



# ***PAYING TAXES***

***INVESTORS, ESPECIALLY MINORITY SHAREHOLDERS HAVE BEEN GIVEN INCREASED PROTECTION BY GRANTING THEM RIGHTS TO REQUEST AND OBTAIN ANY DOCUMENT THAT MAY LEAD TO DISCOVERY OF INFORMATION DURING TRIAL***

In as far as promotion of paying taxes countrywide is concerned, mobile declaration roll out and mobile payment of taxes facility program has been introduced for all small tax payers and this has made a major improvement in the declaration of taxes among small tax payers where tax declaration has risen to 70% compliance for small tax payers in the country.

## **PAYING TAXES, A CRUCIAL ASPECT TO ACHIEVE SUSTAINABLE DEVELOPMENT**

For any country to attain economic growth and sustainable development, its government has to collect taxes. Without them, it would not be able to build public infrastructure, provide utilities or services like health care. One of the main sources of taxes is the private sector which, despite taxes being a burden to it, understands their necessity. What is important for entrepreneurs, though, is that the tax level is reasonable, and the procedures to declare and pay taxes as simple as possible. That is why Paying Taxes is one of the ten Doing Business indicators which the World Bank assesses, asking the question: 'how easy or difficult is it for investors to pay their taxes'?

## **PAYING TAXES IN RWANDA TODAY**

The World Bank ranks Rwanda as the 22nd easiest place to pay taxes out of the 189 economies that were evaluated



**Rwanda Revenue Authority Headquarters**

for the 2014 Doing Business report, three places better than the 25th position in the previous report. This is a good rank that indicates how much efforts the government has put in reforming the tax regimes in order to make them more user-friendly.

According to the World Bank, there are 17 different taxes or mandatory contributions, which is significantly lower than the sub-Saharan average of 38, making Rwanda a place with less 'tax stress' for investors. And while entrepreneurs spend 113 hours per year to clear taxes, the regional average is more than double that

time at 314 hours. In addition, the total tax rate in Rwanda constitutes on average 29.9% of profits, which is nearly half of the regional 53.3%.

While the World Bank in its 2012 Doing Business report praised Rwanda for easing the process of paying Taxes by reducing the frequency of value added tax (VAT) filings by companies from monthly to quarterly, no new reforms were added on Rwanda's account in its 2013 and 2014 DB reports. Recent reforms will however be captured in the 2015 report which will make probably further improves Rwanda's ranking.



**ELECTRONIC BILLING MACHINES FOR VAT**

In a bid to further improve efficiency and effectiveness in paying taxes, Rwanda introduced legislation which helps businesses to keep their books properly and also improve tax compliance through the use of Electronic Billing Machines (EBM). This device is comprised of two components, a Certified Invoicing System (CIS) and a Sales Data Controller (SDC).

The EBM initiative is meant to help Rwanda Revenue Authority (RRA) boost its domestic tax collections and it targets all registered VAT taxpayers in the country and well as those in the informal business sector. The use of EBM machine is prescribed in article 24 of law n° 37/2012 of 09/11/2012 establishing the value-added tax which states that "Value added tax registered persons are obliged to use a certified electronic billing machine that generates invoices indicating the tax as agreed by the tax administration."

The use of EBMs is of great importance to the taxpayer, the consumer and the country. To the taxpayer, the system provides a tailor-made bookkeeping solution where once every sale detail is filed in the device, the data is recorded on the system and immediately communicated to Rwanda Revenue Authority (RRA).

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The EBMs also helps the taxpayer to be a better tax complier and help in steering the country's growth. The EBMs promotes fair competition on the market. Where in the past some businesses evaded taxes hence earning illegal profits, the system will ensure everyone earns his due and pays what belongs to the government hence promoting fairness. It also reduces financial embezzlement in businesses, corruption and other malpractices business owners might suffer in their absence. As for consumers, they will know exactly how much they paid for goods or service and taxes will be clearly justified. It's therefore paramount for consumers to insist on a receipt for whatever good or service they pay for.

All receipts produced have a special electronically generate signature which can be verified by RRA or the consumer. This again leads to transparency. To encourage this receipt-receiving practice among consumers, RRA introduced a competition where citizens with the most number of locally issued receipts get rewarded. If you demand a receipt it means the seller will have

to use the EBM and the VAT tax, which is compulsory anyway, is deducted.

In a recent Consumer Compliance Award ceremony held at RRA headquarters, 50 consumers were rewarded with Frw 100,000 each for demanding an electronic receipt when purchasing goods or services. At the occasion, the RRA Commissioner General, Ben Kagarama, said that EBMs help traders to easily balance their books of accounts without hiring accountants which are quite expensive. To RRA, the EBM not only ensure tax compliance but they also make the work of verifying tax declarations much easier because every transaction entered in an EBM is automatically registered in the RRA system.

**CERTIFIED DEVICES**

To ensure that taxpayers buy the right EBM devices, RRA has worked closely with the private sector and have already held trainings with members of the ICT chamber which has ICT equipment suppliers, software developers and other traders who might want to supply the market, these are already aware of the requirements and will help taxpayers get along.

"We want to create a situation where we make it easy for the taxpayer and this justifies all our investments in IT innovations," said Commissioner General Ben Kagarama on a recent event. RRA introduced EBM in February last year with a pilot phase that saw 800 machines distributed for free to selected businesses around Kigali. After the successful completion of that phase, all other VAT-registered taxpayers were required to purchase a machine from dealers approved by RRA.



**(EBM)  
Electronic  
Billing  
Machine**



In a bid to ensure that all concerned businesses comply with the use of Electronic Billing Machines (EBM), RRA has extended the deadline from December 31 to March 31. The extension is meant to provide enough time for VAT-registered taxpayers to purchase the machines and also give time to those who would wish to apply for exemptions from the use of machines to do so. After it has been proven to be more efficient and reliable in collecting VAT during the pilot phase, the tax body has increased awareness through a campaign to emphasize the use of EBMs.

### **ELECTRONIC TAX DECLARATION AND CLEARANCE**

In November 2011, RRA launched what's now one of its most innovative taxpayer services, e-tax – the electronic declaration and clearance of taxes. "It wasn't only a trendsetting and turning point for us but also a defining development for our taxpayers," says Pierre Celestin Bumbakare, RRA's commissioner for domestic taxes.

While it's a taxpayer's responsibility to declare and pay taxes to Rwanda Revenue authority, it becomes an expensive and unyielding exercise on the side of RRA to ensure all taxpayers meet this obligation in a situation where tax management infrastructure is undeveloped. "We want to create a situation where we make it easy for the taxpayer and this justifies all our investments in IT innovations," said former Commissioner General Ben Kagarama. At customs, taxpayers are benefiting from Electronic Single Window (ESW) while domestic taxpayers have e-tax services. According to Bumbakare, domestic taxes contribute between 60% and 70% of all government tax revenues while the rest comes from customs. However, the ability for RRA to maximize its domestic revenue targets

is highly based on the tools at the field staff's disposal for these: define their efficiency and level of success. "Therefore, the introduction of e-tax was mainly to improve our own efficiency in collecting domestic taxes, this was the main objective," notes Bumbakare.

### **OTHER OBJECTIVES INCLUDE:**

- ▶ Saving both RRA and taxpayers' time spent in the past in the process on moving to RRA offices to declare and pay taxes.
- ▶ Time saved also resulted into saving money formerly spent on transport related costs on movements between the business premises and the RRA offices.
- ▶ Improve service delivery especially because most taxpayers are in the habit of turning up to pay at the last minute which would increase queues and overwhelm RRA staff.
- ▶ Reduce paperwork and logistics involved
- ▶ Reduce on customer confrontation in cases involving missing documents because e-filing has promoted better record keeping
- ▶ On a whole, make tax payment less of a burden by reducing movements, time and costs hence leaving fewer reasons for tax evasion.
- ▶ Finally, reduce on the cost of collecting tax on RRA's side as staff formerly deployed to cover the fields can now be assigned to other roles.

Fred Karara, the Project Manager of the e-payment project at RRA, says that change is never instant and even when the introduction of e-tax was largely



**Sales Data Controller (SDC) facilitates monitoring sales activity in a business.**

to the benefit of taxpayers, it wasn't easy winning them over in the first few months.

But the results are there for all to see: all large-taxpayers in the country are paying taxes electronically. There are over 330 firms such firms and they contribute over 70% of all domestic tax revenues. Large taxpayers are those with an annual turnover of over Frw 1 billion. Among medium-sized taxpayers, only a tiny minority has not yet enrolled for the e-tax payment. These are over 1400 in total and they include all VAT registered firms but turning over less than a billion francs.

### **SINGLE ELECTRONIC WINDOW**

The process of clearing goods either into or out of Rwanda involves several offices/ departments whose requirements a trader must satisfactorily meet before they are given a green light. They include RRA, RDB, Magerwa, Banks, Ministries, RBS and many others. Before the ESW regime, a customs' agent had to pay a visit to all these stake holders where they would line up in long queues with other traders to meet an officer or two to view their papers en sign or stamp them a process which would take days or weeks depending on the work load. Joseph Mpunda, the head of division,



## SPECIAL FEATURE

investment implementation at RDB whose office handles exemptions for certain traders, says in the past it would take a single investor more than a week to get cleared but the ESW has changed this today. "But today, I can receive an application anywhere and working on it could just last ten minutes and the trader is served," notes Mpunda. Under ESW, every clearance procedure is done electronically, on the internet. All the stakeholders have been merged into one form, obtainable, filled, submitted and responded to online. It's a single electronic window in which every requirement for clearance can be handled.

ESW will for instance enable MAGERWA officials to access arrival notice of goods and verify info on-line, RDB and line ministries to receive and authorize exemptions online; all the other concerned stake holders obtain their documents and process them on-line saving traders' time and money.

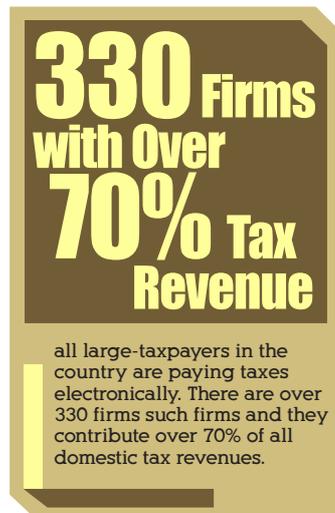
#### THE BENEFITS OF THE ESW TO TRADERS INCLUDE:

- ▶ Importers of medical equipment and other exempted facilities can apply and receive authorization operation licenses, importation visa's and licenses online.
- ▶ All importers have the access to follow-up on the progress of the processes of their applications, online which breeds transparency.
- ▶ To clear goods transported by air, agents can submit online pre-arrival cargo manifest to relevant offices, online exchange of cargo details, automatic validation and process control.
- ▶ Banks can process on-line payments of taxes on behalf of clients on-line, validation of receipt in ESW, issuance of electronic receipts as well as electronically notifying importers of the results/ transactions.

#### THE GOLD CARD SCHEME

The Gold Card Scheme (GCS) is a new facility that Rwanda Revenue Authority has put in place to facilitate trade. The GCS facility will replace the current Blue Channel and it will provide preferential release procedure to low-risk importers. The two release options are Inland release and border release. With the Inland Release option, goods can be cleared when they are still loaded on the truck and the whole process takes not more than three hours while under the Border Release option, goods are cleared at the point of entry into the country.

Previously, all imported goods had to be cleared at Magerwa in Gikondo and this would cause delays due to congestion there. Current Blue Channel companies



are required to apply for the Gold Card Scheme and sign an MoU with RRA to retain their preferred status; they will be given a period of three months from the initiation of the application process to submit their applications. Those companies that failure to apply for GCS will risk being removed from the scheme and being returned to the normal verification process that takes a lot of time.

The introduction of GCS will significantly improve the delivery of the customs programs by balancing trade facilitation and control, improve access by importers to their goods at time of importation while enabling customs to effectively verify compliance without impeding the flow of goods.

"The Blue Channel was an internal system used by RRA but the GCS is for everybody and all requirements are clearly known by the importers," said Fred Seka, the Chairman of the Rwanda Freight Forwarders Association. "This makes it more transparent and easy in facilitating in trade. It's always important for every importer or exporter to cut costs and this is mainly by saving time and with this scheme goods will be going to the importer's warehouse, which means no storage costs or incurring extra costs by the transporter."

The GCS will address shortcomings in the current Blue Channel Facility with respect to company commitments and it will also help to formalize the program for expedited release processing for low risk clients as well as increasing importer release options under a facilitated process. The introduction of GCS will be an important move towards implementation of a regional Authorized Economic Operator Program.

Seka added that introducing GCS is not going to take away importers' benefits; instead it facilitates them to do their work. He noted that the GCS, unlike the Blue Channel, will be for all importers and the requirements are very clear to everybody adding that it will also make clearing of goods very fast. He added that GCS facilitates importers or exporters in cutting costs as well as saving time as Goods are now going straight to the importer's warehouse and this means no storage costs or incurring extra costs by the transporter.