SECTOR:BUSINESS SERVICES
SUB-SECTOR: ACCOUNTING
RTQF LEVEL: 3

ACCAT301 ASSISTING TAX CLEARING PROCESS

Purpose statement

This module describes the skills, knowledge and attitude required to process tax, is intended for learners who have successfully completed the 9 years basic education. At the end of this module, learners will be able to Carry out tax planning with a view to meeting statutory deadlines, declare a tax, and pay ascertained taxes. Learners will work in Shops, warehouses, supermarket, hospitals, pharmacies, banks, schools, garage, market, home, churches, clearing and forwarding agencies NGOs, performing a range of tasks related to accounting alone or with others under supervision.

ELEMENTS OF THE COMPETENCE & PERFORMANCE CRITERIA

1.Carry out tax planning with a view to meeting statutory deadlines	1.1 Relevant Select the tax to your business so as not to miss out on important taxes to be paid 1.2 Timely respect tax payment period with a view to avoiding penalties for late declaration and payment 1.3 Methodical determination taxpayer band so as to pay the right amount of tax
2. Declare a tax	2.1 Establish clearly taxation base in order to determine actual tax to be declared 2.2 Properly declare taxes in order to provide a report to revenue authorities about taxpayer liability 2.3 Print out a proper declaration form
3. Pay ascertained taxes	3.1 Proper preparation for payment 3.2 Timely Pay taxes for avoiding penalties a raised 3.3 Carefully File supporting documents as a proof of payment of tax

LU1: CARRY OUT TAX PLANNING WITH A VIEW TO MEETING STATUTORY DEADLINES

LO1.1 Relevant Select the tax to your business so as not to miss out on important taxes to be paid

- **INTRODUCTION TO TAXATION**
  - **A tax** is:
    - a compulsory contribution to the government by an individual or company in form of money to help the government finance its current and development expenditures and therefore be able to achieve its desired social and economic development goals
    - it can also be defined as a compulsory charge imposed by the government or any other authority on any legal person (individuals or business entities)to help government to finance its activities
    - A tax is non-quid pro quo which means that it is not something given or returned as the equivalent of something else. A tax therefore bears no direct relationship in terms of payment for all goods and services rendered by the government .you cannot refuse to pay tax on grounds that you don't use public goods and utilities provided by the government.

  - **Taxation** can be defined as a system through which a government imposes compulsory contribution for public purposes. . Taxes are usually collected by the government body and in the case of Rwanda this function is performed by the Rwanda Revenue Authority (R.R.A).
- **TERMINOLOGIES USED IN TAXATION**
  - **Tax burden:** This is the effect of a tax on the taxpayers
  - **Tax incidence:** this is the final resting place of a tax or the person or company that actually pays the tax
  - **Tax impact:** this refers to the first resting place of a tax or the burden suffered by the person /company that initially pays the tax imposed when it has just been imposed.

- ✓ **Tax base:** refers to the items /activities or income on which tax can be imposed to raise tax revenue or activities/incomes covered by the tax system in an economy. The tax base can be narrow meaning that the economy has few items/activities it taxes and wide in case the tax system covers a wide range of activities and incomes or commodities.
- ✓ **Taxable income:** this is a portion of an individual or country's income that is subject to income taxation (payee) after all tax free allowances have been deducted from the original income.
- ✓ **Taxable capacity:** taxable capacity of an individual refers to the extent to which a taxpayer is able to pay the tax assessed on him and yet remain with enough disposable income (income after deducting all relevant taxes),which can sustain him at average standard of living.
  - **Taxable capacity of an individual is determined by:**
    - Level of income or wealth; the poor has low taxable capacity.
    - Level of dependence burden; high dependence burden ,low taxable capacity
    - Type and rate of tax levied –higher tax rate reduces taxable capacity.
  - **Taxable capacity of a nation depends on the following:**
    - The wealth of a country or size of GDP
    - The types and rate of taxes charged
    - The level of income and wealth distribution; equitable income distribution generate more tax revenue.
    - The political situation in the country
    - The level of economic development in the country.
- ✓ **Tax evasion**: this is where the taxpayer uses illegal means/methods to escape part of the whole tax imposed. A tax payer can for example understate or refuse to declare his income / wealth, hide at the time of collecting the tax, hide commodities subject to taxation at entry points/border such that customers/import

duties on them are not paid (smuggling), such acts are illegal and punishable by law. Another name of tax evasion is tax defaulting.

- ✓ **Tax avoidance**: this is where tax payer uses legal/ legitimate means to escape paying part of the whole tax liability expected of him. The tax payer avoids tax by using loopholes or weaknesses in the tax system. A person can for example avoid graduated tax by going back to school since students don't pay graduated tax or avoid indirect taxes such as VAT by refusing to by commodities on which they are taxed.
- ✓ **Tax exemption:** this is the exemption or allowance given to a person /corporation from paying taxes due to a given status say the lame, house wives, blind, exemption can also be made on commodities either produced locally or imported depending on the government's intention.
- ✓ **Tax shifting**: this is the transfer of either part or the whole amount of the tax imposed on a tax payer to another party. It is the transfer of the tax burden to another party. This is mainly with indirect taxes where the producers or sellers usually shift the burden to the consumers by increasing prices of commodities on which they are charged.

✓ **Difference between Tax and Duty**

TAX

Tax is a fee charged (levied) by government on a product, income or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If a tax is levied on price of good or service, then it is called an indirect tax.

DUTY

Duty is a tax levied by a government especially on import. Tax is levied on function of the value of product being taxed while duty is not a function of the value of the product being taxed but is based on the quantity not the value of the product purchased.

❖ **CONONS/PRINCIPLES OF TAXATION (ADAM SMITH)**

These are guidelines that should be observed and followed when assessing and administering /collecting taxes.

✓ **Canon of equality/equity**

This canon stresses that there should be social justice in the allocation of tax burden; normally taxation imposes a burden upon taxpayers. This entails money burden and real burden of taxation which may be direct and/or indirect.

The direct money burden of taxation refers to the amount of money that people have to pay as taxes to the government.

Generally it decreases the disposable money income of people. The direct real burden however means the amount of sacrifice involved in parting with purchasing power in the tax payment. Hence, this canon spells that the burden of taxation must be distributed equally or equitably in relation to the ability of taxpayers. Further equity or social justice demands that rich people should bear a heavier burden of tax and the poor lesser burden.

The tax should therefore be charged in proportion to the people's income or abilities .There are two cases of equality ;horizontal equity where people in the same income bracket are charged equally and vertical equity where a proportionate tax is charged such that people in different groups are charged differently.

- ✓ **Canon of certainty**

The tax which an individual has to pay is certain and not arbitrary. The time of payment, the manner of payment, amount to be paid ought to clear, plain and simple to the contributor, and to every other person.

Eg: The payment of income tax, its rate and time are known and definite to both taxpayer and tax officials.

- ✓ **Canon of convenience**

The time and mode of payment should be convenient to both the payer and the collector .This implies that the tax should be levied at a time, a place and in the manner in which it is convenient for the tax payer to pay it.

For instance, farmers should be taxed when they harvest and sell their crops, office workers when they receive their salaries.

- ✓ **Canon of economy**

This principle suggests that the cost of collecting a tax should not be exorbitant but the minimum. Also there should be economy in sacrifice involved in the payment of tax by taxpayer.

Generally it supports the principle of minimum aggregate sacrifice in taxation. The cost of assessment and collection of the tax should be substantially fact ought not to exceed 5% of the total tax revenue or tax yield.

- ✓ **Canon of productivity**

The productivity of a tax may be observed in two ways:

- A tax should yield a satisfactory amount for the maintenance of a government;
- The taxes should not obstruct and discourage production in the short as well as in the long run.

- ✓ **Canon of diversity**

The burden of taxation should be widely distributed on the entire economy without causing much harm to anyone. There must be different types of taxes so that the burden of taxation falls on all the different groups of society.

There has been a controversy over the comparative advantages of single tax and multiple tax system. A single tax system may have the following drawbacks:

- It may not yield sufficient income;
- The distribution of burden of taxation may not satisfactory;
- It may be difficult to collect;
- Temptations of evasion may be high.

Multiple taxation systems may not have all these drawbacks, but it also has its limitations. However, it is more preferable than single system, but to great multiplicity may not be desirable as it may go against the canon economy and productivity.

- ✓ **Canon of simplicity**

The tax should be easily understood by the taxpayer in its nature, aims, time of payment, methods and basis of taxation should be easily understood by the taxpayer.

- ✓ **Canon of coordination**

In democratic countries like Rwanda, taxes are imposed by central and local governments; it is therefore desirable that there should be coordination between different tax authorities

- ✓ **Principle of elasticity**.

A good tax should be elastic in such a way that when there is change (increase or decrease) in national income or tax payer's income/property, the tax should also change (increase /decrease) .The share of taxation in National income or people disposable income should rise as national income or people's disposable income rise so as to yield more income to the government.

- ✓ **Flexibility principle**

The tax system should be flexible depending on the economic circumstances and state requirement of the time. It should be able to accommodate change in the social – economic conditions of country in a given time.

❖ QUALITIES OF GOOD TAX SYSTEM

A good tax system should have the following attributes:

- ✓ It should be comprehensive that is having a variety of taxes and covering all tax bases.
- ✓ It should be flexible that is capable of variation depending on the economic circumstances
- ✓ It should be simple to understand by both the tax payer and the collector.
- ✓ It should be neutral without favouring any group of people
- ✓ It should be equitable in distribution of the tax burden
- ✓ It should achieve the national development objectives by promoting economic growth and development and also economic and political stability
- ✓ It should be productive i.e. yield high revenue.

❖ CHARACTERISTICS OF A TAX

- ✓ It is a compulsory payment
- ✓ It is a payment to the government
- ✓ There is an element of sacrifice in addition to the legal compulsion
- ✓ There is no coordination between benefits and tax

- ✓ Tax is not the cost of benefit conferred to the government on public
- ✓ Payment of tax is a personal liability of an individual.

❖ OBJECTIF OF TAXATION

Taxes exist primarily to provide funds for government operations.

A key role of government is to provide services that benefit society e.g. roads, education, court system, police, fire protection, defense, government functions etc. Thus the objectives/reasons for taxation can be classified as follows:

- ✓ **Raising Revenue**

Tax helps to generate revenue to divert control of economic resources from taxpayers to the government, for its direct utilization for provision of public services or for transfer to others. The governments raise revenue to provide public and social goods, which cannot be appropriately be 'priced'.

- ✓ **Redistribution of income and wealth**

The ownership of resources such as physical capital, education and human capital is deemed to be unequal. The free market system has no built-in mechanisms to correct any distributional imbalances that may initially exist in the economic system. .

- ✓ **Correcting market failures**

Market failures are defined as the inability of competitive markets to achieve an efficient allocation of resources, left to them and without intervention. They generally rise because of 'externalities' where the costs borne by an individual of an activity (consumption or production of a good or a service) are lower than the costs to society as a whole.

- ✓ **Stabilizing the economy**

Wide fluctuations in the levels of business activity as well as the failure of economy to achieve full employment and maximum growth of economy are viewed as separate objectives of taxation.

In addition, the inadequate development of one sector or region, when the free market system is left to itself can be seen as other market failures. Consequently, **industrial development, export promotion, rural development, the development of a backward region, etc** become additional objectives of taxation.

❖ ROLES OF TAXATION IN RWANDA

Taxation plays a great role in Rwanda's economy like in any other country's economy .These roles include the following:

- ✓ **Raising government revenue:** taxation raises revenue for the government, which revenue the government uses to cater for its legitimate expenditures such as administrative costs, paying civil or government workers, etc.

- ✓ **Protecting home industries** especially infant industries: taxes imposed on imported goods protect home industries, especially the infant industries from foreign competition which increases market and consumption of locally made goods as imported goods are made expensive by these taxes.

- ✓ **Control of inflation:** taxation helps to fight inflation in a country when direct taxes are charged on people's income**,** which reduces disposable income thereby reducing aggregate demand and causing a fall in the general price level.

- ✓ **Reducing dumping:** dumping is the selling of goods in foreign countries at cheaper prices than in the home country .Imposing high taxes on such goods discourage dumping and protects the economy because such goods discourage development of local industries, which usually start with high production cost and relatively high prices

- ✓ **Discourage importation and consumption of certain goods:** taxation helps to discourage importation and consumption of harmful goods through charging high taxes on such goods like cigarettes, alcohol, etc, thereby making them expensive to consume.

- ✓ **Controls monopoly**: taxation enables the government to reduce monopoly power of firms in an economy by taxing and reducing the monopoly profits using a profit tax ,increasing the monopolistic production costs using either a lump sum (charged irrespective of quality produce) or specific tax (charged per unit output produced).

- ✓ **Reduce income inequality: the** government, through taxation, reduces income inequalities in the country by using a progressive tax system in which taxes are charged according to people's income thereby making the rich pay more than poor.

- ✓ **Improve balance of payment position: the** government is able to improve its balance of payment position by charging high taxes on imported goods and encouraging consumption of locally produced goods and exportation. This reduces expenditures abroad and increases foreign exchange from export earnings.

- ✓ **Encourages hard work:** taxes encourage or force people to work hard in order to pay their tax obligations and especially true with direct taxes charged on individual such as income tax.

- ✓ **Discourage over exploitation of resources:** taxation can be used by the government to discourage over exploitation of resources by raising the cost of production for the exploitation firms through imposing high taxes on them.

- ✓ **Promotes economic growth**: taxation policies are used by the government to influence the level of economic activity in the country and hence helps in promoting economic growth by encouraging increased production and investment and also providing enough government revenue for development.

❖ RIGHT AND OBLIGATIONS OF THE TAX PAYER

A right is a general and abstract offer that indicates what has to be done under certain circumstances.

Right of confidentiality: it is forbidden for any person who takes part, in which ever quality at whatever stage in the taxation process to disclose to anybody any information on a tax payer's tax situation.

A tax payer has to be represented by a qualified professional in case of any communication with the internal revenue services, provided that this professional has a mandate signed and dated by the tax payer.

A tax payer can be represented by a lawyer to ensure his defense in a tribunal.

❖ THE OBLIGATIONS OF TAX PAYER

- ✓ Any person who undertakes commercial or any other activity which is likely to bring about tax obligations has to register with the revenue service in the first 7 days of the activity or creation of affirm.
- ✓ The revenue service allocates tax identification numbers that are fixed by commissioner general to the people who are registered.
- ✓ All tax payers have to put their tax identification numbers on their tax returns, on all other documents provided for by this law and other commercial documents and other inquiries towards the revenue service.
- ✓ Subscribing within the tax system conditions
- ✓ If two or more persons are jointly carrying out a profit making activity without a legal partnership, they have to register in the name of the person who hold the majority of shares and whose name appears in the trade register.
- ✓ If a tax payer is carrying out similar taxable activities in one or many areas, he /she have to combine and register them as one taxable unit.
- ✓ When registering a tax payer one has to indicate all types of tax he/she owes to the revenue service.
- ✓ The revenue service can register any supplier of taxable goods or services who did not register voluntarily
- ✓ Certificate of registration in the trade register
- ✓ A document showing all types of taxes him /she owes.
- ✓ His /her identification document.
- ✓ Sanctions or penalties in case of not subscribing

- ✓ A tax payer or any other natural person or legal entity, which carries out a commercial activity, is charged a fine of 100,000F to 300,000F, if he /she is not registered within the revenue service.
- ✓ All books and documents have to be kept in the premises of the taxpayer or in another fit place located in Rwanda for a period of at least ten years.

❖ INTRODUCTION ON MAJOR CATEGORIES OF TAX IN RWANDA

Governments impose many types of taxes .Individuals pay income tax when they earn, they pay consumption tax when they spend, and pay property taxes for houses or land that they own. These and all other taxes can be put into various categories depending on: **Tax rate and tax incidence.**

- ✓ **Types of taxes according to tax rate**

Under the tax rate classification, we have:

- **Progressive taxes:** a tax is progressive if the tax rate increases as the income increases. For example, a person earning 50,000F= paying 10% and the person earning 100,000F = paying 15%.
- **Regressive taxes:** a tax is regressive if the tax rate reduces with the increase in levels of income. As income increase the tax rate decreases. Example, a person earning 100,000F = pays 10% of his income and a person earning 200,000F = pays 5%.
- **Proportional taxes:** proportional taxes are also called flat taxes. The tax rate is constant for all levels of income .People of low income and people of high income pay taxes at the same rate. If for example, the tax is set at 20%, all tax payers irrespective of their income levels pay 20% of their income as a tax. This does not mean that they pay the same amount but rather they pay the same rate.

- ✓ **Types of taxes by incidence**

According to the incidence, Taxes are classified into **Direct** and **indirect taxes** include all different types of **taxes** levied by the government.

- **Direct taxes:** include the **taxes** that cannot be transferred or shifted to another person. An individual pays directly to the government. For instance:

- -The income tax: a tax levied on people whose income is above a certain level. For people with permanent jobs in companies and government offices, the tax is usually deducted from their salaries through Pay As You Earn (PAYE) arrangement.
- property tax: tax levied on an individual ‘s wealth .The value of the person,s assets, both financial assets (such as stocks and bonds) and real assets (such as houses and cars) is considered.
- -Estate tax /death duty: when a person dies, the property that he or she leaves behind to others may be subjected to tax.
- -Inheritance tax: this is a tax levied on the value of deceased person’s estate after the estate is passed to heirs. The heirs of the deceased person’s property pay the tax. Estate tax (death duty), gift tax, supper profits tax, inheritance tax, corporation /company tax. Estate and inheritance taxes are sometimes collectively called death taxes.
- -Gift tax: a gift tax is a tax levied on the transfer of property between livings people .It is imposed on the person who receives the gift.
- -Capital levy: a special tax levied on the rich to finance emergencies like wars, famine, floods and earthquakes.
- -Land tax: tax on land intended to target the big land owners who at times rent it out to farmers/tenants. It is intended to reduce monopoly of land by few landlords.
- -Capital gain tax: is a tax levied on the profit realized upon the sale of a capital asset
- -Super profit: the tax is based on the profits that a company has earned above a certain level.
- -Surtax: tax on people with exceedingly high incomes.
- -Poll tax: also called a per capita tax, or capitation tax. It is imposed as a set amount per individual within a country.
- -Corporation tax / company tax: is a tax based on the profits of a company. This income is taxed once when it is earned by the corporation and is again taxed a second time when it is paid out to shareholders in the forms

of dividends. Thus company income faces a higher tax burden than personal income.

- **Advantages of direct taxes**

- Cheap to collect
- Convenient to pay because they are spread over a long period
- Direct taxes are flexible and are easily increased and decreased
- They are simple to understand
- Most direct taxes are progressive since the rich people pay taxes at higher rate than the rates at which the poor people pay.
- More certain in terms of revenue to be collected
- Those considered unable to pay like the old, sick and unemployed, young, students and prisoners are easily exempted from the tax.
- Direct taxes do not directly affect commodity prices ,therefore are not inflationary
- Direct taxes are very effective at redistributing national income among the population.

- **Disadvantages of direct taxes**

- In the developing countries with high levels of unemployment and a large subsistence sector, income are very low and so the revenue that is generated from direct taxes is always very low.
- Costs of assessment and collection are high when the tax payers are scattered in different locations. The assessors must go to the people to assess and collect the tax hence raising the costs and making them less economical
- It is difficult to measure the taxable capacity of the people to determine how much income tax they have to pay. This leads to either over taxation or under taxation.
- Direct taxes negatively affect the rate of capital inflow because foreign investors will be scared of taxes.
- Most direct taxes are collected by local chiefs and leaders who lack competence to assess and collect taxes.
- Disincentive to work and entrepreneurship .Innovation and invention is discouraged , as people fear to undertake new projects for fear of taxation.

- Direct taxes are easy to evade .people cannot conceal their income, others get income from other sources and yet others are not resident in a single place. This makes assessment and collection complicated making it easy for some people to evade the taxes.
- Narrow coverage and hence low revenue. Many people do not qualify to pay taxes due to low income and other considerations like old age, disability and unemployment.
- Direct taxes on incomes discourage work as people would now prefer to enjoy more leisure than do more work that is taxed.
- Direct taxes on company profits may be translated into lower wages and less benefits for workers' standard of living, morale and output of the taxed firm.
- High direct taxes scare away foreign experts from working within the country and also cause "Brain drain "of highly skilled and scarce labor –force.

Indirect taxes

Are basically taxes that can be passed on to another entity or individual. It is usually imposed on a manufacturer or supplier who then passes on the tax to the consumer.

Example of Indirect Taxes

- The most common example of indirect tax is the excise tax on cigarettes and alcohol.
- Value Added Tax (VAT) is also an example of an indirect tax.
- Sales tax: Goods such as household items, clothing, and other basic commodities final **sale price** is padded with a sales tax that the store collects and pays to the government.
- Excise tax is any duty on manufactured goods which is levied at the moment of manufacture rather than at sale. Though a part of the normal course of business, the manufacturer can pass on the burden to the consumers by selling the cigarettes at a higher price.
- Customs tax: the importer pays indirect tax (customs tax), which he then passes on to the consumers.
- Turnover tax

Advantages /Merits of Indirect Taxes

- Indirect taxes are convenient to pay as they are paid together with the price of commodities in instalment when buying the commodity instead of lump sum and the tax payer or consumers do not feel the direct burden of these taxes.
- There is less tax evasion with indirect tax since they are included in the price of commodities
- Indirect taxes cover a wide range of taxable items and therefore raise more revenue. They even cover groups exempted from paying direct taxes.
- Indirect taxes can be used to control the production and the consumption of harmful goods like cigarettes ,alcohol by increasing indirect taxes like VAT on such goods.
- They are flexible ;they can be adjusted either downwards or upwards(increasing them)depending on the economic conditions prevailing in the country.
- Indirect taxes in particular import duties also constitute a powerful tool of economic protection for domestic industries against competition from foreign producers and dumping .This is possible when import duties are increased ,making import more expensive than the local produced goods.

Disadvantages/Demerits of indirect taxes

- Indirect taxes are regressive in nature and therefore don't satisfy the principle of equity since the rich and the poor pay the same amount of taxes on the same essential goods consumed. The burden of tax or sacrifice is therefore heavier on the poor/low income groups
- Indirect taxes are inflationary in nature as they increase prices of goods and services hence increasing costs of production ,costs of living ,therefore leading to demand for higher wages .This in turn causes cost –push and wage –push inflation .
- Some indirect taxes are difficult to understand to both the seller and the consumers for example VAT and hence can cause political unrest

- Consumers may be exploited by charging excessively higher prices in the pretext of high production cost caused by indirect taxes .

❖ **FUNCTIONS OF TAX**

There are three main functions that a tax fulfils:

- ✓ **Financial function of a tax**: the main function of a tax is to finance the government's expenditure
- ✓ **The social function**: taxes enable the government to redistribute the national income. Taxes are therefore an instrument for social solidarity.
- ✓ **Economic function:** taxes permit the government to regulate the economic activities in a country. Taxes can be used for example to regulate the inflation, as incentive for investment or for discouraging certain behavior (like drinking and smoking).

❖ **DIFFERENT TAXES COLLECTED IN RWANDA**

In Rwanda there are taxes collected by the government and those collected by the district.

✓ **Taxes collected by the Government**

Taxes that are collected by the government are:

- **Value Added Tax(VAT)**
- **Direct taxes on Income:**
  - **Personal Income Tax:**
    - Interest income
    - Dividend income
    - Royalty income
    - Rental income
  - **Corporate Income tax**
  - **Withholding taxes**
    - Pay As you Earn (PAYE

- Withholding tax on imports and public tenders
- Withholding tax on other payments
  - Dividends
  - Interests
  - Royalties
  - Service fees including management and technical service fees
  - Performance payments made to an artist , a musician or an athlete irrespective of whether paid directly or through an entity that is not resident in Rwanda
  - Lottery and other gambling proceed
- **Property tax**
  - Property tax on boats(4^{th} base)

    (Other bases have been decentralized to the districts; the 5^{th} base and 3^{rd} base were abrogated).
- **Registration fees for vehicles**
- **Consumption taxes**
- **Import duties**

✓ **Taxes collected by the districts**

The following taxes have been decentralized to the districts:

- Property tax:
  - occupied registered houses
  - registered and unregistered land that is not developed
  - mineral concessions
- Taxes on rental revenues
- Trading license tax (Patente)

1.Personal income tax

Tax paid on one's personal income as distinct from the tax paid on the firm's earnings. In an incorporated firm, the owners (shareholders) pay taxes on both their income (salary or dividend from the firm) firm's income (profits). In partnerships and sole-ownerships, the tax is paid only once on the firm's profits.

Monthly Deductions

Tax Bands Tax Rate

Frw 0-30,000 0%

Frw 30,001-100,000 20%

Frw >100,000 30%

Annual Deductions

Tax Bands Tax Rate

Frw 0-360,000 0%

Frw 360,001-1,200,000 20%

Frw >1,200,000 30%

- ✓ The employer is personally responsible for the correct withholding, declaration and the timely payment to the Rwanda Revenue Authority.
- ✓ The employer is personally responsible for keeping proper books of account to prove that the tax has been correctly withheld, paid, and accounted for. Under those circumstances where, the employer is not required to withhold and pay the tax, the employee is responsible for registering, declaring, accounting, and paying the tax.
- ✓ An employer who is not the first employer of an employee must withhold PAYE at the marginal top tax rate of 30%. An individual who receives employment income from more than one employer or who receives incidental employment income such as end of year bonus may file an annual declaration if he wants to claim a tax refund. Only amounts in excess of FRW 5,000 are refunded.
- ✓ An employee who works for more than one employer is obliged to inform his/her employers specifying which one is his/her first employer. The employer is obliged to ask the employee and confirm that he/she is the first employer.

2. Property Taxes

Property tax is the annual amount paid by a land owner to the local government or the municipal corporation of his area. The property includes all tangible real estate property, his house, office building and the property he has rented to others.

Who has to pay?

The following persons have to pay fixed asset tax if they have the land title deed:

- ✓ the owner of fixed asset;
- ✓ the holder of the fixed asset whose the legal owner is unknown for a period of at least 2 years;
- ✓ the holder of fixed asset if the freehold land title is not yet registered in the name of the owner;
- ✓ the proxy who represents the owner who lives abroad;
- ✓ A usufructuary.

Fixed asset tax base

The tax is to be paid on the market value of the fixed asset. The fixed asset includes land, buildings and improvements made on the fixed asset.

Tariff or tax rate

The tax rate is fixed at 1/1000 of the taxable value per year.

Exemptions

The following fixed assets are exempted from the fixed asset tax if they are not used for profit - making activities:

- ✓ fixed assets used for medical purposes, vulnerable groups, educational and sporting activities;
- ✓ fixed assets intended for research activities;
- ✓ fixed assets belonging to the Government, Provinces, decentralized entities;
- ✓ fixed assets used for religious activities;

- ✓ fixed assets used for charitable activities;
- ✓ fixed assets belonging to foreign diplomatic missions in Rwanda if their respective countries do the same for Rwanda;
- ✓ land in use for agriculture, livestock or forestry if is not more than 2 hectares. If this land is more than 2 hectares, the tax is imposed only on the excess land;
- ✓ fixed assets used for residential purposes, if the assessed value does not exceed 3,000,000Rwf. If the assessed value exceeds such amount, only the excess value is taxed..

Practical examples

Example 1.

Mr Bob is living in Nyarugenge district and he owns the following fixed asset for which he obtained the freehold land title in 2010:

- ✓ A parcel of land in Gasabo district of 1 hectare on which he plans to build his hotel. The square meter is valuated at 5,000 Rwf at 1st January 2011;
- ✓ Commercial house in Nyarugenge district valuated at 200,000,000 Rwf at 1st January 2011;
- ✓ Residential house in Nyarugenge district purchased in 12/ 2010 at 100,000,000 Rwf

Required:

- ✓ Calculate the total fixed asset tax to be paid by Mr Bob for 2011;
- ✓ Indicate the deadline of tax declaration and payment;
- ✓ Determine the fixed asset tax belongs to each decentralised entity.

Calculation of total fixed asset tax for Mr Bob, 2011

Fixed asset	**Fixed asset tax base**	**Fixed asset tax**
Parcel of land	1 hectare = 10,000 square meter 10,000 * 5,000 Rwf = 50,000,000 Rwf	50,000,000*1/1000 = 50,000 Rwf
Commercial house	200,000,000 Rwf	200,000,000*1/1000= 200,000 Rwf
Residential	100,000,000Rwf - 3,000,000Rwf = 97,000,000	97,000,000*1/1000 = 97,000

house	Rwf	Rwf
		347,000 Rwf

Deadline of tax declaration and payment : 31/03/2011.

Fixed asset tax for Gasabo district : 50,000 Rwf.

Fixed asset tax for Nyarugenge district : 200,000 Rwf + 97,000 Rwf = 297,000 Rwf

3. Corporate Income Tax .

It is hereby-established a "corporate income tax" levied on business profits received by entities.

Taxpayers

The following entities shall be subject to corporate income tax:

1° companies established in accordance with Rwandan law or foreign law;

2° cooperative societies and their branches;

3° public business enterprises;

4° partnerships;

5° entities established by Districts, Towns and Municipalities and the City of Kigali, to the extent that these entities conduct business;

6° de facto companies or associations and any other entities that perform business activities, and are established to realize profits.

Exemption From Corporate Income Tax

The Government of Rwanda and the following entities are exempted from corporate income tax:

1° the City of Kigali, Districts, Towns and

Municipalities;

2° the National Bank of Rwanda;

3° entities that carry on only activities of a religious, humanitarian, charitable, scientific or educational character, unless the revenue received during a tax period exceeds the corresponding expenses to the extent that those entities conduct a business;

4° international organizations, agencies of technical cooperation and their representatives, if such exemption is provided for by international agreements;

5° qualified pension funds;

6° the Rwanda Social Security Fund;

7° the Rwanda Development Bank;

Tax Rate

Taxable Business profit is taxed at a rate of thirty percent (30%).Newly listed companies on capital market shall be taxed for a period of 5 years on the following rates:

1º 20% if those companies they sell at least 40% of their shares to the public;

2º 25% if those companies sell at least 30% of their shares to the public;

3º 28% if those companies sell at least 20% of their shares to the public.

Venture capital companies registered with the capital markets Authority in Rwanda benefit from a corporate income tax of zero percent (0%) for a period of five (5) years from the date the decision has been taken.

However, a registered investment entity that operates in a Free Trade Zone or foreign companies that have its headquarters in Rwanda that fulfill the requirements stipulated in the Rwandan Law on Investment Promotion are entitled to:

1° pay corporate income tax at the rate of zero per cent (0%);

2° exemption from withholding tax mentioned in Article 51 of the Law nº 16/2005 of 18/08/2005 on direct taxes on income;

3° tax free repatriation of profit.

If a taxpayer exports commodities or services that bring to the country between three million (3,000,000) US dollars and five million (5,000,000) US dollars in a tax period, he or she is entitled to a tax discount of three percent (3%).

If he or she exports commodities or services that bring to the country more than five million (5,000,000) US dollars in a tax period, he or she is entitled to a tax discount of five percent (5%).

Companies that carry out micro finance activities approved by competent authorities pay corporate income tax at the rate of zero percent (0%) for a period of five (5) years from the time of the approval of the activity.

However, this period may be renewed by the order of the Minister.

Tax Declaration

According to article 43 of Income Tax Law No 16/2005; "A taxpayer who receives taxable business profit prepares an annual tax declaration in accordance with the form determined by the tax administration and presents it, at the same time, with the accounting balance sheet, profit and loss statement for the tax period, the annexes thereto, as well as any other relevant document required by the Tax Administration, not later than 31st March of the following tax period"

4. Rental Income Tax

The rental income tax is paid by any individual who earns income from renting out the fixed assets located in Rwanda, including land, buildings and improvements.

Rental income tax base

The rental income tax is charged on the total amount of rental income earned during the previous tax year.

Tariff or tax rate

The rental income tax is calculated progressively by revenues brackets as follows:

- 0% on the bracket lower than 180,000 Rwf ;
- 20% from 180,001 Rwf to 1,000,000 Rwf ;
- 30% above 1,000,000 Rwf.

Points to note

The taxable income is obtained in one of 2 ways:

- Deducting from the gross rental income 50% considered as the expenses incurred by the taxpayer;
- Deducting from gross rental income 30% considered as the expenses incurred plus bank interest paid if the tax payer has proof of paying bank interest on the rented fixed asset during the tax year.
- The copy of the rental contract has to be submitted to the decentralized entity where the asset is located within a period not exceeding fifteen days (15) following the date the contract was signed.
- When a rental contract is expired or is amended, the taxpayer has to notify the decentralized entity within thirty (30) after the contract is terminated or amended

Practical examples

Example

1. Paul owns 3 houses located at Kicukiro district. For the year 2011, he received rental income of 12,000,000 Rwf for each house.

Required:

- Calculate the tax on rent payable for the revenues received in year 2011;
- Indicate the deadline of the tax declaration and payment.

Calculation of taxable net income:

Total taxable income: (12,000,000 Rwf* 3) = 36,000,000 Rwf

Taxable net income: 36,000,000 Rwf - (36,000,000*50%) = 18,000,000 Rwf

Calculation of tax:

- 0% on the bracket lower than 180,000 Rwf = 180,000*0% = 0 Rwf
- 20% between 180,001 Rwf and 1,000,000 Rwf = 820,000*20% = 164,000 Rwf
- 30% above 1,000,000 Rwf = 17,000,000*30% = 5,100,000 Rwf

Total tax payable………………………………… ....5,264,000 Rwf.

This tax must be declared and paid not later than 31 March 2012.

5. Value Added Tax (VAT)

What is VAT?

VAT is a tax on the consumption of goods and services. It is indirectly paid by the final consumer of the goods or service. However, it is paid on their behalf by taxpayers on the value added at each stage of production.

VAT registered taxpayers are required to have at least one Electronic Billing Machine (EBM) at each of their sales locations, and use these to provide EBM invoices for all sales transactions.

Who must register for VAT?

A taxpayer must register for VAT if their turnover is above FRW 20,000,000 for any twelve month period, or above FRW 5,000,000 for three consecutive quarters.

What are the obligations of VAT registered taxpayers?

VAT registered taxpayers must:

- Display clearly the VAT registration certificate in plain view at the place of business,
- Use an Electronic Billing Machine (EBM) to issue VAT invoices.
- Issue an EBM invoice to all customers with every transaction.
- Submit a monthly or quarterly VAT declaration within fifteen days after the end of the tax period.
- Be available at all times to receive RRA officers and to make available books of accounts.

What is the tax rate of VAT?

The normal rate of VAT is 18%. There is also a zero-rate (0%) and exemptions applicable for certain types of goods and services

Who pays VAT?

VAT is indirectly paid by the final consumer of the goods or service. However, taxpayers pay on their behalf on the value added at each stage of production.

This means that taxpayers charge VAT on their sales, output VAT, whilst claiming back VAT paid on their inputs, input VAT. The amount each taxpayer pays is therefore equal to output VAT minus input VAT.

Illustration :

Supplier

•Sells product for VAT exclusive price of FRW 1,000.

•Frw 0 Input VAT. FRW 1,000 * 18% = 180 Output VAT.

•Declares and pays VAT of Frw 180 - Frw 0 = Frw 180.

⇩

Manufacturer

•Sells product for VAT exclusive price of FRW 3,500.

•FRW 180 Input VAT. FRW 3,500 * 18% = 630 Output VAT.

•Declares and pays VAT of FRW 630 - FRW 180 = FRW 450.

⇩

Retailer

•Sells product for VAT exclusive price of FRW 5,000.

•FRW 630 Input VAT. FRW 5,000 * 18% = 900 Output VAT.

•Declares and pays VAT of FRW 900 - FRW 630 = FRW 270.

⇩

Consumer

•Buys product for VAT inclusive price of FRW 5,900.

•Does not declare, but pays VAT indirectly because VAT was paid on their behalf at each stage of production.

What do VAT inclusive and VAT exclusive prices mean?

The VAT inclusive price means the price of the goods or service including VAT.

The VAT exclusive price means the price of the goods or service that is not the final cost, to which VAT has not yet been added.

Goods and services supplied by VAT registered taxpayers must always be sold at the VAT inclusive price. However, when completing the VAT declaration form, the total VAT exclusive price of all sales is entered.

The invoice supplied to the customer must show the VAT exclusive price, amount of VAT and VAT inclusive price.

Which goods and services are taxable for VAT?

All goods and services supplied in Rwanda are considered taxable unless they are zero-rated or exempt.

Services are considered to be supplied in Rwanda if the services provider:

- Has their headquarters in Rwanda.
- Is usually resident in Rwanda.
- Or if the recipient of the services benefits from it within Rwanda

Which goods and services are zero-rated for VAT?

Zero-rated for VAT purposes means that no output VAT is charged on the goods or services.

The list of zero-rated goods and services, detailed in Article 5 of Law N°37/2012 of 09/11/2012, includes:

- Exported goods and services
- Goods and services intended for diplomats accredited to Rwanda that are used in their diplomatic missions provided those countries give the same privileges to Rwandan diplomats
- Goods and services intended for international organisations that have signed agreements with Rwanda
- Goods and services intended for projects funded by partners that have signed agreements with the Government of Rwanda.

Which goods and services are exempted for VAT?

Exempt for VAT purposes means that no output VAT is charged on the goods or services, and no input VAT can be claimed.

The list of exempt goods and services, detailed in Article 6 of Law N°37/2012 of 09/11/2012, includes:

- Goods and services related to health purposes
- Educational materials and services
- Books, newspapers and magazines
- Transportation services

Financial and insurance services - Energy supply equipment - Unprocessed agricultural and livestock products - Locally processed milk - Industrial machinery - Mobile telephones and SIM cards.

If it is not possible to distinguish whether the VAT paid on inputs directly, or indirectly, contributed to taxable sales or exempted sales, then the allowable input VAT can be equal to the ratio of taxable (or zero-rated) sales to total sales multiplied by the total input VAT.

What is a VAT refund?

It is possible for the final VAT due of a taxpayer to be negative.

In this case, the taxpayer is due a VAT refund.

There is no further action required of the taxpayer. If the VAT refund claimed is a small amount relative to the size of the business, as decided by RRA, this will be carried forward and will automatically be used to offset against future VAT payments.

If the VAT refund claimed is a large amount relative to the size of the business, as decided by RRA, RRA will audit the refund and may contact the taxpayer for further evidence. If the refund is correct and accurate, RRA will contact the taxpayer and provide a bank cheque for the refund amount.

When is the deadline to declare and pay VAT?

VAT is declared and paid on a monthly basis. Alternatively, taxpayers with annual turnover below FRW 200,000,000 may request to declare on a quarterly basis.

Whether monthly or quarterly, the VAT declaration must be submitted and paid by the 15th of the month following the end of the tax period.

This means that monthly declarations concerning the tax period between March 1st and March 31st must be declared to RRA and paid by April 15th. Then declarations concerning the tax period between April 1st and April 30th.must be declared to RRA and paid by May 15th and so on throughout the year.

The quarters for taxpayers declaring VAT on a quarterly basis concern the tax period between: - March 1st to May 31st must be declared and paid by 15th June. - June 1st to August 31st must be declared and paid by 15th September. - September 1st to November 30th must be declared and paid by 15th December. - December 1st to February 28th (or 29th if a leap year), must be declared and paid by 15th March.

6. Trading license (Patent) tax rate

What is Trading License Tax?

Trading License Tax, also known as 'patente', is a tax levied on any person or business conducting profit oriented activities. Trading License Tax must be declared and paid for each business branch or premises.

How many times must Trading License Tax be paid by the same taxpayer?

Trading License Tax is based on the locations of the profit oriented activities. If a taxpayer has multiple business branches, even of the same business, Trading License Tax must be paid for each of the branches.

This principle also applies to motor vehicles, including motorcycles, and motorboats. If a taxpayer has multiple motor vehicles and motorboats used for profit oriented activities, Trading License Tax must be paid for each.

On the other hand, if a taxpayer carries out multiple activities by the same company at the same premises, Trading License Tax is only paid once for that premises.

Tariff or tax rate

For taxpayer registered for VAT, the trading license tax is based to their respective turnovers of the previous year, as follows:

Turnover	**Tax due in Rwf**
From 1 to 40,0000,000	60,000
From 40, 000, 001 to 150,000,000	90,000
From 150,000,000	150,000
Above 150,000,000	250,000

For others not registered for VAT, the trading license tax depends on the type of activity and location, as shown in the table below:

Type of activity	**Rural area Rwf**	**Town area Rwf**	**City Kigali**
A)-Vendors without shops, -small scale technicians who do not use machines -sewing machines	4,000	6000	8,000
B)transporters of people and goods on motocycles	4,000	6,000	8,000
C)traders and technicians who uses machines	20,000	30,000	40,000
D) all other vehicles besides bicycles	40,000 on each vehicle	40,000 on each vehicle	40,000 on each vehicle
E) For transport activities by motor boat	20,000 on each boat	20,000 on each boat	20,000 on each boat
F)other profit oriented activities	20,000	30,000	40,000

Exemptions

The government entities are exempted from trading license

Points to note

1. If a taxpayer operates branches offices, the trading license tax is declared and paid for the head office as well as for each branch;
2. When several activities are carried out by the same company or an individual in the same premises, only one trading license tax is declared and paid;
3. The trading license tax certificate must be displayed clearly at the entrance of the business premises or affixed to the car or boat or any other vehicle for which the tax was paid.
4. In case the taxpayer stops his activities during the taxable year, and if the trading license was paid, he must be refunded depending on the remaining months including the one in which the activities started until the end of taxable year.

5. For the taxpayer conducting seasonal or periodic activities, the trading license tax must be paid for a whole tax year.

Practical examples

Suppose Bank of Kigali has, a part of its head quarters, six (6) branches in Nyarugenge district ,Five(5) branches in Kicukiro district and four branches in Gasabo district. The following additional information is relevant:

The turnover of Bank of Kigali for the year 2011, according to the information provided by RRA, is 6,000,000,000Rw

Total trading license tax for Bank of Kigali and for each district

Decentralized entity	Trading license tax base	Tariff	Trading tax payable
Bank of Kigali	6,000,000,000	250,000	250,000
Nyarugenge district(6branches)	400,000,000	250,000	(250,000 *6)=1,500,000
Kicukiro district (5 branches)	400,000,000	250,000	(250,000 *5)=1,250,000
Gasabo district(4 branches)	400,000,000	250,000	(250,000 *4)=1,000,000

Findings:

Total trading license tax to be paid by bank of Kigali=250,000+1,500,000+1,250,000+1,000,000=4,000,000Rwf

Tax declaration

It is submitted to the concerned entity not later than 31March of the tax year .If the activity starts after 31 March of the tax year, the tax declaration is filed within 30 business day of the commencement of the activity.

The tax declaration form must be signed by the taxpayer.

Note: A tax declaration is required in respect of every premise where a business is carried on except the premises used for storage.

Tax payment

For existing activities or when they start before 31st March of the tax year,the tax must be paid not later than 31st March of the tax year.

In case the activities begin after 31st March, the tax must be paid within 30 business days.

Interest and fines

- In case of absence ,late submission ,or incomplete or misleading tax declaration :

  10% of the tax due,if the delay is less than one month

  20% of the tax due ,if the delay is not more than two months

  30% of tax due ,in case the delay is not more than three months

  In case of incomplete ,incorrect or fraudulent information with an intention of evading tax ,the offender is subjected to a fine of 20% of tax due for on year when it is the first time and 40% if the offense is repeated.

- In case of tax late payments(Law no 59/2011,article 25):

  Interest of 1.5% per month calculated from the date the taxes are due up to the date they are paid.

  Surcharge of 10% of the tax due.However , such a surcharge must not exceed an amout of 100,000Rwf.

  If a taxpayer fails to present the trading license tax certificate is punished by an administrative fine of 10,000Rwf;

  If a trading license tax certificate is lost or damaged, a duplicate shall be issues by the concerned decentralized entity for a fee not exceeding 5,000Rwf.

7. Registration fees for imported and already registered vehicles in Rwanda

7.1.Registration fees for imported motor vehicles

Registration fees for imported vehicles are determined based on engine capacity.below are the fees.

Engine power(CC)		Fees (Rwf)
Between	And	
0	1000	75000
1001	1500	160,000
1501	3000	250,000
3001	4500	450,000
4501	And above	560,000
Special vehicles		640,000

7.2.Registration fees for a motor vehicle already registered in Rwanda

- ✓ Registration fees for a motor vehicle already registered in Rwanda is equivalent to an amount paid on property tax and rent on number plate in 2009.This amount is multiplied by coefficient based on date when a motor vehicle entered into Rwanda.
- ✓ For motor vehicles imported before and during the year 2006, the amount is multiplied by one
- ✓ For motor vehicles imported from 2007 to 2008,the amount is multiplied by two
- ✓ For motor vehicles imported in 2009,the amount is multiplied by three.

7.3.Registration fees for personalized motor vehicles number plates

For motor vehicles with personalized number plates registration fees is fixed at two million Rwandan francs (2,000,000Rwf).

7.4.Consumption taxes

Excise duties are charged on certain goods, imported as well as locally manufactured. The tariffs are as follows:

Products	**Tax rates**
Fruit juices	5%
Lemonade ,soda and juices	39%
Mineral water	10%
Beer	60%
Wine	70%
Brandies,liquors and whiskey	70%
Cigarettes	36% of the retail price and rwf30 per pack of20 cigarettes
Premium oil (excluding benzene)	Rwf183 per litre
Gas oil	Rwf 150 per litre
Lubricants	37%
Vehicles with an engine capacity of less than 1500cc	5%
Vehicles with an engine capacity of between 1500cc and 2500cc	10%
Vehicles with an engine capacity of more than 2500cc	15%
Powdered milk	10%
Telephone communications	10%

7.5.Customs duties

What are Customs Duties?

Customs duties are defined as all taxes, duties, levies and fees that are required to be paid to RRA on imported or exported goods.

Therefore, customs duties include:

- Taxes paid on imports that are also paid on domestic goods

- Taxes that are specifically paid on exports o Export Duty on Raw Hides and Skins

- Small fees on imports and exports

Customs duties ensure that local and foreign business can compete fairly, by ensuring a level playing field (VAT and Excise Duty), encouraging intra-regional trade (Import Duty), ensuring compliance of Income Tax (WHT 5%), funding beneficial projects (IDL, SRL and AUL) and supporting domestic manufacturing industries.

L O 1.2: Timely respect tax payment period with a view to avoiding penalties for late declaration and payment

- ❖ **INTEREST AND FINES**
  - ✓ **Interest**

In the event the taxpayer fails to pay tax within the period set, he or she is required to pay interest on the amount of tax.

The interest rate is fixed at the interbank offered rate of the National Bank of Rwanda increased by two (2) percent and which is set every year on January 1st. Interest is calculated on a monthly basis, non-compounding, counting from the first day after the tax should have been paid until the day of payment, which is included. Every month started will count for a complete month.

Interest shall always be payable, even when the taxpayer has started an administrative appeal or a judicial appeal against the assessment.

Interest accrues cannot exceed one hundred percent (100%) of the amount of tax.

When the taxpayer pays, the payment is used in paying taxes by deducting interest, penalties and tax liability.

- ✓ **Fines**

Fixed amount fines

A taxpayer or any person is subject to a fine if he or she fails to:

1° file a tax declaration on time;

2° file a withholding declaration on time;

3° withhold tax;

4° provide proofs required by the Tax Administration;

5° cooperate with a tax audit;

6° communicate on time the capacity or appointment he or she has been given

9° pay on time the profit tax advance.

Fines related to violations of provisions of paragraph one of this article are set as follows:

1° one hundred thousand (100,000) Rwanda francs if the taxpayer's annual turnover is equal to or less than twenty million (20,000,000) RWF;

or 2° three hundred thousand (300,000) Rwanda francs if the taxpayer's annual turnover exceeds twenty million

(20,000,000) Rwanda francs; or

3° five hundred thousand (500,000) Rwanda francs if the taxpayer was informed by the Tax Administration that he or she is in a large taxpayer category.

In case the same violation is committed twice within five (5) years, the fine is twice the original fine. In case the same violation is committed again within such five (5) years, the fine is four times the original fine.

- ✓ **Late payment fine**

If the amount of tax shown on a tax declaration or the amount of tax which is the result of an adjusted assessment by the Tax Administration is not paid in time, the taxpayer is subject to a fine of ten percent (10%) of the tax payable.

- ✓ **Understatement of tax fine**

If the amount of tax shown on a tax declaration understates the amount of tax required to be shown as a consequence of an audit or investigation by the Tax Administration, the taxpayer is subject to the following fine:

1° ten percent (10%) of the amount of the understatement if the understatement is equal to or more than five percent (5%) but less than twenty percent (20 %) of the tax liability he or she ought to have paid;

2° fifty percent (50%) of the amount of the understatement if the understatement is twenty percent (20%) or more but less than fifty percent (50%) of the tax liability he or she ought to have paid;

3° one hundred percent (100%) of the amount of the understatement if the understatement is fifty percent (50%) or more of the tax liability he or she ought to have paid;

The taxpayer, who rectifies his or her tax declaration before he or she is notified of imminent control of his or her declaration, shall not be subject to the fine mentioned in paragaraph one of this article.

- ✓ **Value Added Tax violations**

The following administrative fines are imposed to persons who do not comply with provisions of Value Added Tax: 1° in the event of operation without VAT registration where VAT registration is required, fifty percent (50%) of the amount of VAT payable for the entire period of operation without VAT registration;

2° in the event of the incorrect issuance of a VAT invoice resulting in a decrease in the amount of VAT payable or in an increase of the VAT input credit or in the event of the failure to issue a

VAT invoice, one hundred percent (100%) of the amount of VAT for the invoice or on the transaction;

3° for issuing of a VAT invoice by a person who is not registered for VAT is assessed a penalty of one hundred fifty percent (150%) of the VAT which is indicated in that VAT invoice and is due to pay the VAT as indicated on that VAT invoice.

- ✓ **Tax fraud**

A taxpayer who commits fraud is subject to an administrative fine of two hundred percent (200%) of the evaded tax. With exception to that penalty, the Tax Administration refers the case to the Prosecution service if the taxpayer voluntarily evaded such tax, like use of false accounts, falsified documents or any other act punishable by law. In case of conviction, the taxpayer can be imprisoned for a period between six (6) months and two (2) years.

The Minister's order determines an award given to any person who denounces a taxpayer who engages in tax fraud.

Failure to pay tax withheld

In case a person intentionally fails to deliver the tax withheld to the Tax Administration, he or she is subject to a fine of two hundred percent (200%) of the unpaid tax. In addition, the Tax Administration refers the case to the Prosecution service. In case of conviction, the taxpayer can be imprisoned for a period between three (3) months and two (2) years.

LO1.3.Determine taxpayer band so as to pay the right amount of tax

See L.O.1.1.

LU 2: DECLARE A TAX

LO2.1: Establish taxation base in order to determine actual tax to be declared

- ❖ INTRODUCTION ON TAXATION COMPUTATION

Introduction **Tax declaration**

- ✓ **Tax declaration**

Not later than 31st January of the tax year, every taxpayer must file an official tax declaration to the decentralized entity where his/her activities are undertaken. If a taxpayer operates branch offices, tax declaration shall be required for the head office as well as for each branch. When several activities are carried out by the same company or a natural person in the same premises, only one trading license tax certificate shall be required.

The tax declaration shall show details of the taxable activities including the self-assessed tax due. The tax declaration must be personally signed by the person who will receive the trading certificate. In case of a corporate entity, the tax declaration shall be signed by its properly authorized representative.

i Description of data required for each categories of tax

- ➢ **Rental income tax**
- **Payment of rental income tax**

Rental income tax is charged on income generated by individuals from rented fixed assets located in Rwanda.

The natural person who receives such an income is the taxpayer. The income taxable year for calculating the tax starts on January 1st and end on December 31st of the previous year which shall be the income taxable year.

- **Taxable income**

Rental income tax is charged to the following:

1° income from rented buildings in all or part;

2° income from rented improvements in whole or in part;

3° any other activity to which rental income may be accrued

- **Tax computation method**

The taxable income is obtained by deducting from the gross rental income fifty percent (50 %) considered as the expenses incurred by the taxpayer on maintenance and upkeep of the rented property.

When the taxpayer produces the proof of bank interest payments on a loan for the construction or purchase of a rented property, the taxable income shall be determined by deducting from gross rental income thirty percent (30 %) considered as the expenses incurred plus actual bank interest paid from the beginning of the rental period

- **Tax rate**

1.Rwf 1 to Rwf 180,000 shall be taxed at zero percent (0 %);

2° Rwf 180,001 to Rwf 1,000,000 shall be taxed at twenty percent (20 %);

3° the bracket part of the annual income generated through rental of a building above Rwf 1,000,000 shall be taxed at thirty percent (30 %).

- **Tax declaration**

Any person who earns an income referred to in Article 49 of Rwanda tax Law must, on or before March 31st each year, file an official tax declaration as provided for by laws

- **Centralized Tax Structure**

Taxes are levied by government and include among others the followings:

- Income tax
- Corporate tax
- Vat tax
- Registration tax
- Motor vehicle tax

- **PROBLEMS RAISED BY THE TAX APPLICATION**
  - ✓ **Tax pressure**

By definition, tax pressure is the financial difficult that a company may face because of taxes it must pay.

- ✓ **Tax evasion**

Tax evasion is when a person refuses or fails to pay the tax usually by selling goods in hiding so that tax collectors do not know. This is illegal and when found out, the business person is charged for breaking law. People who have not paid taxes that they are expected to pay are called "**tax defaulters** ".

- ✓ **Tax avoidance**

Is when a business person does not pay tax because he/she has avoided the product or the activity on which the tax is imposed. The business person has avoided the tax, but it is not illegal. Tax avoidance is also called "**tax minimization**". Tax avoidance is legal logical arrangement of one‟s affairs so that full advantage is taken of all favorable terms and allowances avoidable in tax act and by doing so the tax finally payable is less than it otherwise would be.

- ✓ **Double taxation**

There is double taxation, when a tax is imposed **twice** on the same source of earned income. It is to be noted that for double taxation to be considered, there must be: one and same taxpayer taxed twice; one and same income and within one and same fiscal year. For others, double taxation occurs because corporations are considered separate legal entities from their shareholders. As such, corporations pay taxes on their annual earning just as individuals do.

L O 2.2: Declare taxes in order to provide a report to revenue Authorities about taxpayer reliability

THE REASONS WHY THE GOVERNMENT OF RWANDA IMPOSES TAX

The Rwandan government imposes tax for:

- Ensuring the economic stability;
- Increasing the government revenue;
- Supporting the high employment level;
- Controlling inflation;
- Fair distribution of income;
- Protection policy;
- Optimum allocation of resources, and
- Restriction of consumption of certain commodities.

Note that the Rwandan taxes are collected by the tax administrators and their principal functions are: - To implement the tax rules and collecting the taxes; - To deposit the taxes to account of RRA opened in BNR.

TAX PRACTICED IN RWANDA

Under this chapter three kinds of taxes will be studied:
INCOME TAX

TAX ON IMMOVABLE

VAT

INCOME TAX

In Rwanda the income tax is established by the law no 16/2005 of 18/08/2005 on direct taxes on income. As far as Rwanda is concerned we have three kind of income tax.

- **Personal income tax**

- **Corporate income tax**
- **Rental income tax**

These income are also levied either on individual incomes or corporate income, by this we have individual and corporate income taxes. Consequently**individual income** is divided into three kind of income.

- Employment income
- Business profits
- Investment profits

As for corporate income tax as its name specified it is applied on business profit realized by companies.

2.1.1 GENERAL PRINCIPLE OF INCOME TAX

- Principle of residence
- Principle of non residence

PRINCIPLE OF RESIDENCE: An individual is considered as resident in Rwanda if he or she fulfills one of the following;

- Has permanent residence in Rwanda
- Has a habitual abode in Rwanda
- Is a Rwandan representing Rwanda abroad

An individual who stays in Rwanda for more than 183 days in any twelve months period either continuously or intermittently is resident in Rwanda for the tax period in which the 12 months period ends. Two conclusions come out from this. If taxpayer remains in Rwanda in more than 183 days during the same fiscal year he or she will considered resident in Rwanda for this fiscal year.

SOURCES OF INCOME

Income generating from services performed in Rwanda including income generated from employment

- Income generated from craft persons, musician or a player from his or her performance in Rwanda
- Income generated by a non-resident through a permanent establishment in Rwanda
- Income generated from sales of movable assets owned by permanent establishment in Rwanda

Income generated from sales of the following assets;

a) Immovable assets and accessories

b) Livestock and inventory generated from agriculture and forestry

c) Usufruct and other rights derived from an immovable if such assets is in Rwanda

- Dividends distributed by a resident company
- Profits shares distributed by a resident partnership
- Income generated from any other activities in Rwanda

TAXABLE INCOME

Employment income

Business profits

Investment income

Employment income includes all payments paid to an employee in cash or in kind.

EMPLOYMENT INCOME TAX (PAY AS YOU EARN) PAYE

Employment income includes all payments paid to an employee in cash or in kind.

TAX PAYER

The following persons are obliged to withhold and pay tax on employment income:
1° an individual or an entity that pays its employees in cash or benefits in kind
2° an entity that pays out pensions excluding pensions paid according to procedures of the State Social Security

Tax base:
Payment in cash;
1º wages, salary, leave pay, sick pay and medical allowance, payment in lieu of leave, fees, commissions, bonuses including gratuity and incentives;
2° allowances, including any cost of living, subsistence, rent, and entertainment or travel allowance;
3° any discharge or reimbursement of expenses incurred by the employee or an associate;
4° payments to the employee for to his or her acceptance to work in any conditions of employment;
5° payments for redundancy or loss or termination;
6° pension payments;
7° other payments made in respect of current, previous or future employment

TAX RATE

Monthly employment income which includes the amount an employee is paid on an extra ordinary basis as well as the bonus and the benefits he or she receives in kind is subject to tax in accordance with the rate as shown in the table below

0 to 30,000 = 0%
30,001 to 100,000= 20%
100,001 above = 30%
examples YUSUFU Kagina is a technician at Fit Metal Industries Limited, receiving a monthly salary of 500,000 RWf. He s also allowed a car and an accommodation by the company. How much will be deducted as PAYE from Yusufu's salary? Basic salary: 500,000RWF

Housing benefit: 500,000*20/100=100,000RWF /1mark

Transport benefit: 500,000*10/100=50,000 RWF /1mark

Gross salary/ taxable income: basic salary +allowances

Gross salary=500,000+150000

Gross salary= 650000RWF /1mark

PAYE:

0-30,000:0%= 30000*0/100=0

30,001-100000:20%= 70000*20/100=14000

100001 and above: 550000*30/100=165000

Total PAYE=0+14000+165000

Total PAYE=179000 RWF

- Annually employment income

Taxable income is rounded to the nearest thousand (1,000) Rwandan francs and taxed according to the Income (RWF)		Tax Rate
From	To	
0	360,000	0%
360,001	1,200,000	20%
1,200,001	and greater than	30

- **TAX DECLARATION AND PAYMENT**

As the tax on employment income are considered as withholding taxes, the employee is not compelled to draw up a declaration An employer must within fifteen (15) days following the end of each month:

1° file a tax declaration through procedures specified by the Commissioner General and transmit the tax withheld to the tax administration; and transmit to the employee a statement indicating his/her name, the amount and type of income and the amount of tax withheld and paid.
An employer who is not the first employer of a taxpayer is required to withhold tax at market at the top marginal rate. If the employee receives the same employment income from more than one employer, he or she may choose which employer shall be his or her first employer.

THE INCOME TAX ON BUSINESS

Business profit is determined as the income from all business activities reduced by all business expenses. Business profit also includes proceeds of sale of any business asset and liquidation proceeds received during the tax period.

TAXPAYER

The taxable taxpayer to income tax of business profits are physical person who carries on lucrative activities on a purely personal basis.
In other word these people should not have formed a commercial company nor be under subordination to their contracting parties.
In the contrary case the corresponding taxes would be the corporate income tax and employment income tax.
Therefore thetaxpayers aimed are generally tradesmen or liberal professional like lawyers, doctors and consultants etc.

TAX BASE
The business profit is determined as the income from all business activities reduced by all business expenses
Tax rate

Taxable income is rounded to the nearest thousand (1,000) Rwandan francs and taxed according to the following table:
Annual Taxable Income (RWF)

From	To	Tax Rate
0	360,000	0%
360,001	1,200,000	20%
1,200,001	and greater than	30%

Small enterprises must pay a **lump sum tax of three percent (3%)** on annual turnover. Small enterprises can renounce to the lump sum imposition by opting for the real regime in carrying out accounting in compliance with national accounting plan. When they opt for the real regime, they must inform the Tax Administration and this decision is irrevocable for a period of three (3) years starting from the date the Tax administration shall be informed. Micro-enterprises following their Annual turnover must pay the flat amount of tax as Micro-enterprises following their Annual turnover must pay the flat amount of tax as

Annual turnover	Annual flat amount of tax due in Rwandan francs
From2,000,000 to 4,000,000	60,000frw
From 4,000,001 to 7,000,000rfw	120,000 rfw
From 7,000,001to rfw 10,000,000	210, 000rfw
From 10,000 001 to 12,000,000	300,000rfw

Micro-enterprise: any business activities, which result into a turnover equal to or of less than twelve million Rwandan francs (Rwf 12,000,000) per tax period **Small-enterprise:** any business activities whose turnover is between twelve million and one Rwandan francs (Rwf 12,000,001) and fifty million Rwandan francs (Rwf 50,000,000) per tax period.

TAX DECLARATION

“An individual who receives taxable income prepares an annual tax declaration in accordance with procedures specified by the Commissioner General and he or she presents the declaration to the Tax Administration not later than 31st March of the following tax period. “During the current tax period, the taxpayer pays to the account of the Tax Administration before and not later than June 30th, September 30th and December 31st of the year of taxable activities, each twenty five (25%) per cent of the tax liability as calculated in the tax declaration of the previous tax period. This amount is reduced by the tax withheld in that tax period.

TAX ON INVESTMENT INCOME

TAX BASE

Income derived from investment includes any payments in cash or in kind by an individual in the form of interest, dividend, royalty, or rent which has not been taxed as business income in other words, the investment incomes perceived by the commercial companies will not be taxed on investment income.

If the taxpayer uses a tax period that does not coincide with the calendar year, the quarterly prepayments as calculated according to paragraph one of this Article shall be paid not later than the last day of the sixth month, the ninth month and the twelfth month of the tax period of which he or she is allowed.

If the taxpayer started his or her business activities during the previous tax period, the quarterly prepayment is calculated as twenty five (25%) per cent of the amount of tax liability of the previous tax period divided by the number of months during which the taxpayer carried on his or her business activities and multiplied by twelve (12) ".

A) INTEREST INCOMES

Interest income includes income from loans, deposits, guarantees, and current accounts. It also includes income from government securities, income from bonds, and negotiable securities issued by public and private companies" income from cash bonds.

B) ROYALTY INCOME

The term „royalty income" includes all payments of any kind received as a prize for the use of, or the right to use, any copyright of literary, craftsmanship or scientific work including cinematograph films, films, or tapes used for radio or television broadcasting. The term also includes any payment received from using a trademark, design or model, computer application and plan secret formula or process. It also includes the price of using, or of the right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific or experience. Royalty income includes also natural resource payments.

C) Dividend Income

Dividend income includes income from shares and similar income distributed by companies and other entities.

D) Rental Income tax

All revenues derived from rent of machinery and other equipment and land including livestock in Rwanda, are included in taxable income, reduced by: 1° ten percent (10%) of gross revenue as deemed expense; 2° interest paid on loans; 3° depreciation expenses **Income derived from the rent of buildings or houses incorporated as assets of companies is subject to corporate income tax and is exempted from rental income tax.**

TAXPAYER

The following are required to pay rental income tax.

- The owner of goods, possessors
- The beneficiary of the net profit from rental income of land or building

TAXABLE INCOME

Tax is established annually on the income of previous year. The net income is obtained by deducting from gross income the expenses relating to goods that are rend and supported by the beneficiary of the income.

TAX RATE

The rental income tax is calculated as follows:
1° the bracket part of annual income generated through rental of a building from Rwf 1 to 180,000 Rwf shall be taxed at zero percent **(0%);**
2° the bracket part of annual income generated through rental of a building from Rwf 180,001 to Rwf 1,000,000 shall be taxed at twenty percent **(20 %);**
3° the bracket part of the annual income generated through rental of a building above Rwf 1,000,000 shall be taxed at thirty percent **(30 %).**

TAX DECLARATION

The tax on rental income and income tax declaration have to be submitted to the tax collector of the district together with a copy of a rent contract not later than 31 march of the year following the one in which interests were obtained

EXEMPTION

They are applied to institutions of public utility and not for profit making organization dealing with religious, social and scientific or philanthropic works.

PENALTIES

Any person who is supposed to pay tax and the refuses to do so, is personally required to pay the amount due plus fines and lateness interests to the revenue service

CORPORATE INCOME TAX

Corporate income tax" levied on business profits received by entities

TAXPAYER

The following entities shall be subject to corporate income tax:
1° Companies established in accordance with Rwandan law or foreign law;
2° Cooperative societies and their branches;
3° Public business enterprises; 4° Partnerships;
5° Entities established by Districts, Towns and Municipalities and the City of Kigali, to the extent that these entities conduct business;
6° Defector companies or associations and any other entities that perform business activities, and are esta5tglished to realize profits.

Entities mentioned in 1°, 2° and 3 are deemed to conduct business with their whole equity. This means that all their revenues are received from their business activities

2.5 .2 EXEMPTION FROM CORPORATE INCOME TAX

The Government of Rwanda and the following entities are exempted from corporate income tax:

1° the City of Kigali, Districts, Towns and Municipalities;
2° the National Bank of Rwanda;

3° entities that carry on only activities of a religious, humanitarian, charitable, scientific or educational character, unless the revenue received during a tax period exceeds the corresponding expenses to the extent that those entities conduct a business;
4° international organizations, agencies of technical cooperation and their representatives, if such exemption is provided for by international agreements;

5° qualified pension funds;
6° the Rwanda Social Security Fund;
4 7° the Rwanda Development Bank;

Extent of tax liability

Resident entities are liable to corporate income tax on business profit per tax period whether from domestic or foreign operations.
Non-resident entities shall be liable to corporate income tax on business profit per tax period derived through a permanent establishment in Rwanda.

Tax rate
"Taxable Business profit is rounded down to the nearest one thousand Rwandan Francs (1,000 RWF) and taxable at a rate of thirty percent (30%).
Newly listed companies on capital market shall be taxed for a period of 5 years on the following rates:
1º 20% if those companies they sell at least 40% of their shares to the public.
2º 25% if those companies sell at least 30% of their shares to the public.
3º 28% if those companies sell at least 20% of their shares to the public.
Registered investors shall be entitled to a profit tax discount of 1° two percent (2%) if he/she employs between one hundred (100) and two hundred (200) Rwandans employees;

, Exemption for paying corporate income tax

- National bank of Rwanda
- Government of Rwanda and its entities
- Charitable organization
- Social security funds
- Education sectors
- Districts on municipalities
- Agaciro development funds
- RDB

The last criterion is the one based on the mode of calculation of rate adopted
Under this point, we distinguish regressive tax and proportionate tax on one hand progressive one on the other hand.

A “**regressive tax**” is a tax that takes a larger percentage from low – income people than from high – income people. Otherwise, a tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases.

A regressive tax is generally a tax that is applied uniformly. This means that it hits lower –income individuals harder. Some examples include gas tax and cigarettes tax, for example, if a person has $ 10 of income and must pay $ 1 of tax on a package of cigarettes, this represents 10% of the person"s income.

A **Proportionate tax**” is the tax imposed so that the tax rate is fixed. The amount of the tax is in proportion of the amount subject to taxation. Proportional tax maintains equal tax incidence regardless of the ability to pay and do not shift the incidence disproportionately to those with a higher or lower economic well-being.

A **Progressive tax**” is the tax which has varying rates that increase as the taxable amount increases. Progressive taxes attempt to reduce the tax incidence of people with a lower ability to pay as they shift the incidence increasingly to those with a higher ability to pay. In progressive taxes, the income is considered in different steps, where income earned between certain points will be taxed at a certain rate. In few words, the rate increases as the size of the base increase.

7 PROPERTY TAX

2.7.1 Tax on immovable (building and house)

2.7.1 1. Tax Base

Within the framework of the tax on the houses and buildings the taxable product will not be the income generated by the houses and building but the value of these goods. This value is the updated cost price. This value is generally brought by expertise during which the one evaluates the material which makes this building by taking in account of improvement and deterioration of cost of living undergone or made since the construction.

Exemptions

The taxable houses and building for which the owner does not have a title document and which are not recorded with the land service are exempted. This is for not impose the small dwellings.

ü House and building assigned to a medical use;

ü Houses and buildings assigned to the social and school assistance when they are used for the activities non lucrative goals;

ü Houses and buildings assigned exclusively to a scientific or professional activity and used for the activity with non-lucrative goals

Houses and buildings belong to the states, publically owned establishments and local authorities when they are not intended for a regular commercial practice.

ü Exclusively affected houses and buildings with the worship by the approved religious confessions.

ü Houses and buildings occupied by the diplomatic missions and consular of the foreigner

TAX ON REGISTERED LAND NOT YET DEVELOPED

2.7.2.1 Tax base

The tax on the undeveloped sites is a specific tax (i.e.) the tax perceived on material unit. on this unit is surface (m^2 or hectare) the ground concerned are all undeveloped sites which are recorded or not which are yielded for a long lease by hiring or ownership title.

2.7.2 .2 EXEMPTION

ü Exclusively affected grounds with the services related to education, health or spot activities if it was established that they are not exerted with a private lucrative aim.

ü The grounds on which are installed or which it is provided to install infrastructures of the state and those of the local government.

ü The ground on which diplomatic mission of the foreign countries accredited in Rwanda are established

ü Ground assigned to a philanthropic use.

2.7.2.3 TAX LIQUIDATION

The tax on the undeveloped sites is fixed by district council but within the limit well determined by the law.

ü In the town of Kigali the tax must be between 20 and 50 RFW by m^2

ü In the urban district, this tax must lies between 10 and 20 RFW by m^2

ü In the trade centre the tax must lies between 1 and 10 by m^2

ü In the rural localities the tax on the undeveloped sites must be lower or equal to 1000 per hectare. When the ground is higher than twenty hectare (20 hectares)

The taxpayer is taxed at the rate which is ranging from 1001 and 2000 for every additional hectare, the first hectare being exempted.

If the non built sites are touristic places the tax is increased by ten percent (10%) of the ordinary annual tax. the tax must be declared and paid at the latest on 31st march of the following fiscal year.

PROPERTY TAX ON VEHICLES

Tax rate:

Registration fees for imported motor vehicles are determined on the basis of engine capacity as follow.

Engine power (cc)	Fees	
Between	And	
0	1000	75.000
1001	1500	160.000
1501	3.000	250.000
3.001	4.500	420.000
4.501	and above	560.000
Special vehicle	-	640.000

Registration fees for a motor vehicle already registered in Rwanda
Registration fees for a motor vehicle already registered in Rwanda is equivalent to an amount paid on property tax and rent on number plate in 2009.
This amount is multiplied by a coefficient based on date when a motor vehicle entered into Rwanda. For motor vehicles imported before and during the year 2006, the amount is multiplied by one.

For motor vehicles imported from 2007 to 2008, the amount is multiplied by two. For motor vehicles imported in 2009, the amount is multiplied by three.

Registration fees for personalized motor vehicles number plates
For motor vehicles with personalized number plates registration fees is fixed at two million Rwandan francs (2,000,000 Rwf).

Tax declaration and payment
Registration fees for imported motor vehicles are paid at Customs during the declaration process. Upon payment, Customs issues a registration card. Registration fees for motor vehicles already registered in Rwanda are paid at Domestic taxes Department. The registration fees are paid only once for both imported and already registered motor vehicles in Rwanda

VALUE ADDED TAX (VAT)
Introductions
Contrary to income tax, the value added tax (VAT) is a **tax on consumption;** this means that the taxpayer is not imposed on the moment when its richness enters in its patrimony but at the time when this richness leaves the patrimony. VAT is an indirect tax which is paid at every stage of production in increasing the value of a production. The paid tax thus will not depend on the importance or the nature of the incomes of the taxpayer but of the importance of his expenditures. The value added tax (VAT) is thus unjust tax by definition for two reasons:
ü It is about a tax which strikes consumption whereas the taxpayer was already imposed on the income;

ü This tax strikes same manner all the taxpayers without of their respective incomes.

2.11.1 VAT CHARACTERISTICS

VAT is indirect tax because it is incidence can be shifted to another person and it is paid when there is a transaction occurred
It is paid on value of goods & service supplied
It is multistage tax
It is standard rate at 18% in Rwanda on transparent
It is proportional tax
it is paid by final consumer
it is substitute of sales tax

The VAT **is a transparent tax,** it is possible at each stage of marketing of a product, to determine the amount excluded as well as the amount of VAT itself. Indeed, if one knows the price excluding VAT of a good or service (PEVAT)

EX: PEVAT= 20000frw VAT RATE=18%

PVATI=?

Answer= PVATI= PEVAT+ (PEVAT* VAT RATE) =20000RFW+ (20000*18%) = 20000+3600=23600RFW

The VAT is the **neutral tax;** save some exception, any person is not the ultimate consumer recovers the whole VAT which would be invoiced to him by the suppliers. The tax is thus not the element of the cost price and the length of the chain of production is without incidence on the amount of the tax. This one is supported entirely by the ultimate consumer.

The taxable person, unless exonerated plays the role of tax collector i.e. he or she invoices the tax to his or her customer and he or she pays it to the tax administration after deduction of the VAT which is carried to him/her by its own supplier.

Example : work hypothesis VAT rate 18%

I Operations	PEVAT	PVATI	VAT	VAT paid to RRA
A producer sells a sugar to wholesaler	1000RFW	1000+(1000× 18%)=1180	180RFW	180RFW
The wholesaler resell a sugar to a local whole dealer	1500RFW	1500+ (1500×18%)=1770	270RFW	270-180=90RFW
The local whole dealer resells a sugar to a retailer	2000RFW	2000+(2000×18%)=2360	360RFW	360-270=90RFW
The retailer sells to a consumer	2500RFW	2500+(2500×18%)=2950	450RFW	450-270=90
VAT PAD TO RRA				180+90+90+90=450RFW

TAXABLE ACTIVITIES

VAT is charged on transaction involving the;

Supply of good in Rwanda

Supply of service in Rwanda Importation of the same in Rwanda

According to article 3 of the law no 06/2001 of 20/01/2001, the term supply has the following means;

TYPES OF VAT

Output VAT: is the tax charged in respect of the supply of the goods and services by vendor. is the VAT on goods or services going OUT of the business. Output tax is the VAT you collect from your customers on eh sale that yoacu make

Example: X a cafe owner and VAT vendor sells a cup of coffee at 4000 rfw exclusive of VAT. X will need to add output vat (the VAT that is required to charge on his supplies) to the 4000 rfw. Therefore the cup of coffee will be sold at 400+18%= 4000+720= 4 720 rfw.

INPUT VAT: in put VAT in relation to a vendor, means the tax charged by a supplier on the supply of goods and services made by that supplier to the vendor or by the vendor on the importation of good by him.

Is the VAT that you pay out to your suppliers for goods and services that you purchase for your business.

Example: A retailer pays 4 720 rfw per cup of coffee. The input VAT was 4720×18/118=720 rfw. This amount shall be deducted from the amount of the output VAT and only the balance shall be paid to the tax administration. then if the retailer wants to makes a profit of 500rfw per cup of coffee the amount on which to apply the tax rate is 4720 – 720 + 500= 4500 rfw. Output VAT shall be 4500×18%=810 But all thought the retailer collects a full 810 of output VAT on a cup of coffee he only need to account for the output less the input Input:720F Output: 810

VAT to be paid to be paid to RRA= 810-720=90rfw.

2.11.7 NIL BALANCE:

This occurs when output is equal to input VAT. The VAT collectors shall declare the nil balance Refund or restitution If the amount of input VAT exceeds the amount of output, the taxpayer will be refunded the balance

3.3 Carefully File supporting documents as a proof of payment of tax

Filing is The activity of putting documents, electronic information, etc.into files or the work of arranging documents in the correct files essential/quality of good filing system

Quality of a good filing system are:

- ✓ Compactness
- ✓ Accessibility
- ✓ Simplicity
- ✓ Safety
- ✓ Elasticity
- ✓ Cross- reference

EXERCISES

Q1. The Rwandan tax laws require any businessperson who fulfills the conditions provided by law to register for Value Added Tax (VAT).What is the turnover required for a businessperson to register for VAT both on annual and quarterly basis**?**

Threshold for annual basis is 20,000,000 RWF

Threshold for quarterly basis is 5000,000RWF

Q2.The group DREAM BOYS won the award of PGGSS. The value of that award is twenty-four million (24,000,000frw) excluded tax laws.

a) What term named for that income?

Investment income/ royalty income

b) Calculate the tax to be paid by that group?

Tax to be paid=24,000,000 RWF*15/100=3,600,000 RWF

Q3. YUSUFU Kagina is a technician at Fit Metal Industries Limited, receiving a monthly salary of 500,000 RWf. He s also allowed a car and an accommodation by the company. How much will be deducted as PAYE from Yusufu's salary? **/6marks**

Basic salary: 500,000RWF

Housing benefit: 500,000*20/100=100,000RWF /1mark

Transport benefit: 500,000*10/100=50,000 RWF /1mark

Gross salary/ taxable income: basic salary +allowances

Gross salary=500,000+150000

Gross salary= 650000RWF /

PAYE:

0-30,000:0%= 30000*0/100=0

30,001-100000:20%= 70000*20/100=14000

100001 and above: 550000*30/100=165000

Total PAYE=0+14000+165000

Total PAYE=179000 RWF

Q4. BIKONJE Ltd is a company registered at Revenue Authority as a large taxpayer. At the end of the year 2018, it made total sales of four hundred million (400,000,000FRW). Its Cost of sales for the whole year was equal to 200,000,000FRW, while the total operating expenses were worth 80,000,000FRw.

Calculate the income tax payable by Bikonje Ltd for this period.

Taxable profit= 400,000,000-200,000,000-80,000,000=120,000,000RWF

Tax payable= 120,000,000*30/100=36,000,000 RWF

Q5. KWIGIRA Company Ltd made a net profit of 44,000,000 FRW last year. The tax rate is 30%

Determine:

a) The taxable profit

Taxable profit: /10marks

Net profit=44,000,000RWF

Tax= 30% of taxable profit

Assume that the taxable profit=x

X=44,000,000+30x/100

X=44,000,000+0.3x

X-0.3x=44,000,000

0.7x=44,000,000

X=44,000,000/0.7

X=62857142.9(taxable profit)

b) The tax paid
Tax= 62857142.9*30/100=18857142.9

Q6. SAMUSURE owns 2 houses located in GASABO District. For the year ended 2018, he received rental income of 10,000,000 FRW for each house. He also owns fourteen (14) houses located in Nyarugenge District for which he received 4,000,000 FRW for only 4 houses being occupied.

Required:

Calculate the tax on rent payable for the revenues received in year 2018 and indicate the deadline of the tax declaration and the tax payment thereon.

SOLUTION

Gross rental income for 2 houses located in GASABO Distric: 10,000,000*2=20,000,000 RWF s

Allowed expenses for houses located in GASABO District= 50% of 20,000,000=10,000,000 RWF /2marks

Tax paid to the GASABO District:

0-180000 rwf:0%= 0

180,001-1000000:20%=164000

1000001 and above :30%=9000000*30/100=2700000

Total tax: 0+164000+2700000

Total tax=2864000RWF

Gross rental income for 4 houses being occupied in NYARUGENGE District= 4,000,000 RWF

Allowed expenses for 4 houses located in NYARUGENGE District= 50% of 4,000,000=2,000,000 RWF /2marks

Tax paid to the GASABO District:

0-180000 rwf: 0%= 0

180,001-1000000:20%=164000

1000001 and above: 30%=1000000*30/100=300000

Total tax: 0+164000+300000

Total tax= 464000 RWF

Total tax to be paid by SAMUSURE for his houses that he rents in Gasabo District and Nyarugenge District=2864000+464000=3,328,000 RWF /2marks

The deadline of the tax declaration and the tax payment thereon is 31st March 2019 /1mark

Q8. The SAFINTRA Limited Company produces iron sheets to be sold to the wholesalers. During a fiscal year 2018, the company produced and sold to the wholesalers at 460,000 RWF VAT excluded. The wholesalers sold the iron sheets to the semi-wholesalers at the price of 600,000 RWF VAT excluded who sold the products to the retailers at 750,000 RWF VAT excluded. At the last stage, the retailers sold the iron sheets products to the builder who is the last customer at a price of 800,000 RWF VAT excluded.

Required : Using INPUT and OUTPUT VAT METHODS, calculate the total VAT payable to Rwanda Revenue Authority using the VAT rate in Rwandan law.

SOLUTION

	Taxable base	**VAT paid**	**VAT received**	**Recoverable VAT**	**VAT to pay**
SAFINTRA LTD	**460000**	**-**	**82800**	**-**	**82800**
WHOLESALERS	**600000**	**82800**	**108000**	**82800**	**25200**
SEMI-WHOLESALERS	**750000**	**108000**	**135000**	**108000**	**27000**
RETAILERS	**800000**	**135000**	**144000**	**135000**	**9000**
CONSUMERS	**-**	**144000**	**-**	**-**	**-**
TOTAL VAT					**144000**

❖ INTRODUCTION ON TAX DECLARATION

Taxpayers must submit a tax 'declaration' each tax period for each tax type for which they are registered. Declaring is also referred to as 'tax filing'. The tax declaration contains all the information, including annexures and declaration forms, required by RRA to determine the amount of tax due for that tax period.

For mobile declaration dial *800# and follow instructions.

After submitting a tax declaration, the taxpayer must then pay any tax due to the correct RRA account. The RRA reference number received after declaring ensures each payment is to the correct account.

2.3: Print out a declaration form

Importance of filling a declaration form

To fill a declaration form is important. For example, new employees need to complete a tax file number (TFN) declaration form. The information they provide in the form will help empoyer to work out how much tax needed to give them a tax file number declaration form to complete and return the employer.

L.U.3. PAY ASCERTAINED TAXES

L.O.3.1: Pay taxes for avoiding penalties a raised

Identification of supporting documents

Some main supporting documents are your business reports including:

- Profit and Loss Report (or the Income Statement): shows your business's overall profit (or loss) for the year
- Balance Sheet: displays your company's assets and liabilities
- Statement of Cash flows: shows all transactions affecting your business's cash account.

Tax payment methods

Taxes may be paid by:

- mobile service
- cash
- cheque

L.O.3.2: File supporting documents

Meaning of filing

It is the process of classifying, arranging and storing record so that they can be located when required. It is also the process of collecting and arranging records or their copies in such a way so that whenever it is needed it could be found very easily.

Purposes:

1. It helps to keep all records together so the history of office can be understood.
2. It helps to provide safety place for storage of necessary documents in order to use and locate then when required.
3. To make records readily and easily available.
4. It can be used as evidence in case of dispute
5. It helps in some legal formalities.
6. It is shown as profit or legal evidence.
7. It can be presented as a legal document in court.
8. It helps to make future plans. Past records are the base of future records

Methods of filing:

Different filing methods are:

Alphabetical.

Numerical,

Geographical,

Chronological and

Subject wise

1. Alphabetical classification

The filing method under which files and folders are arranged in order of alphabets of the names of person or institution concerned with such file is alphabetical classification. In case name of more than one person starts with same letter then second letter of name is taken into consideration. It is flexible method. It is used in both small and large organization.

Advantages

- ‘simple and easy to understand
- Doesn’t need separate index
- It is flexible

Disadvantages

- Time consuming
- Difficult to arrange files
- Difficult to locate in case of common names

2. Numerical classification

The filing method under which files and folders are arranged in order of number is called numerical classification. All files and folders are given separate numbers. It is indirect method of classification of filing. In this filing alphabetical index is required. It includes name, address, phone number, subject and other information along with file number.

Advantages

- Suitable for large offices having large number of files and folders
- Accurate method of filing
- It is flexible
- Separate index can be easily developed using numbers.

Disadvantages

- It is expensive
- It is time consuming
- Not suitable for small organization
- It is not easy to operate
- Separate alphabetical index is required.

3. Subjective classification

In this filing method, records are classified according to their subject; letters and documents are classified and arranged in files and folders into subject or sub-subject wise. In this filing, subject must be arranged alphabetically. It is widely used in those cases where subject is more important than the name of the person or organization. All documents relating to same subject are filed together in one file.

Advantages

- Simple to operate
- Flexible
- Convenient
- Easy to locate

Disadvantages

- Not applicable for filing miscellaneous subject
- Time consuming
- Difficult to locate when subject matter is not properly understood

4. Geographic classification

In this method, files are grouped according to the geographical location of firm, organization or person. Under this method name of places are written in file and are arranged in drawer either in alphabetical or numerical order whichever is suitable for organization. It used in multinational companies or those organization whose business and branches are located in many places of the nation or the world.

Advantages

- Easy to understand and use
- Can be arranged in alphabetical and numerical order
- It used in those organizations whose business is engaged in correspondence with the businesses all over the globe or the nation.

Disadvantages

- Expensive
- Not suitable for small scale organization

- Time consuming
- No use of card or index

5. Chronological classification

In this method, files and folders of documents are arranged in an order of their date, day, and time. In an office, several letters and documents may be received and dispatched. They all are arranged according to time and date when they were received and dispatched

Advantages

- Simple to understand and easy to operate
- Quickly located if their dates are known.
- Less expensive

Disadvantages

- Not suitable for large offices
- When clear dates are not mentioned then there can be difficulty.

Essentials (or) Characteristics of Good filing system

1. **Compactness**: The **compact filing system should be adopted** by every business office. It means that the filing system should not require any unnecessary space.

2. **Simplicity**: The filing system should be **simple and not too elaborate**. At the same time, the usefulness of the filing system cannot be sacrificed for the sack of simplicity.

3. **Accessibility**: A good filing system should be arranged in such a way that the **records are easily available whenever required**. The filing system **should allow the insertion of additional documents** without disturbing the existing order of files.

4. **Economy**: The filing system **should be economical** in time, space, money and operations. The cost of installation and operation of filling system should be as low as possible. The selected filing equipment **should occupy minimum space**but can accommodate maximum number of files.

The **cost of filing equipment should be very low**. The filing equipment save the time of operation i.e. locating, inserting and placing of documents and papers in a file. The unwanted records may be disposed of in order to economies space.

5. **Flexibility**: The **filing system can be expanded** if the volume of business transactions increased. An inflexible system is not useful after crossing a certain limit.

6. **Classification**: The filing system should be **supported by a proper system of classification**. Proper classification reduces the number of files to be maintained and helps in inserting as well as locating the documents in the files.

7. **Safety**: The filed documents and **records should be in safe condition** and available whenever required. The documents and records should be protected from insects, rain, dust, or mishandling.

8. **Cross Reference**: A cross reference should be given wherever a document can be filed more than one head to avoid confusion and **facilitates easy location of files**. It saves time and human resources.

9. **Easy Location**: Documents and records should be kept in such a way that they can be easily located whenever required with the minimum delay possible. At the same time, it **does not require heavy expenditure** to achieve this purpose.

10. **Indexing**: A well designed index is also used to supplement the filing system. It **will help to locate the file quickly** when it is required.

11. **Retention**: Every documents and records are maintained for a minimum period of time. Then, the dead records and documents can be discarded without too much disturbance. The remaining documents and records are retained even after a storage period.

12. **Out guides**: A reference is to be maintained in the files that the list of documents or records are withdrawn by the office staff or department and returned the documents with date. Rules and procedures can be framed and followed to prevent misfiling.

13. **Minimum Misfiling**: The main difficulty is not concerned with filing but in finding the documents. Misfiling causes delay in the location of desired document. Hence, the authorized staff alone is permitted to have access to files.