



**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS**

S3.3 TAXATION

DATE: FRIDAY, 03 DECEMBER 2021

MARKING SCHEME AND MODEL ANSWERS

SECTION A

Marking guide

Question	Answer
1	D
2	C
3	B
4	A
5	D
6	C
7	A
8	B
9	A
10	B

Section A – Marks allocation	marks
2 marks for each correct answer	2
Total marks for this section	20

Model answers

1. The correct answer is D

PAYE, Personal income tax and Capital gains tax are all direct taxes on the income of the taxpayer. Only excise duty is indirect since it is charged on the cost of the product, which is potentially transferred to the end consumer in the price.

2. The correct answer is C

Options iii and iv do not meet the requirements of fulfillment of permanent establishment.

3. The correct answer is B

Since the turnover is between 12,000,001 - 20,000,000 the business is classified as a small business and therefore taxed on the turnover. the tax $18,000,000 \times 3\% = 540,000$. Option A is incorrect because it considers the 18M adjusted with 8M expenses, Option C considers tax rate at 30% yet this is a rate for taxpayers in real regime. Option D applies 18% on the income to distract the student to assume it is VAT, this is wrong because income is ideally net of VAT.

4. The correct answer is A

Muvundimwe is taxed as a casual labor therefore the tax is calculated as follows $(40,000 \times 3) - 30,000) \times 15\%$. Option B applies 30% flat fee as if it was 2nd employer, Option C is based on normal PAYE calculation to distract the student while Option C applies 18% VAT.

5. The correct answer is D

Gross salary	1,400,000
Company house (20%*1,400,000)	280,000

The company car is only used for official use

Option A assumes both vehicle and vehicle benefit in kind. Option B considers only vehicle benefit in kind (10%), which is wrong since it is provided only for work errands hence not a benefit. Option C considers 15% average benefit for both house and vehicle combined.

6. The correct answer is C

The tax law does not specify that the president is exempted from tax on income. The option was put as a distractor to the students since it is easy to make an assumption that the president is exempt from personal income tax.

7. The correct answer is A

Option (2) is a withholding tax itself, so it is obviously an incorrect option, Option (3) is about business profit. Business profit pays corporate income tax and not withholding tax

8. The correct answer is B

Annual turnover	50,000,000
- less business expenses	(20,000,000)
- Less exempted turnover	(12,000,000)
- Taxable income	18,000,000
- Tax 30%	5,400,000

Option A assumes a flat 18% on Gross Turnover, this is obviously wrong since 18% is vat rate. Option C applies a correct rate (30%) but on Turnover, income tax should be applied on profit, while Option D applies a flat lump sum tax rate of 3%. This would have been correct if turnover was between 12-20m.

9. The correct answer is A

Amount awarded	1,500,000
- Amount wagered	(1,000,000)
- Wining	500,000
- Withholding Tax (WHT)	$(500,000 - 30,000) * 15\%$

Option B applies the right 15% WHT but on the gross won amount without netting off the wagered amount. Option C ignores the 30,000 exempt amount and just applies 15% on the total net won amount of 500,000, while Option D is fundamentally wrong as it applies the tax rate on the wagered amount instead of the amount won.

10. The correct answer is B

Options 1 and 4 are both fundamentally wrong, corporate restructuring includes either 2 different companies coming together or one company transforming into two or more. Restructuring a single company's capital or Revenue streams does not fall under corporate restructuring.

SECTION B

QUESTION 11.

Marking guide

	Marks
Rental income;	
Rental income from machines	0.5
rental income from agriculture equipment	0.5
rental income from livestock equipment	0.5
Gross annual rental income	0.5
<i>Sub to total for this section</i>	<i>2.0</i>
 Deductible expenses:	
Allowable expenses	1.0
Depreciation	1.0
Interest expenses	1.0
<i>Sub to total for this section</i>	<i>3.0</i>
Taxable rental income	1.0
 Tax liability:	
0 - 360,000 0%	1.0
360,001 - 1,200,000 20%	1.0
1,200,001 - 75,000,000 30%	1.0
Tax payable	1.0
<i>Sub to total for this section</i>	<i>4.0</i>
 Total marks	10.0

Model answers

COMPUTATION OF TAXABLE RENTAL INCOME AND TAX PAYABLE

Details	FRW
Rental income from machines	30,000,000
Rental income from agriculture equipment	50,000,000
Rental income from livestock equipment	25,000,000
<i>Gross annual rental income</i>	<i>105,000,000</i>
Less allowable expenses (10% * 105,000,000)	(10,500,000)
Less depreciation (20,000,000 + 40,000,000) * 25%	(15,000,000)
less interest expenses (15% * 30,000,000)	(4,500,000)
<i>Taxable rental income</i>	<i>75,000,000</i>
Tax liability	
0 - 360,000 0%	-
360,001 - 1,200,000 20%	168,000
1,200,001 - 75,000,000 30%	22,140,000
<i>Tax payable</i>	<i>22,308,000</i>

Note:

If an asset is leased by a trader rather than owned by them, tax depreciation may only be claimed by the trader if the lease is classed as a finance lease. So, for livestock equipment, the depreciation should be claimed by the trader not Kayitesi.

QUESTION 12.

Marking guide

	Marks
01 mark for correct calculation of Revenue for the period	2.0
0.5 marks for each valid allowable expense; maximum 3.5 marks	3.5
01 mark for correct taxable income	1.0
01 mark for correct calculated tax liability	1.0
1 mark for correct working for calculation of %ge of work completion	1
1.5 marks for correct working for calculation of capital allowance for motor vehicle	1.5
Total marks	10.0

Model answers

COMPUTATION OF TAXABLE INCOME FOR HOLGER CONSTRUCTION COMPANY LIMITED

	FRW
Contract revenues (200,000,000,000 *8.4% as per W1)	16,800,000,000
Less allowable expenses	
Purchase of materials	10,000,000,000
Salaries and wages	2,500,000,000
Fuel	1,000,000,000
Utilities	800,000,000
Communication	100,000,000
Hire of machines	200,000,000
Capital allowance- motor vehicle (W2)	312,500,000
Total expenses	14,921,500,000
<i>Taxable income</i>	<i>1,878,500,000</i>
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<i>Tax liability (1,878,500,000*30%)</i>	<i>563,550,000</i>

Workings

Contract price	200,000,000,000
estimated cost	180,000,000,000
cost of work certified	15,100,000,000

W1

Percentage of completion = cost of work certified/estimated cost	
15,100,000,000 /180,000,000,000	8.4%

W2

Capital allowance for motor vehicle

Description	Motor vehicle (FRW)
Cost	500,000,000
Rate of investment allowance	50%
Investment allowance (50%*500,000,000)	250,000,000
WDV (500,000,000-250,000,000)	250,000,000
Wear and tear @25%*250,000,000	62,500,000
Capital allowance (Investment + wear and tear allowance)	312,500,000

SECTION C

QUESTION 13.

Marking guide

	Marks
Basic salary	1
Add other cash benefits;	1
Relocation fees	1
Communication allowance	1
Subsistence allowance	1
performance bonus	1
Total cash emoluments	1
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<i>Sub to total for this section</i>	<i>7</i>
Add benefits in kind:	
Company house	2
Contribution to statutory fund(exempted)	1
Contribution to Ejo Heza fund(exempted)	1
A company car on official duty (exempted)	1
Security guards	1
Reimbursement of expenses on official duty	1
Air tickets	1
Total taxable income	1
Tax liability:	
0 - 360,000 0%	1
360,001 - 1,200,000 20%	1
1,200,001 - 27,720,000 30%	1
Tax payable	1
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Total marks	20

Model answers

COMPUTATION OF TAXABLE EMPLOYMENT INCOME FOR THE YEAR

	FRW	
Basic salary (1,000,000*12)	12,000,000	
Add other cash benefits		
Relocation fees	2,000,000	
Communication allowance (100,000*12)	1,200,000	
Subsistence allowance (200,000 *12)	2,400,000	
performance bonus	2,000,000	
Gross salary	19,600,000	
Add benefits in kind		
Company house (19,600,000 *20%)	3,920,000	
Contribution to statutory fund(exempted)		-
Contribution to Ejo Heza fund(exempted)		-
A company car on official duty (exempted)		-
Security guards (50,000 *2 *12)	1,200,000	
Reimbursement of expenses on official duty		-
Air tickets	3,000,000	
Taxable employment income	27,720,000	
Tax liability		
0 - 360,000	0%	-
360,001 - 1,200,000	20%	168,000
1,200,001 - 27,720,000	30%	7,956,000
Tax payable	8,124,000	

QUESTION 14.

Marking guide

	Marks
Profit before tax	1
Add back non allowable expenses	1
Depreciation and amortization	1
Communication (20% x 2000)	1
PAYE	1
Billboard	1
Donation W1	1
Bad debt	1
depreciation of delivery Van	1
loan to buy house for directors (see note 1)	1
Overstated closing stock	1
less unrecorded salaries	1
Total business income	1
Less depreciation W2	1
Taxable income	1
Tax liability at 30%	1
<hr/>	
<i>Sub to total for this section</i>	<i>16</i>
01 mark for working 1: Donation	1
03 Marks for Working 2: Depreciation (0.5 marks for each valid line item)	3
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Total marks	20

Model answers

COMPUTATION OF TAXABLE BUSINESS PROFIT AND TAX PAYABLE

	FRW “000”
Profit before tax	50,000
Add back non allowable expenses	
Depreciation and amortization	18,000
Communication (20% * 2000)	400
RSSB contribution	-
PAYE	-
Billboard	6,000
Donation (W1)	3,500
Bad debt	3,000
Depreciation of delivery Van	2,000
Loan to buy house for directors	<u>10,200</u>
	93,100
Overstated closing stock (10/110 * 40,000)	(3,636)
Less unrecorded salaries	(6,500)
Business income	82,964
Less depreciation (W2)	(22,175)
Taxable income	<u>60,789</u>
Tax 30%	18,237

WORKINGS:

W1: Donation	FRW “000”
Amount donated	8,000
Donation allowed (450,000 * 1%)	4,500
Not allowed	3,500

W2 Depreciation

Assets	buildings	heavy machines	Comp & Accs	Other assets	Total
Cost/WDV	50,000	40,000	8,500	10,200	
New assets			5,000	2,500+20,000 +6000 = 33,500	
Depreciable value	50,000	40,000	13,500	43,700	
Depreciation rate	5%	5%	50%	25%	

Depreciation	2,500	2,000	6,750	10,925	22,175
WDV 31/12/2020	47,500	38,000	6,750	28,275	

Note1:

The Company may buy a house and transfer its ownership to the director, under this case “ The examiner was right to dis-allow interest incurred to acquire the house because it was not incurred for the furtherance of the business” But if the company acquired the house and offered to support its director while working for the company, “The interest paid/payable is allowable expense instead the house benefit (benefit in kind) aspect the one to be charged to the employment income of the director so;

1. A candidate who opted not to disallow “Loan to buy director’s house has awarded the marks
2. A candidate who may have not dis-allowed Loan interest to acquire director’s house believing that the house still belongs to the company has awarded also the marks

QUESTION 15

Marking guide

	Marks
a 02 marks for understanding that it is corporate restructuring	2
01 mark for each valid point on tax implication, maximum 03 marks	3
<i>Subtotal for this section</i>	<i>5</i>
b Fines and Penalties:	
Fixed administrative fine for late declaration	1
late declaration and payment	1.5
interest on late payment	1.5
Total fines and penalties	1
<i>Subtotal for this section</i>	<i>5</i>
c Advise to Mukamana & Bugingo:	
02 marks for valid tax advice to Mukamana (01 mark for each point, max. 02)	2
02 mark for understanding that Bugingo is a micro taxpayer	1
02 marks for right calculation of tax liability for Bugingo (0.5 marks for each valid line item)	2
<i>Subtotal for this section</i>	<i>5</i>
d 01 mark for each valid point, maximum 05 marks	5
Total marks	20

Model answers

a.

Since Izozi acquired 60% of Indoto limited, the transaction is considered as a corporate restructuring

Tax Implications:

- i. Indoto limited will be exempted from the capital gain and losses
- ii. Izozi Limited should recognize the assets from Indoto at their book value
- iii. Izozi limited should continue to depreciate the assets in the same as Indoto was depreciating

b. Fines and penalties	FRW
Fixed administrative fine for late declaration	500,000
Late declaration and payment (40% *20,000,000)	8,000,000
Interest on late payment (1.5% *20,000,000) *2	600,000
Total penalties	9,100,000

c. Advise to the taxpayer.

i. Advise to Mukamana:

- Since Mukamana's annual turnover is between 12,000,001 to 20,000,000, Mukamana is classified as a small taxpayer and therefore she will calculate tax at 3% on the annual turnover. Mukamana can apply to move from the lump sum tax to real tax regime

ii. Advise to Bugingo

- Since Bugingo's annual turnover is between 2,000,000 to 12,000,00 he is classified as a micro taxpayer

Bugingo will be taxed as below

Annual turnover	Tax
2,000,000 - 4,000,000	60,000
4,000,001 - 7,000,000	120,000
7,000,001 - 10,000,000	210,000
10,000,001 - 12,000,000	300,000

d. Incomes exempted from employment tax

- i. Expenses incurred while on official duty
- ii. Contribution to RSSB
- iii. Contribution to recognized private pension fund
- iv. Contribution in licensed medical provider
- v. Payment to a nonresident by international organization or foreign country where there is a bilateral agreement

END OF MARKING GUIDE AND MODEL ANSWERS