
CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION
S3.3 TAXATION

DATE: FRIDAY, 03 DECEMBER 2021

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
7. The Question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

The following are direct taxes **except**;

- A PAYE
- B Personal Income Tax
- C Capital gain tax
- D Excise tax

(2 Marks)

QUESTION TWO

Which of the following activities are considered as permanent establishment as per the Rwandan tax Law?

- i. The use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise
- ii. A place for the provision of services, including consulting services, carried on by a person, with the support of employees or other personnel, for more than 90 days in a 12-month period
- iii. A site set for construction, construction site, or a place where supervision or assembly works are carried out
- iv. The maintenance of an inventory (stock) of goods or merchandise belonging to the enterprise solely for the purpose of storage

- A (i) and (ii)
- B (ii) only
- C (ii) and (iii)
- D All of the above

(2 Marks)

QUESTION THREE

Jane owns a restaurant in Nyabugogo Kigali, and she is under a lumpsum tax regime. During the year ended 31/12/2020, her annual turnover was FRW 18,000,000 and her expenses were FRW 8,000,000. **What is her tax liability?**

- A FRW 300,000
- B FRW 540,000
- C FRW 3,000,000
- D FRW 3,240,000

(2 Marks)

QUESTION FOUR

Muvandimwe was employed as a cleaner by Shell Remera for three weeks. Each week he is paid FRW 40,000. **What is his tax liability?**

- A FRW 13,500
- B FRW 36,000
- C FRW 18,000
- D FRW 21,600

(2 Marks)

QUESTION FIVE

Uwamariya is employed by Aqua Juice limited. She stays in the furnished company house and she is given a company car whenever she's executing office work. Her gross salary for the month of January 2021 was FRW 1,400,000. **Which of the following is a true indication of her tax benefits in kind?**

- A FRW 420,000
- B FRW 140,000
- C FRW 210,000
- D FRW 280,000

(2 Marks)

QUESTION SIX

Which of the following individuals are exempted from employment incomes?

- i. The president
- ii. Ambassador
- iii. Foreigners paid by international organization or foreign countries with a bilateral agreement in Rwanda
- iv. Foreigners working at the embassy with a diplomatic passport

- A (i) only
- B (i) and (ii)
- C (ii), (iii) and (iv)
- D (ii) and (iv)

(2 Marks)

QUESTION SEVEN

Which of the following incomes are subject to withholding tax as per the Rwanda tax law on direct taxes of 2018?

- i. Directors sitting allowances
- ii. Pay as you earn
- iii. Business profit
- iv. Royalty incomes

- A (i) and (iv)
- B (i), (ii) and (iii)
- C (iii) and (iv)
- D All of the above

(2 Marks)

QUESTION EIGHT

Akandi limited deals in agriculture activities. During the year ended 31/12/2020, the company's annual turnover was FRW 50,000,000 and expenses incurred to generate the incomes were FRW 20,000,000.

What is the company's income tax liability?

- A FRW 5,400,000
- B FRW 9,000,000
- C FRW 15,000,000
- D FRW 1,500,000

(2 Marks)

QUESTION NINE

Maniraguha betted FRW1,000,000 in a football match between Rubo and Randa united. After the end of the game, Maniraguha was awarded FRW1,500,000. **What is the withholding tax on Maniraguha's winnings from the bet?**

- A FRW 70,500
- B FRW 225,000
- C FRW 75,000
- D FRW 150,000

(2 Marks)

QUESTION 10

Which of the following best defines a corporate restructuring as per the tax law on the direct taxes?

- i. Restructuring the company's capital
- ii. A merger between companies
- iii. Splitting a resident company into two or more companies
- iv. Restructuring the company's revenues and expenses

- A (i) and (ii)
- B (ii) and (iii)
- C (iii) and (iv)
- D (ii) and (iv)

(2 Marks)

SECTION B

QUESTION 11

Kayitesi is an entrepreneur operating in Nyagatare district, Eastern province. She deals in machines and equipment for rent. Some machines and equipment are rented under operating lease, while others are rented under finance lease. Below is detailed information relating to machines and equipment

SN	Assets	Form of rent	Purchase cost (FRW)	Gross annual rent received (FRW)
1	Machines	Operating lease	20,000,000	30,000,000
2.	Agriculture equipment	Operating lease	40,000,000	50,000,000
3.	Livestock equipment	Finance leasing	35,000,000	25,000,000

During the purchase of the equipment and machine, she borrowed FRW 30,000,000 from bank of Kigali-Nyagatare branch and she pays an annual interest rate of 15% and she has all the supporting documents relating to the payment of interest.

Required:

Compute the taxable income and the tax payable for the year ended 31/12/2020

(10 Marks)

(Total: 10 Marks)

QUESTION 12

Holger construction company limited entered a contract with the government of Rwanda to construct a road from Gatuna boarder to Kigali, total distance 79 Km at the contract price of FRW 200,000,000,000 and the company estimated a cost FRW 180,000,000,000 to complete the job. The company commenced the construction of the road on 1/1/2020. By 31/12/2020 the company had reached Gicumbi, about 32Km from Gatuna and the following costs had been incurred for the work completed.

Items	Amount (FRW)
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
Purchase of motor vehicles	500,000,000
Hire of machines	200,000,000
	15,100,000,000

Required:

Compute the taxable income and the tax to be declared by the company for the year ended 31/12/2020

(10 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

Kamali is employed by Independent University of Gisenyi as the director of finance on the following contractual terms.

- i. Monthly salary of FRW1,000,000
- ii. Company house in Rubavu kizungu sector. The house is furnished, and the employer paid FRW 8,000,000 to purchase the furniture
- iii. Before joining University, he was working with University of Rwanda. He was paid FRW 2,000,000 to relocate the family from Kigali to Rubavu
- iv. He is entitled to a communication allowance of FRW 100,000 per month
- v. The employer contributes for him FRW 100,000 per month in statutory pension fund
- vi. The employer also contributes for him FRW 60,000 per month in Ejo Heza a recognized Government managed pension fund
- vii. A company car whenever is on official work
- viii. A subsistence allowance of FRW 200,000 per month
- ix. He employs two security guards which are paid by the university. Each receives FRW 50,000 per month
- x. Every month, he attends a management meeting in Kigali. At the end of the year, the accumulated amount spent on accommodation and transport was FRW 2,000,000 which was reimbursed to him by the University.
- xi. At the end of the year, he went on annual leave together with his family, the university bought for him Air ticket in Rwanda Air business class of FRW 3,000,000.
- xii. He was voted the employee of the year and received a performance bonus of FRW 2,000,000

Required:

Compute the taxable employment income and the tax to be paid for the year ended 31/12/2020

(20 Marks)

(Total: 20 Marks)

QUESTION 14

Muyange Rwanda Limited (MRL) is a manufacturing company operating in Kigali special economic zone. The company deals in manufacturing of soft and energy drinks; the Company is not a registered investor. During the year ended 31/12/2020, the company submitted the following information for tax purposes.

Item	Notes	Amount FRW “000”
Sales		450,000
Cost of sales	1	(280,000)
Gross profits		170,000
Administration expenses	2	(70,000)
Selling and Distribution	3	(30,000)
Finance cost	4	(20,000)
Profit before tax		50,000

Notes:

1. Included in the cost of sales is the closing stock of FRW 40,000,000. After the preparation of the financial statements, it was realized that closing stock was overstated by 10%
2. The administration expenses include the following

Items	Notes	Amount FRW “000”
Depreciation and amortization	i.	18,000
Net salaries and wages	ii.	12,000
RSSB contribution		10,000
PAYE		20,000
Director’s sitting allowance		8,000
Communication	iii.	2,000
Total		70,000

- i. The company had the following assets at the beginning of the year

	Buildings	Heavy industrial machine	Computer and accessories	Other assets
FRW”000” Cost/NBV	50,000	40,000	8,500	10,200

The following assets were purchased during the year

- a. 10 computers at FRW 500,000 each
 - b. One motor vehicle at FRW 25,000,000
 - c. Furniture and equipment FRW 2,500,000
- ii. FRW 6,500,000 of the salaries accrued and not included in the financial statements by the company accountant
 - iii. Communication relates to airtime loaded on the mobile telephone of the directors. There is no system in place to trace the private and business calls
3. The selling and distribution expenses include the following

Item	Notes	Amount FRW”000”
Marketing expenses	iv.	12,000
Donation	v.	8,000
Bad debt	vi.	3,000
Salesmen commission		5,000
Depreciation delivery van		2,000
Total		30,000

- iv. The marketing expenses include FRW 6,000,000 spent in the construction of advertising billboards in Kigali city. It is estimated that these billboards will have a useful life of 3years.
 - v. The donation was made to a charitable organization
 - vi. The bad debt relates to one customer that has disappeared for one year now.
4. The finance cost includes the following

Items	Amount FRW “000”
Loan to buy house for the director	10,200
Loan to buy a delivery van for the company’s products	9,000
Bank charges	800
Total	20,000

Required:

Compute the taxable income for the company and the tax payable for the year ended 31/12/202

(20 Marks)

(Total: 20 Marks)

QUESTION 15

From the following information, discuss the tax implications or calculate where possible the relevant taxes and penalties.

a) Izozi industries limited was incorporated in Rwanda and all its shareholders resides in Rwanda. The company is the leading producer of red chilli from Biard eye pepper. In order to expand its operation within the country, the company acquired 60% of Indoto limited for FRW 100,000,000, which produces soft drinks. The assets of Indoto limited had a book value of FRW 120,000,000. **Explain the tax implications of this transaction?** (5 Marks)

b) NIL industries limited are leading producers of soft drinks. The company is classified as a large taxpayer in Rwanda. During the year ended 31/12/2019, the declared and paid a tax FRW 20,000,000 on 5th May 2020. **Required compute the relevant fines and penalties.** (5 Marks)

c) Mukamana operates a restaurant in Kaciru and her annual turnover ranges from FRW 12,000,001 to FRW 20,000,000 whereas Bugingo operates a grocery in Kanyinya Gasabo district. His annual turnover ranges from FRW 2,000,000 to FRW 12,000,000. **Advise the two taxpayers on their tax liabilities.** (5 Marks)

d) Law no. 16 of 2018 exempts some income of an individual from personal income tax and PAYE. **Outline the incomes that are exempted from Personal income tax and PAYE in Rwanda.** (5 Marks)

(Total: 20 Marks)

End of Question Paper