RRA
Rwanda Revenue Authority
Taxes for Growth & Development

TAX POLICY AND TAX ADMINISTRATION REFORMS IN RWANDA

DEVELOPING COUNTRY PERSPECTIVE

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CHALLENGES THAT MOVED RRA TO REFORM

- ✓ Poor tax paying culture among taxpayers;
- ✓ Low integrity amongst, taxpayers and revenue intermediaries;
- ✓ Poor taxpayer records and documentation;
- ✓ Organizational structure that could not cope up with changes in technology in an cost-effective way;
- ✓ Inadequate professional skills among technical staff;
- ✓ Outdated laws and other legal instruments;
- ✓ Outdated procedures and work instructions.
- ✓ Business was largely done manually;
- ✓ High cost/yield ratio of revenue collection;

REFORMS IN TAX ADMINISTRATION

Reform is a change that is intended to correct a situation that is wrong or unfair, or make a system work more effectively. These are some of the reforms that have been done.

- ❖ Process and Procedures Re-engineered to eliminate unnecessary bureaucracy and simplification.
- ❖ Legal instruments –Modern tax laws that meet international standards were put in place while at the same time accommodating local environment of the tax base
- ❖ Computerisation of RRA activities to increase services delivery. These include:
- ✓ Automated RRA's systems (ASYCUDA and Electronic Single Window in customs, SIGTAS and E-filing of returns and E-payment of taxes in domestic taxes, mobile declaration of taxes, SAGE in Finance and Administration, HR software, customs risk selectivity in customs department;
- ✓ Integration of RRA Systems to ease data reporting and analysis. Dataware house.

Reforms cont……

- **Capacity Building, Professionalizing & Specialization of Staff**
  - ✓ Sponsorship of staff for further studies/specialization
  - ✓ Establishment of Training Institute;
  - ✓ Relationship with sister tax administrations for technical assistance and benchmark;
  - ✓ Partner with other countries and advanced revenue authorities including Dutch Tax and Customs Administration to increase staff capacities in taxes.

Reforms cont…….

- Implementation of One Stop Border Posts (OSBP)
- Introduction of the Electronic Fiscal Devices to manage VAT (EBM);
- Institutional Restructuring;
- 24 hrs Operations.
- Implementation of Single Customs Territory

REMAINING TAX POLICY & ADMINISTRATIVE CONCERNS

So many reforms have been done to address the challenges that the institution was facing so as to ease service delivery and mobilise more revenue collections but much is still being done and this include;

- Widening the tax base through taxpayer registration.
- Updating our tax laws to bridge all tax gaps e.g Income tax law under review, Transfer pricing guidelines under preparation, Procedure laws to be reviewed as well.
- Estimating the tax gap
- Double taxation agreements and exchange of information on tax matters.

REMAINING TAX POLICY CONCERNS Cont…

- Increasing capacities of our technical staff on international taxation, treaty negotiation aspects etc.
- Reduce the informal sector which is affecting tax compliance
- Resistance to online trading facilities and EBM.

ACHIEVEMENTS

- TAX REVENUE COLLECTION OVER 5 YEARS.

FISCAL YEARS	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
NOMINAL GDP (Bn rwf)	3,523	4,128	4,681	5,137	5,741
TAX REVENUE (Bn rwf)	460.6	556.0	651.9	763.4	860.3
TAX TO GDP ratio	13.10%	13.50%	13.90%	14.8%	14.9%
TAX REVENUE GROWTH	22.2%	20.7%	17.3%	17.1%	12.7%

ANTI AVOIDANCE RULES IN INCOME TAX LAW

- **Tax avoidance** is a practice of using legal means to pay the least amount of **tax** possible. This is different to **tax evasion** which is the practice of using illegal methods to avoid paying **tax**. Rwanda has anti avoidance rules in the income tax law and these include among others:

❖ Thin capitalization rule of 4:1.

❖ employee benefits rules (vehicles, housing, interest on loans).

❖ Expenses incurred on re-evaluation of assets and related depreciation

❖ Loss deduction can only be done over 5 years. Beyond that it can't be deducted

Anti avoidance cont….

- Change in direct and indirect ownership of the share capital or voting rights of a company by 25% removes the right of carrying forward the losses.
- Transfer pricing; Transactions between related parties differ from those of similar nature between unrelated parties, the tax administration has a right to them on the value similar to that given by unrelated parties.
- Allowable expense deductions as donations should not exceed 1% of taxable income.

Anti avoidance rule in tax treaties

- Yes, Rwanda included anti avoidance rules in its tax treaties e.g. services and interests can be deducted as expense in the contracting state if the beneficial owner is situated in one of the contracting state. This was trying to avoid any abuse against treaty shopping.
- Yes, anti-abuse clauses should be a standard element of taxation treaties with developing countries because countries need to act in their self interest and take control of their tax destiny creating abroad-sweeping opportunity to address tax avoidance.

STATEMENT

- While every tax treaty with developing countries should include anti-abuse measures, for low or low middle income countries a main purpose test is preferable over a Limitation of Benefits Clause’.

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A. Agree

B. Disagree

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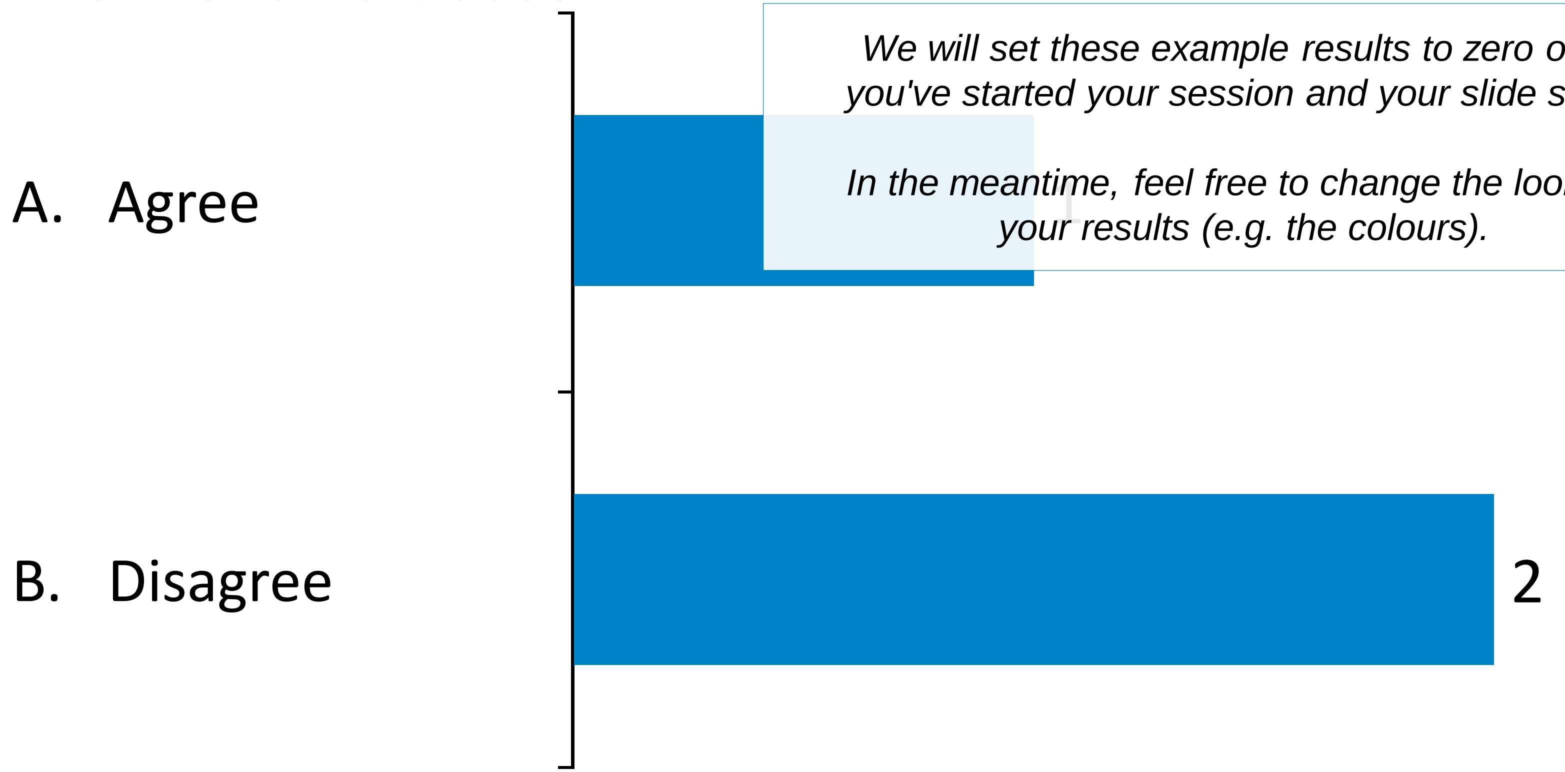

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IMPORTANCE OF BEPS TO RWANDA

- BEPS project will help Rwanda in the following areas:

- Given that many MNEs might choose to borrow from related parties outside Rwanda, unnoticed base erosion via high interest deductions and other financial payments will be curbed through sharing of information on related parties.

- Preventing tax treaty abuse and the artificial avoidance of Permanent Establishment status.

BEPS importance cont…

- Availability of transfer pricing documentation through country-by-country reporting will help Rwanda get a lot of information on global allocation of the MNE's income, taxes paid, and certain indicators of the geographic location of economic activity within the MNE group hence making an informed decision on tax to be paid or not paid.

- Capacity building on BEPS project will also increase our auditors knowledge on taxation of MNEs.

STATEMENT

- For developing countries to take advantage of BEPS and raise revenues, they must be enabled to scale up their capacity to tax multinational companies efficiently and correctly

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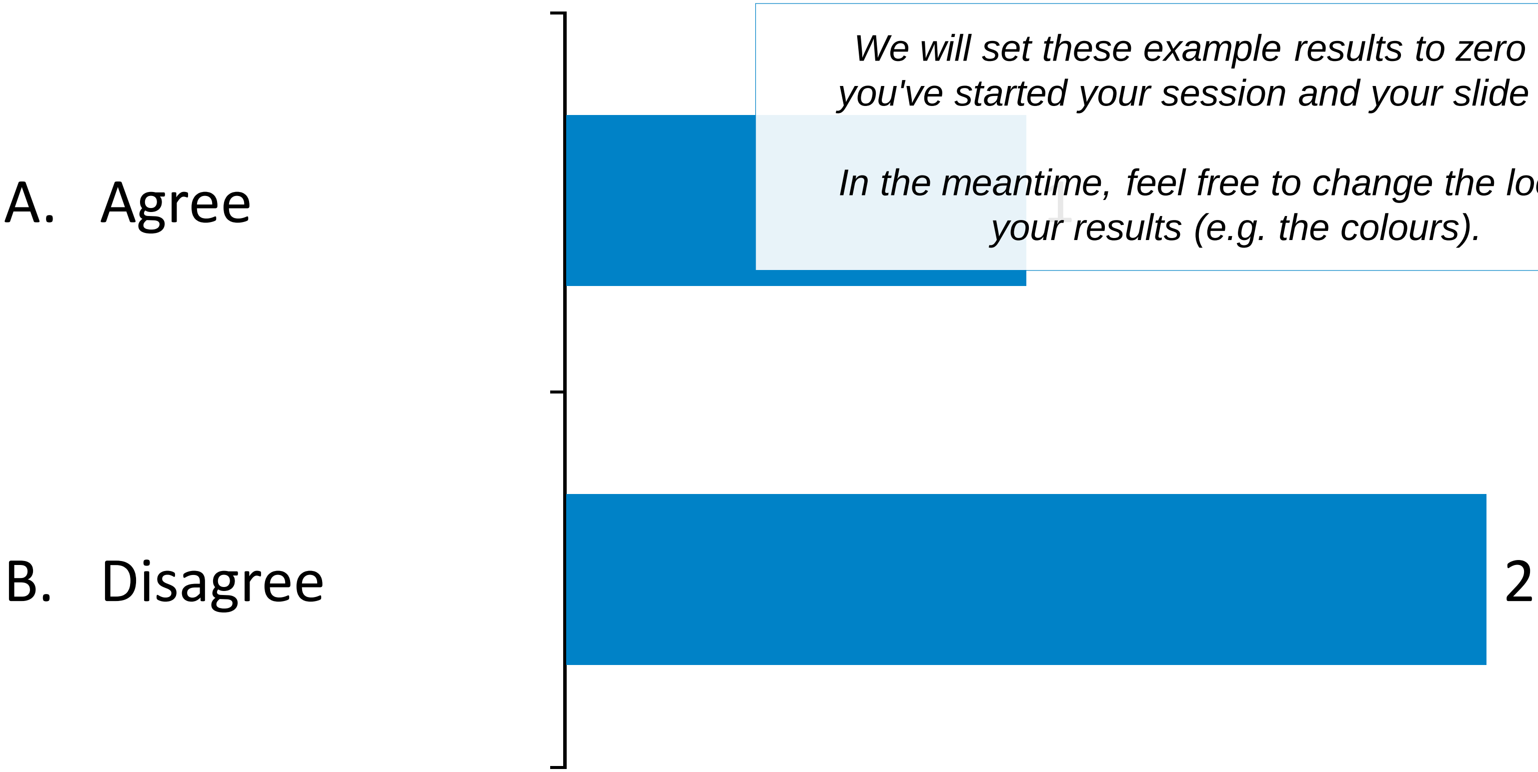

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Conclusion

- Most developed countries are characterized by a broad base for direct and indirect taxes with tax liability covering the vast majority of citizens and firms. Developing countries, in contrast, are confronted with social, political and administrative difficulties in establishing a sound public finance system. As a consequence, developing and emerging countries are particularly vulnerable to tax evasion and avoidance activities of individual taxpayers and corporations. This can be considered one of the primary reasons for large differences in the ability to mobilize own resources between developed and developing countries.

Conclusion cont….

- As globalisation takes its toll, it is very important to create a competitive tax regime that is predictable, so as to attract and retain both local and foreign investors. The tax administration has to continuously reform in order to facilitate a conducive business environment without eroding the tax base

- As we try to attract FDI in our respective countries, it is very important to scale up the capacity to tax multinational enterprises efficiently.

Q.A SESSION