
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

DATE: MONDAY, 26 APRIL 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 **should be** attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all working where necessary.

QUESTION ONE

Terimbere Vision Ltd (TV Ltd) is a company incorporated in Rwanda since 2015. In 2016, the turnover of TV Ltd increased at unexpected rate. During the peak period, the company registered for VAT in compliance with law n° 026/2019 of 18/09/2019 on tax procedures especially its article 11 determining conditions for registration for VAT. In 2019 the company proposed to establish new operations aimed at processing shoes for men. For this purpose, on 2/12/2019 TV Ltd imported materials worth USD 20,000 from China. The transport and insurance incurred by TV Ltd to point of entry in respect of this import were \$5,000 and \$3,000 respectively. The total weight of materials was 60,000 Kg. The prevailing exchange rate on 2/12/2019 was Frw 850/1USD. Import duty and excise duty are 25% and 10% respectively.

The following information were extracted from the books of account of TV Ltd for the Month of December 2019.

Date	Description	Amount
		Frw “000”
2/12/2019	Sale of curtain to KMB Ltd inclusive of VAT	20,000
3/12/2019	Materials purchased from RMC Ltd exclusive of VAT	15,000
03/12/2019	Sale of curtain to government institution inclusive of VAT	50,000
03/12/2019	Electricity costs inclusive of VAT	3,000
04/12/2019	Export made to Kenya	40,000
05/12/2019	Equipment acquired from BMB company exclusive of VAT	25,000
15/12/2019	Bad debt written off in 2017 was recovered	5,000
28/12/2019	Sales returned by KMB due to defects on some items supplied on 2/12/2019	8,000

Additional information

- In December 2019, a bad debt of Frw 6,000,000 was written off. TV Ltd complied with all conditions as set out in article 20 of 09/11/2012 establishing VAT law for post-sale adjustment for unrecoverable debts.
- On 10/12/2019 TV Ltd hired Mauraran Kaziuki a private consultant from Nigeria to conduct a market survey for new product which is likely to be launched in January 2020. Similar consultants who can provide similar services are available in Rwanda. The amount paid by TV Ltd to Mauraran Kaziuki was Frw 10,000,000.
- On 2nd December 2019, REMA requested TV Ltd to conduct an environmental assessment of the new factory owned by TV Ltd. TV Ltd signed a contract with a foreign consultant from Canada to conduct the environmental assessment at a contract price of Frw 15,000,000. TV Ltd was informed and assured that a similar environmental assessment is usually conducted by foreigners because the service is not available in Rwanda. On 28/12/2019 the consultant was paid Frw 15,000,000 inclusive of VAT.

Required:

- a) **Compute VAT payable by TV Ltd for the period ending 31 December 2019.** (10 Marks)
- b) **Kanamugire is a successful businessman who owns PBM Ltd. He is not familiar with tax matters and then he approached you to advise him on conditions and requirements for VAT registration.** (5 Marks)
- c) KMC Ltd is a company incorporated in Rwanda, in 2018. KMC Ltd entered into a contract with another company from Uganda known as UGB (U) Ltd, giving them exclusive representation to sell its cement in Rwanda. KMC Ltd has secured a contract to sell that cement to SOBACO Ltd, a construction company in Rwanda on condition that transportation cost from Uganda to Rwanda will be borne by KMC Ltd. In December 2019, KMC Ltd supplied cement worth Frw 300,000,000 (including Freight costs of Frw 20,000,000) to SOBACO. The applicable import duty was 25%

KMC Ltd is willing to separate the price of cement from Freight (Transportation) price at the time of VAT computation on grounds that VAT on transportation is exempted in Rwanda. Prices are exclusive of VAT.

Required:

Advise KMC Ltd whether freight cost could be omitted/excluded from the computation of VAT on imported cement and compute VAT for this transaction. (5 Marks)

(Total:20 Marks)

QUESTION TWO

a) Murekenkire is a business man who deals with different activities in Kigali. He imports and exports different materials across the East African countries. Murekenkire has never kept proper books of accounts since January 2019. Following a recent requirement in December 2019 by RRA informing all taxpayers to submit their tax returns on time, Murekenkire immediately feared fines and penalties imposed by RRA for non-compliance with tax laws. As a way forward, he was interested to comply with all tax laws to avoid unnecessary fines and penalties.

Below is summary of business information of Murekenkire for the year ended 31st December 2019

Particulars	Amount
	Frw
Cash sales	2,296,511
Return outwards	150,000
Return inwards	300,000
Carriage inwards	250,000
Carriage outwards	112,000
Bad debt	140,000
Repair and maintenance	45,000
Inventory as at 01/01/2019	132,000
Insurance	6,000
Electricity inclusive of VAT	11,800
Rent expenses inclusive of VAT	5,900

Particulars	Amount
	Frw
Salaries and wages	300,000
Donation to charitable organization	200,000
Penalties due to breach of contract	30,000
Advertisement of business product	80,000
Gift to his wife on birthday party	300,000
Purchases by cash	1,218,421
School fees of his children	800,000

Additional information

- i. 20% of rent is considered as personal expenses incurred on renting a hotel for his friend
- ii. On 1/01/2019, Murekenkire had the following balances: account receivable Frw 8,000,000 and account payable of Frw 4,000,000
- iii. Received net of Frw 3,000,000 in respect of account receivable after allowing 6% cash discount on the amount received
- iv. The account receivable and payable balances as at 31/12/2019 were 20,000,000 and 10,000,000 respectively
- v. The opening stock was overstated by 10%
- vi. The closing stock as at 31/12/2019 was Frw 1,000,000
- vii. Net amount of Frw 2,500,000 was paid to creditors after receiving a 5% cash discount on the amount paid
- viii. A cheque totaling Frw 2,000,000 received from a customer was returned together with a bank statement unpaid
- ix. Bill of exchange totaling Frw 2,100,000 was accepted by the customer
- x. As at 31 December 2019, unpaid salaries were Frw 1,700,000

Required:

- a) Compute business profit and tax payable by Murekenkire. (15 Marks)
 - b) In accordance with law no 16 of 16/04/2018 establishing taxes on income, provide circumstances under which an individual is considered to be a resident in Rwanda for tax purposes. (3 Marks)
 - c) With the help of examples, explain the payments not subject to employment income. (2 Marks)
- (Total:20 Marks)**

QUESTION THREE

RMB Ltd is a successful holding company established in accordance with Rwandan law since 2000. RMB Ltd produces soft drinks and has one segment company located in Kenya. The segment deals with hotel and hospitality services. RMB Ltd is among large taxpayers in Rwanda since 2006 and has obtained an investment certificate from RDB.

The income statement for the year ended 31/12/2019 prepared by the Chief Accountant of RMB Ltd is given below:

	Frw “000”	Frw “000”
Gross Profit		800,000
Other Income		
Dividends	100,000	
Profit from segment opened in Kenya	200,000	
Interest	20,000	
		320,000
Total operating profit		1,120,000
Operating expenses		
Administrative expenses	410,000	
Distributions Cost	220,000	
Finance cost	100,000	
Total Operating expenses		(730,000)
Profit before tax		390,000

Additional information provided by the Chief Accountant

1. Included in purchases is 2% of self-consumption of goods purchased on behalf of the Managing Director’s family.
 2. 1% of sales relates to VAT on some goods sold and this was due to limited knowledge of the new sales accountant. The Accountant Clerk failed to provide accurate and complete information relating to sales and purchases daybook. However, the following information was available and reliable for tax purpose.
- RMB Ltd’s balances in the books of account are as follows:

	31 December 2018	31 December 2019
	Frw “000”	Frw “000”
Trade receivables	200,500	150,000
Trade payable	300,000	250,000
Inventory	450,000	682,000

- The following transaction took place during the year ended 31 December 2019

	Frw “000”
Cash sales	300,000
Cash Receipts from debtors	900,000
Discount allowed	45,000
Bad debt	80,000

- In January 2020, the accountant noted that closing stock was overstated by 10% due to errors occurred at the time of data entry.

3. The administrative costs include:

	Frw “000”
Salaries and wages	125,000
Income tax	13,000
Depreciation	7,000
Penalties due to firing employees illegally	8,000
Fines for breaching contract with suppliers	4,000
Electricity	20,000
Bad debt	80,000
Transport	3,000
Rent	150,000

- 20% of transport cost relates to bus hired by RMB Ltd to facilitate children school transportation for one of the main shareholders.
- Included in bad debt is 5% for which RMB Ltd did not take all possible steps to recover the related payment and there is no evidence of a court decision declaring the insolvency of related debtors
- Included in rental expense is Frw 40,000,000 which cover a period from 1st October 2019 to 31st March 2020

4. The distribution cost includes:

	Frw “000”
Salaries to sales agent	30,000
Donation to charitable organizations	20,000
Entertainment to some of the key staff	45,000
Advertisement and sales promotion	110,000
Bonuses paid to the head of sales department	15,000
	220,000

5. Finance cost include:

	Frw 000
Interest on loans from commercial bank	94,000
Interest on loan from segment	6,000
	100,000

Note: During the year, RMB Ltd received a loan totaling Frw 600,000,000 from one of its segments located in Kenya at an annual interest of 1%.

6. The equity of RMB as at 31/12/2019 is composed of:

	Frw
Ordinary share capital, Frw 1,000 per share	100,000,000
Reserves	1,320,000,000
	1,420,000,000

7. In 2017, RMB Ltd made a long-term investment in government bonds redeemable after 10 years, included in the interest received is 60% of interest received from this particular investment. The balance was received from short-term investments made by RMB Ltd during the year. Interests received were net of tax.
8. Profit from the segment in Kenya was received net of 28% of tax paid in foreign country
9. 40% of dividend was received from local companies. The balance was received from investment made in foreign country and was received at net of 20%
10. The written down value of RMB Ltd's assets are provided below:

	Land	Building	Plant and machinery	Intangible asset	Motor vehicle	Furniture and fitting
	Frw "000"	Frw "000"	Frw "000"	Frw "000"	Frw "000"	Frw "000"
Cost	200,000	700,000	500,000	25,000	300,000	150,000
Accumulated depreciation		200,000	170,000	5,000	180,000	60,000
Net book value as at 1/1/2019	200,000	500,000	330,000	20,000	120,000	90,000

- a) The intangible asset is composed of good will purchased from a third party
- b) During the year one motor vehicle was disposed of at Frw 10,000,000, there was no loss or gain from this disposal
- c) Due to an extension plan proposed by the investment department, RMB Ltd acquired additional assets to secure its plan. Among the assets acquired are:

	Acquisition value	Exchange rate at acquisition date
	USD	
Heavy machinery	55,000	Frw 820/1USD
Land	70,000	Frw 820/1USD
Motor vehicle	60,000	Frw 825/1 USD

Required:

Prepare adjusted Profit or Loss account for tax purposes indicating taxable income and corporate tax payable by RMB Ltd for the year ended 31/12/2019. (20 Marks)

(Total :20 Marks)

QUESTION FOUR

TS Ltd is a private security company registered in Rwanda and it has signed a contract to guard all buildings located in Dubai. During the year ended 31/12/2019, the asset register of TS Ltd showed the following information:

Description	Land and building	Heavy machineries (Scanning machines)	Motor vehicle	Good will purchased from third party	Computer and accessories
	Frw “000”	Frw “000”	Frw “000”	Frw “000”	Frw “000”
Cost	250,000	620,000	240,000	50,000	25,000
Accumulated depreciation as at 1/1/2019	60,000	180,000	80,000	12,000	6,000
Written down value as at 1/1/2019	190,000	440,000	160,000	38,000	19,000

Note: Included in the land and building is Frw 80 million relating to the cost of land at time of acquisition

Additional information

1. The following assets were acquired during the year

	USD	Exchange rate at acquisition date
Scanning machine of heavy truck for security checking at the airport	378,510	Frw 920/1USD
Building	56,000	Frw 890/1USD
Motor vehicle	61,000	Frw 880/1USD
Computers	51,000	Frw 890/1USD

2. A machine known as CX-machine for CCTV camera worth Frw 28 million was purchased in 2018 but was later found not to be compatible with other machines in the control room. The machine has never been used since its acquisition till June 2019 when TS Ltd acquired a new heavy compatible machine from the same supplier for Frw 125 million and traded in the CX machine for Frw 25 million. The exchange rate as at June 2019: 1USD=Frw 820
3. During the year ended 31/12/2019, the old computers were disposed of at Frw 5 million
4. One of the motor vehicles was completely damaged due to occurrence of floods at the TS Ltd's parking yard. Floods were caused by heavy rain, TS Ltd received compensation from an insurance company equivalent to Frw 10,000,000.

Required:

- a) Compute capital allowance for TS Ltd for the year ended 31/12/2019. (15 Marks)

b) The Income Tax Law states that corporate income tax rate is thirty percent (30%), however, the law on investment promotion and facilitation states that some investors may be taxed at a preferential corporate income tax rate of fifteen percent (15%).

Required:

Explain five circumstances under which an investor may be taxed at a preferential corporate income tax rate of 15%.

(5 Marks)

(Total 20 Marks)

QUESTION FIVE

BMS Ltd is company that deals with different business activities and is located in downtown. Over the past 2 years, the turnover of BMS Ltd was above Frw 20 million for each year.

Required:

a) **With the help of examples, provide books of accounts and records that must be maintained by BMS Ltd for tax purposes.**

(5Marks)

b) Mukandekeye operates a big shop in Kigali and is registered for VAT. Due to the effect of world crisis which led to economic downturn and closure of many businesses, Mukandekeye turnover decreased. She tried to evade tax as follows:

- a) Sales for February 2019 was understated by Frw 20,000,000 by understating the sales price
- b) In March 2019, Mukandekeye sold goods totaling to Frw 2 million to a registered VAT tax payer without an EBM invoice
- c) Sales for March were understated by Frw 10,000,000
- d) All sales were exclusive of VAT and all declarations for the 12 months for the year 2019 were done on time.

The above tax evasion was discovered on 20 April 2019 by the tax administration and related tax and fines were paid on 25th April 2019.

Required:

- i. **Based on the tax procedure law of Rwanda. Advise Mukandekeye when tax administration can issue a notice of assessment to her?**
- ii. **Compute the principal tax, fines and penalties payable by Mukandekeye for the above offence.**
- iii. **The Risk Assessment Department of Rwandan Tax Administration ranked Mukandekeye as one of the targeted business to be audited in March 2020. What are the contents of notification that must be given to Mukandekeye by the tax administration before conducting an audit?**
- iv. **Due to Covid-19, Mrs Mukandekeye is not ready for a tax audit. Advice Mukandekeye what she can do to postpone the notified tax audit?**

(3Marks)

(7Marks)

(3Marks)

(2 Marks)

(Total:20 Marks)

QUESTION SIX

- a) In accordance with the customs administration, explain two rules of origin under which goods imported shall be accepted as originating in a partner state as per the East African Rules of Origin. (5 Marks)
- b) With the use of examples, give five products that can be accepted as wholly produced within a partner state (5 Marks)
- c) Mention three examples of customs regime where goods imported can be granted Quick Release with Deposit. (3Marks)
- d) BURANGA is a business man located in Musanze who owns a shopping mall in Musanze. He imported vegetable juices from DRC in December 2019. The free onboard price was \$ 10,000, Freight paid was \$2,000 and the insurance was \$ 1,000. The average exchange rate for the period was \$1=820.

Applicable rate at customs are as follows:

	Rate
Excise duty	5%
Import duty	25%
Withholding tax	5%

Required:

Compute VAT and tax payable under customs control.

(7 Marks)

(Total 20 Marks)

QUESTION SEVEN

- a) Give a brief description of taxable income that falls under:
- Royalty income
 - Financial income
- (8 Marks)
- b) What category of interest income that is exempted from withholding tax? (2 Marks)
- c) The whole world is facing an economic downturn moment caused by Covid-19 pandemic. To control and contain the epidemic; Rwanda implemented a range of containment measures including border closure, suspension of domestic travels, cancellation of public gatherings, institutions teleworking, and closure of schools, places of worship and non-essential businesses. These measures worked well for Rwanda to contain the pandemic. As of 30 May 2020, Rwanda reported around 370 cases of Covid-19 infections.

Covid-19 has negatively affected many businesses. To deal with this unexpected crisis, RRA took different measures aimed to facilitate tax payers to deal with Covid-19 effects. For example, on 21 August 2020, the Rwanda Revenue Authority announced a decision to waive penalties, fines and interest for late payment of Pay As You Earn (PAYE), Value Added Tax (VAT), Withholding Tax (WHT) in the months of March, April and May 2020; as well as

Corporate Income Tax for 2019 for those who requested for it due to hardships caused by the pandemic and thus the concerned companies were requested to proceed with payment of the principal tax due not later than 30 September 2020.

Taxpayers who had not yet filed their tax due for the period as above mentioned, were also requested to file and pay their principal tax due, not later than 30/09/2020, in order to make it to the list that will be submitted to MINECOFIN requesting for the same waiver for them.

Required:

Explain the impact of Covid-19 on taxation in Rwanda.

(10 marks)

(Total 20 Marks)

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