
CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.4: TAXATION

DATE: MONDAY, 29 NOVEMBER 2021

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has seven questions and only five questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings.
5. The question paper should not be taken out of the examination room.

QUESTION ONE

a) State the meaning of VAT reverse charge and explain the circumstances under which it may be claimable. (2 Marks)

b) Value Added Tax (VAT) law provides for and guides on tax treatment of post-sale adjustments for VAT. Explain any two reasons that can be acceptable for post-sale adjustments. (2 Marks)

c) Define a tax point and explain the Rwandan VAT law guidance on tax point of any supply. (2 Marks)

d) Majestic Motors is a Rwandan company that deals in a wide range vehicle services including sale of vehicles, car washing services, parts selling and after sale services. The following relate to January sales and purchases.

Sales for the month of January 2021

Cost net of taxes

FRW

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
Sell of a Mitsubishi Pickup to an individual	20,000,000
Body repair services for clients	1,500,000
Brake pads replacement for clients	1,200,000
Sell of 2 Vehicles to a Rwanda Development Board, a public institution that should ideally withhold VAT at source	42,000,000
After sale services to Pick up client	650,000
Service and maintenance services for clients' vehicles	2,500,000
Painting services for clients	3,000,000
Car wash services for clients' cars	3,000,000
Sell of a Toyota Camry to a new Dubai, the client paid upfront by bank transfer from a Dubai Bank	15,000,000
Renting out a Volkswagen transporter for five Belgian Tourists for four days	1,200,000

Purchases for the month of January 2021

Cost net of taxes

FRW

Fuel for staff Vehicles	600,000
Fuel for Customer vehicles for test driving	900,000
Office stationery	550,000
Office cleaning services	400,000
Purchase of parts for after sale services	900,000
Purchase of paint for after sale services	1,500,000
Fire insurance for building	8,000,000
One year comprehensive insurance for new Vehicles sold	4,500,000
Medical insurance for staff	18,000,000

Purchase of Vehicles for sale from Mitsubishi's country dealer	16,000,000
Payment of net salaries for staff	11,000,000
Car washing shampoo	2,500,000
Electricity for office use and car wash	1,000,000
Payment for transportation of Vehicle for export from Office in Special Economic Zones to the export port in Rusumo	1,200,000

Required:

Compute the VAT payable / refundable for the month of January 2021. (14 Marks)
(Total: 20 Marks)

QUESTION TWO

- Differentiate between tax evasion and tax avoidance. (2 marks)
- Explain the concept of tax residence in accordance to article 4 of Rwanda law on direct taxes on income. (2 Marks)
- In accordance with art 11 of the income tax law, explain with examples the drives/base of the taxable income of an individual. (6 Marks)
- Athanase Gakire runs a supermarket in down town Kigali and is taxed under the personal income tax regime. Mr. Gakire submitted the following information for Rwanda Revenue authority for tax assessment for the year ended 31 December 2020.

	FRW “000”	FRW “000”
Revenue from sales		450,000
Cost of goods sold:		
Opening Inventory	200,000	
Merchandise purchases during the year	300,000	
Closing stock at end of the year	(155,000)	(345,000)
Gross profit		105,000
Expenses:		
Wages and salaries	12,000	
Building rent	8,000	
Electricity for building	4,000	
Staff airtime	2,000	
Bad debts written off	3,000	
Value added tax paid	8,000	
Tax consultancy fees	1,800	
Legal consultancy fees	7,500	
Advertising	3,500	
Donations	8,000	(57,800)
Operating profit		47,200

In addition, the following information is relevant;

- i. Salaries include FRW 5,000,000 bonus provision payable in March 2021. A decision was subsequently made in January 2021 to not pay out bonus for financial year 2020.
- ii. The rent payment is for period June 2020 to June 2021.
- iii. 50% of the bad debts relates to a super market that was declared bankruptcy due to Covid_19 pandemic effects.
- iv. Capital allowances worth FRW12,000,000 was allowed by Rwanda Revenue Authority.
- v. Legal consultancy fees relate to settlement of a family dispute over land with Mr Gakire's ex-wife.
- vi. The donation was made to the church to support them during hard times of the pandemic.
- vii. The airtime is used for both business and personal calls.

Required:

Compute the taxable income and tax liability for Athanase Gakire. (10 Marks)
(Total: 20 Marks)

QUESTION THREE

- a) Explain the Conditions that a bad debt is an allowable deduction in the determination of business profit as per Article 31 of Law 16/2018. (3 Marks)
- b) Explain the tax treatment of profit on agricultural and livestock activities in accordance with article 21 of law N.16/2018. (2 Marks)
- c) Define corporate restructuring in accordance with article 53 of Law 16/2018 and explain the tax treatment of restructured companies. (7 Marks)

d) On 01 January 2018 Royal contractors entered into a 3 years contract to construct a 3-floor modern market at Kicukiro centre at a contract value of FRW 1,900,000,000 with expected cost of FRW1,650,000,000. There were some administrative delays due to Covid_19 impacts that halted the flow of materials and cash flow. At the end of the year the following information was available;

Expenses incurred	FRW
Wages and salaries	80,000,000
Materials for construction	120,000,000
Architectural design costs	60,000,000
General administrative expenses	25,000,000

Required:

Calculate the taxable income for the year ended 31 December 2020. (8 Marks)
(Total: 20 Marks)

QUESTION FOUR

a) What are the conditions necessary for an expense to qualify as deductible according to article 25 of income tax law N° 016/2018 of 13/04/2018) (4 Marks)

b) Lina Contractors runs a business selling construction materials in Kigali. The company's statement of profit and loss for the year ended 31 December 2019 is as follows;

	Notes	FRW “000”	FRW “000”
Gross profit			750,000
Other Income:			
Dividends	Note 1		12,000
Operating expenses		200,000	
Depreciation		10,000	
Personal consumption expenses	Note 2	50,000	
Rent expenses	Note 3	8,500	
Donation and gifts	Note 4	35,000	
VAT		25,000	
Repair and maintenance	Note 5	35,000	
Other expenses	Note 6	300,000	(663,500)
Operating profit			<u>98,500</u>

Notes:

1. 50% of the dividends were received from a local investment. The other 50% was received from an investment in Burundi. The dividends from Burundi investment were received after 20% withholding tax.
2. Personal consumption expenses include FRW 15,000,000 medical insurance for managing director which is part of his employment contract and forms part of company's staff costs budget. Personal consumption costs also include FRW 2,500,000 entertainment expenses for director's family (wife and children).
3. The rent amount was paid for five months starting from October 2019.
4. Donations were given to a charity organization and makes up 0.92% of turn over.
5. Repairs and maintenance include expenditure that was incurred on renovation of Kinyinya warehouse with a second floor and more partitioning.
6. Other expenses include:

	FRW
Cash bonuses for Board members	17,000,000
Political Donations	3,500,000
Marketing materials (T-Shirts, pens, given to customers)	1,500,000

Required:

Calculate Lina Contractors' tax adjusted trading profit for the year ended 31 December 2019 and compute the corporate income tax to be paid by Lina Contractors. (16 Marks)
(Total: 20 Marks)

QUESTION FIVE

a) Write brief notes on the following tax concepts;

- i. Race to the bottom
- ii. Thin capitalization
- iii. Tax Incidence
- iv. Para-fiscal fees
- v. Principle of non-retrospective application of the tax law.

(10 Marks)

b) Explain the tax treatment of the following benefits in kind according to Article 18 of Law 16/2018.

- i. A fuelled company Vehicle given to employee
 - ii. Employee living in a company owned furnished house
 - iii. An interest free loan from employer to employee, given central bank interbank rate is 10%
- (4 Marks)

c) After graduating from CPA (R) Program, Hakizimana upgraded to a new job as a tax accountant with TNT Traders Rwanda Limited on 01 January 2020 with the following contractual terms;

- Monthly salary of FRW 2,000,000
- Communication allowance: FRW 200,000 per month
- Overtime allowance: FRW 150,000
- A fuelled company car that he uses for both personal and business errands, the Vehicle has a value of FRW 30,000,000 and Mr Hakizimana contributes FRW 50,000 per month for maintenance.
- A furnished company owned house, a professional valuer has estimated the new house to have a value of FRW 45,000,000
- During the month of July 2020, Hakizimana received a FRW 4,000,000 loan from the employer at interest of 4% per annum. The interbank interest rate was 9%
- Hakizimana employed a house helper and a farm boy, the house helper is paid by the company and the farm boy is paid by Mr Hakizimana from his own personal cash. The house helper is paid FRW 50,000 per month while the farm helper is paid FRW 45,000 per month.
- Hakizimana pays FRW 150,000 per month as PAYE to Rwanda Revenue Authority.
- During the month of July 2020, he was given travel allowance of FRW 800,000 to facilitate his business trip to Dar es salaam to inspect company warehouse.

Required:

Calculate the annual taxable income and the tax liability for the year 2020. (6 Marks)
(Total: 20 Marks)

QUESTION SIX

a) Explain the circumstances under which Rwanda Revenue Authority may deem it necessary to conduct a desk audit. (5 Marks)

b) The taxpayer who is not satisfied with the contents of the tax assessment notice may appeal to the Commissioner General within thirty (30) days after receipt of the assessment notice. Explain the conditions that the aforementioned type of appeal must fulfil. (5 Marks)

c) Law N°75/2018 of 07/09/2018 determining the sources of revenue and property of decentralized entities states that the rental income tax is charged on income generated by an individual or any other person who is not subject to corporate tax from a rented immovable property located in Rwanda. State three sources of rental income tax. (3 Marks)

d) Mr Justin Kabarisa owns two properties in Kigali with the following details:

- Property 1 is situated in Gikondo, was constructed in 2014 at a cost of FRW 250,000,000. To complete the house, Mr Kabarisa took a 10 years loan from Coge Banque of FRW 150,000,000 at a rate of 15% which he is still servicing. The property was occupied by tenants for the entire 2019.
- Property 2 is a three floors apartment located in Kibagabaga. He constructed it using his own money at a cost of FRW 150,000,000 in 2017. The property was fully occupied by tenants from January to December 2019.
- Property 1 is rented at FRW 4,000,000 per month, while property 2 is rented at FRW 2,500,000 per month.

Mr Kabarisa reported the following expenses for the year 2019, there are other expenses not specifically highlighted.

- Depreciation: FRW 11,500,000
- Security guards FRW 5,000,000

Required:

Compute the taxable rental income and the rental income tax liability for the year ended 31 December 2019. (7 Marks)

(Total: 20 Marks)

QUESTION SEVEN

- a) Explain the goods and services for which respective input VAT refund can be disallowed. (7 Marks)
- b) Rwanda Revenue Authority strongly emphasizes the need for using Electronic billing machine in invoicing clients. With Eelectronic Billing Machine (EBM) V2 software, it is even easier now. Explain the violations of EBM law. (6 Marks)
- c) Rwanda imposes taxes on the proceeds of gambling activities and can therefore help to reduce the negative social impacts associated with gambling. Use the information below to calculate the respective gaming tax and the WOP-Gaming tax.

Buda and pest placed their bets with Remera master bets for the same football match between Kanogo United and Mareba Fc in October 2020. Buda placed his bet in favour of Kanogo united while Pest was for Mareba Fc . Both placed a significant bet amount of FRW 100,000 with expectation to win FRW 1,500,000 if the result of the game is in their favour.

The result of the game was “**Kanogo United 4:1 Mareba Fc**”.

Required:

- i. State the taxes imposed on gaming activities and the respective tax deadlines. (2 Marks)
- ii. WOP-Gaming (withholding tax) payable on the winnings from the bet and how much the player would receive net of the tax. (3 Marks)
- iii. Isonga casinos is a betting company in Kigali. One a good weekend in December 2019, the company collected FRW 20,000,000 and paid out FRW 12,000,000 to players. Calculate the tax liability. (2 Marks)
- (Total: 20 Marks)**

End of Question Paper