
CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION
S3.3 TAX

FRIDAY: 04 DECEMBER 2020

Instructions

- 1 Time allowed: **3 hours and 15 minutes reading.**
- 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. Which of the following conditions need to be met for a business to be permitted to use a tax period other than 31 December?

- (i) The business must be a company and be required to use GAAP
- (ii) The business must be classed as a large taxpayer
- (iii) The business must have an overseas parent company that uses a different year end
- (iv) The business must apply in writing to the Minister of Finance for permission

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

(2 marks)

2. Which of the following would be classed as taxable sources of employment income?

- (i) RSSB contributions made by the employer
- (ii) Bonus as compensation for working in a region with high rates of dengue fever
- (iii) Reimbursement of fuel costs incurred delivering goods to customers
- (iv) Purchase by an employer of a mobile phone for use by an employee

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

(2 marks)

3. A Rwandan resident trading company with an annual turnover of RWF 180 million incurs the following expenses in the year ended 31 December 2019:

- Launch party for new product range attended by major customers, costing RWF 2.5 million
- Organisation of a football match for all their employees, costing RWF 150,000
- Sponsorship of RWF 200,000 to an employee running the Kigali International Peace Marathon in aid of the Red Cross (a registered charity)

What is the total amount that will be disallowed in relation to these expenses in the adjustment of business profits?

- A RWF 350,000
- B RWF 2.5 million
- C RWF 2.7 million
- D RWF 2.85 million

E None of the above

(2 marks)

4. Which of the following statements about the investment allowance is true?

- A A building qualifying for the investment allowance would receive 55% of its cost as tax relief in the period of purchase – being 50% investment allowance and 5% straight-line tax depreciation.
- B The minimum expenditure required on each asset is RWF 50,000.
- C A six-seater vehicle used in a tourism business would not qualify for the allowance.
- D If a qualifying asset is sold within three years of purchase, the tax saved by claiming the investment allowance must be repaid, but no interest charged
- E None of the above

(2 marks)

5. Kayitare Clement owns some heavy machinery which cost him RWF 12 million. He receives RWF 1.45 million from renting the machinery out for a year. Clement has a loan which he used to purchase the machinery and pays RWD 120,000 in interest per year. The relevant rate of tax depreciation is 5%.

What amount of rental income tax will Clement pay on this income?

- A RWF 81,000
- B RWF 109,000
- C RWF 110,000
- D RWF 175,500
- E None of the above

(2 marks)

6. Kabanyana Evelyne has recently been successful in winning a public tender to deliver a series of lectures on international accounting standards to Rwandan government legal experts. The tender is worth RWF 25 million net of VAT. Evelyne is registered with the tax administration but does not hold a *quitus fiscal*.

Evelyne expects to make a taxable profit of RWF 16 million from these lectures, which will all be delivered in the year ended 31 December 2019. She has no other taxable income.

What is Evelyne's personal income tax payable for the year?

- A RWF 858,000
- B RWF 4,128,000
- C RWF 4,608,000
- D RWF 3,858,000
- E None of the above

(2 marks)

7. Assuming that all relevant conditions were met, which of the following Rwanda resident companies would be entitled to use a rate of corporate income tax lower than 30%?
- (i) Zahabu Ltd, a company in the solar energy sector
 - (ii) Ifeza Ltd, a company that was listed on the Rwanda stock exchange six years ago and has 35% of its shares in public hands
 - (iii) Unuringa Ltd, a company that exports goods valued at US\$6 million per year
 - (iv) Icyuma Ltd, which registered as a venture capital company three years ago
- A (iii) only
 - B (i) and (iii)
 - C (i) and (iv)
 - D (i), (iii) and (iv)
 - E None of the above
- (2 marks)**

8. Ishema Kevin opened a shop and started to trade on 1 August 2019. His annual turnover will be approximately RWF 80 million. He has registered with the tax administration but has not yet filed any personal income tax declarations. He employs two shop assistants.
- Which of the following statements are true in relation to how and when his and his employee's personal income tax for the tax period to 31 December 2019 will be paid?
- (i) Kevin's personal income tax will be paid by instalment quarterly prepayments, with a balancing payment due on or before 31 March 2020.
 - (ii) Kevin must usually pay his employee's tax via monthly PAYE, by the 14th of the month following the payment.
 - (iii) Kevin has the option of calculating and paying PAYE on a quarterly basis should he so wish.
 - (iv) Kevin will pay all of his personal income tax for the year ended 31 December 2019 on 31 March 2020.
- A (i) and (ii)
 - B (iii) and (iv)
 - C (ii) and (iv)
 - D (ii), (iii) and (iv)
 - E None of the above
- (2 marks)**

9. Claude, a lawyer operating as a sole trader, has recently refurbished his office premises, and needs to classify his expenditure into items deductible from trading profits immediately and items on which tax depreciation will be available. He has the following items of expenditure:

	<i>Cost</i> RWF'000
Repairs to faulty wiring	650
Flat screen TV in client waiting area	450
Re-painting office	1,300
Replacing single glazed broken windows with soundproof double glazing	2,000

What amount of this expenditure will be deductible immediately from trading income?

- A RWF 1.1 million

- B RWF 1.95 million
- C RWF 2.4 million
- D RWF 4.4 million
- E None of the above

(2 marks)

10. Mukandanga David owns a small hardware shop, and lives in the apartment on the second floor of the building. He has charged 100% of his utility bills (electricity and water) totalling RWF 480,000 to his profit and loss account. He estimates that 40% of the expenditure relates to the apartment, and the rest to the shop.

What tax adjustment is necessary to the accounting profit to reflect the private use of the building?

- A Add back RWF 480,000
- B Add back RWF 192,000
- C Add back RWF 96,000
- D Deduct RWF 384,000
- E None of the above

(2 marks)

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

11. Umutuku Ltd is a farming company growing fruit crops in Rwanda. Its annual turnover is RWF 380 million. The company requires two new employees; one permanent salesperson and one casual employee.

The permanent salesperson will receive the following employment package:

- A salary of RWF 22.2 million per year
- A performance related cash bonus of 5% of annual salary, payable in March each year depending on the achievement of sales targets
- A company car leased by Umutuku Ltd at a cost of RWF 2.4 million per year
- An loan of RWF 21 million, to be repaid in five years' time or on the cessation of their employment. Umutuku Ltd will charge the employee interest on this loan at a rate of 2% per year, however the National Bank of Rwanda is currently lending money to commercial banks at a rate of 6% per annum.

The second employee will be employed for three weeks in March, to assist with the harvesting of fruit. This will not use specialist equipment, nor will it require any special skills. The employee will be paid in cash, a sum of RWF 80,000 per week. They will also be paid a travel allowance of RWF 15,000 per week to assist with the cost of travelling from their home to the farm, which is in a remote location.

Required

Calculate the PAYE that Umutuku Ltd will pay to the tax administration in respect of these two employees for the month of March, assuming that the salesperson's annual sales targets are met. Explain the rate of PAYE applicable to the second employee, and explain the obligations of Umutuku Ltd in respect of the filing and payment of tax on the employment income.

Total (10 Marks)

12. Umwali Chantal started trading as a hairdresser from a small salon in Butare on 1 March 2019. She notified the tax administration within the required time limit and has obtained a tax identification number (TIN). She has no other sources of taxable income.

She now requires your advice regarding the completion of her tax declaration for the tax period ended 31 December 2019. She is unsure which method she should use to calculate her personal income tax.

Her turnover for the tax period was RWF 17 million, including tips of RWF 1.2 million. She anticipates that this will grow quickly as her customer base expands.

She incurred the following expenses in her first tax period of trading:

	RWF'000
Rent and utilities for business premises	6,000
Advertising – printed leaflets and billboards	500
Purchase of hairdressing tools (scissors, hairdryer, clips etc)	80
Fitting out shop – (Note 1) chair, mirrors, sink, cash register	1,800
Hair products purchased for resale and use in the salon (Note 2)	1,500

Notes

- 1 The shop fitting costs can be analysed as follows:

	RWF'000
Specialist chair	600
Mirrors	300
Sink and shower equipment for washing hair	800
Cash register	<u>100</u>
Total	<u>1,800</u>

- 2 Of the hair products purchased, Chantal used RWF 50,000 caring for her own hair and that of her family. She estimates that approximately RWF 600,000 of products (at cost) were unused as at 31 December 2019.
- 3 The insurance costs were business liability insurance costing RWF 480,000 for the year ended 29 February 2020, and personal health insurance for Chantal costing RWF 220,000 for the same period.

Required

Calculate and explain Chantal's personal income tax liability for the year ended 31 December 2019, under the turnover tax and real regimes. Explain your treatment of each expense item listed above. Recommend which system Chantal should use.

Total (10 Marks)

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

13. Ibara Ltd is a Rwandan resident company that manufactures paint and building materials.

Its profit and loss account for the year ended 31 December 2019 is as follows:

	<i>Note</i>	RWF'000	RWF'000
Turnover			650,000
Cost of sales			<u>(299,680)</u>
Operating profit			350,320
Profit on disposal of factory premises	1	28,450	
Dividends from South African companies	2	1,800	
Dividends from Rwandan resident companies	3	<u>3,362</u>	
			33,612
Expenses:			
Bank interest	4	25,300	
Property expenses	5	46,450	
Depreciation		86,780	
Patent royalties payable	6	15,000	
Board sitting allowances	7	<u>8,750</u>	
			<u>(182,280)</u>
Net profit			<u><u>201,652</u></u>

Notes

- The profit on disposal is the accounting profit arising on the disposal of the company's factory premises. The proceeds were RWF 154 million and the accounting net book value was RWF 125.5 million. The tax written down value of the factory was RWF 110 million as at 1 January 2019.
- The dividends were received net of South African withholding tax at 10%. The amount shown in the profit and loss account is the net amount received.
- The dividends were paid out of the retained profits of Ibara Ltd's 100% owned Rwandan resident subsidiary.
- Interest payable is on a loan from a foreign development financial institution, and it is exempt from tax overseas. The loan was used to fund trading activities.
- Property expenses include utilities, repairs and insurance totalling RWF 36.45 million. The remaining RWF 10 million relates to the installation of air purification systems in the company's new factory (see below).
- Patent royalties are payable to an unconnected US company, which holds the patent for the paints made by Ibara Ltd. The amount in the profit and loss account is shown gross of withholding tax, which was paid correctly during the period.
- Board sitting allowances have not had PAYE applied to them.

Other information

Ibara Ltd had the following fixed asset information as at 1 January 2019:

	<i>Cost</i>	<i>Tax written down value</i>
	RWF'000	RWF'000
Factory (sold in the year as per Note 1)	137,500	110,000
Heavy machinery	60,000	48,000
Computer equipment pool		1,600
Other business assets pool		32,000

The following fixed asset transactions took place in the tax period to 31 December 2019:

Purchases

Forklift trucks	RWF 15 million
Car for director (30% private use)	RWF 18 million
New factory premises: land	RWF 10 million
New factory: construction costs	RWF 180 million

Ibara Ltd successfully applied for an investment certificate in respect of the new factory.

Disposals – proceeds

Factory premises (see Note 1)	RWF 154 million
Computer equipment	RWF 1.2 million
Forklift trucks	RWF 3.5 million

All assets, except the car, are used exclusively for business use.

Required

- (a) Calculate the tax depreciation and investment allowance available to Ibara Ltd for the year ended 31 December 2019, including any adjustment necessary on disposal of the factory building. **(8 marks)**
- (b) Calculate the tax-adjusted business profit of Ibara Ltd. Your answer should commence with the net profit of RWF 201,652,000, and show your treatment of each item in the profit and loss account. **(6 marks)**
- (c) Calculate the total taxable income and the corporate income tax liability of Ibara Ltd for the year ended 31 December 2019. Explain your treatment of the dividends received and the overseas tax suffered. **(6 marks)**

Total (20 Marks)

14. You are the tax adviser to two different Rwandan resident trading companies, Ubururu Ltd (a mining company) and Umuhondo Ltd, a company that constructs public buildings such as schools and hospitals.

Both companies have made losses in the tax period ending 31 December 2019, and require your advice about how these losses may be used.

You have obtained the following information about these two clients:

Ubururu Ltd

The draft computation of taxable income for the company is as follows:

	<i>Note</i>	RWF'000
Adjusted trading loss before tax depreciation	1	50,000)
Tax depreciation	2	(40,000)

Interest income from short-term bank deposits	3	4,250
Proceeds on disposal of office premises		20,000
Dividend income from Umweru Ltd, an 80% owned Rwandan resident subsidiary of Ubururu Ltd	4	2,000

Notes

- You have reviewed the adjustments made to the trading profit and ascertained that they are correct, subject to one issue: Sales revenue includes income on sales of tin ore at cost price to the 80% subsidiary totalling RWF 8 million. The normal mark-up achieved on tin ore sales is 25%.
- Tax depreciation includes a balancing adjustment of RWF 3.5 million being the remaining undepreciated balance relating to the office premises sold in the year.
- This amount is shown net of withholding tax.

Ubururu Ltd has a business loss brought forward. This arose in the year ended 31 December 2016, due to a mining accident requiring compensation payments, closing down of one of the mines for several weeks, and significant investment in safety equipment. The loss incurred has been offset against profits for the previous two tax periods but an amount of (RWF 35 million) remains unused. The current period loss was due to the land owned and mined by the company recently producing less ore. New ore-rich land is in the process of being acquired, and projected results for the next two tax periods are:

Period ended 31 December 2020 Total taxable income RWF 5m

Period ended 31 December 2021 Total taxable income RWF 15m

Umuhondo Ltd

Umuhondo Ltd started to trade in February 2017 and entered into three construction contracts in that year. Contracts 1 and 3 are now complete, and Contract 2 is still in progress as at 31 December 2019.

Umuhondo Ltd has recognised and declared the following taxable profits and losses in relation to its three ongoing contracts, and its other income:

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2018</i>	<i>Year ended 31 December 2019</i>
	<i>Profit/(loss)</i>	<i>Profit/(loss)</i>	<i>Profit/(loss)</i>
	<i>RWF'000</i>	<i>RWF'000</i>	<i>RWF'000</i>
Contract 1	120,000	60,000	300,000
Contract 2	30,000	(20,000)	40,000
Contract 3	20,000	100,000	(500,000)
Other income	15,000	10,000	10,000

Umuhondo Ltd is not entitled to any reduction in its rate of corporate income tax.

Required

- Calculate the business loss for the year ended 31 December 2019 for Ubururu Ltd. **(5 marks)**

- (b) Explain how the loss calculated in (a) and Ubururu Ltd's historic losses will be offset against future profits, and what conditions will need to be met to permit an extension of the carry forward of the loss that arose in the year ended 31 December 2016. **(7 marks)**
- (c) Explain the additional relief available for the loss generated on Umuhondo Ltd's long-term contract in the year ended 31 December 2019. Calculate the amount of corporate income tax that will be repaid to Umuhondo Ltd as a result of this relief. **(8 marks)**

Total (20 Marks)

15. Henin Francine is a doctor, employed by Medicine in Need (MiN), an international aid agency. Her salary is the equivalent of RWF 90 million per annum. She was born in France but her home is in Belgium, where her husband works as a teacher.

MiN has offered Francine an 18 month secondment to Rwanda, where she will be carrying out aid work with the agreement of the Rwandan government. If she accepts the secondment, she will leave Belgium on 1 September 2019, returning at the end of February 2021. Other than four week's leave every year which she will spend in Belgium, Francine will remain in Rwanda throughout the period of her secondment.

While in Rwanda, as well as her aid work, Francine intends to work as a part-time employee of a Rwandan hospital, specialising in treating patients with tuberculosis.

Francine will initially stay in different accommodation across Rwanda (according to the location of her duties) provided by MiN, but she may rent an apartment on a short-term lease, if her aid duties are restricted to one area of Rwanda. This is currently uncertain.

Francine has substantial cash savings, which are currently held in both French and Belgian interest-bearing bank accounts. Francine earned interest equivalent to RWF 10 million in the year ended 31 December 2018. She intends to transfer some of these savings to a Rwandan bank in order to assist her with living expenses.

Francine does not have any other sources of income apart from her employment and interest income.

She has approached your firm for advice about the Rwandan tax implications of her proposed secondment. She has already taken advice about her Belgian and French tax position.

Required

- (a) Explain whether Francine will be treated as a resident in Rwanda for the years ended 31 December 2019 and 2020, and whether she will be obliged to register with the Rwandan Revenue Authority. State any further information you may require to accurately assess her residence position. **(6 marks)**
- (b) Explain, for each of Francine's income sources, whether they will be liable to Rwandan personal income tax or withholding tax in the years ended 31 December 2019 and 2020. **(8 marks)**
- (c) Other than the income generated by Francine, give two examples of income that is exempt from Rwandan personal income tax, and two examples of taxable income. **(2 marks)**
- (d) Explain how the rules regarding residence of companies differ from the rules applying to individuals. **(4 marks)**

Total (20 marks)

Total (100 marks)

End of question paper