

---

# **CERTIFIED ACCOUNTING TECHNICIAN**

## **STAGE 3 EXAMINATIONS**

### **S3.3 TAXATION**

**DATE: FRIDAY, 30 APRIL 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.

## **SECTION A**

- 1 Which of the following sources of tax legislation and guidance would be the best source of information about the penalties incurred for failure to deduct withholding tax from a payment to Mauritius?

- A The double taxation agreement between Mauritius and Rwanda
- B Law 016/2018 establishing direct taxes on income
- C Law 025/2005 on tax procedures
- D The Rwanda Revenue Authority website
- E None of the above

**(2Marks)**

- 
- 2 Which of the following statements is/are true in relation to double taxation agreements (DTAs)?

- (i) It is compulsory for each country to have a DTA with another country in order to trade with them
- (ii) All DTAs must follow the OCED's Model Tax Convention
- (iii) One of the purposes of a DTA is to avoid dual residency
- (iv) The double taxation agreement between Rwanda and Belgium reduces withholding tax to 10%

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

**(2Marks)**

- 
- 3 Identify which of the following taxpayers would be liable to Rwandan PAYE on their employment income:

- Christine, an individual French resident carrying out duties in Rwanda for her French employer
- Hillary an American citizen and aid worker for an international charity carrying out nursing duties in Rwanda at the request of the Rwandan government
- Josiane, who is retired and is receiving a pension of Frw 400,000 per month from her previous employer's qualified pension fund

- A Christine only
- B Hillary only
- C Josiane only
- D Hillary and Josiane
- E None of the above

**(2Marks)**

- 4 What is the total Rwandan corporate income tax liability of the following two organisations?
- (i) The Development Bank of Rwanda, which reported profit of Frw 330 million
  - (ii) Korandebe, a farming cooperative, which reported total turnover (all from agricultural activities) of Frw 19.5 million
- A Frw 210,000
  - B Frw 585,000
  - C Frw 99,210,000
  - D Frw 104,850,000
  - E None of the above

**(2Marks)**

- 
- 5 Murebwayire Agnes is an employee of Umurerwa Laetitia, a Rwandan resident sole trader. Agnes receives a salary of Frw 9 million per year. Agnes wants to save for her retirement and so makes contributions into her private qualified pension fund scheme of Frw 1.5 million per year.

What is Agnes's taxable employment income?

- A Frw 7.5 million
- B Frw 7.8 million
- C Frw 8.1 million
- D Frw 9 million
- E None of the above

**(2Marks)**

- 
- 6 Referring to Murebwayire Agnes in Question 5, when will her personal income tax be settled for the tax period ended 31 December 2019, and who is responsible for its payment to the tax administration?

- A Agnes pays by 31 March 2020
- B Agnes pays within 15 days after the end of each month/quarter
- C Laetitia pays by 31 March 2020
- D Laetitia pays within 15 days after the end of each month/quarter
- E None of the above

**(2Marks)**

- 
- 7 On which of the following purchases will tax depreciation be available on a straight-line basis (as a percentage of cost)?

- (i) Registration of a patent costing Frw 1 million
- (ii) Computer equipment with an expected life of six years, costing Frw 1.5 million
- (iii) Computer server equipment with an expected life of 15 years, costing Frw 4 million
- (iv) Land costing Frw 50 million

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

**(2Marks)**

- 8 Mutabazi Hamidu, a sole trader, has had the following amounts of tax payable to the tax administration:

**Year ended 31 December 2018:**

Personal income tax	Frw 1.8 million
PAYE on behalf of his employees	Frw 5 million
Withholding tax on imports	Frw 500,000

**Year ended 31 December 2019:**

Personal income tax	Frw 2.2 million
PAYE on behalf of his employees	Frw 6.3 million
Withholding tax on imports	Frw 700,000

What will be the amount of each instalment quarterly prepayment (IQP) that he should have made during the calendar year 2019?

- A Frw 1,825,000
- B Frw 550,000
- C Frw 575,000
- D Frw 450,000
- E None of the above

**(2Marks)**

- 9 Ruzindana Robert is a plumber, working as a sole trader. His draft adjusted profit for the year ended 31 December 2019 is Frw 10,550,000. However, the following items have been charged to his profit and loss account and no amounts of these expenses have yet been disallowed:

- i) A bad debt of Frw 400,000 in respect of a customer to whom Robert provided services and which was recorded as income in the tax period to 31 December 2015. Robert has regularly attempted to collect the debt but cannot locate the customer who has since moved house.
- ii) Mobile phone and internet costs totalling Frw 1.5 million. Most of the calls and internet use relate to Robert's business but he also makes personal calls and uses the internet for personal browsing.
- iii) Robert's personal income tax balancing payment for the year ended 31 December 2018 of Frw 1.25 million.

What is Robert's correct adjusted trading profit?

- A Frw 10,850,000
- B Frw 12,100,000
- C Frw 13,300,000
- D Frw 13,700,000
- E None of the above

**(2Marks)**

- 10 Georgette, Rose and Evelynne are shareholders in Akagezi Ltd, a Rwandan company which they run in partnership. They own the shares in the proportion 50%/35%/15% respectively. 75% of profits after corporate income tax are paid to Georgette, Rose and Evelynne as dividends, with the remainder of profit being reinvested in the business. None of the shareholders are registered with the tax administration as they have no other sources of taxable income.

Akagezi Ltd made taxable profits of Frw 300 million in the year ended 31 December 2019. The company is not entitled to any reduced rates of corporate income tax.

What amount of cash dividend will Rose receive from Akagezi Ltd?

- A Frw 46,856,250
- B Frw 55,125,000
- C Frw 62,475,000
- D Frw 66,937,500
- E None of the above

**(2Marks)**

---

## **SECTION B**

- 11 Bazizane Rene is a sole trader with a shoe-making business in the city of Butare. His business had always been profitable, however in February 2019 a flood destroyed significant amounts of stock and caused damage to his shop. He had to close his business to clean up and repair the damage, and this has led to a business loss for the year ended 31 December 2019.

His profit and loss account for the year ended 31 December 2019 is shown below.

	<i>Note</i>	Frw'000	Frw'000
<b>Gross profit</b>	1		30,500
Less expenses:			
Wages and salaries	2	22,000	
Rent and utilities		15,500	
Repairs and maintenance	3	3,350	
Advertising and entertainment	4	820	
Vehicle running expenses	5	4,600	
Depreciation		2,500	
			<u>(48,770)</u>
<b>Net loss</b>			<u><u>(18,270)</u></u>

### **Notes to the profit and loss account**

#### 1 *Gross profit*

Gross profit has been reduced by Frw 1.5 million for a write-off of stock lost in the flood. An officer of the RRA inspected the flood damage and certified this loss. Rene also reviewed his stock at the year end and determined that a further write-down due to loss of customer goodwill was necessary, and wrote off another Frw 500,000.

#### 2 *Wages and salaries*

The wages and salaries charge is made up as follows:

	Frw'000
Rene's drawings	9,000
Olivier (Rene's son)	1,400
Shop assistants and production staff	<u>11,600</u>
	<u><u>22,000</u></u>

Rene's son is an apprentice and he works part-time in the business.

#### 3 *Repairs and maintenance*

The charge in the profit and loss account includes the following costs:

	Frw'000
Flood damage repairs	1,750
Replacement tools	400
Purchase and installation of new flood damage prevention equipment	<u>1,200</u>
	<u><u>3,350</u></u>

4 *Advertising and entertainment*

These are made up of the following:

	Frw'000
Staff sporting event	250
Store re-opening customer party	350
Website maintenance	<u>220</u>
	<u>820</u>

5 *Vehicle running expenses*

These expenses relate to the van used for delivery of online orders and for collecting raw materials from suppliers. Rene also uses the van to commute to and from the workshop and for private journeys.

6 *Additional information*

The balances brought forward at 1 January 2019 on Rene's assets qualifying for tax depreciation were as follows:

	Frw'000
Other business assets pool	3,550
Van	5,500

Items of production machinery held within the 'other business assets' pool that were damaged in the flood had to be scrapped for proceeds of Frw 150,000. The accounting loss on disposal is included within the depreciation charge in the profit and loss account. Rene replaced these items at a cost of Frw 6 million.

**Required:**

(a) **Calculate Rene's tax adjusted business loss for the year ended 31 December 2019**

(8Marks)

(b) **Explain how the loss you have calculated in part (a) may be used by Rene, and the usual time limit for its use.**

(2Marks)

**Total (10 Marks)**

12 Mukamutara Esither has been an employee of Izuba Ltd for many years. She works for the company as a sales representative. Her employment package for the year ended 31 December 2019 was as follows:

- Salary of Frw 25 million per year
- Education allowance of Frw 200,000 per month towards schooling costs for her son
- Accommodation provided for her and her family in a house owned by Izuba Ltd
- Reimbursement of Frw 2.8 million in fuel costs for travelling to Izuba Ltd's clients in her own vehicle
- Reimbursement of Frw 500,000 for Esither's clothing and makeup costs

Izuba Ltd has not opted in to the medical element of RSSB contributions.

Esither recently inherited some cash from a relative's estate. She deposited this in a Rwandan bank account and earned interest of Frw 15 million (gross) in the year ended 31 December 2019. Esither has no other sources of income. Her son's school fees cost her Frw 3.5 million per year.

**Required:**

**Calculate Esither's annual net cash income from all sources, after the deduction of her son's school fees, personal income tax and RSSB contributions. Explain your treatment of Esither's interest income.**

**Total (10 Marks)**

## **SECTION C**

- 13 Ngarambe Ildephone owns a farm, growing maize, in the Rwandan Western province, in the district of Karongi. The 2019 harvest was poor, yielding total income of only Frw 8 million, and so Ildephone needs to raise some money to support his family and to invest in better seeds, fertiliser, and improved machinery. He hopes that this investment will improve his family's circumstances by increasing income from his crops.

Ildephone has approached you for advice regarding the tax consequences of the following ideas that he has for generating cash:

- 1 His farmland contains some unused outbuildings (storage barns, stables, etc). He is proposing to convert these into accommodation suitable for living in, and to rent them out. He estimates that he could generate rental income of approximately Frw 1.2 million per year for each of the three buildings he converts.
- 2 Ildephone proposes gambling some of the money he received from the sale of his crops. He understands the risks involved but thinks he could easily double his money if he makes the right bets.
- 3 Ildephone owns a small portfolio of shares in Rwandan companies, which he bought with spare cash generated from previous harvests. He receives approximately Frw 500,000 per year in dividend income, but is proposing to dispose of either:
  - (a) His entire 20% shareholding in Igicu Ltd, which he purchased for Frw 1.8 million five years ago, and which is now worth Frw 3 million; or
  - (b) Some of his quoted shares in order to generate Frw 3 million of proceeds. He estimates that the average gain made on the quoted share portfolio is approximately 20% of their current market value.

**Required:**

- (a) **Explain to Ildephone how taxable rental income on his farm outbuildings will be calculated. Illustrate the calculation using an assumed annual rental income of Frw 3.6 million per year.** (6Marks)

- (b) Explain how withholding tax on gambling activities is calculated and administered. (4Marks)
- (c) Explain the difference in taxation treatment of the disposal of quoted and unquoted shares. Recommend which shares Ildephone should dispose of in order to maximise his after-tax cash flow. (4Marks)
- (d) Explain whether, and how, the sale of Ildephone's crops will be liable to personal income tax. Assume the total income he receives will be less than Frw 20 million per year. (6Marks)

**Total (20 Marks)**

- 14 Imbeho Ltd is a Rwandan resident mining company which prepares its accounts to 31 December every year. It obtained a listing on the Rwandan stock exchange in 2018 and 35% of its shares are held by the public. The remaining shares are held by Kota SA, a company resident in France. Its total equity is Frw 1,500 million.

Imbeho Ltd's turnover for the year ended 31 December 2019 was Frw 5,500 million and its draft tax-adjusted trade profit before tax depreciation for the year ended 31 December 2019 is Frw 1,125 million. However, the following items may require further adjustment:

- 1 Included in expenses are copyright royalty fees paid to its French resident parent company totalling Frw 140 million. This is an arm's length rate charged to all of Kota SA's subsidiaries based on their turnover.
- 2 Included in turnover is public tender income of Frw 485 million, net of withholding tax. Imbeho Plc does not hold a *quitus fiscal*.
- 3 Imbeho Ltd has charged interest payable of Frw 400 million to its profit and loss account. This is payable to Kota SA on a loan of Frw 4,000 million which was made to Imbeho Ltd in 2017 to finance its trading activities. An equivalent loan from Imbeho Ltd's bank would have borne interest at a rate of 7%.
- 4 Imbeho Ltd paid a fine of Frw 1.5 million in relation to unsafe working practices. This amount has been charged to the profit and loss account.

The balances brought forward on 1 January 2019 in relation to tax depreciation are as follows:

	<i>Cost</i>	<i>TWDV b/f</i>
	Frw'000	Frw'000
Head office	280,000	119,000
Mining facility buildings	350,000	280,000
Heavy mining equipment	120,000	55,000
Computer equipment pool	N/A	800
Other business assets pool	N/A	65,000

During the year ended 31 December 2019 the following fixed asset transactions took place:

- Two spare computers were sold for proceeds of Frw 450,000.
- New, more efficient heavy mining equipment was purchased at a cost of Frw 180 million. The existing equipment was sold for proceeds of Frw 45 million. Imbeho Ltd applied for and was granted an investment certificate in respect of the new equipment.
- A new ore transport vehicle was bought for Frw 40 million.

#### **Other income**

In addition to its adjusted trading profit, Imbeho Ltd has the following sources of income:

- Income from the rental of unused machinery totalling Frw 20 million. This machinery is included within the 'other business assets' pool above, and there are no outstanding loans relating to its purchase.
- Interest income from long-term bank deposits of Frw 3.5 million.

#### **Other information**

You note from your files that Imbeho Ltd paid corporate income tax of Frw 225 million in respect of the year ended 31 December 2018.

#### **Required:**

- Calculate the total taxable profits of Imbeho Ltd for the year ended 31 December 2019, explaining any adjustments you make in respect of items 1 to 4. (13 marks)**
- Calculate the corporate income tax payable on the profit calculated in part (a) and state the dates the tax is due and the amount due on each date. (5 marks)**
- State the date by which the CIT declaration is due and the implications of Imbeho Ltd filing the declaration after this date. (2Marks)**

**Total (20 Marks)**

- 15 Kunywana Ltd is a Rwandan resident trading company. It currently operates only in Rwanda, manufacturing and selling Rwandan-source high quality instant coffee to consumers through a network of retail shops and supermarkets.

Although successful and profitable, Kunywana Ltd is currently not classed as a large company by the Tax Administration. Its turnover for the year ended 31 December 2019 was Frw 450 million.

The directors of Kunywana Ltd now wish to expand the business beyond Rwanda, by exporting their product, initially to other countries within the East African Community, but eventually across the rest of Africa and potentially into Europe.

In order to achieve the planned expansion, Kunywana Ltd will need to make a significant investment in new production facilities and equipment, along with trading and tax advice and obtaining copyright for their brand name in the countries in which they wish to trade. Depending on the success of the exporting business, further expansion may be required in two to five years' time.

The following is a schedule of budgeted expenditure, which will occur during the year ended 31 December 2020:

	<i>Budgeted cost</i> Frw'000
Larger factory premises	120,000
Coffee washing, roasting and packaging machinery	35,000
Five delivery vehicles	22,000 each
Copyright registration	75,000
Trading advice	10,000
Cost of additional salary and benefits for expanded workforce (per year)	50,000

In its first year following the expansion, Kunywana Ltd is likely to generate turnover of approximately Frw 800 million. This is forecast to increase very rapidly and could eventually exceed Frw 6,000 million.

The directors have requested your advice regarding the Rwandan corporate income tax implications of their plans.

**Required:**

- (a) **Explain and calculate the potential tax reliefs available to Kunywana Ltd on the above assets and expenses in the years ended 31 December 2020 and 2021. Explain the implications of Kunywana Ltd disposing of the assets in either two or five years' time.** (12Marks)
- (b) **Explain the impact of exporting goods on the rate of corporate income tax payable by Kunywana Ltd.** (4Marks)
- (c) **Define a large company for the purposes of Rwandan tax law and explain any additional administrative requirements or implications of Kunywana Ltd being categorised as a large company by the Rwandan tax authorities following its expansion.** (4Marks)

**Total (20 Marks)**

