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**CERTIFIED PUBLIC ACCOUNTANT**  
**FOUNDATION LEVEL 2 EXAMINATIONS**  
**F2.4: TAXATION**  
**DATE; MONDAY, 29 NOVEMBER 2021**  
**MARKING GUIDE AND MODEL ANSWERS**

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## QUESTION ONE

### Marking guide

	Marks
<b>a</b> Right definition of VAT reverse charge and circumstances under which it may be claimable	2
<b>b</b> 01 mark for any valid point, max. 02 marks	2
<b>c</b> 0.5 marks for each valid point max. 04 marks	2
<b>d</b> 0.5 marks for each computed and rightly classified output VAT transactions, max. six marks	6
0.5 marks for each computed and rightly classified input VAT transactions, max. seven marks	7
01 mark for calculation of Net VAT refundable	1
<b>Total marks</b>	<b>20</b>

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### Model answers

#### a) Reverse charge VAT:

A local recipient of services from a foreign supplier will be required to account for a VAT reverse charge at 18% of the value of the services procured. The VAT law further provides that the recipient may not reclaim the corresponding input VAT unless the services so procured are not available in the local market. Services are considered not to be available in Rwanda if there is no person in the local market that can deliver identical or similar services.

#### b) Reasons acceptable for post-sale adjustment:

- If taxable goods or services, no longer existing
- If the nature of taxable goods or services is changed or damaged
- If the consideration of taxable goods or services is changed
- If goods or part of the goods are returned to the supplier.

#### c) Tax point:

Tax point is when vat becomes due on a particular transaction. The tax point per Rwandan vat law should be the earliest of:

- Date of supply
- Date of invoice
- Date of payment
- Date on which goods are either removed from the premises of the supplier or given to the recipient.

d)

Majestic Motors

Vat Computation for the month of January 2021.

Input VAT	Amounts in FRW			
	Standard	Exempt	Zero rated	Total input VAT
Fuel for staff cars		600,000		-
Fuel for clients		900,000		-
Office stationery	550,000			99,000
Office cleaning services	400,000			72,000
Purchase of parts	900,000			162,000
Purchase of paint	1,500,000			270,000
Fire insurance for building	8,000,000			1,440,000
One-year comprehensive insurance for new Vehicles sold	4,500,000			810,000
Medical insurance for staff		18,000,000		
Purchase of Vehicles for sale	16,000,000			2,880,000
Payment of net salaries for staff		11,000,000		
Car washing shampoo	2,500,000			450,000
Electricity for office use and car wash	1,000,000			180,000
Payment for transportation of Vehicle for export from Office in Special Economic Zones to the export port in Rusumo			1,200,000	-
<b>Total</b>	<b>35,350,000</b>	<b>30,500,000</b>	<b>1,200,000</b>	<b>6,363,000</b>

Output VAT	Amounts in FRW				
	Standard	Exempt	Zero rated	VAT held by Public Institutions	Output VAT
Rent of 32-seater Van to Serena Hotel for 15 days		2,000,000			
Sell of 2 spare parts to an existing vehicle customer	500,000				90,000
Sell of a Mitsubishi Pickup to an individual	20,000,000				3,600,000
Body repair services for clients	1,500,000				270,000
Brake pads replacement for clients	1,200,000				216,000
Sell of 2 Vehicles to a Rwanda Development Board, a public institution that should ideally withhold VAT at source	42,000,000			(7,560,000)	7,560,000
After sale services to 'Pick up' client	650,000				117,000
Service and maintenance services for clients' vehicles	2,500,000				450,000
Painting services for clients	3,000,000				540,000
Car wash services for clients' cars	3,000,000				540,000
Exporting a vehicle			15,000,000		-
Renting Vehicle to Tourists			1,200,000		-
<b>Total</b>	<b>74,350,000</b>	<b>2,000,000</b>	<b>16,200,000</b>	<b>(7,560,000)</b>	<b>13,383,000</b>

Summary	RWF
Vat output	13,383,000
Vat paid on local purchases	(6,363,000)
Vat retained by public institutions	(7,560,000)
<b>Net vat refundable</b>	<b>(540,000)</b>

## QUESTION TWO

### Marking guide

	Marks
a Right differentiation of tax evasion and tax avoidance, max. 02 marks	2
b Relevant definition of tax residence	2
c 01 marks for each valid point, max 06 six marks	6
Award 01 for each of the following items (Bonus, Rent prepayment,	
d Legal fees, Capital allowances), max. 04 marks	4
Award 02 for each well calculated item for; Bad debt and Donation,	
max. 04 marks	4
02 marks for right calculation of personal income tax	2
<b>Total marks</b>	<b>20</b>

### Model answers

#### a) Tax evasion and tax avoidance:

Tax avoidance is a legal minimization of tax liabilities by taking advantage of available loopholes in the tax system but not breaching any particular tax law. Tax evasion is deliberately taking illegal steps to avoid paying tax. Tax evasion is illegal and, but tax avoidance is legal.

#### b) Tax residence:

According to Article 4 of law number 16 of 2018, an individual is considered to be a resident in Rwanda if he/she fulfils one of the following conditions:

- He/she has a permanent residence in Rwanda.
- He/she has a habitual abode in Rwanda.
- He/she is a Rwandan representing Rwanda abroad.
- An individual who stays in Rwanda for more than one hundred eighty-three (183) days in twelve (12) month period, either continuously or intermittently, is considered to be a resident in Rwanda for the tax period in which the twelve (12) month period has ended.

#### c) The taxable income of an individual derives from the following.

- Employment.
- Business activities.
- Investment.
- Capital gain: use, sale, lease or free transfer of an immovable property allocated to the business.

- Use, sale, lease or free transfer of an immovable property allocated to the business.
- Use, sale, lease, or free transfer of movable property allocated to the business.

d)

Athanase Gakire Ltd

Personal Income tax computation for the period ended 31 December 2020

Items	Workings	RWF “000”	RWF “000”
Operating profit reported			47,200
<b>Add: Disallowable expenses</b>			
Bonus		5,000	
Rent prepayment	(8,000*7/13)	4,308	
Bad debts	(3,000-50%*3,000)	1,500	
Legal consultancy fees		7,500	
Donation	(8,000-1%*450,000)	3,500	
VAT		8,000	
Staff airtime	(2,000*20%)	400	30,208
			<u>77,408</u>
Less: Capital allowances			<u>(12,000)</u>
Net taxable income			<u><b>65,408</b></u>

Tax Liability computation:

Tax bracket	Rate (%)	Tax amou nt
0-360,000	0%	-
360,001-1,200,000	20%	168,000
1,200,001-65,408,000	30%	19,262,400
<b>Total Tax liability</b>		<u><b>19,430,400</b></u>

## QUESTION THREE

### Marking guide

	Marks
a 01 mark for any valid point, max. 03 marks	3
b 02 marks for well explained answer	2
01 mark for each valid point in definition of corporate restructuring,	
c max. 04 marks	4
03 marks for well detailed explanation of taxation of restructured companies	3
d 01 mark for each cost incurred max. 04 marks	4
Percentage of completion calculation	2
Calculation of Revenue completion percentage and Revenue amount	2
<b>Total marks</b>	<b>20</b>

### Model answers

#### a. Bad debt

Article 31 of Law n° 016/2018 provides that in the determination of business profit, a deduction is allowed for bad debts if the following conditions are fulfilled:

- If an amount corresponding to the debt was previously included in the income of the taxpayer.
- If the debt is written off in the books of accounts of the taxpayer.
- If the taxpayer has taken all possible steps in pursuing payment and has shown a court decision declaring the insolvency of his/her debtor

#### b. Taxation of profit from Agricultural activities

Article 21 of Law 16/2018 also provides that income earned by an agriculturalist or a pastoralist on agricultural or livestock activities is exempt if the turnover from agricultural or livestock activities do not exceed twelve million Rwanda francs (FRW 12,000,000) in a tax period. In case the turnover exceeds twelve million Rwandan francs (FRW 12,000,000), the latter amount is excluded from the taxable income.

#### c. Corporate restructuring

Article 53 defines corporate restructuring as follows:

- A merger of two or more resident companies into a separate company.
- The acquisition or a takeover of fifty percent (50%) or more of shares or voting rights, by number or value in a resident company in exchange for shares of the purchasing company.
- The acquisition of fifty percent (50%) or more of the assets and liabilities of a resident company by another resident company solely in exchange of shares in the purchasing company.
- The acquisition of the entire company's assets so that its existence is replaced by the purchasing company.

- Splitting of a resident company into two or more resident companies.

### **Taxation of Restructured Companies**

According to Article 54, in case of restructuring of companies, the transferring company is exempted from tax in respect of capital gains and losses realized on restructuring. The receiving company values the assets and liabilities involved at their book value in the hands of the transferring company at the time of restructuring. The receiving company depreciates the business assets according to the rules that would have applied to the transferring company as if the restructuring did not take place.

In case of restructuring, the receiving company is entitled to carry over the reserves and provisions created by the transferring company, subject to the conditions that would have applied to the transferring company as if the restructuring did not take place. The receiving company assumes the rights and obligations of the transferring company in respect of such reserves and provisions.

#### **d. Royal Contractors Taxable income calculation**

<b>Description</b>	<b>Workings</b>	<b>FRW Million</b>	<b>FRW Million</b>
Contract price			1,900
Estimated contract cost			1,650
<b>Costs incurred during the period:</b>			
Wages and salaries		80	
Materials for construction		120	
Architectural design costs		60	
General administrative expenses		<u>25</u>	
		<b>285</b>	
Percentage of completion	Costs incurred/estimated contract cost	(285/1650)	17.3%
Revenue accrued during the period	%ge completed * contract price	(17.3%*1900)	329
Less: Costs incurred during the period			(285)
<b><i>Taxable income for the period</i></b>			<b>44</b>



## QUESTION FOUR

### Marking guide

	Marks
a 01 mark for each valid point, max. 04 marks	4
b 01 mark for each valid disallowable expense, max. 04 marks	6
02 mark for each disallowable income, max 04 marks	4
02 marks for well calculated dividends from foreign investments added to taxable income	2
Calculation of income tax liability	2
02 marks for adjustment of foreign tax credit	2
<b>Total marks</b>	<b>20</b>

### Model answers

#### a. Deductible expense

In determining profits on business activities, a deduction for all expenses shall fulfil the following, if:

- They are incurred for the direct purpose of, and in the normal course of the business.
- They correspond to a real expense and can be substantiated with proper documents.
- They lead to a decrease in the net assets of the business.
- They are used for activities related to the tax period in which they are incurred.

#### b.

##### Lina Contractors Ltd

##### Taxable income computation for the period ended 31 December 2019.

	Workings	FRW “000”	FRW “000”
Accounting trading profit			98,500
<b>Add: Disallowable expenses:</b>			
VAT		25,000	
Rent prepaid	(8,500*3/5)	5,100	
Repair and Maintenance (Capital expenditure)		35,000	
Personal expenses		2,500	
Bonuses for Board members		17,000	
Political donations		<u>3,500</u>	88,100
<b>Less: Disallowable income:</b>			
Dividends from local company	(12,000*50)	(6,000)	
Dividends from foreign investment (Wrong amount)	(12,000*50)	(6,000)	

		(12,000)
<b>Add back:</b>		
Dividends from foreign investments	(6,000*100/80)	7,500
<b>Taxable income</b>		<b>182,100</b>
Tax Liability	(30%*182,100)	54,630
Less: Foreign tax credit	(7,500*15%)	(1,125)
<b><i>Net income tax payable</i></b>		<b><i>53,505</i></b>

## QUESTION FIVE

### Marking guide

	Marks
a 02 marks for any valid definition max. 10 marks	10
02 marks for well explained benefit in kind on fuelled company vehicle	
b and furnished company house	2
02 marks for well explained benefit in kind on loan and salary advance	2
0.5 marks for cash emoluments & house helper benefit & employee	
c pension contribution, max. 02 marks)	2
01 marks for each benefit in kind (House, Vehicle and Salary advance loan), max. 03 marks	3
01 mark for annual tax liability calculation	1
<b>Total marks</b>	<b>20</b>

## Model answers

### a.

- i. **Race to the bottom:** A socio-economic concept that described government reregulation of the business environment, or reduction in tax rates in order to attract or retain investments, especially in response to growing pressure of globalization.
- ii. **Thin capitalization:** The interest paid on loans and advances from related entities is not tax deductible to the extent that the total amount of loans/advances exceeds four times the amount of equity during the tax period.
- iii. **Tax Incidence:** The incidence of a tax refers to the final location of the tax i.e; the ultimate payer or bearer of a tax. Determining the actual distribution of the tax burden requires an analysis of the economic adjustment process, or transmission of the burden from its impact point (the place of statutory incidence) to its final resting point (the place of economic incidence). This process is generally referred to as “Shifting”.
- iv. **Para-fiscal fees:** Art 4 of ordinance n: 59-2 of Jan 1959 relating to Finance law in France define Para-fiscal fees as an economic or social interest to the legal entity of public law or private law other than the state, the local authorities and their institutions. Para-fiscal fees are similar to taxes except that they are extra budgetary and not paid to the state itself. E.g, deductions from employment income to FARG (Funds for Assistance to Genocide survivors), Agaciro development Fund.
- v. **Principle of non-retrospective application of the tax law:** A law comes into enforceable existence by its publication, which in Rwanda results from the insertion of the law into the Official Gazette. However, the legislator in theory has the ability to set itself the date of the entry into force of the provisions which it enacts. Therefore, the entry into force of a law can be accelerated to precede his publication or, on the contrary, be delayed beyond its publication date. once its entry into force is defined, the tax law applies immediately not only to future situations but also to those which currently exist. Therefore, the tax law can affect the tax consequences of a former period and modify a posteriori the conditions of taxation.

### b. Benefits in kind

- i. **Fuelled company car:** There shall be added to the taxable income an amount meant for the availability and use of a motor vehicle to an employee during a tax period, valued at ten percent (10%) of the employment income excluding benefits in kind.
- ii. **Furnished company owned house:** There are added to the taxable income an amount meant for use or availability for use of premises including or excluding any household equipment of other contents by an employer for residential occupation by an employee during a tax period, valued at twenty percent (20%) of the employment income excluding benefits in kind. However, a rent of house or motor

vehicle directly paid by an employer for an employee is taxed as any allowance referred to in Article 15 of Law 16/2018.

- iii. **Loan and salary advances:** There are added to the taxable income, benefits on a loan including advance on a salary exceeding a three (3) months' salary given to an employee valued at a difference between:
- The interest on loan, which would have been paid by the employee during the month in which the loan was received, calculated at a rate of interest offered to Rwanda.
  - And the actual interest paid by the employee in that month.

c.

Particulars	Workings	Amount FRW	Amount FRW
Salary	2,000,000x12		24,000,000
Communication allowance	200,000x12		2,400,000
Overtime	150,000x12		1,800,000
<b>Total employment income</b>			<b>28,200,000</b>
Benefits:			
Company car	10%x28,200,000	2,820,000	
Less: Employee contribution	(50,000x12)	(600,000)	
House benefit	20%x28,200,000	5,640,000	
Loan benefit	(9%-4%) x4,000,000/12x6	100,000	
House helper salary	50,000x12	600,000	8,560,000
<b>Annual taxable employment income</b>			<b>36,760,000</b>

Annual tax liability:

Tax Band	Tax rate	Tax amount
0-360,000	0%	
360,000-1,200,000	20%	168,000
1,200,000-36,760,000	30%	10,668,000
<b>Total tax payable</b>		<b>10,836,000</b>
<b>Less PAYE paid (FRW 150,000*12)</b>		<b>(1,800,000)</b>
<b>Net tax payable</b>		<b>9,036,000</b>

## QUESTION SIX

### Marking guide

	Marks
a 01 mark for each valid point, max. 05 marks	5
b 01 mark for each valid point, max. 05 marks	5
c 01 mark for each valid point, max. 03 marks	3
d 03 marks for properly calculated taxable rental Income for Property 1	3
02 marks for properly calculated taxable rental Income for Property 2	2
02 marks for well calculated rental income tax	2
<b>Total marks</b>	<b>20</b>

### Model answers

#### a. Desk audit

Desk audit is conducted by an auditor in his/her office on any of the following grounds:

- Turnover of Value Added Tax is not corresponding to the turnover of income tax without justification
- Tax declarations are not corresponding to paid taxes
- The taxpayer deducted from tax base non-deductible expenses
- One or more invoices were not declared
- Any other situations where the tax administration has sufficient documents that can be used to assess taxes.

#### b. Conditions for tax assessment appeal

The appeal has to fulfil the following conditions:

- Be in writing.
- Identify the taxpayer and the taxpayer's identification number.
- Identify the tax period.
- Mention the assessment and the object and the grounds for the appeal.
- Be signed by the taxpayer, the taxpayer's legal representative or the representative holding a mandate.
- Contain all the proofs, and legal arguments against the assessment.

The appeal does not suspend the obligation to pay tax, interest, and penalties. Upon written request by the taxpayer, the Commissioner General may suspend payment of the disputed amount of tax for the duration of the appeal.

- c. Rental income tax is charged to the following:
- Income from rented buildings in whole or in part
  - income from rented improvements in whole or in part
  - Income from any other rented immovable property located in Rwanda.

d.

Computation of rental income tax for Justin Kabarisa for the year ended 31 December 2019.

Items	Workings	FRW	FRW
<b>Property 1:</b>			
Rental Income	(4,000,000*12)		48,000,000
Less: allowable expenses	(48,000,000*50%)	24,000,000	
Less: Interest on loan	(150,000,000*15%)	22,500,000	(46,500,000)
<b>Taxable income</b>			<b>1,500,000</b>
<b>Property 2:</b>			
Rental Income	(2,500,000*12)		30,000,000
Less: allowable expenses	(30,000,000*50%)		(15,000,000)
<b>Taxable income</b>			<b>15,000,000</b>
<b>Total taxable income</b>			<b>16,500,000</b>

<b>Tax Liability calculation</b>		
Tax bands.	Tax rates	Tax amount
(0-180,000)	0%	-
(180,001-1,000,000)	20%	164,000
(1,000,001-16,500,000)	30%	4,650,000
<b>Total tax liability</b>		<b>4,814,000</b>

## QUESTION SEVEN

### Marking guide

	Marks
a 01 mark for each relevant point, max. 07 marks 02 marks for each well explained point on violation of EBM law, max.	7
b 06 marks	6
c (i) 01 mark for each valid point, max. 02 marks (ii) 03 marks for well calculated withholding tax on winnings on gaming activities (iii) 02 marks for well calculated tax on gaming activities for Isonga Casinos	2 3 2
<b>Total marks</b>	<b>20</b>

### Model answers

#### a. Disallowing VAT refund.

No input tax is allowed on the following goods:

- Passenger vehicle, or spare parts or repair and maintenance services for such a vehicle, unless the taxpayer's business involves the re-sale or rent of such a vehicle and the vehicle was solely acquired for the purpose of such taxpayer's business.
- Goods acquired or imported for entertainment purposes unless the taxpayer's business involves providing entertainment and the entertainment is provided in the ordinary course of that business and was not entrusted to a partner or employee
- Goods acquired for accommodation purposes, unless:
  - ✓ The taxpayer's business involves providing accommodation services and the accommodation is provided in the ordinary course of that business
  - ✓ The accommodation was provided to the person who was away from his/her usual residential home for the interest of the business or employer's interests
- The acquired goods give right to membership or accession for any person to an association of sporting, social, recreational clubs.
- Value added tax paid on such business overheads as in the case of telephones and electricity whose use cannot be practically separable from private and business use shall be equal to 40% of the input tax

**b. Violation of the EBM Law**

**1. Failure to use electronic billing machine:** Article 24 of Law n° 37/2012 of 9/11/2012 establishing the value added tax as modified and complemented to date is modified and complemented as follows:

- Any person required to use electronic billing machine who sells goods or services without issuing an electronic invoice is liable to an administrative fine of ten (10) times the value of the evaded value added tax.

In case a person repeats the fault specified in Paragraph One of this Article, he/she is liable to an administrative fine of twenty (20) times the value of the evaded value added tax.”

**2. Non-compliance with other obligations of the user of electronic billing machine:** Article 24 of Law n° 37/2012 of 9/11/2012 establishing the value added tax as modified and complemented to date is modified and complemented as follows:

- Any person required to use an electronic billing machine complies with other obligations of the user of such a machine provided for by the Ministerial Order on modalities of use of certified electronic billing machine.
- Subject to provisions of Article 24 of the Law, any person who fails to comply with the obligations specified in Paragraph One of the Article 24 is liable to an administrative fine of two hundred thousand Rwandan francs (FRW 200,000).
- In case a person repeats the fault provided under Paragraph 2 of this Article, he/she is liable to an administrative fine of four hundred thousand Rwandan francs (FRW 400,000).”

**3. Understatement of Tax:** Any person who makes a taxable transaction and delivers an electronic invoice with undervalued price or quantity of goods or services is liable to an administrative fine of ten (10) times the value of the evaded value added tax. In case the person repeats the fault provided under Paragraph 4 of this Article, the fine is increased to twenty (20) times of the value of the value added tax evaded.

**c.**

**i. Taxes on Gaming activities:**

- Gaming tax at 13% on net collections (Collections – payments) by the gaming company.
- WOP-gaming (Withholding tax) of 15% is applied on proceeds the player of more than RWF 30,000. The gaming / gambling company is required to withhold the 15% WOP-Gaming from the player proceeds and together with the gaming tax should be declared and paid by 15<sup>th</sup> of the subsequent month.



ii.

**WOP-Gaming tax on Winnings by Buda**

	<b>FRW</b>
Wagered amount	100,000
Winnings	1,500,000
<b>Taxable amount (1,500,000-100,000)</b>	<b>1,400,000</b>
Withholding tax (1,400,000-30,000) *15%	205,500
<b>Net winnings after withholding tax</b> <b>(1,400,000-205,500)</b>	<b><u>1,194,500</u></b>

iii.

**Gaming tax on Isonga casinos**

	<b>RWF</b>
Collections	20,000,000
Payments	12,000,000
<b>Taxable income</b>	<b>8,000,000</b>
Tax Liability @13%	1,040,000

**END OF MARKING GUIDE AND MODEL ANSWERS**