

CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.4: TAXATION

TUESDAY: 2 DECEMBER 2014

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

TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

Personal Income Tax Rates

Monthly Taxable Income		Tax Rate
From	To	
0	Rwf30,000	0%
30,001	Rwf100,000	20%
100,001	and above	30%

Individual's housing benefit: 20% of the employment income excluding benefits in kind

Individual's Car benefit: 10% of the employment income excluding benefits in Kind

National Social Security Contribution

Employees contribution	3%
Employer's contribution	5%

Corporate Income Tax Rate

30%

Capital gains tax

Net aggregate gains are taxable at the company rate of tax

Value Added Tax Rate

18%

Annual tax depreciation allowances

Depreciable assets	Rate
Land, fine arts, antiquities, jewellery and any other assets that are not subject to wear and tear or obsolescence.	0%
The cost of acquisition or construction and the cost of refining, rehabilitation, reconstruction of buildings, equipment and heavy machinery fixed in walls	5%
The cost of acquisition or development and the cost of improvement, rehabilitation, and reconstruction of intangible assets including goodwill that is purchased from a third party	10%
Computers and accessories, information and communication systems, software products and data equipment	50%
All other assets (the tax depreciation is granted on reducing balance basis).	25%

Investment Allowance	Rate
Investment within Kigali	40%
Investment within priority sectors, or registered business located outside Kigali.	50%

QUESTION ONE

(a) You have been invited by a group of CPA students to discuss the matters listed below:

Required:

In each of the cases provide explanatory notes and computations for use in your discussions with the students.

- (i) A manager who is in full-time employment where he draws Frw 800,000 per month. He is housed by the employer in a rented house where rent payable to the landlord is Frw 960,000 per annum. **(4 Marks)**
- (ii) The manager whose employer makes an annual contribution of Frw 840,000 to a registered pension fund **(3 Marks)**
- (iii) The manager is provided with a motor car which had a purchase cost of Frw 12,000,000 and his annual salary is Frw 18,000,000 **(3 Marks)**
- (b) A high school boy aged 15 years inherits Frw 3,000,000 from his grandfather and wins Frw 1,000,000 in the national lottery. **(4 Marks)**
- (c) A retired civil servant on an annual pension of Frw 1,800,000 per annum signed a service contract with effect from 1 January 2013. The contract was for three years at an annual salary of Frw 4,400,000. The contract was terminated by the employer on 31 December 2013. The employee was paid compensation amounting to Frw 5,600,000. **(6 Marks)**

(Total 20 Marks)

QUESTION TWO

Mwanaisha General Merchants operates in Kigali. They made the following transactions in the month of March 2013:

1 March 2013	Purchased 100 wheelchairs for a total of Frw.5,000,000
2 March 2013	Purchased 20 kits of medical equipment for Frw.10,500,000
4 March 2013	Purchased 200 Jackets at Frw 7,500 each
5 March 2013	Purchased 150 pairs of Jeans at Frw 6,000 each
6 March 2013	Sold 45 Jackets at 25% above cost price.
8 March 2013	Purchased 200 pairs of sports shoes at Frw. 11,500 each.
9 March 2013	Sold 40 wheelchairs at Frw2,500,000
10 March 2013	Sold 75 pairs of Jeans at 25% markup
12 March 2013	Sold 80 pairs of sports shoes at 20% markup
15 March 2013	Sold 150 pairs of sports shoes at 25% markup
20 March 2013	Purchased 50 Jackets a total value of Frw.900,000
29 March 2013	Sold 40 wheelchairs for a total of Frw. 25,800,000
31 March 2013	Sold 20 kits of medical equipment for Frw.8 million
31 March 2013	Sold 90 pairs of Jeans at Frw 18,000 each

Note: All prices are inclusive of VAT where applicable.

Required:

- a) Input Tax (9 Marks)
- b) Output Tax (9 Marks)
- c) VAT account (2 Marks)

(Total 20 Marks)**QUESTION THREE**

Mr. Muhire, a sole proprietor is a professional dentist who practices in Kigali. He has provided you with the details on his clinic for the year ended 31 December 2013:

	Frw “000”
Gross Professional fees received	1,000,000
Subscriptions to professional association and publications	20,000
Subscriptions to a wildlife magazine	2,000
Donations to a children’s home	10,000
Debt collection expenses (dental patients)	6,000
Wages for dental assistant	120,000
Replacement of surgical instruments	40,000
Rent for the clinic premises	140,000
Electricity and water – clinic	40,000
Other clinic expenses	70,000
Hire of car for use in practice	50,000
Uniforms for staff	5,000
Payment of school fees for own children	40,000
Contribution to social security fund for himself	60,000
Payment of life insurance premium for himself	20,000
Terminal benefits paid to retired receptionist	50,000
Depreciation on furniture – clinic	12,000
Rents received from sub-rentals	14,000
Rent collection expenses (sub-tenants)	2,000
Wages paid to cleaners and watchman – clinic	50,000
Furniture bought for clinic 1 December 2013	64,000
Tarmacking of Drive-way personal residence	80,000
Additional servant quarters – personal residence	140,000
Dividends received-Net	34,000
Interest income from commercial bank – Net	24,000
Directors fees received (deductions at source Frw.3,0000)	120,000

Required:

- (a) Calculate the taxable income of Mr. Muhire for the year ended 31 December 2013. (12 Marks)
- (b) Tax payable by Mr. Muhire. (6 Marks)
- (c) Indicate when the tax, if any, is payable to the Tax administration. (2 Marks)

(Total 20 Marks)

QUESTION FOUR

XYZ Ltd runs a business selling construction materials. The company's summarized statement of profit or loss for the year ended 31 December 2013 is as follows:

		Frw (000)	Frw (000)
Gross profit			754,000
Operating expenses		250,000	
Depreciation	Note 4	30,000	
Personal consumption expenses	Note 1	40,000	
Donation and gifts	Note 2	30,000	
Other expenses	Note 3	280,000	(630,000)
Operating profit			124,000

Notes:

1. Personal consumption expenses include 10,000,000 Frw paid for medical expenses of the Managing Director of the XYZ Ltd and 20,000,000 Frw paid for entertainment of the wife and children of the sales representative.
2. Donations are given to the charity organization
3. Other expenses include the following:

Cash bonuses and attendance fees paid to members of board of directors	15,000,000
Political donations	5,000,000
Gifts to customers (pen and clocks costing displaying the company name)	1,000,000

4. Depreciation was calculated using the company depreciation policy on 31 December 2013

	Cost of acquisition	Net book Value	Tax depreciation rate
Plant and machinery	30,000,000	15,000,000	25%
Building	40,000,000	20,000,000	5%
Computer and IT equipment	15,000,000	7,000,000	50%
Moto vehicle	10,000,000	6,000,000	25%
Furniture and fittings	3,000,000	1,500,000	25%

Required:

Calculate XYZ Company's tax adjusted trading profit for the year ended 31 December 2013 and compute the corporate income tax to be paid by XYZ company. **(Total 20 Marks)**

QUESTION FIVE

- (a) Define the term "Qualified Pension Fund" **(4 Marks)**
- (b) APAN Limited is a manufacturer of consumer products. Until 31 December 2013, its business was being carried out at leased premises in the Industrial Area Gikondo. With effect from 1 September 2014 the company moved its operations to new premises in the Free Zone industrial area. The company had constructed the new premises and the cost of constructions was as follows:

	Frw
Manufacturing building	80, 000,000
Storage buildings: For raw materials	20, 000,000
:Newly manufactured products	40, 000,000
An office block	45, 000,000

In addition, the company had also constructed permanent paving around the buildings as follows:

	Frw
Paving around the manufacturing building	10, 000,000
Paving around the office block	5, 000,000

The company's business assets which were moved from the industrial area in Gikondo to the new premises at 1 September 2014 were as follows:

	Frw
Manufacturing machinery	10,000,000
Furniture and fittings	40,000,000
Delivery motor vehicles	80,000,000
Jewellery	25,000,000

During the 2014 financial year, the company had bought the following passenger motor vehicles for use by the senior company employees as follows:

A Toyota for use by the managing director at a cost of Frw 18,000,000 and a Nissan for use by the factory manager at a cost of Frw 8,000,000. These vehicles were availed to the employees in August 2014 and they were used for both business and private.

Required:

(a) Compute the capital allowances that APAN Limited can claim in respect of the 2014 tax year. (16 Marks)

(Total 20 Marks)

QUESTION SIX

Djuma is employed by Kanombe Traders Limited as a Salesman. He provided the following information relating to his income for the year ended 31 December 2013.

- His monthly basic salary is Frw 300,000.
- He is also entitled to a commission based on 5% of all extra sales he makes above Frw 4,000,000 per month. His sales for the months of March, June, August and December 2013 were Frw 5,000,000, Frw 4,500,000, Frw 4,200,000 and Frw 4,800,000 respectively.
- He lives in a company house and he is deducted from his salary for rent Frw 30,000 per month.
- The company reimburses him for all out-of-pocket expenses incurred for using his car while on official duty. In the year 2013, the amount reimbursed was Frw 260,000.
- The education fee for his three children amounting to Frw 1,200,000 was paid by the company during the year. This amount was charged to the company's income statement.

Required:

Calculate the total employment income and tax payable by Djuma for the year ended 31 December 2013.

(Total 20 Marks)

QUESTION SEVEN

- a) Describe how Inter-company dividends are taxed in Rwanda **(4 Marks)**
- b) Explain the meaning of “Corporate Reorganization” in accordance with article 46 of law number 16/2005 on direct taxes on income and explain the treatment of losses, gains and depreciation in case of re-organisation **(10 Marks)**
- c) i) Explain how an employee is taxed on employment income obtained from different employers **(3 Marks)**
ii) Explain how dividends on investments in Rwanda listed bonds for a maturity of three years and above are taxed if the beneficiaries are from Tanzania **(3 Marks)**

(Total: 20 Marks)

End of question paper

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