary and non-monetary sanctions that Gucenga Ltd may be subject to as a result of the deliberate underpayment of its corporate income tax liabilities. **(6 marks)**

Total (20 marks)

Total (100 marks)

End of question paper