TAXATION BOOK

ACCOUNTING PROFESSION OPTION

for Rwandan Schools

Senior 5 Student Book

EXPERIMENTAL VERSION

Kigali, 2023

FOREWORD

Dear Student,

Rwanda Basic Education Board (REB) is honoured to present Senior 5 Taxation book for the students of **Accounting Profession Option** which serves as a guide to competence-based teaching and learning to ensure consistency and coherence in the learning of the Taxation. The Rwandan educational philosophy is to ensure that you achieve full potential at every level of education which will prepare you to be well integrated in society and exploit employment opportunities.

The government of Rwanda emphasizes the importance of aligning teaching and learning materials with the syllabus to facilitate your learning process. Many factors influence what you learn, how well you learn and the competences you acquire. Those factors include the relevance of the specific content, the quality of teachers' pedagogical approaches, the assessment strategies and the instructional materials available. In this book, we paid special attention to the activities that facilitate the learning process in which you can develop your ideas and make new discoveries during concrete activities carried out individually or in groups.

In competence-based curriculum, learning is considered as a process of active building and developing knowledge and meanings by the student where concepts are mainly introduced by an activity, situation or scenario that helps the student to construct knowledge, develop skills and acquire positive attitudes and values.

For efficiency use of this textbook, your role is to:

- Work on given activities which lead to the development of skills;
- Share relevant information with other students through presentations, discussions, group work and other active learning techniques such as role play, case studies, investigation and research in the library, on internet or outside;
- Participate and take responsibility for your own learning;
- Draw conclusions based on the findings from the learning activities.

To facilitate you in doing activities, the content of this book is self-explanatory so that you can easily use it yourself, acquire and assess your competences. The book is made of units as presented in the syllabus. Each unit has the following structure: the unit title and key unit competence are given and they are followed by the introductory activity before the development of taxation concepts that are connected to real world of economic environment.

The development of each concept has the following points:

- Learning activity which is a well set and simple activity to be done by students in order to generate the concept to be learnt;
- Main elements of the content to be emphasized;
- Worked examples; and
- Application activities to be done by the user to consolidate competences or to assess the achievement of objectives.

Even though the book has some worked examples, you will succeed on the application activities depending on your ways of reading, questioning, thinking and handling calculations problems not by searching for similar-looking worked out examples.

Furthermore, to succeed in Taxation, you are asked to keep trying; sometimes you will find concepts that need to be worked at before you completely understand. The only way to really grasp such a concept is to think about it and work-related problems found in other reference books.

I wish to sincerely express my appreciation to the people who contributed towards the development of this book, particularly, REB staff, RRA Officers, development partners, Universities Lecturers and Secondary School Teachers for their technical support. A word of gratitude goes to Secondary Schools Head Teachers, Administration of different Universities (Public and Private Universities) and development partners who availed their staff for various activities.

Any comment or contribution for the improvement of this textbook for the next edition is welcome.

Dr. MBARUSHIMANA Nelson

Director General, REB.

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I owe gratitude to RRA, different universities and schools in Rwanda that allowed their staff to work with REB in the in-house textbooks production initiative.

I wish to extend my sincere gratitude to Universities Lecturers, Secondary School teachers and staff from different education partners whose efforts during writing exercise of this book were very much valuable.

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Joan MURUNGI

Head of CTLR Department

ACRONYMS AND ABBREVIATIONS

BNR	: National Bank of Rwanda
C I S	: Certified Invoice System
CBHI	: Community Based Health Insurance
CET	: Common External Tariff
CIF	: Cost, Insurance and Freight
CIT	: Corporate Income Tax
CMA	: Customs Management Act
COMESA	: Common Market for Eastern and Southern Africa
DTA	: Double Taxation Agreement
E I S	: Electronic Invoicing System
EAC	: East African Community
EACCMA	: East Africa Community Customs Management Act
EIS	: Electronic Invoicing System
EU	: European Union
FOB	: Free On Board
FRW	: Rwandan Francs
GST	: Goods and Services Tax
HF	: Handling Fees
HS	: Harmonized System
IDL	: Infrastructure development levy
IQP	: Instalment Quarterly Prepayment
ITA	: institute of tax administration
MRC	: Machine Registration Code
MVF	: Motor Vehicle Registration Fees
OECD	: Organization for Economic Co-operation and Development

PAYE	: Pay As You Earn
PIT	: Personal Income Tax
POS	: Point of Sale
RDB	: Rwanda Development Boards
ReSW	: Rwanda electronic Single Window
RMF	: Road Maintenance Fund
RRA	: Rwanda Revenue Authority
RSSB	: Rwanda Social Security Board
RTV	: Rwanda Television
SDC	: Sales Data Controller
SIM	: Subscriber Identity Module
TAFFA	: Tanzania freight forwarders association
TIN	: Taxpayer Identification Number
TOGC	: Transfer of a going concern
USA	: United States of America
V S D C	: Victual Sales Data Controller
VAT	: Value Added Tax
WHT	: Withholding Taxes

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Unit 1

TAXATION OF CORPORATE BUSINESS PROFITS

Key unit competence: Compute corporate income tax (CIT)

Introductory activity

John is tax consultant who works with different companies in providing advisory services regarding to taxes matters and do the declaration of their taxes as well. For the year ended 30 June 2022, John had many clients and among matters that dealt with are shared below:

1. One of his clients called KIGALI CITY, a government entity, has made a surplus of FRW 500,000 and wants John to advice on tax that is required to comply
2. Rweru Ltd another client, has prepared its financial statements for the year ended 30th June 2022 and approved, wants John to assess and file its annual return to Revenue Authority.
3. Rubengera company Ltd, a parent company, during the year ended 30th June 2022, acquired 65% of share in Rutsiro Investment Ltd and wants John also to advice on the implication of taxes on the investment made in Rutsiro Investment Ltd.
4. XYZ company Ltd has made a huge investment in construction of factory, and during the year ended 30 June 2022, it made a loss of FRW 2billion and as the new company has approached also John as tax expert to advise them on the implication of taxes on this issue.

Suppose you are John, advice your clients on these matters noted above. What do you think John would base on to advice and drawn conclusion to the above matters?

1.1: Relevant legislation, Chargeable and exempt entities

Learning Activity 1.1

Question

Describe your observation on the above photo?

1.1.1: Relevant legislation

The legislation on income tax is established by law nº 027/2022 of 20/10/2022. The legislation covers both personal income tax and corporate income tax (CIT) besides withholding tax, capital gain tax and tax on gaming activities. In this unit we will focus on the calculation of corporate income tax, which is covered in Chapter III of the legislation.

The processes related to calculating both personal income tax and corporate income tax, including filing and paying taxes, are very similar and you will have seen certain aspects of this unit in Units 4 and 6 in Senior Four.

Corporate income tax is levied on business profits received by taxpayers other than individuals.

Therefore, in this unit we will consider how we calculate the profits on which companies are charged to tax.

1.1.2: Chargeable and exempt entities

Any company that receives taxable income must register and pay corporate income tax unless the company is exempt.

1. Taxpayers

The following entities will be liable to corporate income tax:

a) A Ccompany established in accordance with Rwandan law and a foreign company registered in Rwanda;

b) A cooperative society;

c) A State-owned company;

d) Trustee, enforcer or protector of a trust;

e) A foundation;

f) A protected cell company or a cell of a protected cell company depending on the choice of the investor at the time of company registration;

g) A non-resident in Rwanda person with a permanent establishment;

h) An entity established by a District or the City of Kigali if that entity performs an income generating activity;

i) An association or entity that is established to realize profits regardless of its nature.

2. Entities exempted from corporate income tax

The following entities are exempted from corporate income tax:

a) The Government of Rwanda;

b) The City of Kigali;

c) The district;

d) The National Bank of Rwanda;

e) Organisations that carry out only faith-oriented activities, humanitarian, charitable, scientific or educational character unless the revenue received exceeds the corresponding expenses or if those entities conduct a business;

f) International organisations or agencies of technical cooperation if such exemption is provided for by international agreements or an agreement concluded between these organisations and the Government of Rwanda;

g) Qualified pension funds;

h) Public institutions in charge of social security;

i) Development Bank of Rwanda « BRD »;

j) Agaciro Development Fund Corporate Trust;

k) Business Development Fund limited "BDF Ltd".

l) Special purpose vehicle, unless the revenue received exceeds the corresponding expenses;

m) Common benefit foundations;

n) Resident trustee for income earned by a foreign trust.

However, entities exempted from corporate income tax are required to submit to the tax administration their financial statements not later than 31st March following the tax period or three (3) months following specific tax period granted to taxpayers who have made an application in accordance with provisions of Article 9 of the law Nº 027/2022 of 20/10/2022.

Entities resident in Rwanda will be liable to corporate income tax on their worldwide business profits. However, dividends paid between resident companies that have not been subject to withholding tax (as the recipient company, being registered with the tax administration, will be exempt from WHT) are not included in corporate taxable income.

This is because the paying company would have already paid the relevant amount of Rwandan CIT on the profits out of which the dividend is paid. Note that dividends from overseas companies (for example a foreign subsidiary of a Rwandan parent company) are liable to CIT in Rwanda; the amount gross of overseas taxes should be included in taxable profit and then the overseas tax suffered can be deducted from the CIT liability (as double taxation relief).

Application activity 1.1

1. The Government of Rwanda, the City of Kigali, the Districts, the National Bank of Rwanda are exempted from corporate income tax, however if they perform an income generating activity are liable to corporate income tax.

   On that context, with convincing reasons explain which of the following entities are not subject to Corporate Income tax?

   A. Keza Co Limited that imports sugar, cooking Oil and salt and sell them to the retail and wholesalers.

   B. Navigation Co that provides Human resource services to the different clients in Rwanda

   C. Gasabo District's conference hall with its unique TIN that is rented to the staff of the district and other people in the country.

   D. None of the above

2. Tick to show whether the following are taxable or exempt for the purposes of corporate income tax:

	Taxable	Exempt
Jali Ltd, a Rwandan registered company		
National Bank of Rwanda		
Moriah Ltd, a company registered in Kenya which operates a permanent establishment in Kigali		
The United Nations Economic Commission for Africa (UNECA), an inter-governmental organization which has exemption under an international agreement		
Nile Ltd, an Ethiopian company which is managed in Rwanda		

1.2: Income tax

Learning Activity 1.2

Muhire is a business man who used to sell the home appliances. He started his business in 2018, after 1 year, 2 years and 3 years in business. He made a total revenue of FRW 5,000,000, FRW 10,000,000 and FRW 15,000,000 respectively. As the business was growing, Muhire recruited an accountant to facilitate him in preparing the financial statements and declaration of taxes. During the year ended 31st December 2022, Muhire's profit or loss account shown a total revenue of FRW 50,000,000 and expenses of FRW 30,000,000 but included in the expenses were personal expenses of FRW 20,000,000.

Question:

As student of taxation, advice Muhire on the income tax to pay.

1.2.1: The income tax regimes

Different income tax regimes apply to calculate corporate income tax for companies' dependent on their level of turnover. For companies with turnover exceeding FRW 20,000,000 the real regime applies which means that companies will need to calculate their taxable trading profits. This is done by adjusting the accounting profits in exactly the same way as we saw for a sole trader.

As you saw in Unit 6 in Senior Four, income tax has three rules (regimes) for taxpayers based on their annual sales. These rules apply equally to corporate taxpayers. The calculation of corporation tax under flat rate taxation and sales tax/lump sums has been summarized in Senior Four's Unit 6. Businesses with annual sales (annual turnover) of more than FRW20,000,000 must apply the real regime and pay corporation tax at 30% on their taxable income. The calculation of taxable income is covered in this unit.

1.2.2: Taxable income

The taxable income is the amount on which a company will be liable to corporate income tax.

Taxable income for companies is calculated as

	FRW'000
Taxable trading profits	X
Investment income	X
Rental income	X
Less losses carried forward from previous five tax periods	(X)
Taxable income	X

In this topic we look at the calculation of taxable trading profits. The other income to be included is covered in sub-heading 1.3 and losses are covered in sub-heading 1.6

1.2.3: Taxable trading profits

In exactly the same way as for a sole trader business, the accounting profit of the company must be adjusted for tax purposes to give the taxable trading profits.

The adjustments made for companies are identical to those for a sole trader and are covered in Unit 6 of senior four.

		FRW'000	FRW'000
Profit before tax as per accounts (A/Cs)			X
Add:			
(a)	Expenses charged in the A/Cs but not deductible for tax purposes	X	
(b)	Taxable income not credited to A/Cs	X	X
			X
Less:			
(c)	Income credited to A/Cs but not taxable	X	
(d)	Expenses for tax purposes not deducted in the A/Cs	X	(X)
			X
Less tax depreciation			(X)
Taxable business profit			X

Companies are entitled to the same tax depreciation as we saw in Unit 4 in senior four and the same adjustment is made for the difference between the amount charged as depreciation in the accounts and the amount of tax depreciation which is deductible.

Application activity 1.2

Which of the following correctly states the adjustments to be made to a company's trading profits for tax purposes? (Tick one column for each item)

Item	Do nothing	Add back	Deduct
Depreciation of FRW 22,000,000			
FRW 8,000,000 of agricultural income			
Dividends paid of FRW 12,000,000 which have been deducted from the profit figure			
FRW 2,000,000 of client entertaining			
FRW 5,000,000 of rental income			
Tax depreciation of FRW 20,000,000			
FRW 20,000,000 of staff salaries			

1.3: Other income for companies

Learning Activity 1.3

Muhanga Enterprise Ltd, is company located in Muhanga district that do farming activities. During the board members' meeting, the chair suggested to expand the investment as the accumulated profit presented by the management showed that the company has so far generated more reserves. From the suggestion of chair, the meeting resolved the following:

1. To buy 10% of share in Shyongwe Ltd one company specialized in bookkeeping.
2. To deposit some money in one commercial bank under the fixed term deposit at the annual interest rate of 12%.
3. To construct residential houses near Muhanga city and start renting them to the visitors.

Question

Apart from the income Muhanga Enterprise Ltd generating from its main business of doing farming activities, what else do you think as other incomes that are going to be generated if the resolutions of Board meeting are implemented by Muhanga Enterprise Ltd's management.

1.3.1: Taxable income

In addition to the taxable trading profits, companies will also be taxed on their investment income and rental income receivable during the year.

After the taxable trading profits are calculated, other income must be brought in to calculate the company's taxable income.

1.3.2: Investment income

Dividends received by Rwandan companies from another Rwandan entity will be non-taxable and should be excluded from the taxable income calculation. Only overseas dividends would be included in the calculation of taxable profits.

From the investment income any investment expenses can be deducted. This will include any carrying charges and interest expense.

The net investment income is then included in the taxable income calculation although when submitting a corporate income tax declaration, the investment income and investment expenses will actually be entered in different rows of the declaration.

Be reminded that, all investment income in the form of interest, dividends and royalties must be included unless these are non-taxable. These may have been received net of withholding tax but the gross amount must be declared as taxable income and then the tax withheld will be included in the calculation of the tax due.

1.3.3: Rental income

Rental income from buildings is included in taxable income. Related expenses are allowable, including tax depreciation on the building and any related interest on loans to acquire/improve the building.

A deduction can be made for rental income from machinery, equipment, land and livestock.

The deduction can include:

10% of the rental income as wear-and-tear expense

Interest paid on loans to purchase the rented items

Tax depreciation according to the usual rules (as per Unit 4 of senior four)

Note that rental income for personal income tax purposes of taxpayers (i.e. individuals) is declared separately from corporate profits, while rental income for a corporation is included in the calculation of taxable income. This includes rental income from the rental or leasing of machinery, equipment, land, buildings and livestock. The special regulations for calculating the amounts subject to rental income tax for buildings do not apply to companies.

Application activity 1.3

1. Mwiza Ltd prepares its accounts to the year ended 31st December. In the year its financial statements show the following:

   - Interest income of FRW 680,000, which is received net of 15% withholding tax
   - Royalty income of FRW 595,000, also received net of 15% withholding tax
   - Expenses of managing the investments at FRW 50,000.

Calculate the investment income which will be included in Mwiza Ltd's taxable income.

2. Mugonero Ltd bought a tractor for FRW 1,000,000 in the year ended 31 December 2021 which it rents out. During the year ended 31 December 2022 it received monthly rental income of FRW 20,000. When it bought the tractot Mugonero Ltd took out a loan of FRW 800,000 to help purchase the tractor and it pays interest on this loan at a rate of 4% per annum.

Required: What is Mugonero Ltd's rental income to be included in its taxable income calculation?

A. FRW 134,000

B. FRW 240,000

C. FRW 184,000

D. FRW 158,000

1.4: Total taxable income for companies

Learning Activity 1.4

Muhire is Managing Director and founder of Urumuri Ltd and he is looking for an expert in tax to help his company to prepare the taxable income. The following is the extract of the profit or loss account of Urumuri Ltd for the year ended 31st December 2022.

Details	Amount in FRW
Revenue	50,000,000
Cost of goods sold	(34,000,000)
Gross profit	**16,000,000**
Other income	
Muhire's Salary	5,000,000
Muhire wife's Salary	3,500,000
Total Income	**24,500,000**
Less other Expenses	
Electricity	800,000
Advertising	600,000
School fees for Muhire's daughter	2,000,000
Purchase of home foods and Services	8,000,000
Total Expenses	**(11,400,000)**
Net profit	**13,100,000**

Suppose Muhire has approached you as an expert, help Urumuri Ltd to prepare the total taxable income for the year ended 31st December 2022.

1.4.1: Calculation of total taxable income for companies

The taxable income is calculated by bringing together all the sources of taxable income as below:

	FRW
Taxable trading profits	X
Net proceeds from disposal of immovable business property (capital gains)	X
Investment income	X
Rental income	X
Less losses carried forward from previous five tax periods	(X)
Taxable income	**X**

Application activity 1.4

Turakize Plc is a Rwandan company registered with the tax administration and trading in furniture manufacturing. Its audited profit or loss account for the tax period is shown below:

	Note	FRW'000	FRW'000
Gross profit (Sales – Cost of goods sold)			360,000
Rental income	1		40,000
Bank interest income	2		5,000
			405,000
Operating expenses:			
Depreciation	3	60,000	
Bad debts	4	4,500	
General provision for warranties	5	2,500	
Wages and Salaries	6	120,000	
Legal and Professional fees	7	4,000	
Interest payable	8	1,500	
Other allowable expenses		50,000	
			(242,500)
Profit for the period			162,500

Notes

1. Rental income was earned by letting out spare items of machinery that cost FRW 150,000,000. These items are included in the other plant and machinery pool (see Note 3).
2. This interest did not suffer withholding tax as it was derived from a long-term bank deposit.
3. There were no acquisitions or disposals of assets in the period.
4. Tax written down values of fixed assets at 1st January are as follows:
5. Buildings: FRW 300,000,000 (original cost FRW 500,000,000)
6. Other plant and machinery pool: FRW 60,000,000
7. This bad debt was written off in the period after the customer was declared insolvent by a court. The income was taxed in the previous accounting period.
8. This represents a proportion of the value of all goods sold.
9. The company has paid the correct PAYE on all amounts included as wages and salaries.
10. Legal and professional fees include a fine for breaching safety regulations of FRW 1,500,000. The remaining FRW 2,500,000 relates to accountancy and debt collection services.
11. Interest payable is on a business loan used to invest in working capital.

Required: Compute the total income chargeable to corporate tax on Turakize Plc for the tax period.

1.5: Corporate restructuring and tax on liquidation

Learning Activity 1.5

Karangazi Ltd is a company specialized in producing and selling Maize flour, during the year ended 31st December 2022, the shareholders of Karangazi Ltd decided to transfer their 70% of assets and liabilities to Kiramuruzi Ltd after assessing the performance of the company.

Question

1. On your understanding, what do you think was happened in Karangazi Ltd?
2. Assuming, you have been appointed to assess the implication of taxes on the above decision made by Karangazi Ltd's shareholders, what is your recommendation?

1.5.1: Definition of restructuring

A corporate reorganization occurs when one of the following events occurs:

- A merger of two or more Rwandan resident companies
- The acquisition of 50% or more of a company in exchange for shares in the purchasing company
- The acquisition of 50% or more of the assets and liabilities of a company in exchange for shares in the purchasing company.
- The purchase of all of a company's assets so that it is replaced by another company
- The splitting up of a Rwandan resident company into two or more separate companies

1.5.2: Implications of restructuring

The transfer of assets by a company during restructuring is exempt from corporate income tax.

In case of restructuring of companies, the transferring company is exempt from tax in respect of capital gains and losses realized on restructuring. The receiving company values the assets and liabilities involved at their book value in the hands of the transferring company at the time of restructuring. The receiving company depreciates the business assets according to the rules that would have applied to the transferring company as if the restructuring did not take place.

In case of restructuring, the receiving company is entitled to carry over the reserves and provisions created by the transferring company, subject to the conditions that would have applied to the transferring company as if the restructuring did not take place. The receiving company assumes the rights and obligations of the transferring company in respect of such reserves and provisions.

1.5.3: Implications of liquidation

When a company goes into liquidation, its assets are sold and the money is used to pay off all of the company's debts. The remaining money is then paid out to the shareholders and treated as a dividend (for personal income tax and withholding purposes) in the last taxable period of the company's existence.

1.5.4: Impact on losses

A restructuring is likely to lead to a transfer of over 25% of a company's share capital; in this case losses being carried forward may no longer be permitted to be offset against profits

Application activity 1.5

Mibabaro Plc, a Rwandan company, transfers its trade and all of its assets to Gakire Plc, an unconnected Rwandan company, in exchange for shares in Gakire Plc on 30th November 2022.

One of the assets transferred was a factory used in the trade that originally cost FRW 40,000,000 six years ago and had a written down value of FRW 28,000,000 for tax purposes. Its market value was FRW 50,000,000 at 30th November 2022.

Which one of the following statements is **true** in relation to the tax treatment of the transfer of the building?

A. The building will be transferred at its market value of FRW 50,000,000 and Mibabaro Plc will pay corporate income tax on the gain of FRW 22,000,000.

B. The building will be transferred at its original cost of FRW 40,000,000 and Gakire Plc will claim 5% tax depreciation on the FRW 40,000,000.

C. The building will be transferred at its written down value of FRW 28,000,000 and Gakire Plc will claim 5% tax depreciation on the original cost of FRW 40,000,000.

D. The building will be transferred at its written down value of FRW 28,000,000 and Gakire Plc will claim 5% tax depreciation on the FRW 28,000,000.

1.6: Business loss reliefs

Learning Activity 1.6

Question

The photo above showing the decline of profit and as far as taxation is concerned, what do you think the company should do in case the profit dropped down until resulting into loss?

1.6.1: When does a business loss arise?

Not all companies are profitable. In this lesson, we look at how a company can use a loss to reduce the income tax it owes. In addition, there is a loss on a long-term contract, we see that there are special rules on how this loss can be used to save income tax.

A company makes a loss when its accounting profit or loss is adjusted for tax purposes, the tax depreciation is deducted and the resulting figure is a loss. The corporation's taxable profits for the period of the loss are nil and the loss is carried forward to be used against future corporate taxable profits in the next five tax periods.

Where a business makes a loss, Article 31 of Law N° 027/2022 sets out the rules as to how that loss can be utilised to save income tax. The rules are the same whether the business in question is a sole trader, partnership or company.

A loss arises when the taxable business profits show as a negative figure after the adjustment to profit and after the deduction of tax depreciation. It does not matter whether there is a profit or loss in the accounts at the start of the adjustment. What matters is that once the profit or loss has been fully adjusted for tax purposes, it is a negative number.

		FRW'000	FRW'000
Net profit/(loss) as per accounts (A/Cs)			X/(X)
Add:			
(a)	Expenses charged in the A/Cs but not deductible for tax purposes	X	
(b)	Taxable income not credited to A/Cs	X	X
			X
Less:			
(c)	Income credited to A/Cs but not taxable	X	
(d)	Expenses for tax purposes not deducted in the A/Cs	X	(X)
Less tax depreciation (including investment allowance)			(X)
Other taxable income for the tax period			X
Business loss for the period			(X)
Losses brought forward from earlier years			(X)
Revised taxable business loss to carry forward			(X)

1.6.2: What can be done with a business loss?

If a company makes a loss, this negative amount is included in the calculation of taxable income (because the taxable income is less than the deductible expenses).

The legislation provides that business loss is carried forward and offset against business profits within the next five tax periods. But on request, you can be granted more than five years if you fulfill the requirements.

Remember that, if there are losses incurred in more than one period, the legislation states that the losses of earlier periods must be deducted first.

Note that while the law requires the loss to be offset against business income, the offset is actually against all taxable income received by the individual or by the company receives, as all income is reported on their income tax return (personal or corporate). A business loss is the loss arising from all of the taxable activities of the individual or company, not just their trading.

However, if the loss is from a foreign source, this loss cannot be used to offset against Rwandan sourced business profits.

1.6.3: Losses on long-term contracts

A loss incurred on a long-term contract can be offset against previous profit recognised on that same contract, if it cannot be used against other business profits of the period.

Carry back of losses on long-term contracts

As seen in Unit 6 (Senior four taxation book), the income and expenses relating to a long-term contract are charged to the accounts on the basis of the percentage of costs actually incurred relative to the total expected costs of the project.

When a project is expected to be profitable it means that a percentage of profit is recognized in each period in relation to the percent completion of the project.

It is possible that the contract could then incur some unexpected costs. This could result in the contract becoming loss-making despite taxation of profits taxed in previous periods.

The loss incurred will reduce the company's taxable profit of the business in the relevant year. If the loss incurred is large enough that it cannot be absorbed by other profits of the period in which the contract is completed, the excess loss may be "carried back" and used against profits previously recognised for that contract. While the legislation does not specify settlement order, it is assumed that losses are offset against the most recent contract profits first.

Any remaining losses are then carried forward in the normal way.

Application activity 1.6

Bibaho Ltd incurred a FRW 80,000,000 business loss in the year ended 31st December 2020. In the year ended 31st December 2021 it makes taxable trading profits of FRW 120,000.000 and has investment income (gross) of FRW 2,500,000 and taxable rEntal income of FRW 5,000,000.

Calculate Bibaho Ltd's taxable income for the year ended 31st December 2021.

Skills Lab 1

In group discussions, invite students to make research in library or on internet about the calculation of taxable income for companies and compute corporate income tax related to the income tax at home / in club then present their findings

End of unit assessment 1

1. Shakisha Plc is a small Rwandan company which sells scrap metal. The company prepares its accounts annually to 31st December.

   For the year ended 31st December 2022, the company's net profit in the profit or loss account was FRW 74,500,000. This was arrived at after accounting the following items:

   a) FRW 6,000,000 incurred on repairs to their warehouse was charged as an expense. The warehouse was purchased in March 2022 after it had been damaged in a flood and could not have been used in the state it was in at the time of purchase.

   b) Depreciation on fixed assets of FRW 13,000,000.

   c) Entertainment expenditure charged to the accounts was as follows:

	FRW'000
Christmas party for staff	2,000
Entertaining customers	7,200
Costs of an all-staff football tournament	2,300
	11,500

   d) Bad debts charged to the profit and loss account were:

	FRW'000
Bad debts written off	5,500
Increase in provision for bad debts	2,000
	7,500

   The bad debt relates to a sale which had been taxed in the year ended 31 December 2021 and was written off during the year. This was due to the debtor being declared insolvent and Shakisha Plc has taken all reasonable steps to recover the debt.

   e) The amount of dividend received from Haza Ltd, a fellow Rwandan company, recorded in the profit and loss account was FRW 5,200,000. Shakisha Plc paid dividends of FRW 2,000,000 which had been deducted in arriving at the net profit of FRW 74,500,000.

f) Shakisha Plc received royalty income of FW 4,250,000 during the year. This was the amount received during the year. It also received FRW 1,200,000 during the year from renting out spare warehouse space.

Tax depreciation for the year end has been correctly calculated at FRW 7,000,000.

Required: Calculate Shakisha Plc's taxable income for the year ended 31st December 2022.

2. UB Ltd had initially agreed a contract for FRW 20,000,000 and had estimated the costs to fulfill the contract at FRW 15,000,000. At the end of Year 1, the contract was still in progress and costs incurred to date were FRW 10,500,000. Accordingly, the contract was deemed 70% complete and FRW 3,500,000 of profit was recognized and taxed during that year. The company generated FRW 3,000,000 of taxable profit on its other business activities in Year 1.

   In Year 2 the contract was completed, and UB Ltd incurred some unexpected costs it had not initially anticipated. The total costs actually incurred were FRW 22,000,000. This gave an overall loss of FRW 2,000,000.

   The project was accounted for correctly, and a loss of FRW 5,500,000 on this contract was recognized in Year 2.

   UB Ltd has other business profits for Year 2 of FRW 2,750,000 plus investment income of FRW 250,000.

   Assuming that UB Ltd wants to claim relief for the contract loss as early as possible, how will the loss of FRW 5,500,000 be used?

   A. It will be offset in full against total business profits of FRW 6,500,000 in Year 1.
   B. It will be offset against total income in Year 2 of FRW 3,000,000, and then the remaining FRW 2,500,000 will be offset against the contract profit in Year 1.
   C. It will be carried forward and used against future business profits
   D. It will be offset against business profit in Year 2 of FRW 2,750,000, and then the remaining FRW 2,750,000 will be offset against the contract profit in Year 1.

3. Nakoze Ltd has incurred the following business profits and losses over the last four tax periods:

   Year ended 31st December 2016; Loss FRW (500,000,000)

   Year ended 31st December 2017; Loss FRW (200,000,000)

   Year ended 31st December 2018; Profit FRW 150,000,000

   Year ended 31st December 2019; Profit FRW 400,000,000

   No shares in Nakoze Ltd have been bought or sold over this period.

   Show how the losses are used against profits, compute the remaining losses to carry forward at 1st January 2020, and state to which year they may be carried forward.

Unit 2 WITHHOLDING TAXES

Key unit competence: Use different percentages to compute related withholding taxes.

Introductory activity 2.1

ALICE from Bugesera District, last year 2022 she was given FRW 200,000,000 from expropriation and that money was invested in Bugesera Town and then she has invested in different projects. Buying shares from Bank of Kigali (BK) and buying Machine Tractors construction roads in that District. ALICE has imported construction materials to be used in road construction.

Q1. Based on above case, is ALICE liable to pay taxes? Which type of tax?

Q2. Based above case, which goods and services will be taxable?

2.1: The feature of withholding taxes, imports and public tenders

Learning Activity 2.1

Ms. Kevine, legal expert, importer and a businessman who bids public tenders has been given a contract for law writing services for Rwandan central government for a value of FRW 500,000 plus VAT at 18%. Kevine was registered by the tax administration and she complies with all regulations relating to tax declarations and record-keeping.

Question

From the above scenario, identify the careers of Kevine that are related to withholding tax.

2.1.1: The features of withholding taxes

Definition of withholding taxes: Withholding taxes is a deduction of tax levied at source of income as advance payment on income. Within the Rwandan tax system, certain types of payment are liable to withholding taxes. Withholding taxes is due to be paid on or before the15th days of the month following the relevant payment that is subject to WHT.

Sometimes withholding taxes is the only tax suffered by the recipient of the payment these are referred to as final taxes and nothing further will be due to the tax authorities in respect of this source of income. This would be the case if the recipient of the payment was not resident in Rwanda. It would also be the case if the recipient were a Rwandan resident individual whose only other income was employment income.

However, if the law does not specify that a WHT is a final, the recipient of the payment that has been subject to the withholding tax must declare the income on their tax declaration, usually grossed up for the withholding tax, and then the withholding tax may be deducted in arriving at their tax payable. Most Rwandan withholding taxes are not final taxes, and therefore Rwandan resident person will be required to include the relevant income on their tax declaration. The main exception to this is for dividends paid out of the profits of a Rwandan company, which have already suffered corporate income tax (CIT).

2.1.2: Import and Public Tenders

a) Withholding tax on goods imported for commercial use

An import is the name for the purchases from another's country. When goods are imported into Rwanda for commercial use, they are held at customs until the trader collects them.

The importer has to pay 5% of the CIF value of the goods purchased at the first entry port into East Africa Customs Union.

b) Withholding tax on public tenders

When a public body requires goods or services, it will usually get several quotes from different suppliers. This is called public tender. The public body will award the tender to a supplier and pay the quoted fee.

Besides VAT, the public body will deduct withholding tax from the payment at a rate **of 3%** of the VAT-exclusive value of the contract. This withholding tax is not a final tax for a business liable to rwandan income taxes, the grossed-up fee paid will be included within taxable income on the tax declaration, and the 3% withholding tax can then be claimed as a deduction from the tax liability.

Application activity 2.1

Q. 1 a) Define withholding taxes?

b) Distinguish between Withholding taxes 5% and Withholding taxes 3%.

2.2: Person exempted from withholding taxes and others payment subject to withholding tax.

Learning Activity 2.2

Uwineza, was discussing with her classmates: "In Senior four we have studied types of tax and taxpayers and if you remember last week our teacher tough us about withholding taxes so now I wondering whether all taxpayers are supposed to pay withholding taxes or not, mates may you share me what you know about this?" Said by Uwineza.

Question,

In context with taxation, what are the expected answers that you think her classmates will share about exemptions of withholding tax?

2.2.1. Persons exempted from withholding taxes

The following taxpayers are exempted from withholding taxes:

1. those whose business profit is exempted from taxation;
2. those who have tax clearance certificate issued by the Tax Administration;
3. those who are newly registered during the concerned annual tax period.

The Tax Administration issues a tax clearance certificate to taxpayers who have filed their tax declarations on their business activities; paid the tax due on a regular basis, and have no tax arrears. The certificate is valid in the year in which it was issued.

The Tax Administration may revoke a tax clearance certificate at any time if the conditions required by the tax administration are not fulfilled.

2.2.2 Other payments subject to withholding taxes

A. Conditions required for WHT

For withholding tax to apply to any of the following payments (or any others method of extinguishing an obligation, for example a payment made in goods rather than cash), the following circumstance must be met:

- The withholding agent must be Rwandan resident (note however that they may be a tax-exempt body) or the permanent establishment of a non-resident company

- The recipient is either:
- (i) not register with the Rwandan tax administration

  (ii) or registered but without a recent income tax declaration.

B. Types of payment subject to withholding tax

Payments subject to the withholding tax of fifteen percent **(15%)** are related to the following:

a) Dividends

Dividend income includes income from shares in any societies, other similar income that may be generated by all entities that pay corporate income tax, as well as the outstanding balance after the taxation of income from the correction made by the Tax Administration in the transfer pricing.

All dividends are taxable except those paid between resident companies and income distributed to the holders of shares or units in collective investment schemes.

b) Financial interests

Financial income includes:

1. incomes from loans, debentures or other debt securities;
2. incomes from deposits;
3. incomes from guarantees;
4. incomes from government securities, negotiable securities issued by the Government, securities issued by companies or other persons as well as income from cash negotiable securities.

All financial interests are taxable except:

i. interests on deposits in financial institutions for at least a period of one (1) year;
ii. interests on loans granted by a foreign development financial institution exempted from income tax under applicable law in the country of origin;
iii. interests that banks or deposit-taking microfinance institutions operating in Rwanda pay to banks or other foreign financial institutions;

c) **Royalties**

Royalty income includes all payments of any kind received or receivable:

1. on the use of or the right to use any copyright of literacy, craftsmanship or scientific work including cinematograph films, films or tapes used for radio or television broadcasting;

2. on the use, right to use or exploitation of a trademark or a trade name, a design or a Model, a computer application, a software and a patent;

3. as the price or consideration of using, or of the right to use industrial, commercial or scientific equipment or for using information concerning industrial, commercial or scientific knowledge or formula;

4. on the right to exploit or explore natural resource.

   a) Service fees including management and technical service fees except transport services;

   b) performance payments made to a crafts person, a musician, an artist, a player, sports, cultural or leisure activities irrespective of whether paid directly or indirectly;

   c) Goods sold in Rwanda;

   d) Profit after tax or retained earnings that are converted into shares, except for financial institution with paid-up capital below the minimum requirement set by the National bank of Rwanda;

   e) Profits repatriated from Rwanda;

   f) Payments made in cash or in kind by a resident person in Rwanda on behalf of a non-resident in Rwanda contracted person provided for under the contract in addition to contractual remuneration;

   g) Re-insurance premiums paid to a non-resident insurer except premiums paid to insurers that have signed agreements with the Government of Rwanda.

N.B: However, the withholding tax is five percent **(5%)** if levied on the following interests:

1. dividends and interest on securities listed on capital market if the beneficiary of the dividends or interest is a resident taxpayer of Rwanda or of the East African Community;

2. interests derived from treasury bonds with a maturity of at least three (3) years.

Application activity 2.2

Q1. The group INTORE won the award of PRIMUS GUMA GUMA. The value of that award is twenty-four million (FRW 24, 000,000) excluded tax laws.

a) What is the type of income earned by INTORE group?

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

Q2. MUGISHA is hired by Modern Business Ltd as a technical consultant on a short-term contract. MUGISHA gross income for this contract is FRW 3,500,000. As the source of this income, Modern Business Ltd must declare and pay withholding tax on this income.

Calculate the withholding tax to be paid

2.3: Withholding taxes on gaming activities and Double Taxation Agreement (DAT).

Learning Activity 2.3

Football fans like to bet in different betting companies such Premier betting,

Do you think that the betting company will pay tax? And why.

1. **Withholding tax on gaming activities.**

The fifteen per cent **(15%)** tax is withheld by a company that carries out gaming activities on the difference between winnings of the player and amount invested by the player.

2. **Double Taxation Agreement (DTA)**

Definition of DTA: Double Taxation Agreement in international taxation involves taxation which is cross border.

It arises from individual having taxable income or assets in two countries or a business operating in two (or more) countries. Due to increased globalization, the growing level of business trading international around the globe and increased personal mobility, international taxation is becoming prevalent.

What is international taxation?

It should be clear from the onset that laws are not "international". Laws are creations of sovereign states. What is referred to as international tax law is the international aspect of the income tax law of particular country. It is the taxation of foreign-related transactions (taxation of international transactions).

International tax system is made of specific, piecemeal response to the way investment of business operations are carried out across national boundaries. Many of the most important international tax rules are designed to mitigate or eliminate double taxation.

Jurisdiction to Tax

"Source of Income Taxation "inbound" and Residence Taxation "Outbound".

From the perspective of the Rwandan tax system, there are two broad classes in which international economic activity falls:

a) Investments or business undertakings of foreign persons in Rwanda
b) Investments or business undertakings of Rwandans abroad

This is what is referred to as taxation basing on the "**source of income" or taxation basing of the residence of the person.**

1. **Source Jurisdiction**

The term "Source of income" is the location of the property or business from which income is derived. (Look at the Article on Business income is treated as having its source in Rwanda only if the income is earned through a permanent establishment. (Look at the Article defining PE in Rwandan law, it confers to the OECD Model, Article 7)

It is also referred to as **"territorial taxation",** which refers to taxation of limited to income from source within the boundaries, no matter who derives it.

2. Residence Jurisdiction

Under Article 4(1) of the OECD Model Treaty, "resident) of a country for purposes of the treaty is a person taxable in that country "by reason of his domicile, residence, place of management or any other criterion of a similar nature."

The UN Model Treaty adds "place of incorporation" to that list.

Article 4(2) provides a series of **tie-breaker rules** to give residence jurisdiction to one country. These are;

- Place where an individual has a permanent home;
- Country in which the centre of the individual's vital interest is located
- Place of individual's habitual dwelling;
- Country of citizenship

These tie-breakers are ineffective in making the individual of a residence of only one country for treaty purposes, certain officials of the two countries (the "**competent authorities"** are mandated to determine a residence by mutual agreement.

For legal entities, resident in two countries, Article 4(3), of the OECD Model Treaty makes the entity a resident of the country where its effective management is located.

Note that some countries use a **place-of-incorporation** test as the sole test of residence for corporation.

What is the Rwandan definition of a residence?

An individual is considered to be a resident in Rwanda if he or she fulfils one of the following conditions:

1. he or she has a permanent residence in Rwanda;
2. he or she has a habitual abode in Rwanda;
3. he or she is a Rwandan representing Rwanda abroad;
4. he or she is present in Rwanda during the tax period for a period or periods amounting in aggregate to one hundred and eighty-three (183) days or more;

5. he or she is present in Rwanda during the tax period of assessment and has been present for periods averaging more than one hundred and twenty-two (122) days in each of the two (2) preceding tax periods.

- A person other than an individual is considered to be a resident in Rwanda during a tax period where it fulfils one of the following requirements:

a) where it is established according to Rwandan laws;

b) it has a place of effective management in Rwanda at any time during that tax period.

- A Ministerial Order determines the person's permanent residence and the location of the effective place of management.

As far as double taxation agreement is concerned, its main objective is "the avoidance of double taxation with respect to taxes on income and on capital".

"International double taxation" has been defined as the imposition of comparable income taxes by two or more sovereign countries on the same item of income of the same taxable person for the same taxable period (OECD definition)

The double taxation arises due to the inconsistent rules of source of income in different countries imposing overlapping taxes. For example, one country may consider origin of payment source of income while another country may consider where the work was performed as source of income.

U.S.A taxes its citizens on worldwide income irrespective of source of income. Inconsistent residence rules also lead to double taxation. Some countries consider the entity a resident of the country where its **effective management** is located. While other countries use a **place-of-incorporation** test as the sole test of residence for corporation.

Double taxation risks typically arise when two or more country claim the right to impose tax on the same item of income.

In short the basic causes for double taxation are;

1. **Source-source conflict;** Two countries asserting the right to tax the same income of a taxpayer because they both claim the income is sourced in their country.

2. **Residence-Residence conflict;** Two countries asserting the right to tax the same income of a taxpayer because they both claim the income is sourced in their country.

3. **Residence-source conflict;** One country asserts the right to tax foreign source income of a taxpayer because the taxpayer is a resident of that

country, and another country asserts the right to tax the same income because the source of income is that country.

The closest thing to a system of 'international taxation' arises in income tax treaties between different countries. A treaty by its nature is an element of the laws of more than one nation. Although the taxes affected by treaties are ultimately imposed by a specific country, the treasuries of the countries joining treaties do make concessions from their habitual norms of taxation. The result is a tax regime arising under a treaty that may differ from the regime imposed by the laws imposed by any one country.

Note that double tax agreements are used to avoid non taxation of income.

Double tax relief mechanism:

To eliminate the double taxation effect, there are different methods for granting relief from international double taxation.

a) **Deduction method.** Resident taxpayer is allowed to claim a deduction for the taxes paid in foreign country

b) **Exemption method.** The resident country provides its taxpayers with an exemption for foreign-source income

c) **Credit method.** The resident country provides its taxpayers with a credit against taxes payable for income tax paid to foreign country.

As noted in the table below, a double taxation agreement (DTA) can override the normal 15% rate of WHT. The following rates of WHT apply under existing Rwandan DTAs:

Country	Dividends on Shares	Interest	Royalties	Technical fees
Belgium	15%	10%	10%	10%
Mauritius	10%	10%	10%	12%
South Africa	10%	10%	10%	10%
Barbados	7.5%	10%	10%	10%
Singapore	7.5%	10%	10%	10%
Jersey	10%	10%	10%	12%

The application of the DTA rates is subject to the recipient of the payments meeting certain conditions. Professional advice should be sought before applying the above rates.

Application activity 2.3

Q1. Defining Double Taxation Agreement.

Q2. State the purpose of Double Taxation Agreement.

Skills Lab Activity 2

In group discussion, invite a resource person from RRA to share with students on the calculation of withholding tax for imports and public tenders and ask students to apply using an illustration to compute withholding taxes then share findings.

End of unit assessment 2

Q1. Which TWO of the following statement are true in relation to withholding taxes?

1. Withholding taxes are paid to the tax administration by the recipient of a payment.
2. If a withholding tax is a final tax, no further tax is due from the recipient.
3. Income that has sulfured withholding tax will never be required to be included in a tax declaration.
4. Withholding taxes at 15% are deducted from taxable income in preparing the income tax declaration.
5. Withholding taxes at 15% may be deducted from the tax payable for a tax period.

Q2. Which of the following payment by government bandies under public tenders would be liable to withholding taxes of 3%?

A. Payment to an overseas business that is not registered with the tax administration.

B. Payment to a Rwandan registered business that does not hold a tax clearance certificate.

C. Payment to a Rwandan business that is new and not yet registered with the tax administration.

D. Payment to a Rwandan registered company that holds a tax clearance certificate.

Q3. What is the rate of withholding tax on royalty made by Rwandan taxpayers to countries which a double taxation agreement is in place?

A. 0%

B. 5%

C. 10%

D. 15%

Q4. Which Two of the following interest payments would not incur withholding tax at 15%?

1. Interest paid to a Rwandan resident individual on a short-term bank deposit does not hold a tax clearance certificate.
2. Interest paid to a Rwandan individual on a four-year rwandan treasury bond.
3. Interest paid by a Rwandan bank to a company resident in Mauritius.
4. Interest paid by a Rwandan bank to a French individual on a short-term bank deposit.

A. 1 and 4

B. 2 and 3

C. 1 and 3

D. 2 and 4

Q5. You work for a large company with many Rwandan and overseas shareholders. The company listed on the Rwandan capital market and has recently declared a dividend to its shareholders.

List the factors you need to consider when determining the rate of withholding tax to deduct on the dividends, and how these will impact the withholding tax rate.

Unit 3

TAXES AND FEES OF DECENTRALIZED ENTITIES

Key unit competence: To compute taxes and fees collected by decentralized entities

Introductory activity

Q1. Describe the role of that person in the photo?

Q2. Are there any taxable activities in those areas?

3.1: Definition of key terms used in decentralized taxes and fees

Learning Activity 3.1

A person having houses in one of urban area in Rwanda and rents one of the houses to another person in the year 2022. He receives a gross rental income of FRW 4,800,000 during the tax year. On the above scenario who is liable to pay tax.

3.1.1. Key terms used in decentralized taxes and fees

The Rwandan tax structure is categorised into two that is, the decentralised tax structure and the centralised tax structure. The centralised tax structure is the one that is collected by the central government whereas the decentralised tax structure is the one that is collected by the local administration.

In this unit three, the following terms shall have the following meanings:

1. **Market value**: amount of money for which property would be sold on the market on a given date;

2. **Small and medium enterprises:** businesses which include micro, small and medium enterprises that fulfil at least two of three conditions based on net capital investments, annual turnover and number of employees, as follows:

   a) **Micro enterprise:** business having less than five hundred thousand Rwandan francs (FRW 500,000) as net capital investments, less than three hundred thousand Rwandan francs (FRW 300,000) as annual turnover and having between one (1) and three (3) employees;

   b) **Small enterprise:** such business having from five hundred thousand Rwandan francs (FRW 500,000) to fifteen million Rwandan francs (FRW 15,000,000) as net capital investments, from three hundred thousand Rwandan francs (FRW 300,000) to twelve million Rwandan francs (FRW 12,000,000) as annual turnover and having from four (4) to thirty (30) employees;

   c) **Medium enterprise:** business having from fifteen million Rwandan francs (FRW 15,000,000) to seventy million Rwandan francs (FRW 70,000,000) as net capital investments, from twelve million Rwandan francs (FRW 12,000,000) to fifty million Rwandan francs (FRW 50,000,000) as annual turnover and having from thirty-one (31) to one hundred (100) employees.

3. **Basic infrastructure:** activities that are made available to the population by the government for the purposes of boosting their social development, including roads, schools, health facilities, water, electricity, etc…

4. **Improvements:** immovable structures or amenities that are not buildings but increase the actual value of a plot of land or a building;

5. **Title deed:** a written legal document confirming a person's right to property which is delivered by the competent authority in accordance with the law;

6. **Assessment cycle:** a repetitive period of five (5) years that commences on 01 January of the first year after the commencement of this Law for which assessment of tax is done;

7. **Plot of land:** a registered piece of land with clear boundaries owned by one or several persons;

8. **Public institution:** Government-owned commercial or non-commercial entity having legal personality and enjoying financial and administrative autonomy and which is established by a specific law;

9. **Building:** a house or other similar structure used on a permanent or temporary basis;

10. **Residential building:** a house intended for occupancy for dwelling purposes;

11. **Industrial building:** a house for which the competent authority has authorized the construction for industrial purposes;

12. **Commercial building:** a house for which the competent authority has authorized the construction for commercial purposes;

13. **Decentralized entities:** local administrative entities having legal personality and enjoying administrative and financial autonomy;

14. **Owner of a property:** a person registered as owner of an immovable property or a holder of other rights on the property and whoever is considered to be the owner of the property thereof in accordance with Rwandan law;

15. **Usufruct:** right to use and benefit from the proceeds from property of another person in the same way as its owner on conditions of preserving its substance;

16. **Undeveloped land:** land that is not utilized for the intended purpose as provided for by laws governing land use and management;

17. **Person:** any individual, entity, government institution, company or any other association;

18. **Taxpayer:** any person who is subject to tax in accordance with this Law;

19. **Immovable property tax:** tax levied on property that has a fixed location and cannot be moved elsewhere and improvements thereto;

20. **Rental income tax:** tax levied on income derived from rented immovable property;

21. **Trading license tax:** a tax levied on business activities carried out in defined boundaries of decentralized entities;

22. **Tax administration:** institution in charge of assessment and collection of taxes on behalf of decentralized entities.

Application activity 3.1

1. With examples, differentiate
   a) Micro enterprise and Medium enterprise
   b) Commercial building and Residential building
2. What do you think is the purpose of decentralized entities?

3.2: Sources of revenue and property of decentralized entities

Learning Activity 3.2

A general/fiscal/revenue tax is levied to raise public funds for government service. Therefore, property tax is based on the value of property such as land, houses, shopping centers and factories. This tax is imposed by municipalities on owners of property within their jurisdiction based on the value of such property. In Rwanda, local government taxes were collected by the districts but in 2014 this task was delegated to the RRA.

In this context, which revenues are collected by RRA on behalf of local government entity?

3.2.1. Sources of revenue and property of decentralized entities

The revenue and property of decentralized entities come from the following sources:

i. Taxes and fees paid in accordance with the decentralized tax structure

ii. Funds obtained from issuance of certificates and their extension by decentralized entities;

iii. Profits from investment of decentralized entities and interests from their own shares and income-generating activities;

iv. Administrative fines;

v. Loans;

vi. Government subsidies;

vii. Donations and bequests;

viii. Fees from partners;

ix. Fees from the value of immovable property sold by auction;

x. Funds obtained from rent and sale of land of decentralized entities;

xi. All other fees and administrative fines that can be collected by decentralized entities according to any other Rwandan law.

Application activity 3.2

Burera District has a project plan of building a football stadium that will cost 4 billion, Ministry of Finance has allocated 3 billion under Burera District Budget

Burera district need other revenue to increase the budget for all planned district activities.

Question:

Apart from the budget from Ministry of Finance, what are other Sources of revenues for Burera District?

3.3: Types of Taxes to be paid to Decentralized Entities

Learning Activity 3.3

Mr Robert rent a house owned by three siblings who are orphans, that house was left by their parents

On 31st January 2023 is the deadline of property tax.

Both Robert and those siblings do not know about Property tax.

Suggest them who is liable to pay property tax among Robert and siblings.

3.3.1: Immovable property tax

Immovable Property Tax is a tax levied on the market value of a building and the surface of a plot of land. The land and buildings are referred to as the 'Immovable Property'. In order to facilitate taxpayers, the market value of the building only needs to be assessed every five years, unless major changes in the building and structures occur.

1. Tax payers of immovable property tax

According to Article 6 of Law 75/2018, the immovable property tax is assessed and paid by the owner, the usufructuary or any other person considered being the owner. The owner who lives abroad can have a proxy in Rwanda. Such a proxy must fulfil the tax liability that this Law requires from the owner. Misrepresentation is considered as if it is done by the owner. The tax liability on immovable property is not terminated or deferred by the disappearance of an owner of immovable property, or if the owner has disappeared without leaving behind a proxy or other person to manage the immovable property on his or her behalf.

2. Commencement of the Tax Liability for the Usufructuary

Article 7 of Law 75/2018 stipulates that the tax liability for the usufructuary runs from the date of commencement of the usufruct.

3. Co-ownership of Immovable Property

According to Article 8 of Law 75/2018, if immovable property is owned by more than one (1) co-owner, the co-owners appoint and authorize one of them or any other person to represent them jointly as a group of taxpayers.

If co-owners of immovable property have not appointed a co-owner or a proxy to represent them jointly as a group of taxpayers, the tax obligations related to the immovable property will be settled in accordance with laws regulating co-owned property.

4. Persons considered being Owners of Property

According to Article 9 of Law 44/2018, the following persons are considered to be owners of property:

i. The holder of immovable property where the property title deed has not yet been transferred in his/her own name;

ii. A person who occupies or who has used the immovable property for a period of at least two (2) years as if he/she is the owner as long as the identity of the legally recognized owner of such property is not known;

iii. A proxy who represents an owner of property who lives abroad;

iv. A usufructuary;

v. An administrator of an abandoned property.

5. Change of Ownership of Property

Article 10 of Law 75/2018 stipulates that in case there is a transfer of ownership of an immovable property for any reason within the tax period, the acquirer of immovable property is liable for tax from the date of the transfer. If the former owner of the immovable property fails to meet his/her tax obligations, he/she is liable for payment of the fines and late payment interests in accordance with the provisions of the decentralized tax Law.

6. Immovable Property Tax Base

According to Article 11 of Law 75 2018, the immovable property tax is levied on the market value of a building and surface of a plot of land. If the immovable property consists of a plot of land that is not built, the tax on immovable property is calculated on each square meter of the whole surface of the plot of land. Where the immovable property consists of a plot of land, a building and its improvements, the tax on immovable property for a plot of land is calculated separately in accordance with the provisions of Paragraph 2 of Article 11, while the tax on the building and its improvements is based on the market value.

7. Immovable Property Exempted from Immovable Property Tax

The following immovable properties are exempted from the immovable property tax as per Article 12 of Law 75/2018

i. One building whose owner intends for occupancy for dwelling purposes and its annex buildings located in a residential plot for one family. That building remains considered as his/her dwelling even when he/she does not occupy it for various reasons;

ii. Immovable property determined by the District Council and donated to vulnerable groups;

iii. Immovable property belonging to the State, Province, decentralized entities as well as public institutions except if they are used for profit-making activities or for leasing;

iv. Immovable property belonging to foreign diplomatic missions in Rwanda if their countries do not levy tax on immovable property of Rwanda's diplomatic missions;

v. Land used for agricultural and livestock activities which area is equal to or less than two hectares (2ha);

vi. Land reserved for construction of houses in rural areas but where no basic infrastructure has been erected;

The exemption referred to under item 1 of Paragraph One of this section equally applies to each individually owned portion of a condominium. All owners in condominium are commonly liable for the tax on commonly owned portions of plots of land on which a condominium is built. However, commonly owned portions of the building are totally exempted from the tax.

8. Period of Immovable Property Valuation

As per Article 13 of Law 75/2018, the date of valuation of immovable property is 1st January of the first taxable year. The value of immovable property is determined for a cyclical period of five (5) years. This means that every 5 years the property is revalued. It includes the market value of the building and the plot of land. For the five (5) years assessment cycle to enable the taxpayer to assess the market value of the immovable property, the following must be taken into account:

i. In the beginning of the second assessment cycle which commences after five (5) years and in the beginning of every next assessment cycle, a general revision of market value takes place;

ii. A global fluctuation of the market value between two (2) general revisions is not a reason for a new assessment of immovable property.

However, the value of immovable property can be reviewed before the end of the assessment cycle due to increase or decrease of its value.

9. Methodology of Valuation of Immovable Property

Article 14 of Law 75/2018 provides the following methods for evaluating the market value of the immovable property.

If the immovable property was valued within the previous five (5) years and no major changes in the buildings and structures, leading to an increase or decrease of the immovable property value by more than twenty percent (20%), have occurred, this value is regarded as the market value. In this case, the taxpayer must provide the certificate of valuation to the tax administration for verification purposes;

iii. If the immovable property was bought within the previous five (5) years in the free market and no major changes in the buildings and structures, leading to an increase or decrease of the immovable property value by more than twenty percent (20%) have occurred, the purchase price is regarded as the market value. In this case, the taxpayer must provide the acquisition contract for verification purposes to the tax administration;

iv. If the taxpayer's self-assessment on value of property is believed to be under valuated, the tax administration will proceed to a counter-valuation. If the value difference between the taxpayer's self-assessment and the tax administration's counter-valuation is more than twenty percent (20%), the value from counter-valuation will be regarded as the final market value. Otherwise, the taxpayer's self-assessment value applies. The taxable value should be **rounded up to the next full one thousand (FRW 1,000)** in Rwandan francs.

Illustrative Example

Mwubatsi owns a property in Bugesera valued at 100,000,000 FRW during the year ended 31st December 2022, he extended his building by

a) 10,000,000

b) 30,000,000

In each of the above cases show the tax base of the asset

c) Appreciation of the asset: 10%, since the increase in the value of the asset is below 20%, the tax base will remain the same.

d) Appreciation of the asset: 30%, since the appreciation in the value of the asset is above 20%, the new tax base of the asset will be 100,000,000 + 30,000,000 = FRW 130,000,000

10. Tax Rate on Buildings

According to Article 16 of Law 75/2018, the tax rate on buildings is determined as follows:

i. One per cent **(1%)** of the market value of a **residential building;**

ii. Zero point five per cent **(0.5%)** of the market value of the building for **commercial buildings**;

iii. Zero point one per cent **(0.1%)** of the market value of **industrial buildings,** buildings belonging to small and medium enterprises and those intended for other activities not specified in this section.

11. Application of Tax Rate on Buildings

According to Article 17 of Law 75/2018, except for the tax rate of zero point one per cent (0.1%), the tax rates prescribed by Article 16 of this Law are applied progressively as follows:

***1. For residential buildings** a progressive rate is applied as follows:*

a) Zero point twenty-five percent **(0.25%)** from the **first year** after the commencement of this Law;

b) Zero point fifty percent **(0.50%)** from the **second year** after the commencement of this Law;

c) Zero point seventy-five percent **(0.75%)** from the **third year** after the commencement of this Law;

d) One percent **(1%)** from the **fourth year** after the commencement of this Law;

***2. For commercial buildings** a progressive rate is applied as follows:*

a) Zero point two percent **(0.2%)** of the market value of the building is applied in the **first year** of the commencement of this Law;

b) Zero point three percent **(0.3%)** during the **second year** of the commencement of this Law;

c) Zero point four per cent **(0.4%)** during the **third year** of the commencement of this Law;

d) Zero point five percent **(0.5%)** during the **fourth year** of the commencement of this Law.

Residential apartments having a minimum of four floors*, including basement floors, benefit from reduction of tax rates, equivalent to fifty percent* ***(50%)*** *of the ordinary rate.*

12. Tax Rate on Plots of Land

Article 18 of Law 75/2018, provides that the tax rate on plot of land varies between zero (0) and three hundred Rwandan francs (FRW 300) per square meter. The tax rate determined by the District Council per square meter of land in accordance with the provisions of Article 18 of this Law is increased by fifty percent (50%) applicable to land in excess to standard size of plot of land meant for construction of buildings. This is per Article 19 of the Law 75/2018. Any undeveloped plot of land is subject to additional tax of one hundred percent (100%) to the tax rate referred to in Article 18 of this Law.

Example

Haguma owns a property which is located on $500m^2$; the district council approved a tax of FRW 250 per square meter. <u>Required</u>: Compute property tax

<u>Solution</u>:

Since the standard plot is $300m^2$, the first $300m^2$, will be taxed at FRW 250, the excess to $200m^2$, the tax will be increased by 50%.

Workings	Tax FRW
300* 250 FRW/m^2	75,000
200* (250 + (250 x 50%)	75,000

13. Tax Declaration on Immovable Property by the Taxpayer

According to Article 21 of Law 75/2018, the taxpayer must file the declaration to the tax administration not later than 31st December of the year that corresponds to the first tax period. The taxpayer files to the tax administration his/her declaration of the immovable property tax determined in accordance with provisions of the Order of the Minister in charge of taxes.

14. Declaration of Appreciation and Depreciation

If, due to changes to immovable property, the value of that property increases or decreases by more than twenty percent (20%) within an assessment cycle, the taxpayer submits within a period of one (1) month, a new tax declaration to the tax administration with all changes thereof and the value of the immovable property.

15. Review and re-assessment of tax by the tax administration

Tax Administration reviews the tax declaration on immovable property within a period of six (6) months starting from 1st January of the year following the year for which the tax declaration was made. If the tax declaration on immovable property was filed late, the six (6) months period starts from the date on which the tax administration received the declaration.

The review of the tax declaration on immovable property is based on the nature and general state of the immovable property, its location and its actual use.

16. Tax Assessment Notice

The tax assessment notice of the tax administration to be addressed to a failing tax declarant contains at least the following details:

i. Tax base calculation outline;

ii. Calculation of the value of the concerned immovable property;

iii. Calculation of the tax;

iv. Names of the owner, his/her proxy or usufructuary;

v. Address of the owner, the proxy or the usufructuary;

vi. The due date for tax payment;

vii. Mode of payment;

viii. Consequences of late payment or non-payment of tax;

ix. A reference to the taxpayer's right to complain and appeal

17. Waiver of Tax Liability

According to Article 31 of the Law 75/2018, the concerned District Council can only waive the due immovable property tax in the following cases:

a) The taxpayer has provided a written statement of an inventory of his property justifying that he/she is totally indebted so as a public auction of his/her remaining property would yield no result;

b) The taxpayer proves that he/she is not able to pay immovable property tax. The taxpayer applying for waiver of immovable property tax liability must write to the tax administration. When the request is found valid, the tax administration makes a report to the executive committee of the competent decentralized entity which also submits it to the District Council for decision. The waiver of immovable property tax liability cannot be granted to a taxpayer who understated or evaded taxes.

18. Late Submission or Incomplete or Misleading Tax Declaration

Apart from collecting the actual amount of the tax due, the decentralized entity shall levy a fine not exceeding 40% of the tax due where:

1. The fixed asset tax declaration form is not submitted;
2. The fixed asset tax declaration form is submitted late;
3. The fixed asset tax declaration form contains incorrect or fraudulent information with intent to evade tax.
4. The fixed asset tax declaration form is substantially incomplete;

19. Valuation of Fixed Asset

As mentioned in Article 6 of the Rwanda Tax Law, the fixed asset tax base is the market value of such fixed asset. If the fixed asset constitutes a parcel of land that is not built, the market value constitutes as per square meter value times the size of that parcel of land. Where the fixed asset consists of a parcel of land and a building and improvements, the aggregate value of the land, the building and improvements constitute the market value of such fixed asset.

Where a parcel of land, building, improvement and usufruct have been purchased, the purchase price shall be taken as the tax base, unless it is patently clear that the purchase price is below the market value. The taxable value should be rounded up to the next full one thousand Rwandan francs.

Example 1

Bagirayabo is located in Gisenyi town. He owns the properties below which are used for commercial purposes; the residential property which he dwells with his family, and a commercial building. The market value of the residential building is FRW 130,000,000 and the market value of the commercial building is FRW 250, 000,000

<u>Required</u>: Compute the property tax Bagirayabo should pay to RRA.

Solution

Since the residential house is dwelled by the owner, it is exempted from the property tax.

The commercial building will be taxed in the following ways:

	1st year (0.2%)	2nd year (0.3%)	3rd year (0.4%)	4th year (0.5%)
Property tax	250,000,000* 0.2% = FRW 500,000	250,000,000* 0.3% = FRW 750,000	250,000,000* 0.4% = FRW 1,000,000	250,000,000* 0.5% = FRW 1,250,000

3.3.2: Trading License Tax

Trading License Tax, also informally 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.

a) Tax Year

The tax period for the trading license tax starts on January 1st and ends on December 31st of that same year. If taxable activities start in January, the trading license tax must be paid for a whole year. If such activities start after January, the taxpayer must pay trading license tax equivalent to the remaining months including the one in which the activities started. As regards to persons conducting seasonal or periodic activities, the trading license tax must be paid for a whole year, even though the taxable activities do not occur throughout the whole year.

b) Trading license tax rate

The trading license tax is calculated on the basis of the following tables.

Table I. All value added tax (VAT) registered profit-oriented activities

Turnover	Tax due
From FRW 1 to FRW 40,000,000	FRW 60,000
From FRW 40,000,001 to FRW 60,000,000	FRW 90,000
From FRW 60,000,001 to FRW 150,000,000	FRW 150,000
Above FRW 150,000,000	FRW 250,000

Table II. Other profit-oriented activities

Type of Activity	Rural area/ FRW	Towns/FRW	City of Kigali/FRW
a) Vendors without shops, small scale technicians	4,000	6,000	8,000
b) Transporters of people and goods on motorcycle	8,000	8,000	8,000
c) All other vehicles besides bicycles	40,000 Each vehicle	40,000 Each vehicle	40,000 Each vehicle
d) For transport activities by motor boat	20,000 Each boat	20,000 Each boat	20,000 Each boat
e) Others profit-oriented activities	20,000	30,000	40,000

Taxpayers who sell goods or services exempted from value added tax but whose turnover is equal or greater than twenty million Rwandan francs (FRW 20,000,000) pay the trading license tax in the same manner as taxpayers registered for value added tax.

The basis for the calculation of trading license tax in table I above is the turnover of the previous year.

c) Tax Exemption

- Non-commercial State organs,
- Small and medium enterprises during the first two (2) years following their establishment or 24 months of establishment, are exempted from trading license tax. After expiration of the 24 months, the taxpayer must declare and pay Trading License Tax within seven days.

d) Trading license tax declaration

Any taxpayer files a tax declaration to the decentralized entity where his/her activities are undertaken not later than 31st January of the year that corresponds to the tax period.

If a taxpayer has branches, a trading license tax declaration is required for the head office as well as for each branch of his/her business activities basing on the turnover of the previous year for the head office and for each branch.

In case a branch does not have or cannot determine its turnover, the trading license tax is declared based on the turnover of the head office.

If a taxpayer carries out different business activities in different buildings, he/she files a trading license tax declaration for each business activity.

When a business is made of several activities carried out by the same person in the same building, only one trading license tax certificate is required and only one tax declaration for all business activities is filed.

In case a business is spread across more than one District, the taxpayer files his/her declaration of trade license tax in each District where he/she operates.

e) Trading license tax payment

The trading license tax assessed by a taxpayer himself/herself is paid to the tax administration not later than 31st January of the tax year.

If the trading license tax is not paid by the due date, the taxpayer is not allowed to start or to continue his/her business activities without having paid such tax.

Business activities undertaken while the taxpayer is in arrears with the payment of his/her trading license tax are illegal. The tax administration has the power to stop such activities.

f) Posting of the trading license tax certificate

The trading license tax certificate is displayed clearly at the entrance of the business premises or affixed to the car, boat or any other vehicle for which the tax was paid.

g) Presentation of the trading license tax certificate

Whenever necessary, the holder of a trading license tax certificate presents such a certificate with documents identifying him/her or his/her business activities to the tax administration.

Failure to present the trading license tax certificate is punishable by an administrative fine of ten thousand Rwandan francs (FRW 10,000). The taxpayer's obligation to pay the trading license tax is not affected by the imposition of a fine.

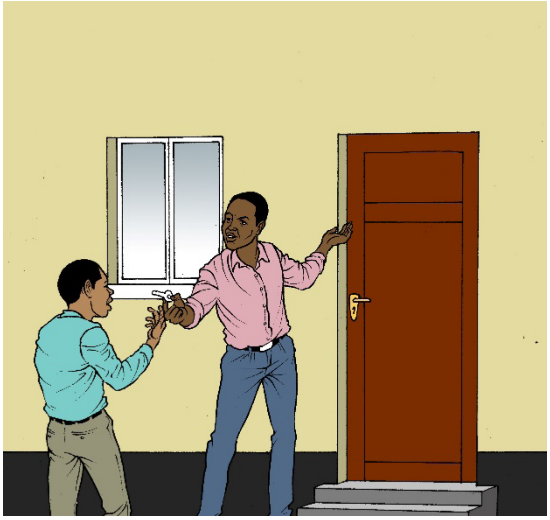
h) Replacement of the trading license tax certificate

If a trading license tax certificate is lost or damaged, a duplicate is issued by the tax administration for a fee equivalent to five thousand Rwandan francs (FRW 5,000).

i) Replacement of the trading license tax certificate

In case the taxpayer terminates or changes his/her business activities during a tax year, he/she is, after an audit, refunded the paid trading license tax depending on the remaining months until 31st December of that tax period.

3.3.3: Rental Income Tax



Rental Income Tax is a tax levied on the income generated from rented land and buildings. The land and buildings are referred to as the 'Immovable Property' and Rental Income Tax must be declared and paid on rented immovable properties in addition to Immovable Property Tax.

a) 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 ends on December 31st of the previous year which shall be the income taxable year.

b) Taxable Rental Income

Rental income tax is charged to the following:

1. Income from rented buildings in whole or in part;
2. Income from rented improvements in whole or in part;
3. Income from any other rented immovable property located in Rwanda.

c) Rental Contract

The rental contract in respect of immovable property is in writing and signed by the contracting parties. A copy of this contract is submitted to the tax administration within fifteen (15) days following the date the contract was signed.

d) Rental income tax computation method

The taxable rental 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 rental income is determined by deducting from gross rental income fifty percent (**50%**) considered as the expenses incurred for upkeep of the property plus actual bank interest paid from the beginning of the rental period within the tax period.

e) Rental income tax rate

Rental Income Tax is a progressive tax. This means that there are different tax rates depending on taxpayer's taxable income, as described above. The groupings of taxable rental income are called tax brackets. The tax rates for each tax bracket are:

1° The bracket part of the annual income generated through rental of a building from one Rwandan franc (FRW 1) to one hundred eighty thousand Rwandan francs (FRW 180,000) shall be taxed at zero percent **(0 %)**;

2° The bracket part of the annual income generated through rental of a building from one hundred eighty thousand and one Rwandan francs (FRW 180,001) to one million Rwandan francs (FRW 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 one million Rwandan francs (FRW 1,000,000) shall be taxed at thirty percent **(30 %)**.

Annual taxable income	Marginal tax rate	Formulae
Below FRW 180,000	0%	T = 180,000* 0% = 0
Between FRW 180,001 to FRW 1,000,000	20%	T= (1,000,000 – 180,000)* 20% + 0= 164,000
Above FRW 1,000,000	30%	T= (T1 – 1,000,000)* 30% + 164,000

It is important to note that these tax rates are marginal. This means that for each taxpayer in each year: the first FRW 180,000 that the taxpayer earns is taxed at 0%, the next FRW 820,000 earned is taxed at 20% and any remaining income is taxed at 30%. This means that no taxpayer is made worse off by receiving income in a higher tax bracket.

Illustration Example

Munyantore owns two properties in Remera which he rents to various business men. In Property one he receives a monthly rent of FRW 800,000 starts on 05-January-2021 and in Property two he receives a monthly rent of FRW 1,250,000, same period as above. Property two was constructed using a loan of FRW 13,000,000 from the bank at an interest rate of 16% per annum.

Required:

a) Calculate His taxable rental income

b) Determine His Tax liability and the Tax Payable.

Solution

Computation of Rental income for Munyantore for the Year Ended 31/12/2021

Property One:

Particulars	Workings	Amount (FRW)
Gross Rent	800,000* 12	9,600,000
Less: Allowable expenses	50%* 9,600,000	(4,800,000)
Taxable Rental Income		**4,800,000**

Property Two:

Particulars	Workings	Amount (FRW)
Gross Rent	1,250,000* 12	15,000,000
Less: Allowable expenses	50% * 15,000,000	(7,500,000)
Less: Interest expenses	16% * 13,000,000	(2,080,000)
Taxable Rental Income		**5,420,000**

Taxable income from two properties: FRW 4,800,000 + FRW 5,420,000 = FRW 10,220,000

Computation of Tax Payable of the Year Ended 31/12/2021

Total income			10,220,000
Tax liability	Tax rate	Tax	
0 – 180,000	0%	0	
180,000 – 1,000,000	20%	164,000	
1,000,000 – 10,220,000	30%	2,766,000	
Total liability		**2,930,000**	

3.3.4: Local Government Fees

a) What are local government fees?

There are a wide range of local government fees. These can be for taxpayers who conduct profit-oriented activities or who require services or authorizations from District Offices.

b) Third parties which also collect local government fees

Ngali Holdings Ltd is mandated to support RRA in collecting all local government fees. Millennium Savings and Investment Cooperative (MISIC) also collects parking fees.

In addition, the declaration and payment of the following local government fees is now processed through the e-Government platform known as Irembo or Rwanda Online:

- Civil status certificates, including Birth, Marriage and Death certificates.
- Transfer of land titles.

c) Deadlines to declare and pay different types of local government fees

The deadline to declare and pay local government fees depends upon the basis of the fee. Fees charged for a service, such as fees on official certificates and documents to be notified by the public notary, must be declared and paid before the service is delivered.

Fees payable on a monthly basis, such as Public Cleaning Service Fees, must be declared and paid no later than the 5th of the following month. Fees payable on an annual basis, such as fees on advertising, must be declared and paid no later than 31st December of that year.

d) Types of different local government fees and rates

The rates of many local government fees are variable, within certain thresholds, depending upon certain factors such as the location, i.e. urban, trading centre, or rural, or the vehicle details. The exact rate, within the thresholds, is determined by the District Council on an annual basis by the 30th June.

The list of local government fees, detailed in the *Presidential Order Determining Fees Levied for Public Services and Certificates Delivered by Decentralized Entities* are displayed below.

The processes for declaring these fees varies, depending upon the type of fee.

Note that vulnerable people may request a waiver from fees by the District Council for all of the following fees.

Market fees

- For traders in designated market areas.
- Up to FRW 10,000 per month.

Fees charged on public cemeteries

- For entombing a corpse in a public cemetery.
- FRW 500 – FRW 5,000 per tomb.
- Depend upon the cemetery.

Fees charged on parking

- For motor vehicles parking in lots under the authority of the District.
- FRW 100 per hour – FRW 20,000 per month
- Depend upon the size of the vehicle and duration of the parking.
- Collected by Millennium Savings and Investment Cooperative (MISIC).
- Exemptions for vehicles on official duty owned by State, Embassy, UN organizations and international organizations having an agreement with the Government of Rwanda; special vehicles for disabled people.

Fees charged on public parking

- For transport vehicles (buses and taxis) entering public bus/taxi parks.
- FRW 500 – FRW 10,000 per day, multiple entry.
- Depend upon the size of the transport vehicle.

Parking fees on boats

- For boats used for profit making activities.
- FRW 100 per day – FRW 5,000 per month.
- Depend upon the carrying capacity of the boat in tones, and whether it has an engine.

Public Cleaning Fees

- Payable by each branch of a business or institution, excluding:
  - Households
  - Orphanages / vulnerable persons' houses
  - Government institutions which are not profit oriented
  - Churches and faith-based organizations not involved in profit-oriented activities
  - United Nations institutions and embassies
  - People carrying out their activities in market places paying market fees

- FRW 500 – FRW 10,000 per month.
- Depends upon the location and nature of activity.

Fees on civil marriage done not on official business days

- Up to FRW 10,000 per marriage.
- District Council determines the official business days for civil marriage.

Fees on services related to the documents of immovable property

- A range of services including changing official ownership, map requests and building permits.
- FRW 1,200 – FRW 60,000.
- Depend upon the service requested. Building permits depend upon the floor area in square meters.
- Vulnerable people may request to be exempted from building permit fees by the District Council.

Fees on official certificates and documents to be notified by the public notary

- For official certificates (such as civil status, birth or death) or the notification of documents.
- FRW 500 – FRW 5,000.
- Depends upon the type of certificate or document to be notified.

Fees on authorization to make or burn bricks and tiles

- Any person intending to make or burn bricks and tiles must request authorization from the District.
- FRW 10,000 per year.

Fees on advertising billboards and banners

- Any person putting up advertising billboards and banners must request authorization from the District.
- FRW 10,000 – FRW 20,000 per square meter for each side of regular billboards per year.
- FRW 60,000 – FRW 100,000 for billboards using information technology per year.
- FRW 5,000 – FRW 10,000 per day for banners
- Exemptions include:
    - Advertising on buildings and vehicles owned by a company.
    - Billboards or signposts showing the direction of a given activity but no other commercial advertising message.

Fees on boat number plates

- For the number plate required to operate a boat.
- FRW 5,000 – FRW 15,000 per number plate.
- Depend upon whether the boat has an engine.

Fees on bicycle number plates

- For bicycles used for profit making activities.
- FRW 1,000 per number plate.

Fees on communication towers

- For erected communication towers.
- FRW 2,000 per vertical meter per year.
- FRW 1,000 per vertical meter per year for any underlying building or structure.

Fees on transport of materials from quarries and forests

- For transport of materials from quarries and forests.
- FRW 1,000 per tone, payable on every loading.

Application activity 3.3

1. Tubyine Fun Pub is established in 1st April 2021. As the pub is considered a small enterprise, it will be exempted from Trading License Tax. Show the date it will be required to pay its first trading license and the deadline of paying its trading license for the second year.

2. Dukore opens a small shop in Rubavu in March 2022. The tax due for the full tax year for "other profit-oriented" activities in an urban area is FRW 30,000.

   Calculate the Trading License Tax to pay to the decentralized entity.

3. Mwiza is a resident of Rwanda. In 2022, She owns two commercial properties in Gisozi which she rents to various individuals. Each property is rented at FRW 1,200,000 per month. All properties received tenants the whole year. In the construction of the first property, Mwiza borrowed FRW 20,000,000 from EQUITY Bank Rwanda and she pays annual interest rate of 17%. Compute her rental income and the rental tax liability.

4. Kazungu is a registered trader in Nyabugogo market. On every Friday, he takes part of the goods to the newly constructed Shyorongi market to attract more clients outside Kigali. In Nyarugenge district, the threshold of market fees is fixed at FRW 10,000 per month and per stall in Muhima, Nyarugenge and Gitega Sectors. The council of Rulindo district have decided to fix at FRW 3,000 market fees per stall in all constructed markets across the district.

Required: Calculate the monthly market fees to be paid by Kazungu.

3.4: Other Sources of Revenue for Decentralized Entities

Learning Activity 3.4

In our previous lesson, we learned about different types of revenue streams generated by decentralized entities. However, there may be other sources of revenue for local governments. Could you please explain some of them?

3.4.1: Loans

A decentralized entity can borrow money with prior approval of the Minister in charge of finance in accordance with the Organic Law on State Finance and Property.

Borrowings of a decentralized entity are only for investment according to the development plans of this entity.

3.4.2: Investments

A decentralized entity can invest in companies and financial institutions. The authorization to invest in companies, commercial banks and other private institutions is granted by the Minister in charge of finance after consultation with the Minister in charge of Local Government.

An Order of the Minister in charge of finance determines regulations in relation to the amount for investment and other matters relating to investment.

3.4.3: Government Subsidies

Every year, the Government transfers to decentralized entities at least five percent (5%) of the domestic revenue of the previous tax period in order to support their budgets.

Application activity 3.4

Q1. How much money the Government transfers to the decentralized entities and why?

Skills Lab Activity 3

After a visit to the RRA office, students will have to produce a written report on decentralized taxes and fees collection and explain the challenges faced by the tax administration in collecting these taxes and they will solve problems of citizens not registering their property/business for tax purposes.

End of unit assessment 3

Question 1

Ntabwoba owns the following properties in Gasabo valued on 1st January 2019

Particular	Market value
Residential building occupied by the owner and his family	200,000,000
Apartment with two floors	450,000,000
Apartment with five floors	800,000,000
Commercial building	500,000,000

Question 2

Suppose Agaciro Bank, apart of its Headquarters, has six (6) branches in Nyarugenge district, five (5) branches in Kicukiro district and four (4) branches in Gasabo district. The following additional information is relevant:

- The turnover of Agaciro Bank for the year 2022, according to the information provided by RRA, is FRW 6,000,000,000;
- The turnover of each branch is the average from the total turnover

Required:

a) Calculate the trading license tax belonging to each district

b) Calculate the total trading license tax for Agaciro Bank;

Question 3

Uwineza owns two properties in Kicukiro. The first property was constructed in 2010 at a cost FRW 150,000,000. During the construction, she borrowed FRW 50,000,000 from the bank and she pays an interest rate of 15%. The property was occupied from 1/1/2015 to 31/12/2015. The second property was constructed in 2014 at a cost of FRW 125,000,000 using her own money. The property was occupied from 1/5/2015 to 31/12/2015. Each property is rented at FRW 3,500,000 per month. Uwineza incurred the following expenses on the two properties during the year.

i. Salaries of the manager FRW 4,800,000

ii. Electricity FRW 2,500,000

iii. Painting FRW 4,500,000

iv. Water FRW 1,200,000

v. Depreciation FRW 10,500,000

vi. Security personal FRW 5,000,000

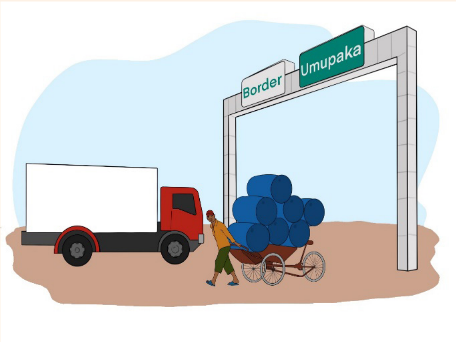
Required

Compute the taxable rental income and the tax liability for the year ended 31/12/2015

Unit 4 CUSTOMS AND CONSUMPTION TAX

Key unit competence: Compute the Customs and consumption taxes

Introductory activity



Mr. KAMARI, an importer located in Musanze District, imported Irish potatoes from Uganda Kabare District and had a consignment with vehicle RAC 407P for bringing 3 tons When he reached Kisoro district near Cyanika border the vehicle got a mechanical problem which required a spare part from Nairobi-Kenya.

1. From the above picture which things are you seeing?
2. Considering Mr. KAMARI's scenario, what do you think Mr. KAMARI will present to border for his.

4.1: EAC origin, objectives

Learning Activity 4.1

Many years ago businessmen from Rwanda traded with people from Uganda, Congo, Kenya and Tanzania but due to security and tax policies and international relations most of their companies were operating at a loss and some time they lost their products while crossing from Rwanda to these countries and they even faced the problem of not getting trade facilities while getting to the frontiers. These problems affected not only the Rwandan side, but almost all countries in the region. For the above scenario, what things have been done in this country to solve the above problems?

4.1.1: EAC customs union origin

1. **Meaning of the East African Community Customs Union**

   a) The East African Community (EAC) Customs Union

Meaning of customs union

The Customs Union is the first Regional Integration milestone and critical foundation of the East African Community (EAC), which has been in force since 2005, as defined in Article 75 of the Treaty for the Establishment of the East African Community.

It means that the EAC Partner States have agreed to establish free trade (or zero duty imposed) on goods and services amongst themselves and agreed on a common external tariff (CET), whereby imports from countries outside the EAC zone are subjected to the same tariff when sold to any EAC Partner State.

Goods moving freely within the EAC must comply with the EAC Rules of Origin and with certain provisions of the Protocol for the Establishment of the East African Community Customs Union

The East African Community (EAC) Customs Union is formed of Kenya, Tanzania, Uganda, Burundi, Rwanda, Democratic Republic of Congo and South Sudan

b) Trade related aspects

- **Rules of Origin**

Rules of Origin are the laws, regulations and administrative procedures which determine a product's country of origin.

The protocol provides that trade within the EAC will be conducted in accordance with agreed East African Rules of origin.

- **National treatment:**

This is the obligation that each nation must give imported goods the same treatment that they give to domestic or "national" products, i.e. there should be no discrimination. In this respect, Partner States agreed not to enact legislation, or apply administrative measures, which directly or indirectly discriminate against the same or similar products of other Partner States.

- **Anti-dumping measures:**

Dumping occurs when imported merchandise is sold in the domestic market (or exported) at less than the normal value of the merchandise, i.e. a price that is less than the price at which the merchandise is sold in its home market. Partner States recognized the challenges dumping imposes on the domestic market.

- **Subsidies:**

Partner States that grant any form of subsidy that directly or indirectly distorts competition are required to notify the other Partner States in writing.

- **Countervailing measures:**

For purposes of offsetting the effects of subsidies, a countervailing duty may be levied on any product of any foreign country imported into the Customs Union.

- **Safeguard measures:**

Partner States agreed to apply safeguard measures to situations where there is a sudden surge of a product imported into a Partner State, under conditions which cause or threaten to cause injury to domestic producers.

- **Restriction and prohibitions to trade:**

Partner States may introduce or continue with restrictions or prohibitions involving: the application of security laws and regulations; the control of arms and ammunition; the protection of human life, the environment and natural resources, public safety, public health and public morality; the protection of animals and plants It was agreed that goods to be restricted and prohibited from trade be specified in the Management Act..

- **Re-exportation of goods:**

Partner States agreed to ensure that re-exports from their countries shall be exempt from the payment of import or export duties.

- **East African Community Committee on Trade Remedies:**

The Protocol established the above committee. This committee handles any matters relating to the rules of origin, anti-dumping measures, subsidies and countervailing measures and any safeguarding measures that are provided for under the East African Community Customs Union.

2. The main features of EAC Customs union

- A shared set of import duties applied on goods from countries outside the EAC. This is referred to as the Common External Tariff (CET)
- Zero rate of import duty, and no quotas, applied on goods from countries within the EAC with valid certificate of origin
- Shared procedures, safety measures, valuation methods, trade policy and terminology governed by the EAC Customs Management Act (CMA).

Rwanda is also a member of the Common Market for Eastern and Southern Africa (COMESA) free trade area.

4.1.2: Objectives of EAC Customs union

The objectives of the East African Community are broader and cover almost all spheres of life. The main objective of the Customs Union is formation of a single customs territory. Therefore, trade is at the core of the Customs Union.

It is within this context that internal tariffs and non-tariff barriers that could hinder trade between the Partner States have to be eliminated, in order to facilitate formation of one large single market and investment area

Customs Union focuses on facilitating trade on the following:

- Removal of tariff on goods from partner states;
- Application of a Common External Tariff;
- Removal of other barriers to trade;
- Customs Union focuses on trade facilitation through:
  - Removal of non-tariff barriers;
  - Simplifying and standardizing trade formalities and customs documentation;
  - Exchange of customs/ trade information;
  - Adopting and implementing international best practices in customs and trade;
  - Common and uniform application of Customs laws.

Application activity 4.1

1. Define the terms "rules of origin and mention types of rules of origin
2. True or false question on the features of EAC Customs union
   a) A shared set of import duties applied on goods from countries outside the EAC. This is referred to as the common External Tariff (CET)
   b) Zero rate of import duty, and no quotas, applied on goods from countries within the EAC with valid certificate of origin
   c) Removal of other barriers to trade
3. Explain the purpose of rules of origin
4. In East African Community (EAC) rules of origin criteria, goods shall be accepted as originating in a Partner State where the goods are wholly produced in the Partner State among others.

   For the purposes of rules of origin, what products that shall be regarded as wholly produced in a partner state?

4.2: Description of customs duties

Learning Activity 4.2

The student from Munezero girls' schools were on a study tour in Dar -Es -Salam being hosted by Institute of Tax Administration (ITA) in collaboration with Tanzania Freight Forwarders Association (TAFFA). Initially students had planned to visit Dar-Es-Salam port and discuss customs issues with the team on the part of TAFFA, during the visit, head of the delegates asked the following questions that need your answers as S5 student who are studying taxation.

Q1. What is Customs Duties?

Q2. With research, explain the exemption of customs tax for products used in export processing zones

4.2.1: Definition of customs duties and the person who can import or export

1. **Definition of customs duties**

Customs duties are defined as all taxes, duties, levies and fees that are required to be paid to Revenue Authority like Rwanda Revenue Authority (RRA) in Rwanda on imported or exported goods.

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 (Export Duty on Raw Hides and Skins).

2. **Meaning of importation and exportation and the person who can import or export**

   a) Meaning of importing and exporting

   - **Importing** is when goods are brought into Rwanda from an external country.
   - **Exporting** is when goods are taken from Rwanda into an external country.

   b) The person who can import or export

Any taxpayer may import or export goods. No additional registration is required, but individuals or businesses without Taxpayer Identification Number (TIN) must register with RDB or RRA as normal.

The majority of importing and exporting procedures are carried out by licensed companies called Clearing Agents on behalf of the taxpayers

4.2.2: Types of Customs duties

1. **Taxes paid on imports that are also paid on domestic goods**

   - Value Added Tax (VAT)
   - Excise Duty

2. **Taxes that are specifically paid on imports**

   - Import Duty
   - Withholding Tax of 5% (WHT 5%)
   - Infrastructure Development Levy (IDL)
   - Strategic Reserves Levy (SRL)

- African Union Levy (AUL).

3. **Taxes that are specifically paid on exports**
   - Export Duty on Raw Hides and Skins

4. **Small fees on imports and exports**
   - Computer Processing Fee
   - Quality Inspection Fee (QIF)

4.2.3: Valuation of imported and exported goods

Imports are valued as Cost, Insurance and Freight (CIF). This is equal to the cost of the goods, the cost of any insurance paid on the goods and the freight costs of transporting the goods transport the consignment to the first point of entry of the EAC. Exports are valued as Free On board (FOB). This is equal to the cost of the goods only. Whether using the CIF or FOB valuation, the declared value must be supported by commercial invoices, as well as insurance and freight invoices where applicable.

If goods have been purchased in a foreign currency, declare the value in the currency of the invoice. Rwanda electronic Single Window (ReSW) system then uses the National Bank of Rwanda (BNR) exchange rate to convert this into Rwandan francs.

Example

Rukundo is importing a consignment of mobile phones from Japan. The cost of the mobile phones was USD 30,000 (thirty thousand US dollars). He paid an additional USD 400 (four hundred US dollars) to transport the consignment to the first point of entry of the EAC, in this case, the port of Mombasa in Kenya. He also paid USD 150 to insure the goods during transportation to the port of Mombasa. On the day of declaration, the exchange rate is USD 1: FRW 850. Therefore, the CIF value of his import declaration is:

CIF = (USD 30,000 + USD 400 + USD 150) * 850 = FRW 25,967,500.

4.2.4: The documents required when importing or exporting

The importing or exporting taxpayer must provide the Clearing Agent with valid documents proving the value and authenticity of their consignment.

A. The mandatory documents that taxpayers importing goods originating from within the EAC must provide are:

1. Commercial Invoice or equivalent document

Showing the value and description of all goods within the consignment.

2. Packing List

Lists the goods being transported within the consignment.

B. There are two additional mandatory documents that taxpayers importing goods originating from outside the EAC must provide to RRA:

1. Freight Invoice

Showing the cost of transport and insurance for the consignment, if not included in the commercial invoice.

2. Bill of Lading / Airway Bill

A contract between the owner of the ship / plane transporting the consignment and the importing taxpayer.

C. The only mandatory document that taxpayers exporting goods must provide to RRA:

Commercial Invoice or equivalent document showing the value and description of all goods within the consignment.

Additional documents that taxpayers may be required to provide when importing or exporting depend upon the type of goods and their origin. Clearing Agents are trained to inform taxpayers which documents are necessary for their consignment. Without the required documents, Customs Officials will not permit the goods to be imported or exported. Examples of goods that may require additional documents include:

- Goods produced within the EAC or COMESA
- Agricultural goods and inputs including food
- Chemicals and cosmetics
- Medical equipment and pharmaceuticals
- Worn clothes

The documents required to prove that goods being imported were produced in the EAC or COMESA?

Imported goods that are produced within the EAC or COMESA can be subject to exemptions. In addition, imported goods that are produced within the EAC only are granted automatic access to the pre-clearance facility

These benefits require a Certificate of Origin delivered by the exporting country.

The EAC Rules of Origin document explains the criteria that goods should meet to be considered as originating from EAC partner states.

Other important points:

a) The way Rwandan exporters certify that goods being exported were produced in Rwanda

Rwandan exporters can apply for a Certificate of Origin through their Clearing Agent. The Clearing Agent applies on the Rwanda electronic Single Window (ReSW) and provides the required evidence at any Border Post or Dry Port. There are different fees and requirements depending upon the country to which the goods are exported. There is also a Simplified Certificate of Origin available for smaller value consignments

There are many incentives that Rwandan exporters can benefit from, depending on the country being exported to. This includes EAC, COMESA, the European Union (EU) and the United States of America (USA).

b) The different Customs channels

After import or export declarations have been submitted and paid, the Rwanda electronic Single Window (ReSW) system assigns the consignment to a Customs channel. The Customs channel refers to the level of verification from Customs Officers required for that consignment.

c) Harmonized System (HS) Codes

Harmonized System (HS) Codes is an internationally standardized to classify traded products. The taxpayer provides a description of the type of goods to the Clearing Agent, who is trained to select the correct HS Code. Selecting the correct HS Code is important for ensuring the correct amount of tax is declared and paid.

Application activity 1.2

Q1. State the types of Customs Duties

Q2. What is the Rwanda electronic Single Window (ReSW)?

Q3. Briefly explain why the government imposes tax on importation?

Q4. XYZ enterprise is a business that offers customers a wide variety of products at inexpensive prices. Customers can buy from the shop on the online website. Owner, KAMANZI, employs more than 2000 people. The business had humble beginnings, but today it sells fruits, flowers, vegetables and meat to both the local market and abroad.

a) Does XYZ enterprise sell to the local market or regional market? Explain your answer.

b) List the advantages of selling products to the local market

c) Which challenges do you think that KAMANZI needs to overcome to sell fresh flowers to other countries?

4.3: The taxes that are specifically paid on imports

Learning Activity 4.3

Analyze the photos above and answer the question that follow:

Q1. With research, give the different Import Duty rates or Common External Tariff (CET) rates allow for certain types of goods to be prioritized.

4.3.1: Import duty

1. **Meaning of import duty**

Import Duty is a tax paid specifically on imported goods originating from outside of the EAC.

The EAC Customs Union ensures a zero (0%) rate of import duty on all imports on goods originating from within the EAC

The EAC customs union means that the rates of import duty are agreed in the common external tariff (CET).

The different import duty rates also allow for certain types of goods to be prioritized. In general, CET rates are:

- Capital goods and raw materials = 0%
- Intermediate goods = 10%
- Finished goods = 25%
- Sensitive Goods = Varying rate

The amount of import duty to be paid is calculated as follow:

Import Duty = CIF * import duty rate

- **Handling fees (HF)**

Handling Fees are not actually paid, but are included in VAT and excise duty calculations. HF is calculated by: Handling fees (HF) = Gross weight (kg) * FRW 10

Gross weight (kg) refers to the weight of the goods in the consignment in kilograms, including the weight of the containers or transporting equipment.

4.3.2: Withholding tax of 5% and infrastructure development levy

1. **Withholding Tax of 5%**

WHT 5% is a tax paid specifically on imported goods.

WHT 5% is paid by all taxpayers except for taxpayers with a valid Quitus Fiscal certificate

Quitus Fiscal is a privileged status available, upon request to taxpayers who have a good compliance record with RRA. Quitus Fiscal certificates are proof of this status. There are two types of Quitus Fiscal, for withholding tax on public tenders of 3% (WHT 3%) and for withholding tax on imports of 5% (WHT 5%). Taxpayers with Quitus Fiscal certificates are not required to pay WHT 5%, or have WHT 3% withheld and paid on their behalf, depending upon the type of Quitus Fiscal certificate.

2. **Infrastructure development levy**

Infrastructure development levy (IDL) is a tax paid specifically on imported goods from outside of the EAC.

IDL contributes to regional trade facilitation infrastructure projects. IDL is paid on all imported goods, with the exception of those detailed in Article 5 of Law N°34/2015 of 30/06/2015, including:

- Goods originating from within the EAC
- Reproductive animals and plants
- Pharmaceuticals
- Veterinary products
- Medical equipment
- Industrial machinery
- Solar energy equipment
- Duty remission products
- The IDL to be paid on imported goods is calculated by: Infrastructure development levy (IDL) = CIF * 1.5%

4.3.3: Strategic reserves levy and African union levy

1. **Strategic reserves levy**

SRL is a tax paid specifically on imported fuel and petroleum products.SRL funds the purchase and safe maintenance of greater reserves of fuel. The SRL is paid at a specific rate per litre of fuel, calculated by: Strategic reserves levy (SRL) = FRW 32.73 per litre of fuel

2. **African union levy (AUL)**

AUL is a tax paid specifically on imported goods. AUL contributes to the financing of African Union activities.The AUL paid on imported goods is calculated as follow: African union levy (AUL) = CIF * 0.2%

4.3.4: Motor vehicle registration fees (MVF) and Road Toll

1. Motor vehicle registration fees (MVF)

MVF are paid specifically on imported motor vehicles. MVF must be paid regardless of the type of vehicle or the exemptions available to the importing taxpayer.

MVF vary depending upon the engine capacity of the vehicle as measured in cubic centimeters (cc):

Engine Capacity (cc) between	Motor Vehicle Fees (MVF) for all Motor Vehicles
0 to 1,000	FRW 75,000
1,001 to 1,500	FRW 160,000
1,501 to 3,000	FRW 250,000
3,001 to 4,500	FRW 420,000
4,501 and above	FRW 560,000
Special Engine	FRW 640,000

The special engine category includes semi-trailers, construction vehicles and other very heavy vehicles.

2. Road toll

Road toll is a fee paid specifically on foreign registered trucks entering Rwanda. Road toll contributes to the road maintenance fund (RMF) in Rwanda.

It is important to note that the road toll is paid per truck entering Rwanda, not per declaration. Therefore, this is paid separately to other customs duties.

The road toll has two different rates, depending on the size of the trucks. The road toll must be paid by trucks every time they enter Rwanda. The rate of road toll is:

- $76 USD for simple trucks
- $152 USD for heavy commercial trucks

4.3.5: Fuel levy and export duty on raw hides and skins

1. **Fuel levy**

Fuel levy is a tax paid specifically on imported fuel and petroleum products.

Fuel levy contributes to the road maintenance fund (RMF) in Rwanda. The fuel levy is paid at a specific rate per litre of fuel.

The Fuel Levy to be paid on imported fuel is calculated by:

Fuel Levy = FRW 115 per litre of fuel

As with the Fuel Levy, Road Toll is referred to as 'FER' in import declarations and assessment notices

2. **Export duty on raw hides and skins**

Export duty on raw hides and skins is paid on all exports of unprocessed hides and skins to outside of the EAC. The rate of export duty on raw hides and skins is either:

- 80% of FOB, or $0.52 per Kg, whichever is higher. In export declarations and assessment notices, Export Duty on raw hides and skins is referred to as code 'EX1'.

4.3.6: Computer Processing Fee, Quality inspection fees (QIF) and warehousing fees

1. **Computer processing fee**

The computer processing fee is a fee paid for every import or export declaration that is submitted.

The computer processing fee is:

- FRW 3,000 per regular declaration
- FRW 500 per simplified declaration

2. **Quality inspection fees (QIF)**

Quality inspection fees (QIF) are fees paid on specific imported products.

Rwanda Standards Board (RSB) is the institution which both designates which products are required to be inspected and carries out the inspections.

RRA collects QIF on behalf of RSB. The QIF to be paid on imported goods is calculated by:

Quality Inspection Fees (QIF) = FOB * 0.2%

In import declarations and assessment notices, QIF are referred to under code 'QIF'.

3. Warehousing fees

Warehousing fees are paid when storing consignments in warehouses. It is important to note that these are paid directly to the warehouses and not to RRA. Rates may vary according to the warehouse, the size and weight of the consignment and how long it has been stored for.

Application activity 4.3

Q1. Rukundo is importing a consignment of mobile phones from Japan. The cost of the mobile phones was USD 30,000 (thirty thousand US dollars). He paid an additional USD 400 (four hundred US dollars) to transport the consignment to the first point of entry of the EAC, in this case, the port of Mombasa in Kenya. He also paid USD 150 to insure the goods during transportation to the port of Mombasa. On the day of declaration, the exchange rate is USD 1: 850 FRW. Find the CIF value of his import declared

Q2. Mugisha bought different products from England valued 6,000 pounds. He pays transport cost of 1000 pounds up to MOMBASSA port and assurance of 300 pounds. He also paid 25% of import duty. If these goods weight 500kg, determine the amount of VAT that RRA will tax Mr. Mugisha at the entrance border of RUSUMO. (The exchange rate is 1 Pound = FRW1400)

4.4: The excise duty (consumption tax)

Learning Activity 4.4

The Government of Rwanda has implemented some tobacco control measures, including regulations to protect passive smokers from exposure to second-hand smoke; use of warning label on every cigarette pack'' Smoking is harmful to your health' "that is intended to reduce smoking and provide information about the danger of smoking. Additionally, banning tobacco advertising in electronic media in order to discourage smocking especially among the youth; establishment of no-smoking areas in public places like government and business offices, hospitals, restaurants and buses but these efforts too have been slow in reducing smoking consumption.

In July 2015, government changed the tax policy for the Excise on Tobacco where the policy change was expected to maximize revenue collections and minimize tobacco consumption in Rwanda.

Excise taxes should be designed according to those costs or risks as a way to account for the negative externality. Thus, a good excise tax accounts not for the value of a product, but for the costs of the externality. For alcohol products, this means that the alcohol content determines the tax. This, fortunately, is common practice across the Organization for Economic Co-operation and Development (OECD an excise tax aimed at reducing vehicle emissions should be targeted at heavier pollutants a practice which is not common for taxation of motor fuel. This principle is well-established in some countries where cigarettes are taxed at higher rates while other less harmful products are taxed at lower rates. Some governments, however, tax all tobacco products at equal rates despite their different harm profiles. Suppose that YXZ Ltd produce and sell wine from the local input and as Taxation student, answer the following question;

a) Which type of tax YXZ should pay?

b) Give the rate of excise duty for this product.

4.4.1: Definition of excise duty and the person required to register for excise duty

1. Definition of excise duty

Excise duty is a tax applied to specific products. This means that it is able to discourage consumption with negative social impacts. This can reduce the costs of healthcare and policing, whilst raising significant revenues for further government spending. As excise duties are charged on the consumption of certain products, it is also referred to as a 'consumption tax'.

2. The person required to register for excise duty

Any manufacturer of a product that is subject to Excise Duty is required to declare and pay Excise Duty. There is no threshold on company size for Excise Duty. A taxpayer who manufactures taxable products must declare and pay Excise Duty regardless of the size of the business.

4.4.2: The obligations of excise registered taxpayers and valuation methods of excise duty

1. The obligations of excise registered taxpayers

The obligations of excise duty registered taxpayers are detailed in Section 2 of Law N° 26/2006 of 27/05/2006. Excise duty registered taxpayers must:

- Submit an excise duty declaration and pay tax due within 5 days after the end of the tax period.
- Keep a register of inventory of the taxable products manufactured. The inventory register shall indicate the quantity exported, sold for domestic consumption, and destroyed, discarded or burnt, so that at any time, the quantities within the factory can be established and verified.
- Keep a register of the sales of all taxable products manufactured. The sales register shall indicate the price and quantity sold to every customer as well as the customer's name and address.
- Keep a register of raw materials to be used in manufacturing of taxable products.
- Keep a register of the activities of the manufacturer. The activities register shall indicate the date and time of starting and ending work, the type names and the nature of the equipment used, the type and quantity of the raw materials used and the batch number of production, the quantity of the goods produced.
- Notify RRA of any changes to business premises.
- Notify RRA, within ten (10) days, of any interruption to manufacturing activities
- Attach appropriate products with a tax stamp

2. Valuation methods of excise duty

The rates of excise duties can be charged on a 'specific', 'ad valorem' or 'mixed' basis.

A specific excise duty charges a certain amount of tax per unit of the product. For example, Excise Duty is charged on premium oil in Rwanda at a rate of FRW 183 per litre

An ad valorem excise duty charges a percentage of the taxable value of the product. For example, excise duty is charged on beer in Rwanda at 60% of the taxable value.

A mixed excise duty charges both a certain amount of tax per unit and as a percentage of the taxable value of the product. For example, excise duty is charged on cigarettes in Rwanda at a rate of 36% of the retail price in addition to FRW 130 per pack of 20 individual cigarettes.

4.4.3: Identify the taxable products, rates of excise duty and Compute Excise duty

1. Identify the taxable products, rates of excise duty

The tax rates for Excise Duty vary depending upon the product.

The taxable products and tax rates are:

Products	Tax Rate
Natural fruit juice	5%
Lemonade, soda and other non-natural juices	39%
Industrial packed mineral water	10%
Beer produced with locally sourced inputs	30%
Other beer	60%
Wine produced with locally sourced inputs	30%
Other wine	70%
Brandies, liquors and whiskey	70%
Cigarettes	36% of retail price and FRW 130 per pack of 20 cigarettes
Premium oil (excluding benzene)	FRW 183 per litre
Gas oil	FRW 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%

The taxable base for ad valorem excise duty on locally manufactured products is calculated according to the selling price, excluding all other taxes.

Note: The rates of excise duty are the same for both domestic and imported products.

2. Compute Excise duty

The excise duty to be paid on a specific basis is calculated by an amount of tax per unit of the product. The excise duty to be paid on an ad valorem basis is calculated by:

Excise duty = (CIF + Import Duty + HF) * Excise Rate

In import declarations and assessment notices, excise duty is referred to under code 'E', for example 'E01'.

Example:

1. Ubumwe produces cigarettes. In one tax period he manufactures and sells 400 packs (of 20 cigarettes) for a pre-tax selling price of FRW 300 each

Required:

a) Total taxable sales during that tax period

b) Excise Duty

Solution

a) Total taxable sales during that tax period = 400 packs * FRW300 =FRW 120,000

b) Ubumwe must pay mixed Excise Duty of: (FRW 120,000 * 36%) + (400 * FRW 130) = FRW 95,200.

2. Lucie produces banana wine using ingredients sourced in Rwanda. In one tax period she manufactures and sells 200 bottles for a pre-tax selling price of FRW 850

Required:

a) Total taxable sales during that tax period

b) Excise Duty

Solution

a) Total taxable sales during that tax period = 200 bottles * FRW 850=FRW 170,000

b) Lucie must pay ad valorem Excise Duty of: FRW 170,000 * 30% = FRW 51,000

4.4.4: The exemptions for excise duty

The following goods are exempt from Excise Duty:

- Goods for charitable organizations
- Vehicles assembled in Rwanda
- One personal vehicles of a returning Rwandan diplomat
- One vehicle of a Rwandan refugee returning from a foreign country as which the individual has personally owned and used for at least twelve months
- Vehicles intended for the purpose of passenger (more than 14 people), goods transport, tourist transit, and those designed for the transport of disabled people
- Products which are specifically manufactured for export
- Products which are sold to duty free shops

Note: Should Excise Duty be paid on exports?

Taxable products are exempt from Excise Duty if they are exported outside Rwanda. However, proof is required that the products were actually exported.

In terms of the declaration, exports are included in the 'Tax Due' calculation but then refunded in the 'Tax Payable' calculation. This is an implied refund, on the presumption that proof of export will be provided.

4.4.5: The deadline to declare and pay excise duty

1. The deadline to declare excise duty

For the purposes of Excise Duty declaration, each month is divided into three tax periods:

- Tax Period 1 – From 1st to 10th of each month
- Tax Period 2 – From 11th to 20th of each month
- Tax Period 3 – From 21st to the end of each month

Excise Duty must be declared and paid within five days of the end of each tax period. This means it must be declared and paid by the 15th, 25th of that month and 5th of the following month.

For example, declarations concerning the tax period between March 1st and March 10th must be declared to RRA and paid by March 15th. Then declarations concerning the tax period between March 11th and March 20th must be declared to RRA and paid by March 25th. Then declarations concerning the tax period between March 21st and March 31st must be declared to RRA and paid by April 5th and so on throughout the year.

4.4.6: Excise duty penalties and fines

The penalties and fines for Excise Duty are similar to other domestic taxes,

This includes penalties and fines for:

- Late declaration
- Late payment
- Declaring less than the correct tax due

Excise Duty has an additional set of penalties and fines, which are applied for violations to the law concerning tax stamps.

Note: Meaning of tax stamps

A tax stamp is a sign affixed on a product subject to Excise Duty to show retailers and consumers that tax has been paid. The products requiring tax stamps are cigarettes (each pack of 20 cigarettes), wines and liquors (each bottle). Tax stamps can be purchased (at cost price) from RRA.

- **The penalties for failing to keep a tax stamp register**

A domestic producer or importer who does not keep:

- Stamp registers, records or related documents
- Stamp reconciliation statements

Is subject to an administrative fine between one million Rwandan francs (FRW 1,000,000) and two million Rwandan francs (FRW 2,000,000).

- **Things for domestic producer or importer of products who applying incorrectly tax stamps**
  - Does not affix tax stamps to appropriate products
  - Does not affix tax stamps incorrectly
  - Affixes tax stamps to products in a manner contrary to rules set forth by the Authority
  - Defaces tax stamps
  - Submits an incorrect or incomplete tax stamp reconciliation statement
  - Applies tax stamps to products for which they are not intended
  - Sells products which are subject to excise duty without tax stamps

Is, upon conviction, subject to a fine of between one million Rwandan francs (FRW 1,000,000) and two million Rwandan francs (FRW 2,000,000) or to imprisonment for a term of six (6) months to one (1) year.

Application activity 4.

Q1. Amahoro produces natural fruit juice. In one tax period she manufactures and sells 10,000 small bottles for a pre-tax selling price of FRW 400 each for a total taxable sale during that tax period of FRW 4,000,000.

Which amount Amahoro must pay ad valorem excise duty?

Q2. Outline the valuation methods of excise duty

Q3. Mr. Mugisha bought different products from England valued 6,000 pounds. He pays transport cost of 1000 pounds up to MOMBASSA port and assurance of 300 pounds. He also paid 25% of import duty. If these goods weight 500kg, determine the amount of VAT that RRA will tax Mr. Mugisha at the entrance border of RUSUMO. (Exchange rate 1POUND = FRW1400)

Skills Lab Activity 4

Through internet or after visit to RRA for customs officer, students are required to compute customs duties and excise duty (consumption tax) for imported liquor from France.

End of unit assessment 4

Q1. Define the following

a) Rules of origin
b) Certificate of origin
c) Country of origin
d) Risk management
e) Customs offence
f) Import duties

Q2. Mary imported wines from France and the CIF to Mombasa was 50,000 USD. The exchange rate was 1USD = FRW880

Required: Compute the excise tax; assume the import duty of 25%

Q3. Sportsman limited produced 2,000,000 packets of cigarette. The factory price is 700 and the retail price is 1000 per packet. Compute the excise tax.

Q4. List at least three example of certificate of origin

Q5. Identify the six categories of economic integration

Q6. How do you relate customs union from common market?

Q7. Discuss reasons why rules of origin are needed

Q8.

a) List six different types of duties and fees with their corresponding rates collected by RRA's Customs Service Department on importation of goods?
b) Provide a computation of import taxes assuming value of goods imported (i.e. Cost Insurance and Freight) is equivalent to FRW 100,000. Assuming also a 25% import duty, 5% consumption tax, 18% VAT, 5% Withholding Tax, 1.5% Infrastructure Development Levy, 0.2% Quality Inspection Fees and Africa Union Levy are applicable on the imported goods.
c) Explain the features of the East African Customs Union.
d) Define rule of origin and explain the nature of goods that are accepted under the rule of origin.

Unit 5 VALUE ADDED TAX (VAT)

Key unit competence: Compute VAT and file returns in a timely manner

Introductory activity

Mr HABANA has a super market operating in Rwanda and he complies with tax law and regulations, in HABANA supermarket there are clients, Accountants, cashier.

He imported his products from China and in his super market he also sells educational materials.

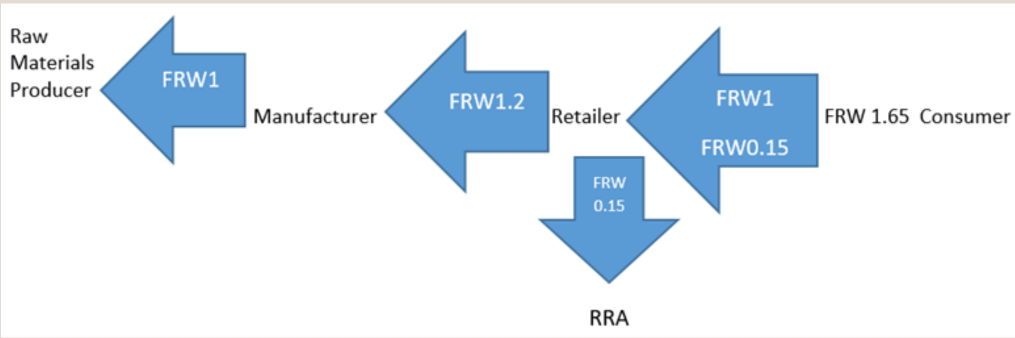
In HABANA SUPERMARKET there is a fixed phone used by receptionist for receiving orders from customers but sometimes HABANA uses that phone by calling his family.

Questions

1. Which type of tax that will be paid by that client who is shopping? And why is that client who is supposed to pay that tax not HABANA?
2. At the end of the month, accountant make some computations related to tax for complying, which computations do you think an accountant is supposed to do?
3. In above image cashier is giving a paper to client, what is the type of that paper and try to list information appear on that paper.
4. Within products sold by HABANA Supermarket, are there any products exempts to the tax? Which type of that tax?

5.1: Description of the value added tax

Learning Activity 5.1



VAT payable or the amount of VAT to be remitted by Tax payers to the Rwanda Revenue Authority is computed by deducting the input VAT from the output VAT. The seller of goods of service passed on the end users the liabilities to pay tax who in turn may credit their liability from the payment they received from the final consumer. This is because Credit is a consumption tax levied on sales to be home consumer with seller acting simply as tax collectors. For the above scenario differentiate VAT Inclusive and VAT Exclusive

5.1.1: Definition of the value added tax and key terminology for VAT

1. **Definition of the value added tax**

- **VAT** is the tax charged on turnover at each stage in a production process, but in such a way that the burden is borne by the final consumer. VAT was introduced just before the First World War; there was a gradual improvement in the tax system, which came up with a global taxation system of business with VAT which was the main element. This tax was introduced in Rwanda in January 2001 by the law No. 06/2001.
- **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.

Example: Wholesale → Retail → Last consumer.

VAT is applied to as wide a range of products as possible to ensure fairness across business sectors. However, there are some goods and services that are exempt or zero-rated for VAT. This is usually because tax on these goods and services may be unfairly burdensome on the poor or because those goods and services have benefits to efficiency across the rest of the economy.

VAT registered taxpayers are required to have at least one Electronic Invoicing System (EIS), such as an EBM, each of their sales locations, and use these to provide EIS invoices for all sales transactions.

2. **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.

3. **Characteristic of VAT**

a) VAT is a consumption tax i.e. the consumer of taxable goods or services pays VAT.

b) VAT is an indirect tax.

c) VAT is a multi-stage tax of transaction from importer or manufacturer to a wholesaler and finally to the consumer.

d) VAT is tax levied on supply of goods made in Rwanda, on the supply of services, and on importation of goods or services.

e) VAT is a tax on the value added to a commodity or services. It is imposed on the value added at each stage from the stage of production to retail stage.

f) VAT is imposed on the value that business firms add to the goods and services the purchased from other firms.

g) Its standard rate is 18% in Rwanda

h) It is proportional tax

Collection of VAT in Rwanda

in Rwanda VAT is collected by two departments, they are; Domestic Taxes Department for domestic VAT and Customs Service Department for VAT on all imported goods and services.

5.1.2: Key terminology for VAT

1. **Tax period Value added tax period** is calendar month or quarter.

2. **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:

- January 1st to end March must be declared and paid by 15th April.
- April 1st to end June must be declared and paid by 15th July.
- July 1st to end September must be declared and paid by 15th October
- October 1st to end December, must be declared and paid by 15th January the following year.

3. Tax point

A tax point is the date on which VAT becomes due on a particular transaction.

The tax point depends on several factors, such as:

- Whether the business is invoice accounting or cash accounting for VAT.
- When the goods were supplied or the services carried out.
- When the VAT invoice was issued to the customer.

The taxation point for the supply of goods and services shall be the one that is the earliest among the following:

i. The date on which the invoice is issued;

ii. The date on which payment of goods and services, including a partial payment is made. However, this Paragraph does not concern the advance payment made to the constructors who later re-imburse it by deducting it from the invoices presented to the client;

iii. The date on which goods are either removed from the premises of the supplier or when they are given to the recipient;

iv. The date on which the service is delivered. In case of electricity, water or any other supplies, goods or services measured by meter or any other calibration, the taxation period shall be the time when the meter or any other calibration reads the number that follows the previous consumption of the supply. The taxation period to a person who suspends registration of the value added tax occurs immediately before the registration is cancelled.

4. Tax base

The taxable value of each good or service is determined as follows:

1º except where the Law provides otherwise, the taxable value of goods or services is the consideration paid in money by the recipient;

2º the taxable value on goods and services is the fair market value, exclusive of the value added tax, if goods or services are supplied for:

a) a non-monetary consideration;

b) a monetary consideration for one part and non-monetary for the other;

c) consideration that is less than the market value of the goods or services.

5. VAT Inclusive and VAT Exclusive

a) VAT Inclusive

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

Goods and services supplied by VAT registered taxpayers must always be sold at the VAT inclusive price.

b) VAT Exclusive

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.

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

Application of VAT inclusive or VAT exclusive price of taxable goods and services

a) VAT inclusive

$$\text{VAT}=\frac{COST\ OF\ GOOGS * VAT\ Rate}{100+VAT\ Rate}$$

Example: XYZ CO bought the 10000 kgs of beans for resale for FRW 1,000,000 with VAT inclusive. Calculate the amount of VAT paid.

Formula

$$\text{VAT}=\frac{\cos t\ of\ goods * VAT\ Rate}{100+VAT\ Rate}=\frac{1{,}000{,}000 * 18}{100+18}=\frac{18{,}000{,}000}{118}=FRW\ 152{,}542$$

b) VAT exclusive

$$\text{VAT}=\frac{\cos t\ of\ goods * VAT\ Rate}{100}$$

Example: Manzi buy the 500 Kgs of rice for resale for FRW 100,000 with VAT exclusive. Calculate the amount of VAT payable and total amount paid.

Formula

$$\text{VAT}=\frac{COST\ OF\ GOODS * VAT\ RATE}{100}=\frac{100{,}000 * 18}{100}=\frac{1{,}800{,}000}{100}=FRW\ 18{,}000$$

Total amount paid= cost of goods or services + VAT payable

Total amount = 100,000 + 18000= FRW 118,000

5.1.3: Goods and services

According to Law no 37/2012 of 09/11/2012 establishing the value added *(Article 8 of law n^o 37 /2012 of 09/11/2012 on the code of VAT)* :

The following acts shall constitute the supply of taxable goods or services:

1. sale, exchange or other transfer of the right to dispose of goods by the owner;
2. lease of goods under a leasing agreement.

Any operation other than the supply of goods or money shall be considered as an act of service delivery which includes:

1. the transfer or surrender of any right to any other person;
2. the provision of any means for facilitation;
3. the lease of goods under operating leasing agreement aiming mainly at lease.

When there is a supply of goods or services by a taxpayer, even occasionally, with or without consideration:

1. for his/her own benefit;
2. for the benefit of himself/herself and others;
3. for the benefit of the business partners or of any director or person employed in the business; *(Article 3 of law n^o 02 /2015 of 25/02/2015 on the code of VAT)*
4. for the benefit of customers of the business, except bonuses on telephone communications approved by the institution in charge of public utilities regulation, the supply of such goods or services shall be taxable. *(Article 3 of law no 02/2015 of 25/02/2015 modifying and complementing law n^o 37 /2012 of 09/11/2012 on the code of VAT)*

5.1.4: Compensation

A payment for harm or compensation may be subject to VAT. This depends on the precise purpose of the payment. It will be exempt from VAT if it is only compensating. For VAT purposes, the payment will be a supply if the recipient (the claimant) provides something in exchange.

It's crucial to get the treatment right, just like with any payment that can be subject to VAT. The claimant will ask the defendant to pay VAT in addition to the principal payment of damages or compensation if the payment is VAT-eligible. If the payment is made pursuant to a settlement agreement, the agreement must state that any applicable VAT is payable in addition to the main amount; if it does not, the payment will be viewed as made under a different set of rules.

5.1.5: Exempted and zero-rated goods and services

1. Zero-rated goods and services

Article 5 of Law Nº 37/2012 of 09/11/2012 establishing the value added tax is modified and complemented as follows:

The following goods and services shall be zero-rated:

1. exported goods and services;
2. minerals that are sold on the domestic market;
3. international transportation services of goods entering Rwanda and transportation services of goods in transit in Rwanda to other countries, including related services;
4. goods sold in shops that are exempted from tax as provided for by the law governing customs *(Article1 of law no 02/2015 of 25/02/2015 modifying and complementing law n° 37 /2012 of 09/11/2012 on the code of VAT)* ;
5. services rendered to a tourist for which value added tax has been paid;
6. the following goods and services intended for persons of a special category *(Article1 of law no 02/2015 of 25/02/2015 modifying and complementing law n° 37 /2012 of 09/11/2012 on the code of VAT) :*

   a) Goods and services intended for diplomats accredited to Rwanda that are used in their missions;

   b) goods and services intended for international organizations that have signed agreements with the Government of Rwanda;

c) goods and services donated to local non-governmental organizations, which have been acquired through funding by countries or international organizations that have signed agreements with the Government of Rwanda and for being used for agreed upon purposes;

d) Goods and services intended for projects funded by partners that have signed agreements with the Government of Rwanda."

2. Exempted goods and services

Article 6 of Law Nº 37/2012 of 09/11/2012 establishing the value added tax as modified and complemented to date is modified and complemented as follows:

The following goods and services are exempted from value added tax:

1. Services of supplying clean water and ensuring environment treatment for non-profit making purposes with the exception of sewage pump- out services;

2. goods and services for health-related purposes:

   a) Health and medical services;

   b) Equipment designed for persons with disabilities;

   c) Goods and drugs appearing on the list established by the Minister in charge of health and approved by the Minister in charge of taxes.

Institutions eligible for exemption under item 2° b) of this Article must be recognized by Rwandan laws as public institutions, social welfare organizations and any other form of voluntary or charity organizations

For natural persons, an authorized medical Doctor ascertains whether the equipment provided under item 2º b) relates to their disability;

3. educational materials, services and equipment appearing on the list established by the Minister in charge of education and approved by the Minister in charge of taxes;

4. books, newspapers and magazines;

5. transportation services by licensed persons:

   a) Transportation of persons by road in vehicles which have a seating capacity of fourteen (14) persons or more;

   b) Transportation of persons by air;

   c) Transportation of persons or goods by boat;

   d) Transportation of goods by road;

6. lending, lease and sale:
   a) Sale or lease of land;
   b) Sale of whole or part of a building for residential use;
   c) Renting or grant of the right to occupy a house used as a place of residence of one person and his/her family, if the period of accommodation for a continuous term exceeds ninety (90) days;
   d) Lease of a movable property made by a licensed financial institution;
7. financial and insurance services:
   a) Premiums charged on life and medical insurance services;
   b) Bank charges on current account operations;
   c) Exchange operations carried out by licensed financial institutions;
   d) Interest charged by the bank on credit and deposits;
   e) Operations of the National Bank of Rwanda;
   f) Fees charged by the bank on vouchers and bank instruments;
   g) g) Capital market transactions for listed securities and fees or expenses charged to investors a regulated collective investment scheme;
   h) Transfer of shares;
8. precious metals: sale of gold in bullion form to the National Bank of Rwanda;
9. any goods or services in connection with burial or cremation of a body provided by an Order of the Minister;
10. energy supply equipment appearing on the list established by the Minister in charge of energy and approved by the Minister in charge of taxes;
11. trade union subscriptions;
12. leasing of exempted goods;
13. all agricultural and livestock products, except processed ones. However, milk processed, excluding powder milk and milk derived products, is exempted from this tax;
14. services of agriculture insurance;
15. services, agricultural inputs, and other agricultural and livestock materials and equipment appearing on the list established by the Minister in charge of agriculture and animal resources and approved by the Minister in charge of taxes;

16. gaming activities taxable under the Law establishing tax on gaming activities;
17. personal effects of Rwandan diplomats returning from foreign postings, Rwandan refugees and returnees entitled to tax relief under customs laws. The period of twelve (12) months required for tax relief for vehicles provided under customs laws shall not apply to Rwandan diplomats returning from foreign postings;
18. goods and services meant for Special Economic Zones imported by a zone user holding this legal status;
19. mobile telephones and SIM cards;
20. information, communication and technology equipment appearing on the list established by the Minister in charge of information and communication technology and approved by the Minister in charge of taxes; *(Article 2 of law no 40/2016 of 15/10/2016 modifying and complementing law n° 37 /2012 of 09/11/2012 on the code of VAT)*
21. all goods, including materials, supplies, machinery and motor vehicles intended for public institutions in charge of national defense or security;
22. machinery and capital goods of industries as well as raw materials used in industries appearing on the list established by the Minister in charge of industry and approved by the Minister in charge of taxes.

Requirements for an industry to be entitled to exemption are determined by an Order of the Minister in charge of taxes."

Application activity 5.1

Q1. a) What is Value Added Tax? Who is liable to pay it?

b) Highlight the Characteristics of VAT

Q2. Suppose that the price of the commodity is FRW1, 416,000 and it is VAT inclusive.

Calculate the VAT.

Q3. For purposes of Value Added Tax, state two (2) categories of zero-rated goods and services and there (3) exempted goods and services

5.2: VAT registration compliance

Learning Activity 5.2

The Rwandan tax laws require any business person who fulfils the conditions provided by law to register for value added tax (VAT). What is the threshold (turnover) required for a business person to register for VAT, respectively on quarterly and annual basis?

5.2.1: Registration laws related on VAT

1. Registration for VAT

A person can be registered for VAT by voluntary but the following persons are enforced by law to be registered, a person whose taxable transaction in the preceding calendar year or preceding quarter has reached at least FRW 20,000,000 (Twenty million) or FRW 5,000,000 (Five million), respectively, is required to register with the tax Administration for VAT and must obtain a VAT certificate. The registration must be accomplished within 7 days from the end of that calendar year or quarter.

If the business is newly formed, it may operate up to 3 months without registering for VAT. However, as soon as the taxable transactions reach FRW 5,000,000 or more, it must be registered any time before the end of the 3 months' period. If a person has different businesses in the same or different locations, he shall combine all the activities and register as one single taxable unit.

Example

Nduwayezu commenced business on 1/1/2018. His monthly sales are as below:

Month	Sales
January	1,800,000
February	800,000
March	2,000,000
April	2,500,000
May	2,000,000
June	1,800,000
July	3,000,000
August	4,800,000
September	3,500,000
October	6,850,000
November	2,800,700
December	6,500,000
January	4,650,000
February	1,680,000
March	4,600,800
April	2,804,000
May	3,000,000

When should Nduwayezu register for the VAT?

Quarterly Registration Rule

Month	Monthly Sales amount (FRW)	Cumulative sales Amount (FRW)
January	1,800,000	1,800,000
February	800,000	2,600,000
March	2,000,000	4,600,000
April	2,500,000	7,100,000
May	2,000,000	9,100,000
June	1,800,000	10,800,000

Since Nduwayezu reaches FRW 5,000,000 in the second quarter, he must register for VAT in seven days of month June.

Annual Registration Rule

Month	Monthly Sales amount (FRW)	Cumulative sales Amount (FRW)
January	1,800,000	1,800,000
February	800,000	2,600,000
March	2,000,000	4,600,000
April	2,500,000	7,100,000
May	2,000,000	9,100,000
June	1,800,000	10,800,000
July	3,000,000	13,900,000
August	4,800,000	18,700,000
September	3,500,000	22,200,000
October	6,850,000	
November	2,800,700	
December	6,500,000	

Using the annual registration rule, Nduwayezu reaches RWF 20,000,000 in the month of September; therefore, he must register for VAT in the first seven days of January

2. Form of business required for Registration

Registration is done in the following:

- In the name of the sole proprietor
- In the name of the firm
- In the name of a company
- In the name of the organization

The commissioner General, if he sees that it is fit, he may direct those two or more persons be registered and treated as a single entity.

The person who has been registered for VAT is the only one has the right to levy VAT when he sells goods to his customers. Tax payers registered for VAT recovers the tax levied on them and profit more sales compared to those who did not register.

3. Obligation of VAT registration

Obligations of a VAT registered taxpayer include the following:

i. Must clearly display the VAT registration certificate in a plain view at the entrance of his place of business for his clients to see.

ii. Must issue a VAT invoice to his customers' every time they purchase goods or services from him.

iii. Must file a monthly or quarterly VAT return on the appropriate form

iv. Must be available at all times to receive VAT officers and to make available to the officers' books of accounts ascertaining to the business.

v. Must use EBM

4. Other registration issues

When determining the value of a person's taxable supplies for the purposes of registration, supplies of goods and services that are capital assets of the business are to be disregarded, except for non-zero rated taxable supplies of interests in land.

When a person is liable to register in respect of a past period, it is his responsibility to pay VAT. If he is unable to collect it from those to whom he made taxable supplies, the VAT burden will fall on him. A person must start keeping VAT records and charging VAT to customers as soon as it is known that he is required to register. However, VAT should not be shown separately on any invoices until the registration number is known. The invoice should show the VAT inclusive price and customers should be informed that VAT invoices will be forwarded once the registration number is known. Formal VAT invoices should then be sent to such customers within 30 days of receiving the registration number.

5. Deregistration

Every registered taxpayer is de-registered when the commissioner general is satisfied that they ceased to make taxable supplies or is not a person to whom the conditions of registration apply. Any registered person ceasing to be liable for registration notifies the tax administration, within a period of 7 days of the time when he is no longer required to be registered. The tax administration, when satisfied that the person is no longer liable to be registered, may cancel the registration. A trader may deregister voluntarily if he expects the value of his taxable supplies in the following one-year period will not exceed the minimum. Alternatively, a trader who no longer makes taxable supplies may be compulsorily deregistered.

6. The Consequences of Deregistration

VAT is chargeable on all goods and services at hand on the date of deregistration. On deregistration, VAT is chargeable on all stocks and capital assets in a business on which input tax was claimed, since the registered trader is in effect making a taxable supply to himself as a newly unregistered trader.

7. Pre-Registration Input Tax

VAT incurred before registration can be treated as input tax and recovered from RRA subject to certain conditions. If the claim is for input tax suffered on goods purchased prior to registration, then the following conditions must be satisfied:

a) The goods were acquired for the purpose of the business which either was carried on or was to be carried on by him at the time of supply.

b) The goods have not been supplied onwards or consumed before the date of registration (although they may have been used to make other goods which are still held).

C) The VAT must have been incurred in the four years prior to the date of registration.

8. Pre-Registration Services

If the claim is for input tax suffered on the supply of services prior to registration, then the following conditions must be satisfied:

a) The services were supplied for the purposes of a business which either was carried on or was to be carried on by him at the time of supply.

b) The services were supplied within the six months prior to the date of registration. Input tax attributable to supplies made before registration is not deductible even if the input tax concerned is treated as having been incurred after registration.

Application activity 5.2

Q1. The Rwandan tax laws require any business person who fulfils the conditions provided by law to register for value added tax (VAT). What is the threshold (turnover) required for a business person to register for VAT, respectively on quarterly and annual basis?

Q2. True or false question for obligation of VAT Registration

i. Must clearly display the VAT registration certificate in a plain view at the entrance of his place of business for his clients to see.

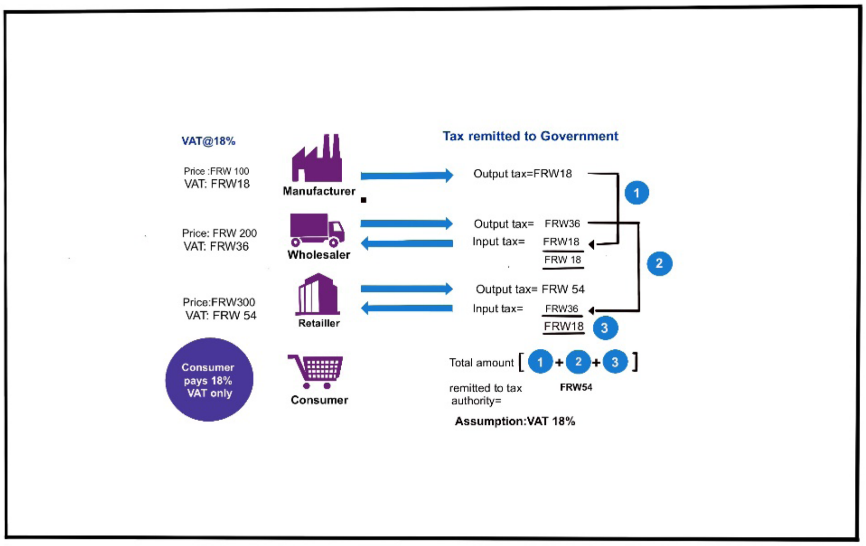
ii. In the name of the firm

iii. In the name of a company

iv. Must file a monthly or quarterly VAT return on the appropriate form.

5.3. VAT Computation

Learning Activity 5.3



Value added tax is theoretically a tax paid by an economic unit for the value of which one adds to goods or services during the stages of production or distribution of those goods or services. However, in effect, VAT is a tax on the amount spent by the final consumers of goods or services. It is collected whenever goods or services are transferred for value production or wholesale or retail processes respectively. Whenever a trader pays for commodity liable to VAT, he/she must pay the supplier a price which include the appropriate rate of VAT on chargeable price. For the above scenario

Q1. Differentiate input vat from output vat

Q2. Specify in which case there is VAT payable/Refundable and VAT Claimable

5.3.1: Input and output vat

1. **Input vat**

Input VAT is the VAT on purchases

Purchases of goods and services include the value of all goods and services purchased during the accounting period for resale or consumption in the production process.

When a taxpayer supplies goods or services to another taxpayer, the supplier of those goods or services will levy VAT.? The VAT levied by the supplier is the Input VAT of the tax payer who receives those goods or services. On other hand when the vendors in turn supplies goods or services to other tax payers, VAT must be included in the price charged for those goods or services. This is the Output VAT of the taxpayer.

2. **Output Vat**

Output VAT is the VAT on the sales.

A transaction that includes an exchange of services or goods for a certain amount of money is known as a **sale.**

Turnover is an income received from sales of goods and services

Quantity *selling price =Revenue

Note: When output VAT exceeds input VAT, the difference is the VAT payable to Rwanda Revenue Authority.

VAT payable or claimable = output VAT – input VAT

- **Value added tax refund**

If, during a particular prescribed taxation period, the input tax exceeds output tax, the Commissioner General shall refund the supplier the due amount to which the supplier stands in credit by reason of the excess, on receipt of the relevant tax return document within thirty (30) days:

1. after one day from the expiry of the prescribed period for tax declaration;
2. after receipt of proof of the last outstanding tax declaration.

However, the value added tax paid by registered investors shall be refunded within a period not exceeding fifteen (15) days after receipt by the Revenue Authority of the relevant application.

Prior to payment, the Commissioner General may order for verification of the claim for refund or deduction submitted to him/ her. In such a case, the period for the response to be communicated shall not exceed three (3) months from the date of submission of the claim".

Example Related on VAT payable:

Rukundo sells wood to a furniture maker for FRW 100,000 VAT, the furniture maker uses this wood to make a table and sells the table to a shop for FRW 150,000 VAT. The shop then sells the table to the final consumer for FRW 300,000 plus VAT of 18%. Determine the VAT payable to RRA.

Solution

Cost will be FRW 100,000 and FRW 150,000 respectively

Input VAT will be 18% * FRW 100,000 = FRW 18,000 and FRW 150,000 *18% = FRW 27,000

Output VAT will be 18% * FRW 100,000, and FRW 150,000 * 18% and FRW 300,000 *18%

VAT Payable RRA will be the value added at each stage

The first stage FRW 18,000 Second stage (FRW 27,000 – FRW 18,000) and the third stage it will be (FRW 54,000 - FRW 27,000) Total VAT payable will be FRW 18,000 + FRW 9,000+ FRW 27,000 = FRW 54,000

Practical Example

XYZ Ltd is a registered VAT tax payer in Rwanda. Deals in both exempt and standard taxable supply.

Her transactions for the month May 2022 are as shown below. Compute VAT payable

Items	Purchases inclusive of VAT (FRW)	Sales inclusive of VAT (FRW)
Wines	12,450,000	15,600,000
Milk processed in Rwanda	3,800,000	3,790,000
Clothes	7,460,500	9,830,000
Wheel chairs	10,800,000	14,890,000
Tomatoes unprocessed	2,562,000	6,700,600
Tomato source from Kenya	4,120,300	6,950,100
Electricity	2,320,400	

Fuel	3,870,900	
Rent	1,782,300	
Computers	11,456,700	17,850,000
Cooking oil	9,230,600	13,400,500

Output VAT

Items	Standard Rated	Zero rated	Exempt	Output VAT
Wines	15,600,000			2,379,661
Milk in Rwanda			3,790,000	
Clothes	9,830,000			1,499,492
Wheel chairs	14,890,000			2,271,355
Unprocessed tomatoes			6,700,600	
Tomato source from Kenya	6,950,100			1,060,185
Computers			17,850,000	
Cooking oil	13,400,500			2,044,144
Total sales	45,780,600		43,230,600	9,254,837

Input VAT

Items	Standard Rated	Zero rated	Exempt	Input VAT
Wines	12,450,000			1,899,153
Milk in Rwanda			3,800,000	
Clothes	7,460,500			1,138,042
Wheel chairs	10,800,000			1,647,457
Unprocessed tomatoes			2,562,000	
Tomato source from Kenya	4,120,300			628,520
Electricity	2,320,400			353,959
Fuel			3,870,900	
Rent	1,782,300			271,876
Computers			11,456,700	
Cooking oil	9,230,600			1,408,058
Total purchases	37,364,100		32,489,600	7,347,066

VAT payable/claimable = Output VAT – Input VAT = 9,254,837 – 7,347,066 = 1,907,771

5.3.2: General apportionment method

Value added tax paid on such business overheard as in the case of telephones and electricity whose use cannot be practically separable from private and business use shall be equal to 40% on the input tax

The commissioner General shall determine deniable input tax on taxable goods acquired or taxable goods imported.

Example

A businessman has invested in hospitality, he has hotel and he live in that hotel, the hotel accountant has declared VAT. The hotel has made input VAT on water consumption bill of FRW 100,000

The tax administration will allow hotel an input vat of FRW 100,000 * 0.40 = FRW 40,000

5.3.3: Attribution method

If a taxpayer purchased in the country or imported taxable goods or services which are directly or indirectly related, on one hand partly to taxable goods or services and partly to exempted goods or services on the other, the sum of the input tax is a portion of the tax paid to the taxable goods or services in relation with his/her taxable business. As per article 15 allowance of input tax in Vat Law.

Application activity 5.3

Q1. ABC business is registered as VAT taxpayer. It sells today 800,000Rwf of taxable goods (VAT inclusive)

Calculate the VAT output for this business

Q2. EVA's purchases on credit from EDWIN 50 Kg of flours at FRW 500/Kg VAT excluded.

- 100Kg of rice at FRW 600 with VAT excluded.
- AKANDI 24 cartons each one contains 12 bottles at FRW 300 with VAT included.

Fill invoice by showing VAT for each product and total invoice to be paid

Q3. XYZ Ltd imported goods for sales from the buyer whose acquisition value was FRW 2,450,000. Customs duty was charged at the rate of 10%. Other charges included: transport to the company's premise: FRW 110,000 and a commission of 5 % of the good's value paid to the clearing agent. The normal VAT rate of 18%.

Required: Determine the amount of VAT payable

Q4. A company is registered for VAT. During a period, they have sales of FRW 7,080,000 including VAT at 18% and purchases of FRW1, 100,000 excluding VAT. What is the VAT payable by the company at the end of the period?

5.4: VAT offences, VAT penalties and fines

Learning Activity 5.4

Analyze the photos above and answer the question that follow:

Outline the VAT Tax related offences punishable by Tax Law

5.4.1: VAT offences

1. VAT evasion

A person who, while intending tax evasion, commits one of the following acts:

1. Use of forged documents in his or her accounts;
2. Counterfeit and use of documents or materials of the tax administration used for taxation;
3. Hiding taxable goods or assets related to business;
4. Making a declaration indicating that the taxpayer has not made sales;
5. Changing the trade name by a person prosecuted in relation to tax;
6. Fraudulent registration of trade under the name of another person;
7. Hiding accounting documents from the tax administration or damaging them;
8. Use of forged accounting records; Commits an offence of tax evasion.

Upon conviction, he or she is liable to imprisonment for a term of not less than two (2) years and not more than five (5) years.

2. VAT 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.

5.4.2. VAT penalties and fines

Interest on late payment and penalties

1. Interest for late payment

If the taxpayer fails to pay tax within the period provided for by the Law, he or she must pay late payment interest on the amount of principal tax.

The interest rate is fixed at one point five percent (1.5%). Interests for late payment are calculated on a monthly basis, non-compounding, counting from the first day after the tax should have been paid until the day of payment inclusive. Every month that begins is considered as a complete month.

Interests for late payment accrue shall not exceed one hundred percent (100%) of the amount of tax.

Interests for late payment are always payable, even when the taxpayer has lodged an administrative or judicial appeal against the assessment.

Interests for late payment do not apply on a taxpayer who discloses himself or herself

And pays the due taxes before he or she is notified of imminent audit. The disclosure leads to exemption from interests only if it is done by a taxpayer who is not registered with the Tax administration and who discloses himself/herself in a period not exceeding one (1) year starting from the date the tax was due.

When the taxpayer pays, the payment is used to pay tax liability in the following order:

1. principal tax;
2. administrative fine;
3. interests for late payment.

2. Administrative fine

A. General fixed administrative fine

- **Wrongful acts punished with fixed administrative fine**

A taxpayer or any other person is subject to an administrative fine if he or she does one of the following:

1. Not to submit a tax declaration on time;
2. Not to submit a withholding tax declaration on time;
3. Not to withhold tax;
4. Not to provide proofs required by the Tax administration;
5. Not to cooperate with a tax audit;
6. Not to communicate on time powers or appointment entrusted to him or her referred to in Item 2 of Paragraph One of Article 10 of the Law related to Tax procedures 2019
7. not to comply with the obligation to register;

8. not to keep books and records of controlled transactions;
9. to obstruct or attempt to obstruct the activities or duties of the Tax administration;
10. not to comply with any requirements provided for in specific laws governing taxes if no provision of such laws provides for a sanction.

With the exception of cases of failure referred to in Items 8° and 9°, administrative fine related to violations of provisions is established as follows:

1. one hundred thousand Rwandan francs (FRW 100,000) for a natural person not engaged in any commercial activity or a taxpayer whose annual turnover is equal to or less than twenty million Rwandan francs (FRW 20,000,000);
2. three hundred thousand Rwandan francs (FRW 300,000) if the taxpayer is a public institution or a non-profit making organization and if the taxpayer's annual turnover exceeds twenty million Rwandan francs (FRW 20,000,000);
3. five hundred thousand Rwandan francs (FRW 500,000) if the taxpayer was informed by the Tax administration that he or she is in the category of large taxpayers;
4. five hundred thousand Rwandan francs (FRW 500,000) if taxpayer fails to submit his or her certified annual tax declarations and financial statements as required by law; the fine is paid every month until he or she submits them.

If the taxpayer commits the same fault twice in five (5) years, the basic fine is doubled. In case the same violation is committed again within those five (5) years, the fine is four (4) times the basic administrative fine.

In case of failure to keep books and records of controlled transactions as provided for in Articles 13, 14 and 15 of this Law, the applicable administrative fine referred to in this Article is doubled.

Any qualified professional approved by the Tax Administration who obstructs the activities or duties of the Tax administration is liable to an administrative fine of two hundred thousand Rwandan francs (FRW 200,000). The qualified professional approved by the Tax Administration may also be suspended by the Commissioner General.

B. Non-fixed administrative

- **Administrative fine for non-declaration and non-payment of tax on time**

If a taxpayer has neither declared nor paid tax in the required time limits provided by law, he or she pays the tax he or she did not declare and pay and is liable to an administrative fine as follows:

1. Twenty percent (20%) of due tax, when the taxpayer exceeds the time limit for declaration and payment for a period not exceeding thirty (30) days;
2. Forty percent (40%) of tax the taxpayer should have declared and paid, if he or she pays within a period ranging from thirty-one (31) to sixty (60) days from the time limit for the payment;
3. Sixty percent (60%) of due tax, if the taxpayer exceeds the time limit for declaration and payment by more than sixty (60) days.

The taxpayer who has declared due tax in the required time limits provided by law but did not pay that tax in such time limits, pays the principal tax and an administrative fine as follows:

1. Ten percent (10%) of due principal tax, when the taxpayer exceeds the time limit for payment for a period not exceeding thirty (30) days from the fixed date of payment;
2. Twenty percent (20%) of the principal tax due, when the taxpayer exceeds the time limit for the payment of a period ranging from thirty-one (31) to sixty (60) days from the fixed date of payment;
3. Thirty percent (30%) of due principal tax, when the taxpayer exceeds the time limit for payment by more than sixty (60) days from the fixed date of payment;

The taxpayer is not subject to the administrative fine if the Commissioner General gave him or her an extension for submitting tax declaration.

- **Administrative fine for understatement of tax levied after audit or investigation**

If an audit or investigation shows that there is the understatement of the amount on a tax declaration is at least ten percent (10%) but doesn't exceed twenty percent (20%) of the tax liability, the taxpayer must pay the non-paid tax and also be subject to an administrative fine of ten percent (10%) of the amount of the understatement.

The administrative fine referred to doubles if the understatement rate exceeds twenty percent (20%) of the principal tax liability the taxpayer ought to have paid.

However, if a taxpayer voluntarily declares and pays the due tax after required time limits but before he or she is notified of imminent audit, is liable to an administrative fine as follows:

1. twenty percent (20%) of due tax, when the taxpayer exceeds the time limit for declaration and payment for a period not exceeding thirty (30) days;

2. thirty percent (30%) of tax the taxpayer should have declared and paid, if he or she pays within a period ranging from thirty-one (31) to sixty (60) days from the time limit for the payment;

3. forty percent (40%) of due tax, if the taxpayer exceeds the time limit for declaration and payment by more than sixty (60) days.

However, a taxpayer who rectifies his or her tax declaration and pays relevant tax before he or she is notified of imminent audit of his or her tax is not subject to the administrative fine.

- **Administrative fine for non-declaration and non-payment of the tax levied after audit or investigation**

If an audit or investigation shows that a taxpayer has neither declared nor paid tax in the required time, the taxpayer is liable to an administrative fine equivalent to sixty percent (60%) of due principal tax

C. Special administrative fine related to the Value Added Tax: VAT violations

A person who does not comply with provisions of Value Added Tax is subject to an administrative fine as follows:

1. an administrative fine of fifty percent (50%) of the amount of value added tax output for the entire period of operation without value added tax registration, where Value Added Tax registration is required;

2. an administrative fine of one hundred percent (100%) of the value added tax indicated in the invoice and payment of that tax as indicated on that invoice, for a person who issued a value added tax invoice when he or she is not registered for value added tax.

Public institution which fails to withhold the value added tax or which withheld value added tax and failed to pay the tax withheld to the Tax Administration, must pay the Tax Not withheld or not paid, fines and default interests as provided for by the Law.

Application activity 5.4

Q1. Define the following terms:

a) Penalties

b) Fines

Q2. Taxes and fines still have to be paid when appealing?

Q3. What are the penalties for late lodgment of VAT returns by taxable person?

Q4. Ubumwe declared his monthly Value Added Tax (VAT) for the tax period of January 2019 late. Instead of declaring by the 15^{th} February 2019, he declared and paid on 25^{th} February 2019. The VAT Due for this tax period was FRW 80,000. Ubumwe is a small taxpayer. This was the first time that Ubumwe had declared late. Compute Ubumwe's penalty for declaring late

Skills Lab Activity 5

Via visit of resource person (RRA), students write a note on the following:

- Description of VAT
- Registration for VAT
- Calculation of VAT

End of unit assessment 5

Q1. What are the obligations of VAT registered taxpayers?

Q2. Determine the requirements of a valid tax invoice

Q3. Give the difference between Exempt supplies and Zero-rated supplies

Q4. KAKA is trader at Kigali. He has purchased the goods on the price of FRW 950,000 excluding VAT and he sold it on the price of FRW 1,062,000 including VAT. Calculate the payable VAT.

Q5. Shamlan is a business man in Kigali during the quarter ended 31/8/2018; he hired a foreign consultant to train the employees on the accounting software for 20,000,000 inclusive of VAT.; No similar service is available in Rwanda.

Required: Compute the VAT

Q6. AMANI is a business man in Kigali, during the month of June he imported 30,000Kg of powdered milk from Denmark. The FOB was 30,000USD, marine insurance 4,500USD and transport to Mombasa was 8,000USD. The exchange rate for the period was 1USD = FRW 830.

Tax	Rate
Excise tax	10%
Import duty	25%
VAT	18%

Required Compute the VAT

Q7. During January 2017 UWIMANA LTD Company made the following transactions (VAT exclusive):

- January 1st bought goods on credit from MUKIZA LTD FRW 200,000
- January 2nd sold goods on credit GASABO District FRW 150,000
- January 3rd credit sales to DUBAI SHOP LTD FRW 250,000
- January 4th purchased goods by cash from MUGISHA LTD FRW 120,000
- January 20th sold goods to GANZA FRW 100,000
- January 31st sold goods on credit to MUSONI FRW 250,000

Additional information:

- Vat is applied at 18%
- On 2nd January UWIMANA LTD Company imported office equipment for FRW 100,000 and paid telephone bills worth FRW 70,000.
- UWIMANA LTD Company is VAT registered.
- At the end of the month electricity bills used by UWIMANA LTD Company worth FRW 200,000 were paid.
- Only 90% of telephone bills are accepted by RRA as used for Business purpose.

REQUIRED:

a) Prepare and present the VAT account

b) Show the amount of VAT refunded to RRA

Q8. HARERA declares his VAT on time as on 15 February 2021. Three months after, the RRA discovers that the amount of FRW 120,000 paid by HARERA was understated by 10% of the correct amount he should pay. Determine the amount of fine and penalty that HARERA has to pay to RRA if he was notified by RRA as small taxpayer.

Unit 6 ELECTRONIC BILLING MACHINE (EBM).

Key unit competence: To be able use electronic billing machine

Introductory activity

Mukamana Charlotte is a mother of three children who all reach at the age of having the deep thinking. So this mother with her all children went to market to buy school materials, so, arrived there the market discussed with the seller in order to have the common price of these price materials, she wanted to buy for his children. Finally, both seller and the mother get the common price of these materials that mother wanted to buy but she paid without asking to the seller the invoice and them, the children shouted at her and explained her that the invoice is very necessary for them even for the different reasons such as: keeping the security of their properties bought and for the countries, it help the country to have different infrastructures as: hospitals, schools, roads profitable for whole the security in general.

Children explained their mother that the information regarding to invoice roles got it from the Radio Rwanda and RTV publicities.

Questions

Q1. Is it necessary to have the invoice once you want to buy something for all cases?

Q2. State the roles of invoice for a buyer even the society in general.

Q3. Invoice is it negotiable for the buyer to the seller once he/she buy something?

6.1: The electronic invoicing system (Electronic Billing Machine).

Learning Activity 6.1

Mr. Patrick with friend went to the restaurant for having dinner, they have called the waiter and order the menu. They have enjoyed a lot and they have shared many stories about their students live, after 2 hours around 22:00 PM the waiter came back with a beautiful handcraft small box with a printed paper inside and place it on their table.

Peter was not aware about that paper, but his friend had information about that as he studied principals of taxation in secondary school.

Mr. Patrick has called waiter again with anger by asking about such disturbance of bringing papers on their table without talking anything, but his friend calmed Patrick down and he gives him more explanation about that paper, and the importance of the paper on Patrick side and on Government side.

Through group discussions, students should find out the kind of that documents brought by waiter.

And they should state the information appear on that documents.

6.1.1: Meaning of electronic billing machine, Definition of the concepts related to Electronic Billing Machine and Purpose of EBM.

A. Meaning of electronic billing machine

An electronic billing machine comprises of two components; there is a certified invoicing system (CIS) and a sales data controller (SDC). Upon the public announcement, every business registered for VAT will have to provide a customer with special receipt issued through electronic billing machine for every good or service.

There are two versions of EBMs: EBM 1 and EBM 2.0.

The new EBM version 2.0 (EBM 2.0) is a form of software now available for taxpayers to install onto desktop or laptop computers. VSDC can be incorporated with privately provided billing systems. EBM 2.0 have been extended to EBM 2.1 for more perfection in reporting and data banking. EBM 2.1 can be interface with other systems.

B. Definition of the terms related to electronic billing machine

The following terms are defined with the same definitions got from the Ministerial Order Nº 002/13/10/TC of 31/07/2013 on modalities of use of Certified Electronic Billing Machine as follows:

1. **"Authority":** Rwanda Revenue Authority;
2. **"User":** a taxpayer who uses electronic billing machine;
3. **"TIN":** taxpayer identification number;
4. **"Large taxpayer":** any taxpayer who has been notified by the Authority that he or she is registered as large taxpayers;
5. **"Medium taxpayer**": any taxpayer whose turnover is more than fifty million (50,000,000) Rwandan francs during the previous tax period and not designed as a large taxpayer by the Authority;
6. **"Small taxpayer":** any taxpayer whose turnover is between twelve million and one (12,000,001) and fifty million (50,000,000) Rwandan francs during the previous tax period;
7. **"Micro taxpayer":** any taxpayer whose turnover is equal or less than twelve million (12,000,000) Rwanda francs during the previous tax period million;
8. **"Commissioner General":** Commissioner General of Rwanda Revenue Authority;
9. **"Certified Invoicing System (CIS**)": electronic system designed for use in business for efficiency management controls, in areas of sales analysis and stock control system which fulfill the requirements specified by the Authority;
10. **"Sales Data Controller (SDC)":** device connected to CIS used for processing and storing receipts;
11. **"Signature":** receipt data used for integrity verification by the Authority;
12. **"Receipt":** certified retail receipt or wholesale receipt or receipt for the provision of services provided to the customer, whose integrity can be verified by the Authority;
13. "Machine Registration Code (MRC)": CIS's unique serial number with designation of its certificate;
14. "SDC serial number": Sales Data Controller's unique serial number with specification of its certificate;

15. **“POS”:** Point of Sale;

16. **“Supplier”:** company or physical person registered in Rwanda licensed by the Authority for holding certificates for CIS and/or SDC, manufactured in or outside Rwanda, and selling it to the market as a manufacturer or a representative of the manufacturer;

17. **“distributor”:** company or natural person registered in Rwanda, having a distribution agreement with Supplier, and a license by the Authority to sell CIS or SDC in Rwanda

C. Purposes of EBM

i. Combating tax evasion

ii. Combating corruption in the tax system

iii. Providing a market balance and make equal business opportunities for every entrepreneur.

6.1.2: Requirement to obtain EBM and the benefits of EIS/EBMs: RRA, Taxpayer

A. Requirement to obtain EBM

List of tools and documents required for the installation of EBM software:

1. Required tools

The EBM software is installed in a computing device (Desktop, Laptop, Tablet or POS) with windows operating system from 8 and above or Android operating system.

Once you have a computing device, please prepare and submit the documents listed in point (2) below:

2. Required documents

The below listed documents have to be scanned and sent to ebm2.installation@rra.gov.rw

a) A letter requesting the installation of EBM software.

This letter has to be stamped and signed by the Managing Director or one of the company shareholders or the business owner in case the business is not registered in the Rwanda Development Board (RDB).

It has to be addressed to the head of EBM Division, Rwanda Revenue Authority

b) A copy of RDB Full Registration Certificate or copy of Notice of Taxpayer Identification Number (TIN) registration in case the business is not registered in RDB.

c) A copy of Value Added Tax (VAT) Certificate (If registered for that purpose)

d) A copy of Identification Number or Passport of the person who signed the letter requesting the installation of EBM software

e) Fill, stamp and sign the acknowledgement and commitment Form1 that can be downloaded from this link: https://ebm2.rra.gov.rw/api/ConfirmForm. This form must be signed by the person who signed the letter requesting the installation of EBM software.

B. The benefits of EIS/EBMs: RRA, Taxpayer

There are numerous benefits of EIS/EBMs, both to compliant taxpayers and to the tax administration. These benefits to the taxpayer, to RRA and to Rwanda include:

i. EIS/EBM sales data can be copied and pasted into the 'Sales' tab when completing the VAT annexures, making it quicker and easier for taxpayers to declare and pay VAT

ii. Improving bookkeeping and stocktaking for taxpayers through using EIS/EBMs to record the exact items and prices being sold.

iii. Simplifying the audit process, reducing the time and interruption of taxpayer's daily operations

iv. Reducing the potential for tax evasion, ensuring that taxpayers can compete fairly, and increasing the tax revenues for public spending.

6.1.3: Process used to obtain Version EBM

The way taxpayers use to obtain Version EBM

If you would like to obtain EBM bring to RRA Headquarters:

- RDB Business Registration Certificate
- VAT Registration Certificate
- If you are the owner of the company, your National ID or Passport
- If you are not the owner of the company, the Power of Attorney and National or Passport of the Owner. Taxpayers will have EBM 2.0 installed on their machine.

The way used to buy airtime loaded into EBM V SIM cards

It is the taxpayer's responsibility to ensure that their EBM is loaded with sufficient airtime. Airtime for EBM 1 is available at a subsidized rate of FRW1, 000 per month. Airtime can be uploaded months in advance by purchasing more than one FRW 1,000 vouchers. Only FRW 1,000 vouchers are allowed.

To check the airtime status of the EBM SIM card, dial: *183*SIM Card Number# to load airtime onto the EBM SIM card, dial: *746*Voucher Number*SIM Card Number#

6.1.4: The components of EBM and Receipt data requirements

A. The components of EBM

The EBM 1 uses specific EBM hardware, made up of two components, a Certified Invoicing System (CIS) and a Sales Data Controller (SDC). These can be integrated into one item ('All in One EBM'), or kept separate but connected by cable.

B. Receipt data requirements

A Certified Invoicing System shall generate receipts which show,

Among others, the data enumerated in items below as minimum required information:

1. taxpayer's name;
2. taxpayer identification number;
3. address at which the sale takes place;
4. optional tax identification number of the client;
5. receipt type and transaction type;
6. serial number of the receipt, from an uninterrupted ascending number series per receipt type;
7. registered items or services with description, quantity, price, with any other action that may be done, such as cancellations or corrections;
8. total sales amount;
9. tax rates applied;
10. the tax added to the sale amount;
11. means of payment;

12. SDC information including:
    a) date and time stamped by SDC;
    b) sequential receipt type number;
    c) receipt signature;
    d) SDC identification number;
13. date and time stamped by CIS;
14. Machine Registration Code (MRC).

Each receipt shall be formed from a combination of a receipt type and a transaction type, determined by the Commissioner General. The receipt data requirements referred to in the lines above shall apply to return receipts. However, special provisions for issuing return receipts shall be determined by the Commissioner General.

Application activity 6.1

Q1. Explain two (2) advantages of use electronic information system to the taxpayer.

Q2. Identify the documents required for installation of electronic billing machine software.

6.2: The ways used to set EBM Invoice

Learning Activity 6.2

Mr. Kamali is a trader at Kigali city tower, one day he received as customer of one of his product, after negotiation they agreed to pay FRW100, 000 and during invoice processing in EMB, Mr. Kamali erroneously entered FRW 1,000,000 and no further action made by Mr. Kamali as he felt that as long as sales system showing the actual sales value. On the second day, Mr. Kamali received several customers where they sold many products totaling FRW5, 000,000, during the morning his EBM was working properly but no EBM invoices issued as he was busy in receiving many customers and at the closing of the day his EBM was not working and kept quite as he was thinking that his technician is not around.

Question

From the above scenario, what do you think Mr. Kamali was supposed to do?

6.2.1: The way used to produce EBM invoices and the action done when the taxpayer enters an EBM invoice incorrectly

A. The way used to produce EBM invoices

EBMs must be used to produce EBM invoices for every sales transaction, whether to other businesses or to final consumers. The exact process varies slightly for different types of EBM. The licensed suppliers are trained to help show taxpayers how to use their EBMs.

This typical process for using original EBMs is to enter the quantity, price and code of each item that is being sold. For sales to other businesses, the taxpayer can enter the client's TIN number at the beginning of the transaction. Once all items in a transaction have been entered, the taxpayer must print the EBM invoice and give it to the client. The taxpayer should also print a duplicate EBM invoice of every transaction for their records. Alternatively, at the end of the business day, the taxpayer can print a daily report of all EBM invoices.

B. The action done when the taxpayer enters an EBM invoice incorrectly

If the taxpayer wishes to refund a consumer, or makes a mistake when entering a transaction, they can cancel a specific item, or the whole receipt. Alternatively, if the taxpayer wishes to enter any discount, this can be done at the end of the transaction, before printing the invoice.

6.2.2: The action taxpayers do if the EBM is not working and Obligations of a Certified Electronic Billing Machine User

A. The action taxpayers do if the EBM is not working

If there is any period where the EIS/EBM is not working, for whatever reason, taxpayers must notify RRA and hand-write invoices for the consumer, and keep a duplicate, until the EIS/EBM is working again. Further actions depend upon the type of problem. Once the EIS/EBM is working again, enter all the hand-written invoices into the EIS/EBM.

B. Obligations of a Certified Electronic Billing Machine User

Users of certified electronic billing machines shall be subject to the following obligations:

1. To issue receipt generated by certified electronic billing machines to every customer purchasing items or service;
2. To ensure that certified electronic billing machines is placed at a place which is accessible and easily seen by customers;
3. To ensure that all items or services sold through certified electronic billing machine have clearly defined name and appropriate tax rate.
4. To include client's TIN on the receipt upon request from the client who performs the payment prior to start issuing a receipt;
5. To put a conspicuous notice containing the following information at a place where the certified electronic billing machine is installed:
   a) Name of the user, address and the TIN;
   b) Machine Registration Code;
   c) SDC Serial Number;
   d) Statement "In case of machine failure, sales personnel shall issue manual receipts authorized by the Authority";
   e) Statement "do not pay if a receipt is not issued";
6. To make certified electronic billing machine available for control with respect to its being intact and the correctness of its operations;
7. To perform compulsory technical inspection of certified electronic billing machine with appropriate service point, once such obligation is requested by the Commissioner General;
8. To store the copies of certified electronic billing machines journal records within ten (10) years;

9. To ensure that the user manual is received at the time of supply by the dealer;
10. To ensure that the supplier has registered certified electronic billing machine at the time of supply with the Authority;
11. To report change of sales location to the Authority through procedure prescribed by the Commissioner General;
12. Not to stop using certified electronic billing machine for more than twelve (12) hours without prior notification to the Authority;
13. To report malfunctions of certified electronic billing machine to the Authority within six (6) hours;

Application activity 6.2

Q1. Explain how the EBM invoice are produced.

Q2. Identify three obligations of a certified Electronic Billing Machine.

6.3: EIS/EBM penalties and fines

Learning Activity 6.3

Explain the judicial sanctions imposed on taxpayer who:

a) Does not have an EBM/EIS, but is required to have
b) Fail to comply with any other EIS/EBM user obligations
c) Has an EIS/EBM but issues an undervalued EIS/EBM invoice

6.3.1: EIS/EBMs penalties and fines

The penalties and fines relating to the lack of or misuse of EIS/EBMs are explained below. These may be applied separately, or in addition to, any penalties and fines relating to Value Added Tax (VAT).

a) What are the penalties for a taxpayer who does not have an EIS/EBM, but is required to have?

A taxpayer who does not have an EIS/EBM for a sales location that requires an EIS/EBM is subject to a penalty of:

- FRW 200,000 for a first-time offence.
- FRW 400,000 for any repeat offences.

b) What are the penalties for a taxpayer who fails to comply with any other EIS/EBM user obligations?

A VAT taxpayer who fails to comply with any other five EIS/EBM user obligations, including indicating the true name of the goods, notify RRA of EIS/EBM failure and refraining from deleting invoices inappropriately, is subject to a penalty of:

- - FRW 200,000 for a first-time offence.
- - FRW 400,000 for any repeat offences.

c) What are the penalties for a taxpayer who has an EBM but fails to issue an EIS/EBM invoice?

A VAT taxpayer who has an operational EIS/EBM but fails to issue an EIS/EBM invoice when required is subject to a penalty of:

- Ten (10) times the value of the evaded VAT for a first time offence.
- Twenty (20) times the value of the evaded VAT for any repeat offences.

A non-VAT taxpayer who has an operational EIS/EBM bit fails to issue an EIS/EBM invoice when required is subject to a penalty of:

- Two (2) times the value of the transaction.
- Four (4) times the value of the transaction for any repeat offences.

d) What are the penalties for a taxpayer who has an EIS/EBM but issues an undervalued EIS/EBM invoice?

A taxpayer who has an operational EIS/EBM but issues an undervalued EIS/EBM invoice is subject to a penalty of:

- Ten (10) times the value of the evaded VAT for a first time offence.
- Twenty (20) times the value of the evaded VAT for any repeat offences.

A non-VAT taxpayer who has an operational EIS/EBM but fails to issue an EIS/EBM invoice when required is subject to a penalty of:

- Two (2) times the value of the transaction.
- Four (4) times the value of the transaction for any repeat offences.

e) What other penalties can taxpayers be subject to for non-compliance with EIS/EBM requirements?

Additional penalties available to RRA for non-compliance with EIS/EBM requirements can include:

- Closure of business activities for a period of thirty (30) days.
- Being barred from bidding for public tenders.
- Being named in nationwide newspapers

Application activity 6.3

Lucie is a VAT registered taxpayer. Lucie is caught not issuing an EBM invoice for a FRW 59,000, Transaction with VAT evaded of FRW 9,000. As it is her first offence. Calculate the penalties Lucie to be paid.

Skills Lab Activity 6

Have a resource person (sole trader) or the school accountant to share with students the way used to programmer EBM Version and produce EBM invoices also ask students to describe them then share their findings.

End of unit assessment 6

Q1. Mukamudenge is VAT registered taxpayer. Mukamudenge is caught not issuing an EBM invoice for a FRW 2,900,000 transaction with VAT evaded of FRW 122,000. As it is second offence. Calculate the penalties Mukamudenge to be paid.

Q2. Give short note on the following:

a) Certified Invoice System (CIS)

b) Sales Data Controller (SDC)

Q3. Write in full the following terms related to Electronic Billing Machine:

- POS
- TIN

Q4. Explain the judicial sanctions imposed on taxpayer who has an EBM but fail to issue an EIS/EBM invoice.

Q5. Define the following terms:

a) Penalties

b) Fines

Q6.

a) What does EBM stand for?

b) Define the term EBM

c) Explain two (2) Types of EBM.

Unit 7 TAXATION OF CROSS BORDER ACTIVITIES

Key unit competencies: Compute taxation of cross border activities.

Introductory activity

Scenario 1

Mr. Robert has a manufacturing and selling company which produces 2 products, product A and Product B. Product A is mainly consumed in Rwanda, this means that Mr. Robert does not export product A. Product B is mainly consumed outside of Rwanda, this means that Mr. Robert do export of product B in different countries including East Africa Community (EAC) countries. Due to an increase of customers in Uganda and Kenya, Mr. Robert has opened a branch there and to make sure that the branches is earning more profit, he has started to purchase the local products and do a retailing there. In the recent period Mr. Robert has discovered that the price of raw materials in Uganda are cheaper than in Rwanda and has started to purchase the raw materials in Uganda and transfer them in Rwanda without charging any additional cost to Rwandan company.

Scenario 2

Joe is a citizen of and lives in Rwanda. He has a home here, and lives here with his wife and family. Thus, in the normal scheme of things, Joe would be taxed on his income in Rwanda, in common with all other residents and citizens who live here, and who use the roads, sanitation systems and other public services here. However, Joe is slightly unusual, Every Tuesday morning Joe flies to Tanzania, works there until Thursday afternoon and then flies home again. He gets paid in Tanzania.

Question on scenario 1

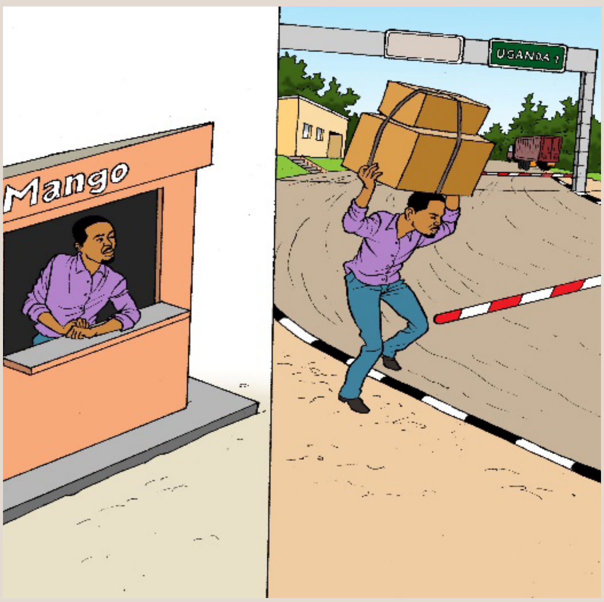
As far as taxation is concerned, which types of trading Mr. Robert is doing? How can you relate the two businesses of Mr. Robert?

Question on Scenario 2

In which country does the tax liability of Joe will fall? How that is will be decided? What will happen if Joe taxed on Income Received in Rwanda and income received in Tanzania? What do you think Rwanda should do to protect Joe for being taxed in Tanzania?

7.1. Distinction between trading in and trading with a country

Learning Activity 7.1



From the photo above, describe the activity that person is doing?

7.1.1. Trading in a country.

This refers to the trading made within the territory of the country i.e., both buyer and seller are in the same country.

7.1.2. Trading with a country.

This refers to the trading with other territories i.e., the seller is in one country, and the buyer is in another "international" trade. Trade with a country accommodates the cross-border activities because under this, the buyer or seller transfers the property, goods and services between individuals or business entities who reside in different Jurisdictions/Countries.

Application activity 7.1

With clear example, differentiate trading in a country and cross border activities

7.2. Double taxation agreement

Learning Activity 7.2

What are you seeing on the above photo?

7.2.1. Double taxation

As we have seen in the introductory activity, if an individual or a company is resident in Rwanda, they will be charged Rwandan income tax on their Rwandan and overseas taxable income sources. Foreign source income may have already suffered taxation overseas, according to the tax rules of the overseas jurisdiction.

Income that is chargeable to income tax in Rwanda is the gross amount of foreign income received. If the income also suffered tax in the foreign country, there is **'double taxation'**. Hence, double taxation, refer to when a taxpayer taxed both on income received where in his/her mother country taxed on gross income received from local and foreign and the foreign country taxed him/her as he/she generated the income from its territory.

7.2.2. Double taxation agreement

International Taxation involves taxation which is cross border. It can arise from an individual having taxable income or assets in two countries, or a business operating in two (or more) countries. Due to increased globalization, the growing level of businesses trading internationally around the globe, and increased personal mobility, international taxation is becoming more and more prevalent. Travel restrictions are less onerous, and it is no longer difficult for people to move from one state to another to carry out businesses or to seek employment opportunities. Capital is more mobile and with advances in e-commerce and e-banking it moves more swiftly than ever before. Such activities are all likely to attract tax liabilities.

The Organization for Economic Co-operation and Development (OECD) has developed a Model Tax Convention which may be used to determine how double taxation is avoided. Countries may refer to the Model Tax Convention when making their own double taxation agreements.

The main principles of the Model Convention are as follows:

a) Total exemption from tax is given in the country where income arises in the hands of certain persons such as visiting diplomats and teachers on exchange programmes.

b) Preferential rates of withholding tax are applied to payments of investment income whereby the usual rate would be replaced by a lower rate.

c) Double taxation relief is given to taxpayers in their country of residence by way of a credit for tax suffered in the country where income arises. This may be in the form of relief for withholding tax only or for underlying tax on profits out of which a dividend is paid as well.

d) There is exchange of information so that tax evaders can be pursued internationally.

e) There are rules to determine a person's residence and to prevent dual residency.

f) There are rules which render certain profits taxable in only one country of the two contracting countries.

g) There is a non-discrimination clause so that a country does not tax foreigners more heavily than its own nationals

Double taxation arrangements may take the form of:

a) Bilateral conventions or agreements relief;

b) Unilateral relief;

Bilateral conventions or agreements relief: These are bilateral agreements for relief from double taxation. This involves countries affected negotiating an agreement with a view to minimize or eradicate effects of double taxation.

Unilateral relief: Due to the difficulty involving double taxation negotiations, it is possible for an individual country to remove the burden of double taxation from international trade by opting to give relief for foreign taxation on a unilateral basis i.e. without regard to whether the other taxing country extended relief or not. This may be triggered by a representation by the business community. A unilateral approach is usually a last resort where negotiations have proved difficult due to political and other reasons.

Rwanda has double taxation agreements in place with Barbados, Belgium, Jersey, Mauritius, Morocco, Singapore, South Africa, People's Republic of China, Democratic Republic of Congo, Luxembourg, Qatar, Turkey and United Arab Emirates. These generally impose lower rates of withholding tax on payments such as dividends, interest, management fees and royalties being paid from Rwandan enterprises to entities located in these overseas countries. **For example**, payments to South Africa have 10% withholding tax imposed instead of the usual 15%.

7.2.3. Foreign tax credit

Foreign tax credit is also known as **Double Taxation Relief.** Actually, a foreign tax credit or double taxation relief is given to eliminate the effects of double taxation where income that has suffered tax in one country is also subjected to tax in another country. The relief is given by way of a credit for the foreign tax paid. And remember a foreign tax relief is granted to individual or company where there is double taxation agreement in those countries. Thus, in the context of Rwanda, **a foreign tax credit** arises when a tax payer who is a resident of Rwanda is taxed on the income received both in Rwanda and outside Rwanda. However, that tax liability is reduced by the amount of tax paid outside.

Note: According to article 7 of Law Nº 027/2022 of 20/10/2022 Establishing Taxes on Income; If during a tax period, a resident in Rwanda generates income derived from taxable activities performed abroad, in accordance with Articles 4 and 6 of this Law, the income tax payable by that resident in respect of that income is reduced by the amount of foreign tax payable on such income. The amount of foreign tax payable shall be substantiated by appropriate evidence such as tax declaration, a withholding tax certificate or other similar acceptable document. However, the reduction of the income tax provided for under Paragraph one of this Article shall not exceed the tax payable in Rwanda on income from abroad.

Steps in computing double taxation relief

1. Calculate the total income received in resident and foreign country
2. Compute the tax liability of the total income earned from resident and foreign country
3. Compute the tax liability of the income earned from resident country
4. Compute the tax liability that should have been paid in resident country (Tax liability of the total income- Tax liability of the income earned from resident country
5. Computation of the double taxation relief/ Foreign tax credit; This should be equal to the lower between the tax liability computed in step 4 and the actual tax paid in foreign country

Application activity 7.2

Hellen is resident of Rwanda, during the month of December 2022 she received the following employment income. From Rwanda; she received a salary of FRW 720,000. From Kenya; she received Kenyan Shillings (KES) 5,400 net of tax of KES 780. Assume that Rwanda has a double taxation agreement with Kenya and 1KES = FRW 100.

Required:

Compute the double taxation relief due to Hellen for the month of December 2022

7.3. East African Customs Union

Learning Activity 7.3

Describe your observation on the above photo

7.3.1. Meaning of East African Customs Union

The Customs Union is the first Regional Integration milestone and critical foundation of the East African Community (EAC), which has been in force since 2005. It means that the EAC Partner States have agreed to establish free trade (or zero duty imposed) on goods and services amongst themselves and agreed on a common external tariff (CET), whereby imports from countries outside the EAC zone are subjected to the same tariff when sold to any EAC Partner State. **East African customs union** is also referred as **Customs Union.**

7.3.2. Features of a Customs Union

The main features of a Customs Union include the following:

i. A common set of import duty rates applied on goods from third countries (Common External Tariff, CET);

ii. Duty-free and quota-free movement of tradable goods among its constituent customs territories;

iii. Common safety measures for regulating the importation of goods from third parties such as phyto-sanitary requirements and food standards.

iv. A common set of customs rules and procedures including documentation;

v. A common coding and description of tradable goods (common tariff nomenclature, CTN);

vi. A common valuation method for tradable goods for tax (duty) purposes (common valuation system);

vii. A structure for collective administration of the Customs Union.

viii. A common trade policy that guides the trading relationships with third countries/trading blocs outside the Customs Union i.e., guidelines for entering into preferential trading arrangements such as Free Trade Area's etc. with third parties.

Such main features of the EAC Customs Union are embodied in the Customs Union Protocol and its annexures, Common Customs Law (and regulations) and the Treaty. **(Reference for students and Teachers).**

7.3.3. Objectives of the Customs Union

The objectives of the East African Community are broader and cover almost all spheres of life, the **main objective** of the Customs Union is **formation of a single customs territory**. Therefore, trade is at the core of the Customs Union.

It is within this context that internal tariffs and non-tariff barriers that could hinder trade between the Partner States have to be eliminated, in order to facilitate formation of one large single market and investment area.

Objectives of the Customs Union

The objectives of the Customs Union include:

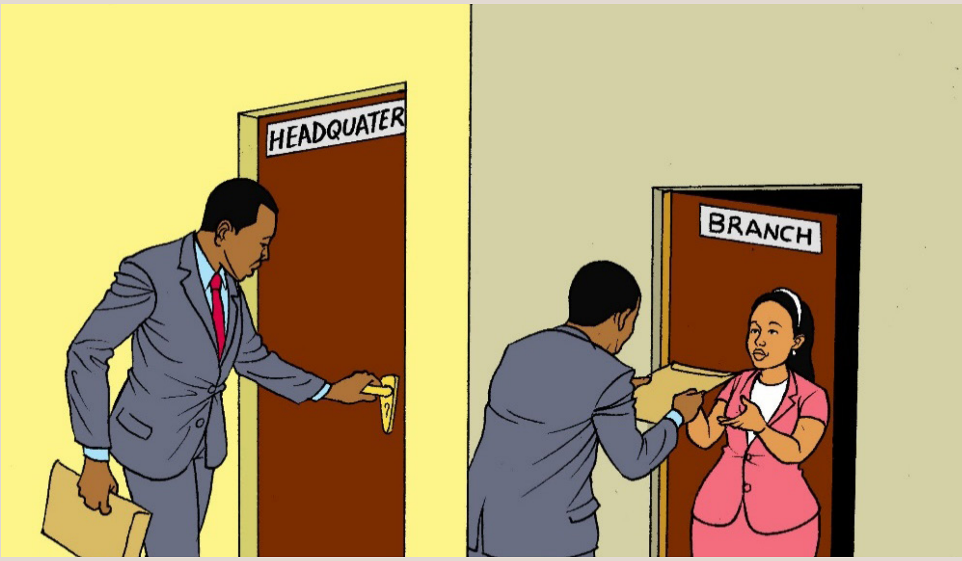
a) Further liberalize intra-regional trade in goods on the basis of mutually beneficial trade arrangements among the Partner States;
b) Promote efficiency in production within the Community;
c) Enhance domestic, cross border and foreign investment in the Community; and
d) Promote economic development and diversification in industrialization in the Community

Application activity 7.3

With a clear example, outline the objectives of customs union.

7.4. Transfer pricing

Learning Activity 7.4



Describe your observation on the photo above?

7.4.1. Transfer pricing principles

Multinational groups of companies will typically trade with each other in goods and services. The prices at which such transactions occur is called the transfer price. While the trading of goods between Rwanda and other countries is governed by Article VII of GATT (the General Agreement on Tariffs and Trade), and must not take place at an artificial or contrived value, this rule does not apply to the transfer price for services. An overseas parent company could therefore charge management fees, and manipulate the transfer price so that profits arise in a country where the rates of taxation are lower so that the overall tax liability of the group is minimized. The transfer pricing rules mean that the purchase price of goods and services paid for by Rwandan businesses to related parties should not exceed the amount that would have been paid to an independent third party.

7.4.2. Definition of related person

Article 3 of Law N° 027/2022 of 20/10/ 2022 defines related persons as 'any person who acts, or is likely to act, in accordance with the directives, opinion or wishes of another person when such directives, opinion or wishes are communicated or not communicated to them'. The following are specifically deemed related persons:

a) An individual and his or her spouse and their direct lineal ascendants or direct lineal descendants and their relatives in the collateral lineage until at least the 3rd degree.
b) A person who participates directly or indirectly in the management, control or capital of another person.
c) Third person who participates directly or indirectly in the management, control or capital or both control and capital of another person;
d) Such persons referred to under sub items a., b. and c. who participate directly or indirectly in the management, control or capital of an enterprise.
e) A person who is under direct or indirect common control with another person

A common example of related persons is a company and its shareholders and directors; the shareholders meet the definition in (b) above as persons who participate in the capital of the company (which is a legal person in its own right), and the directors participate in management.

7.4.3. Impact of transfer pricing rules

Related persons must retain documents that justify that the prices charged on transactions between themselves were carried out on an arm's-length basis. If a taxpayer fails to retain such documentation, the tax administration has the power to adjust taxable profits accordingly. For example, if the price paid for a management service by a Rwandan business to its overseas parent company was above an arm's-length price, the tax administration would increase taxable income by the difference between the actual price and the arm's-length price.

7.4.4. Thin capitalization

Internationally, most tax jurisdictions (including Rwanda) provide that taxable income may be reduced by amounts paid as interest on loans to related parties. By contrast, most do not provide tax relief for distributions to owners made to shareholders by way of dividends. As a result, multinational enterprises are motivated to finance their foreign subsidiary companies through loans rather than share capital. When the subsidiary is financed heavily by debt finance, its taxable profits would be substantially reduced by interest payments.

To prevent huge reductions of taxable profits by way of interest deductions, thin capitalization rules apply. These rules limit the amount of interest that would be allowed as a deduction when computing taxable business profits. This is done by not allowing as an expense the amount of interest paid on related party loans when the company's debt to equity ratio exceeds a certain limit.

In Rwanda, this limit is a ratio of **four to one**: where debt is more than four times equity (share capital on the balance sheet), a company is said to be 'thinly capitalized' and interest payable on loans to related persons will not be given tax relief (and must therefore be added back).

Application activity 7.4

A Plc is a registered commercial bank in Rwanda. The bank pays its French parent company a management services charge of FRW 50,000,000 per year. This figure is 25% higher than what other banks in Rwanda pay for the same services to their parents' companies. In addition, this is higher than the other group subsidiaries' pay despite the fact that the services provided by the parent to all of its subsidiaries in Africa are similar in scope.

Required:

Compute the transfer pricing adjustment if any.

7.5. Computation of tax for cross border activities

Learning Activity 7.5

Describe your observation on the above photo?

7.5.1. Compute the tax relating to cross border activities for an individual

The tax liability should be equal to Gross tax liability computed as per tax rate for individual in Rwanda minus the double taxation relief.

Steps for computing tax liability

1. Calculate the Double taxation relief
2. Compute the tax liability, the tax liability or tax payable is equal to Gross tax liability minus double taxation relief.

7.5.2. Compute the tax relating to cross border activities for a company

The tax liability should be equal to gross tax liability computed as per tax rate for companies in Rwanda minus the double taxation relief.

Recall: The income tax shall not exceed the tax payable in Rwanda on income from abroad. This means that the rate of tax for foreign income should not exceed the tax rate charged in Rwanda.

Steps for computing tax liability

1. Calculate the Double taxation relief
2. Compute the tax liability, the tax liability or tax payable is equal to Gross tax liability minus double taxation relief. **Remember:** CIT rate in Rwanda is 30%

Application activity 7.5

1. Daniel, a resident of Rwanda earned income from Rwanda and United Kingdom (UK) as he has a part time job there. During the month of December 2022, Daniel received an Income from Rwanda of FRW 1,765,000 and Income from United Kingdom (UK), he received UK£ 480 net of tax deducted amounting to UK£ 96. The average exchange rate during that time 1 UK £ was FRW 1400. Rwanda has signed a double taxation agreement with UK.

Required:

Compute the tax liability due to Daniel for the month of December 2022.

2. Maurice Enterprise Ltd is company operating in Rwanda since 2015, because Rwanda and Mauritius signed a double taxation agreement, Maurice enterprise Ltd has expanded its business to Mauritius to exploit the benefit of that agreement.

During the year ended 31st December 2021, Maurice Enterprise Ltd had made a profit before tax (PBT) of FRW 4,500,000 in Rwanda's business activities and Net equivalent of FRW 17,000,000 in Mauritius. The corporate income tax rate at Mauritius was 15%.

Required:

Compute the tax liability due to Maurice Enterprise Ltd for the year ended 31st December 2021.

Skills Lab Activity 7

Through the field visit of one of the companies that do business crossing out of Rwanda's territory, student will be required to prepare a report on the following questions:

1. How that company do declaration of an income received from outside of Rwanda?
2. How much of tax paid in the foreign country that company operating in?
3. What are the challenges of trading with other countries faced by that company?
4. What was the facilitation of Rwanda in the business process of that company?

End of unit assessment 7

Questions

1. List the features of customs union
2. Describe thin capitalization.
3. Differentiate bilateral and unilateral agreement relief as form of double taxation agreement.
4. Mr. Alex Mugabe works partially in Rwanda and partially in Canada. His family is based in Rwanda. During the month of January 2023, Mr. Mugabe earned an equivalent of Rwanda francs 3,600,000 gross from his employment in Canada. He paid an equivalent of Rwandan francs 1,100,000 as tax on the income. He also earned income from his employment income in Rwanda of FRW 1,200,000. Assume that Rwanda has a double taxation agreement with Canada.

   Required:

   Tax liability for Mr. Alex Mugabe for the month of January 2023.

5. Bugesera Company Ltd (CL Ltd) is a company operating in Rwanda and South Africa. For the year ended 31st December 2022, CL Ltd generated a gross profit of FRW 15,000,000 in Rwanda and South African Rand (ZAR) 600,000 in South Africa.

Additional information:

i. CL Ltd incurred expenses of FRW 8,400,000 to generate income in Rwanda

ii. 1 ZAR= FRW5

iii. No expenses incurred in south Africa.

iv. Rwanda and south Africa signed a double taxation agreement.

v. CL Ltd paid tax of ZAR 210,000 in South Africa.

Required:

Calculate the tax liability to be paid by CL Ltd for the year ended 31st December 2022.

Unit 8 TAXES DECLARATIONS AND PAYMENT

Key unit competence: Prepare Taxes declaration and Payment

Introductory activity

INEZA has opened a business oriented enterprise in NYAMATA deals with solar distribution in rural areas of Rwanda her business generates a good income, INEZA has registered her business at RDB only and INEZA also hired a junior accountant to perform all accounting responsibilities it is his first time to perform accounting responsibilities and in his job descriptions he is supposed to comply with tax law in Rwanda. Ineza has opened the bank account for the Enterprise in KCB, Unfortunately KCB has closed its branch in NYAMATA and it became challenges to accountant to take Cheque payments to bank.

INEZA' business enterprise being registered in RDB is not enough, she is supposed to register her Enterprise in tax administration.

1. Why is she required to register her enterprise in tax administration?
2. What are the tax types that INEZA' Enterprise should be registered on?
3. Is there any other methods can be used by an accountant to pay taxes without taking cheque to bank? If yes what are those methods?

8.1: Taxes Declarations

Learning Activity 8.1

INEZA Trading LTD was acquired by a French registered business enterprise INEZA deals in solar distribution in rural areas of Rwanda and the tax administration has informed them that INEZA is a large taxpayer.

Which mandatory documents should INEZA Trading Ltd attach when filing the tax return?

8.1.1: Definition of Taxes declaration and Requirement for the taxes declaration

1. Definition of Taxes declaration

Tax declaration is made by completing a form prepared by the Fiscal Administration.

The determination of the payable tax is made in the 1st degree by the taxpayer by way of declaration.

In the 2nd degree, the declaration filed by the taxpayer is verified by the Fiscal Administration.

The taxpayer is obliged to file a declaration even when no profit was made during the taxable period.

Are only allowed not to file a declaration those who are "exempted" by the Fiscal Law.

A registered taxpayer must prepare an annual tax declaration and submit it to the tax administration, along with the relevant accompanying documents(annexures), no later than 31st March of the following tax period. The taxpayer must choose the relevant declaration from the tax administration web side in order not to confuse it with other types of tax declarations. If there are no activities during the tax period, a nil return is submitted to the tax administration.

2. Requirements for the tax's declaration

According to Article 9 of the Law Nº 027/2022 of 20/10/2022 establishing taxes on income , an individual who carries out taxable income generating activities prepares an annual tax declaration in accordance with procedures specified by the tax administration and he or she submits the declaration with annexes comprising the balance sheet, profit, and loss account for that tax period and other annexes thereto drawn according to the requirements of the generally recognized accounting principles and any other relevant document required by the tax administration not later than 31st March of the following tax period, unless otherwise provided by this Law.

However, a person who meets the required annual turnover declares the annual tax and financial statements certified by a qualified professional and approved by the tax Administration.

A Ministerial order determines the annual turnover required for certification of financial

Statements.

A person is not required to file his or her annual tax declaration if the person:

1. has an annual turnover of less than two million Rwandan francs (FRW 2,000,000);
2. receives only employment income;
3. receives only income on investment that is subject to withholding tax.

An individual resident in Rwanda who receives employment income from more than one employer or who receives incidental employment income may file an annual declaration as mentioned above in order to claim a tax refund for excess income tax paid.

3. Computation and payment of income tax

The amount of tax to be paid is calculated on the basis of the annual basic declaration, reduced by:

1. the tax withheld on taxable income; with the exception of the tax withheld on employment income, as well as on income to which lump sum tax or flat tax are applied;
2. the prepayments made every quarter.

Income tax is paid to the Tax Administration starting from the date of declaration and not later than 31 March of the year following the tax period through procedures specified by the Tax Administration unless otherwise provided.

1. **Tax types, Declaration and Payment deadlines**

Description	Tax Type(S)	Declaration and Payment Deadlines
For all business	Income Tax (PIT or CIT),	31^{st} March of following year
	Including Instalment Quarterly Prepayment(IQP)	30^{th} June, 31^{st} September and 31^{st} December of current year
	Trading License Tax	31^{st} January of current year
	Public Cleaning Services Fees	5^{th} of the following month
....with annual turnover above FRW 200,000,000	Value Added Tax	15^{th} of the following month
......with employees	Pay As You Earn (PAYE)	15^{th} of the following month
	RSSB Contributions	15^{th} of the following month
... which manufacture juices, sodas, mineral waters, beers, wines, spirits, oils, lubricants, motor vehicles, powdered milk or airtime	Excise Duty	15^{th}, 20^{th} and 5^{th} of the following month
... which make payments of interest, dividends, royalties, service or consultancy fees, for performances, or to non-registered businesses	Withholding Taxes	15^{th} of following month
... which pay out gambling proceeds	Gaming Taxes	15^{th} of following month
... which export minerals	Tax on Mining	15^{th} of following month
For all Landowners ...	Immovable Property Tax	31^{st} December of same year
... renting out property	Rental Income Tax	31^{st} January of following year

For all Individuals ...		
... who have sold commercial immovable property or shares	Capital Gains Tax	31st March of following year
For anyone ...		
... importing a car	Importing Motor Vehicles	When importing
... buying a car locally	Motor Vehicle Registration Transfer	When buying the car
... requiring District's services or authorization	Local Government Fees	Before the service or authorization is provided

8.1.2: Mandatory information on declaration and the deadline to declare, pay the RSSB contribution and PAYE

A. Mandatory information on declaration

- TIN number
- Business name
- Type of tax
- Tax period

Etc...

B. The deadline to declare and pay the RSSB contribution and PAYE

Declaration of tax and remittance of RSSB contributions can be made on monthly basis or quarterly basis

- **On monthly basis**

Declaration of tax and remittance of contributions are made on monthly basis; **not later than the 15th day** of the month following the month to which the contributions relate.

- **On quarterly basis**

Declaration of tax and remittance of RSSB contributions are made on quarterly basis as follow:

- 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.

The Commissioner General has issued an instruction to make the first quarter starting with January ending March. Accordingly, the deadline to submit tax return and payment besides other related remittance will be 15th April and so on...

Application activity 8.1

Q1. Define the terminology of tax declaration

Q2. Identify income tax in Rwanda

Q3. When is the deadline to declare and pay Trading License Taxes.

8.2: Methods, Process of taxes and RSSB Contribution declarations

Learning Activity 8.2

Kevin has just accepted a job working for Alphonse as a shop assistant for Alphonse retail business, which has a turnover of FRW 30,000,000 per year. Alphonse has never previously employed anyone, and this is Kevin first job since leaving school.

With research List process that will be followed by Kevin in PIT tax declaration by using e-tax

8.2.1. Methods of Taxes and RSSB Contribution declaration

1. **Methods of tax declaration**

a) M-declaration

M-Declaration is a system designed to allow certain types of taxpayers to declare Income Tax through their mobile phones. This is particularly focused at lower-income taxpayers, declaring Flat Tax or Lump Sum regimes, or taxpayers declaring Motor Vehicle Income Tax.

- **M-Declaration Process**

The first time a taxpayer uses M-Declaration from that specific mobile phone, the taxpayer must first register.

The M-Declaration system for both registering and declaring is accessed by dialing *800#. The M-Declaration system has a series of screens, with number options, that are navigated by entering and sending the relevant number. The first screen requests the taxpayer to select a language, either English or Kinyarwanda.

The next screen requests to select which M-Declaration service is required.

To declare Flat Tax, Lump Sum and IQP Income Tax select '2. Other Business Activities'.

The next screen shows the 'Welcome to Domestic Taxes' menu.

This menu offers three options:

- 1. Registration
- 2. Declaration
- 3. Change Mobile Number

- **Register for M-Declaration**

From the 'Welcome to Domestic Taxes' menu, select '1. Registration' to begin the registration process.

The details required for registration are:

- Taxpayer Identification Number (TIN)
- Rwanda National ID number for PIT registered taxpayers, their Rwanda National ID number is required.

It is not currently possible to use passports to declare PIT using M-Declaration, E-Tax must be used instead. For CIT registered taxpayers (of any nationality), the Rwanda National ID number can be entered as '9999999999999999' (sixteen '9's). Submit the required details in the relevant screens to register for M-Declaration of Flat Tax, Lump Sum and IQP Income Tax.

- **M-Declaration of Income Tax**

From the 'Welcome to Domestic Taxes' menu, select '2. Declaration' to begin the declaration process.

The taxpayer must have already registered the TIN with mobile phone that they are declaring from. In addition, they must select:

- Whether they are a new taxpayer, meaning if this is their first Income Tax declaration of any kind.
- The business turnover or total sales during the tax period being declared.
- The year and quarter for the tax period which is being declared.

- For example, for annual declarations that are due by 31st March 2017 are for the year of ‘2016’ and quarter ‘annual’.
- For example, for IQP declarations that are due by 30th June 2017 for the preceding quarter are for the year of ‘2017’ and quarter ‘1’.

Based on this turnover, the system calculates the tax to be paid, and generates the RRA Reference Number required for paying taxes.

a) E-declaration

- **What is E-Tax?**

E-Tax is an online portal through which all domestic tax types can be declared. This can be done online or with the help of staff at RRA offices. RRA has developed the E-Tax system to make it easier for taxpayers to declare and pay domestic taxes.

- **How do taxpayers register and login to E-Tax?**

Access the E-Tax website at https://etax.rra.gov.rw or through the RRA website http://www.rra.gov.rw and click ‘Pay Domestic taxes here’ on the right of the screen.

Taxpayers are automatically registered for E-Tax when their business is registered with RDB. Taxpayers are informed of their unique Taxpayer Identification Number (TIN) and E-Tax password by SMS and email using the contact details given when they registered.

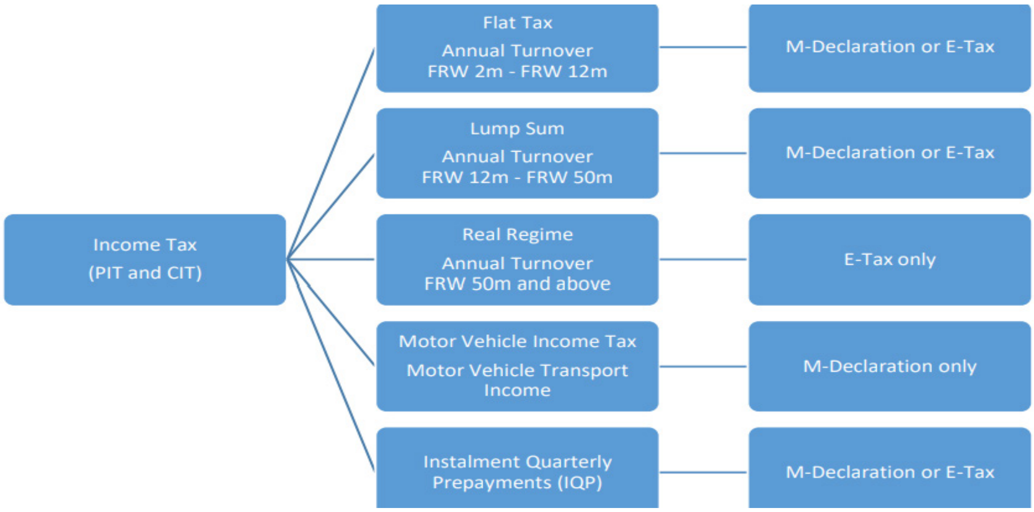
Once logged in, the E-Tax password can be changed by the taxpayer by clicking ‘Change Password’ on the left of the E-Tax home screen.

- **What if taxpayers do not know their TIN?**

If a taxpayer does not know his/her TIN, they can visit RRA offices or call the RRA call center toll-free on 3004.

In addition, if an individual taxpayer (i.e. not a company) does not know the TIN, still you can visit the RRA website at http://www.rra.gov.rw and click ‘Search for TIN using National ID’ under the ‘Other online services’ heading.

- **Income Taxes which are declared by using E-Tax or M-Declaration**



The benefits of declaring online using E-Tax or on mobile phones using M-Declaration

Although the process is the same, there are many advantages to declaring online or on mobile phones rather than with the help of staff at RRA offices.

The advantages of declaring online or on mobile phones include being able to:

- Declare taxes anytime, from anywhere.
- Avoid travel costs of visiting RRA offices.
- Avoid queuing times at RRA offices.

1. RSS Contributions declarations

Who pays RSSB contributions? RSSB contributions are based on employees' income. These are withheld, declared and (jointly) paid on their behalf by their employers. Who must register for RSSB Contributions? All employers must register for the Pension Scheme, Occupational Hazards and Maternity Leave. Public institutions must also register for the Medical Scheme. What are the rates of RSSB contributions? Pension Scheme totals a rate of 8%, made up of: - 3% withheld from the employee and 5% paid by the employer, including Occupational Hazards. Maternity Leave scheme totals a rate of 0.6%, made up of: - 0.3% withheld from the employee and 0.3% paid by the employer. Medical Scheme totals a rate of 15%, made up of: - 7.5% withheld from employees and 7.5% paid by the employer. When is the deadline to declare and pay RSSB? All RSSB contributions must be paid on a monthly basis, by the 15th of the following month, regardless of PAYE

8.2.2. Process of Taxes and RSSB Contribution declarations

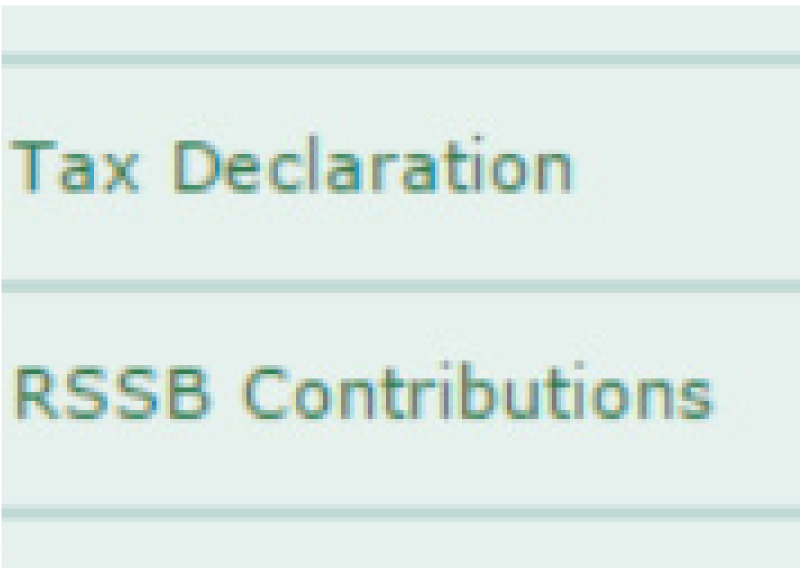
Declaring PAYE and RSSB Contributions to facilitate taxpayers, RRA and Rwanda Social Security Board (RSSB) have introduced a unified declaration, where PAYE and all RSSB contributions (except for voluntary Pension Scheme) can be declared together.

The original method of declaring PAYE and each of the RSSB contributions separately is still available. However, RRA is encouraging the use of the unified declaration, and recommends that any newly declaring taxpayers should use the unified declaration.

The declaration process for the Unified PAYE and RSSB declaration.

The process for the original method is very similar, but must be repeated for each of the separate tax types and RSSB contributions. However, when selecting the declaration, instead click 'Tax

Declaration' for PAYE and 'RSSSB Contributions' for RSSB Contributions. This is also the case when declaring voluntary Pension Scheme contributions.



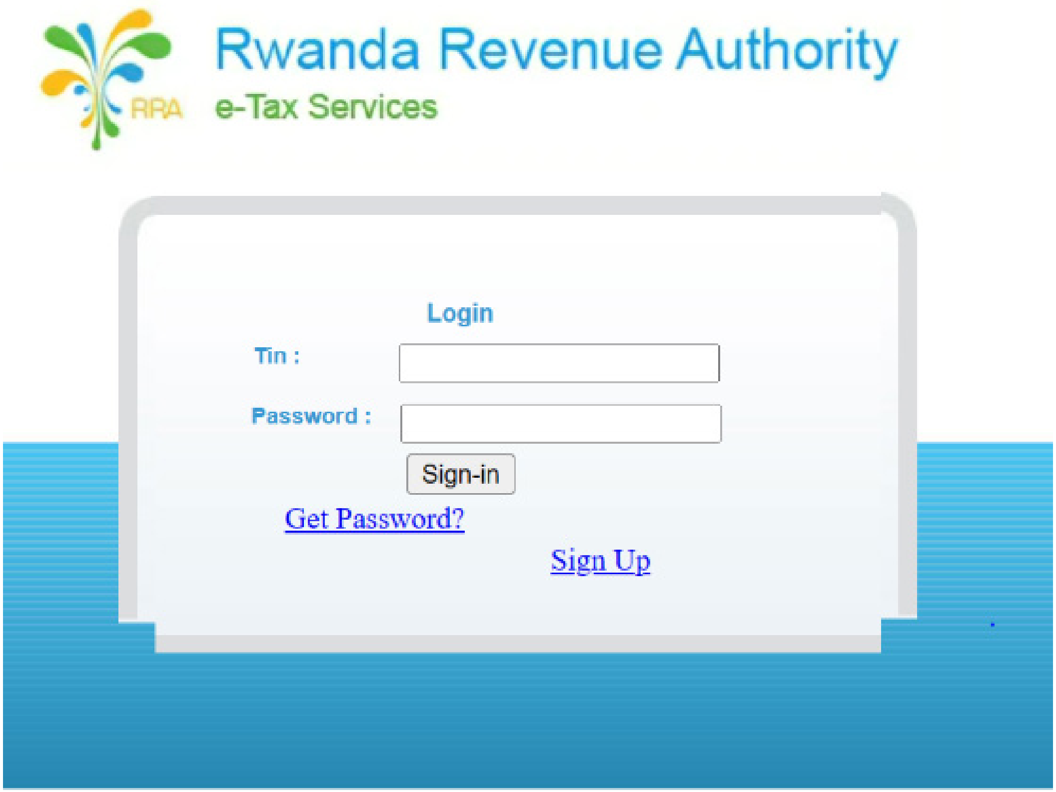
As with other tax types, taxpayers must first register to declare the Unified PAYE and RSSB declaration by calling the RRA call centre on 3004 or visiting RRA offices. The declaration process for Unified PAYE and RSSB is similar to other domestic taxes,

a) Declaring Domestic Taxes

Step-by-Step guide to declaring domestic taxes using E-Tax

Step 1: Log-in to E-Tax

Access the E-Tax website at https://etax.rra.gov.rw or through the RRA website http://www.rra.gov.rw and clicking on 'Pay Domestic taxes here' on the right of the screen. This loads the following login screen:

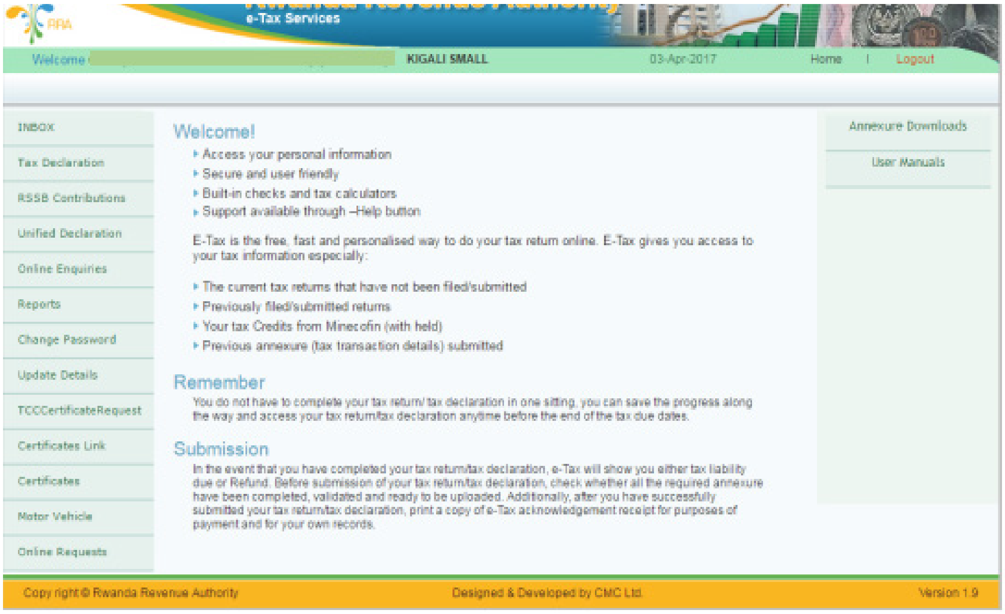


Login using the TIN and E-Tax password.

Note: If a taxpayer does not know their password, it can be reset by clicking 'Forgot Password' on the E-Tax system login and receiving a new password by email to the address used when registering.

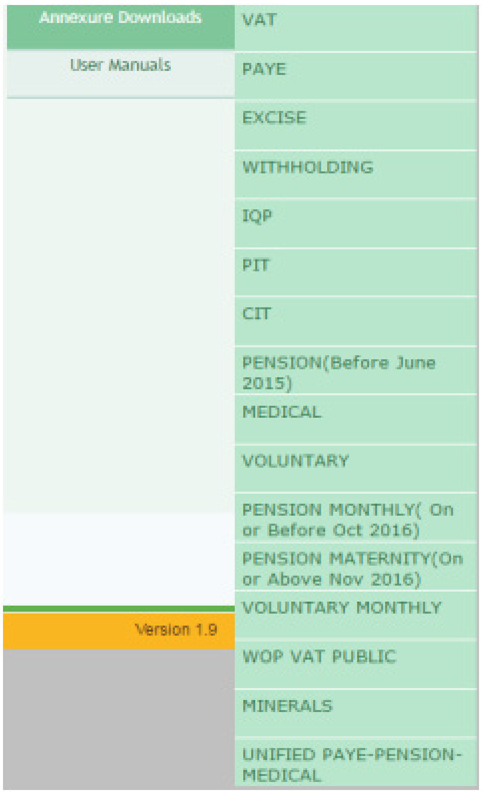
Step 2: Download, complete, validate and save annexures

After logging in, the E-Tax home page is loaded as shown below.



The first step of declaring domestic taxes is to download, complete and save the annexures of that tax type.

To download annexures, hover the mouse over 'Annexure Downloads' on the top-right hand side of the E-Tax homepage, and click on the applicable tax type to download the annexures.



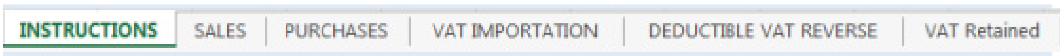
This will start a download of a spreadsheet file which can be opened in Microsoft Excel or other spreadsheet software.

The annexures differ depending upon the tax type. For details on a specific tax type,

Annexures have an 'Instructions' tab and at least one other tab to be completed. Only the tabs that are relevant to the taxpayer in that tax period need to be completed. Each relevant tab must be completed, validated and saved separately.

For example:

For VAT, the annexure is titled 'VatAnnexure_1.1.xlsm'. The VAT annexure has six tabs: Instructions, Sales, Purchases, VAT Importation, Deductible VAT Reverse and VAT Retained.



- Enabling Content
- Date Format
- Blank Cells
- Mac computers
- Validating and Saving

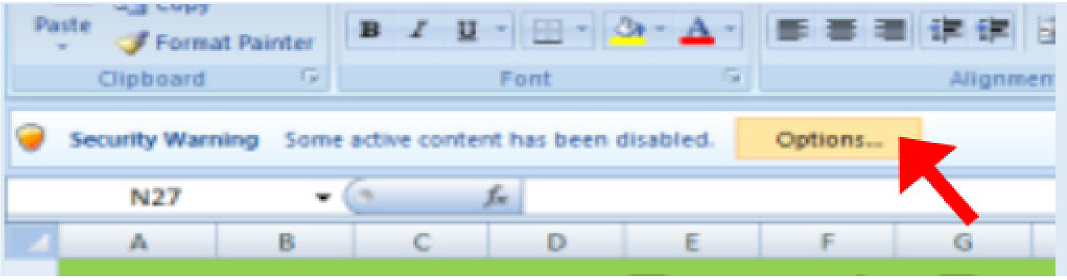
There are five important things to note when completing the annexures of all domestic taxes. This concern:

Enabling Content

The first thing that must always be done after opening the spreadsheet is to enable the active content. Without enabling content, it is not possible to validate or save the annexures. The process of enabling content varies depending upon the spreadsheet software.

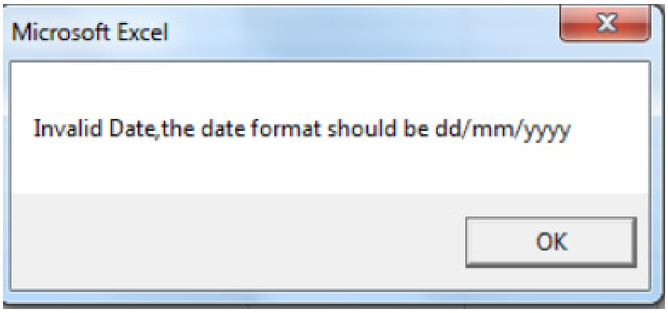
Example

To enable content using Microsoft Excel 2007, when the document opens click 'Options' on the 'Security Warning' at the top of the screen. In the resulting 'Security Alert – Macros & ActiveX' box that opens, click to 'Enable this content' then 'OK'. These steps are shown below



Date Format

In order to validate the annexure, all dates must be entered in the required format of dd/mm/yyyy. However, it is also important to note that the annexures will not validate if the date settings of the computer are also not in the format of dd/mm/yyyy. This may show the following error message, even if the dates entered in the cells are in the correct format.



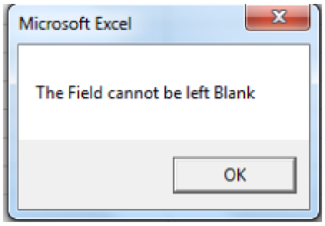
The process of changing the date format of the computer varies depending on the computer operating system. Date formats are often linked to the language settings of the operating system;

Example

To change the date settings on Windows 7,

- Click: Control Panel
- Clock, Language and Region
- Region and Language
- Change the date, time or number format
- Format: English (United Kingdom)
- Short Date: dd/MM/yyyy.

Blank Cells If any data is entered in a row, then that row must be completed before validating. In addition, the majority of columns cannot be left empty. This may show the following error message.



Example

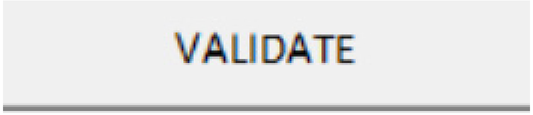
Rukundo is completing the Sales tab of the VAT Annexure. In one particular transaction, there are no Exempt Sales. In order to validate and save correctly, Rukundo must enter '0' in the 'Exempted Sales Amount' column instead of leaving it empty.

Mac computers

The E-Tax system is not yet fully compatible with Apple Mac computers. If the taxpayer is using a Mac computer and the annexure is failing to validate and save, despite enabling the content, using the correct date format and avoiding blank cells, there may be an issue with compatibility. Try again using a Windows computer.

Validating and Saving

Annexures are saved in a different way to other spreadsheets. For each tab, once all data is entered for the tax period, click the validate button within the excel spreadsheet



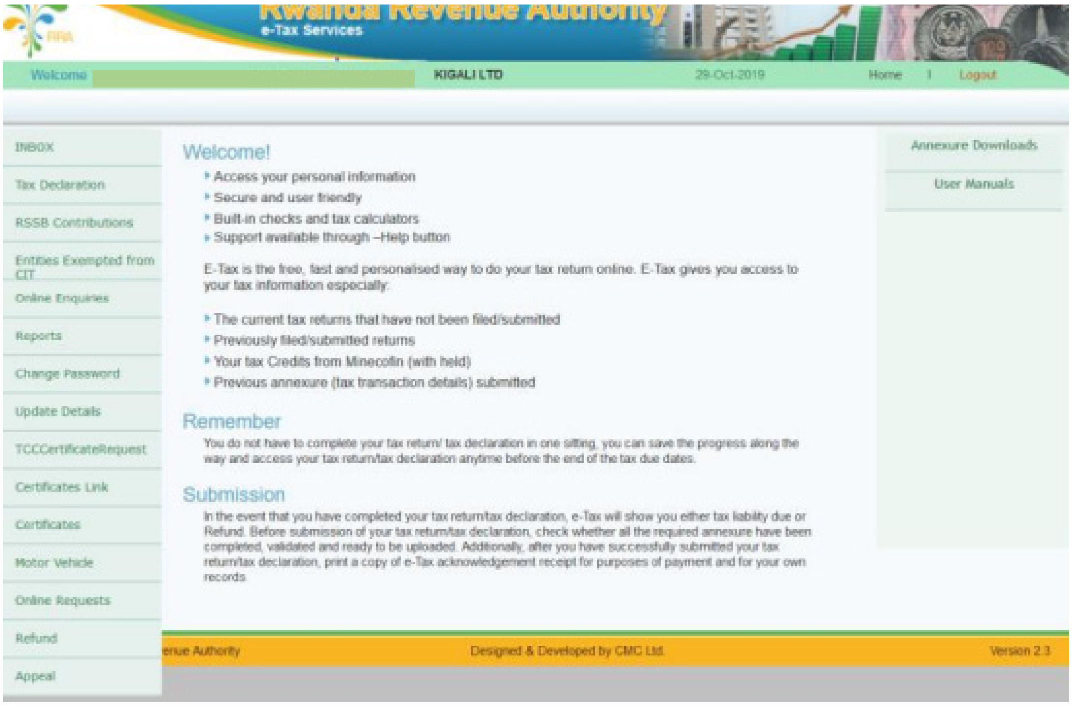
This will check that all data is entered in the required formats. If this is the case, it will automatically save a text file under the folder C:/RRA in the user's local machine.

If any of the format rules are violated, it will alert an error message and the file will not be created. The error message explains what needs to be corrected.

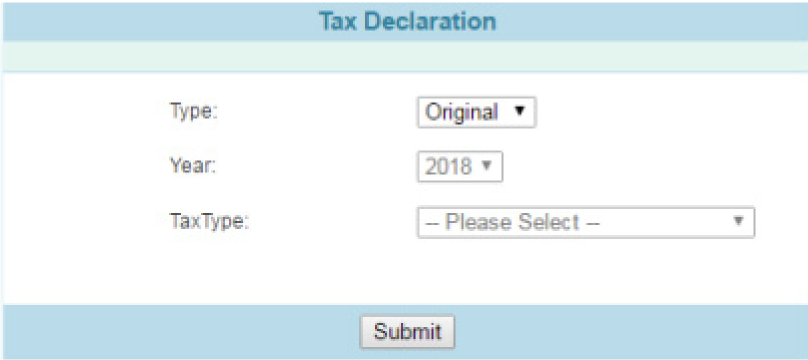
Even after the file is created, any changes can still be made. Clicking validate, this will save over and replace the previous file.

Step 3: Select and complete the declaration form

After all the relevant annexures have been downloaded, completed, validated and saved, the declaration form can be completed. This requires logging back into E-Tax and accessing the homepage.



However, the mouse over 'Tax Declaration' in the left side of the E-Tax homepage, and then click on 'New Declaration' from the list that appears. To revise previously submitted declarations, click on 'Submitted Declarations'. Clicking 'New Declaration' leads to the following screen.



Without changing the type, year or tax type, click 'Submit' to continue to the 'Document Details' page.

Document Details

TIN: | Business Name: | TaxCentre Name: GICUMBI TC

Sl. No.	Document No.	Tax Type Description	Tax Period	Due Date	Payment DueDate	Decade	Month	Year	Return Type	Status
11	3656657	WOP-PUBLIC SUPPLIES	01-Sep-2012 to 30-Sep-2012	15-Oct-2012	15-Oct-2012	NA	September	2012	Original	In Progress
12	6139401	TREASURY BONDS	01-Nov-2014 to 30-Nov-2014	15-Dec-2014	15-Dec-2014	NA	November	2014	Original	Pending
13	40457816	CIT-CORP. INCOME TAX	01-Feb-2016 to 31-Dec-2016	31-Mar-2017	31-Mar-2017	NA	December	2016	Original	In Progress
14	40711419	WOP-IMPÔT MOBILIER	01-Apr-2016 to 30-Apr-2016	16-May-2016	16-May-2016	NA	April	2016	Original	In Progress
15	40731371	VAT-VALUE ADDED TAX	01-Oct-2016 to 31-Oct-2016	15-Nov-2016	15-Nov-2016	NA	October	2016	Original	In Progress
16	40739562	VAT-VALUE ADDED TAX	01-Dec-2016 to 31-Dec-2016	15-Jan-2017	15-Jan-2017	NA	December	2016	Original	Pending
17	40758446	PAYE	01-Nov-2016 to 30-Nov-2016	15-Dec-2016	15-Dec-2016	NA	November	2016	Original	Pending
18	41025642	PAYE	01-Jan-2017 to 31-Jan-2017	15-Feb-2017	15-Feb-2017	NA	January	2017	Original	Pending
19	41060770	VAT-VALUE ADDED TAX	01-Jan-2017 to 31-Jan-2017	15-Feb-2017	15-Feb-2017	NA	January	2017	Original	Pending
20	41068081	VAT-VALUE ADDED TAX	01-Feb-2017 to 28-Feb-2017	15-Mar-2017	15-Mar-2017	NA	February	2017	Original	Pending
21	41075396	VAT-VALUE ADDED TAX	01-Apr-2017 to 30-Apr-2017	15-May-2017	15-May-2017	NA	April	2017	Original	Pending
22	41082710	VAT-VALUE ADDED TAX	28-Feb-2017 to 31-Mar-2017	05-Apr-2017	05-Apr-2017	NA	March	2017	Original	Pending

The 'Document Details' page lists all un-submitted tax declarations. The status column is set to 'In progress' if any declaration details have been entered, or 'pending' if no details have yet been entered. Once a declaration has been submitted, it is no longer accessible on this screen.

To enter a tax declaration, click on the document number of the relevant tax type and tax period. Ensure the correct tax type and tax period is chosen.

If a taxpayer wishes to declare for a particular tax type, or tax period, and this is not available on the 'Document Details' screen, the taxpayer can request for it to be added by visiting RRA offices or calling the RRA Call Centre toll-free on 3004.

Having clicked on the document number of the relevant tax type and tax period, the screen now focuses on that particular declaration, as seen below. The first step is to click on 'Enter Declaration'.

Tax Declaration

TIN: [redacted] | Business Name: [redacted] | TaxCentre Name: GICUMBI TC

Sl. No.	Document No.	Tax Type Description	Tax Period	Due Date	Payment DueDate	Decade	Month	Year	Return Type	Status
1.	40731371	VAT-VALUE ADDED TAX	01-Oct-2016 to 31-Oct-2016	15-Nov-2016	15-Nov-2016	NA	October	2016	Original	In Progress

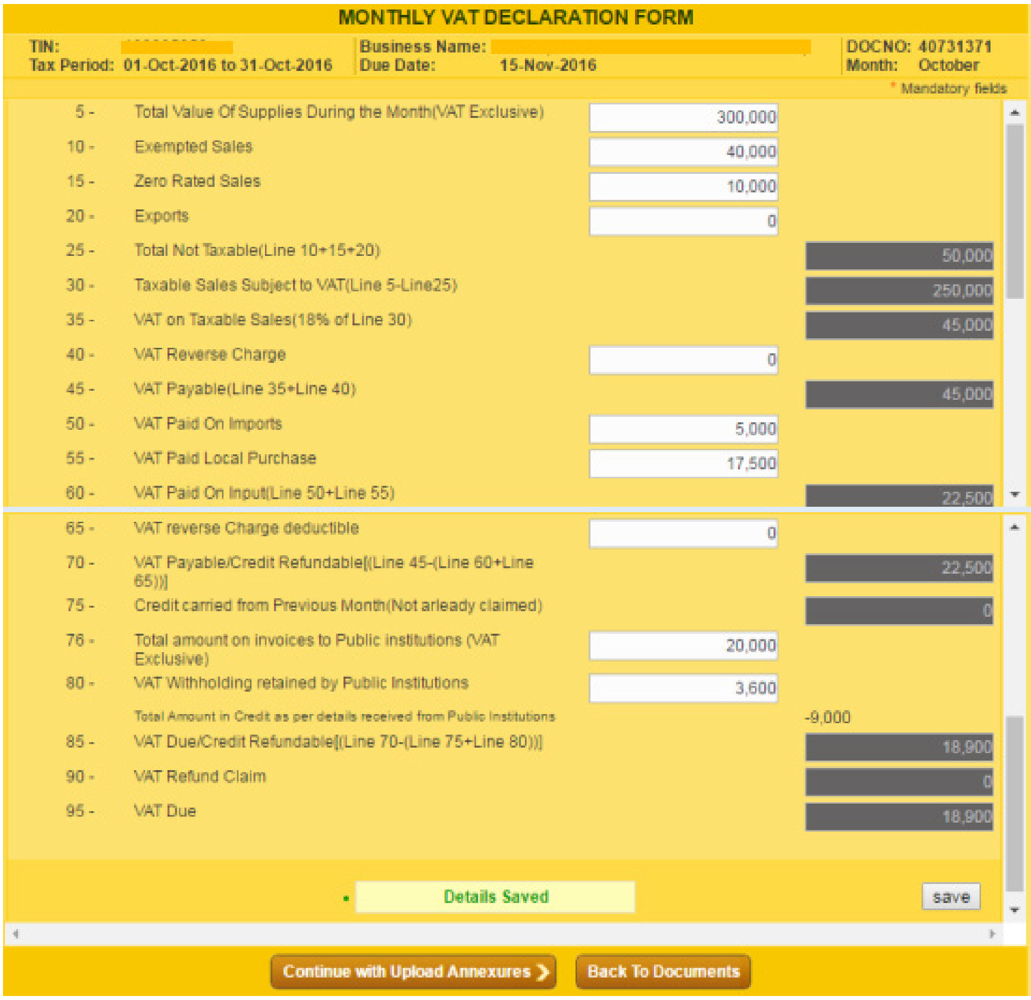
Enter Declaration | Upload Annexures | Back To Documents

This opens the declaration form. The white boxes are entry fields where numbers must be entered (or left as zero). After all the necessary fields are entered, click to 'save' and automatically calculate the grey calculation boxes, including the tax due.

Many of the rows in the declaration form are similar to the columns of the annexures that have previously been completed. The important distinction is that in the declaration form, the total combined values for all rows during that tax period must be entered.

Example

Amahoro enters the details of her monthly VAT declaration, shown below. After entering the details in the white boxes, she clicks 'save' and the VAT due for Amahoro this tax period is calculated automatically.



MONTHLY VAT DECLARATION FORM

TIN: | Business Name: | DOCNO: 40731371
Tax Period: 01-Oct-2016 to 31-Oct-2016 | Due Date: 15-Nov-2016 | Month: October

* Mandatory fields

5 -	Total Value Of Supplies During the Month(VAT Exclusive)	300,000	
10 -	Exempted Sales	40,000	
15 -	Zero Rated Sales	10,000	
20 -	Exports	0	
25 -	Total Not Taxable(Line 10+15+20)		50,000
30 -	Taxable Sales Subject to VAT(Line 5-Line25)		250,000
35 -	VAT on Taxable Sales(18% of Line 30)		45,000
40 -	VAT Reverse Charge	0	
45 -	VAT Payable(Line 35+Line 40)		45,000
50 -	VAT Paid On Imports	5,000	
55 -	VAT Paid Local Purchase	17,500	
60 -	VAT Paid On Input(Line 50+Line 55)		22,500
65 -	VAT reverse Charge deductible	0	
70 -	VAT Payable/Credit Refundable[(Line 45-(Line 60+Line 65))]		22,500
75 -	Credit carried from Previous Month(Not arleady claimed)		0
76 -	Total amount on invoices to Public institutions (VAT Exclusive)	20,000	
80 -	VAT Withholding retained by Public Institutions	3,600	
	Total Amount in Credit as per details received from Public Institutions		-9,000
85 -	VAT Due/Credit Refundable[(Line 70-(Line 75+Line 80))]		18,900
90 -	VAT Refund Claim		0
95 -	VAT Due		18,900

Details Saved | save

Continue with Upload Annexures | Back To Documents

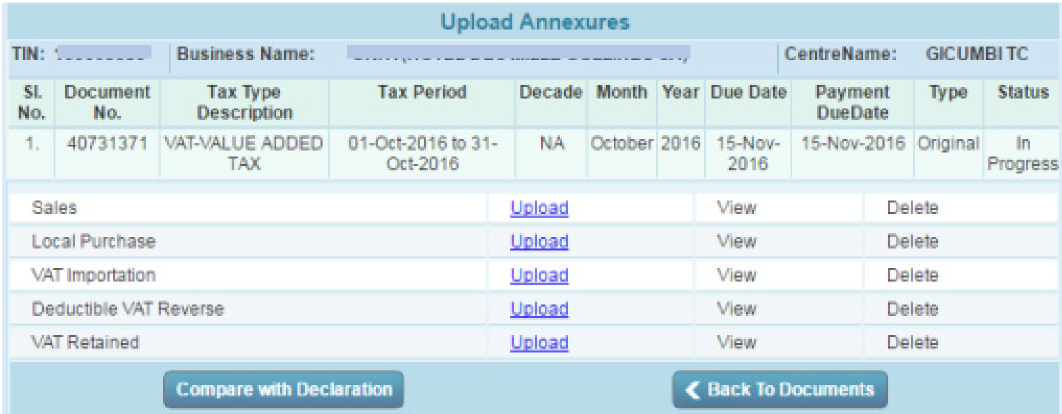
After saving the declaration form and checking that the fields entered were correct, click ‘Continue with Upload Annexures’.

Step 4: Upload annexures, compare with the declaration form and submit the declaration

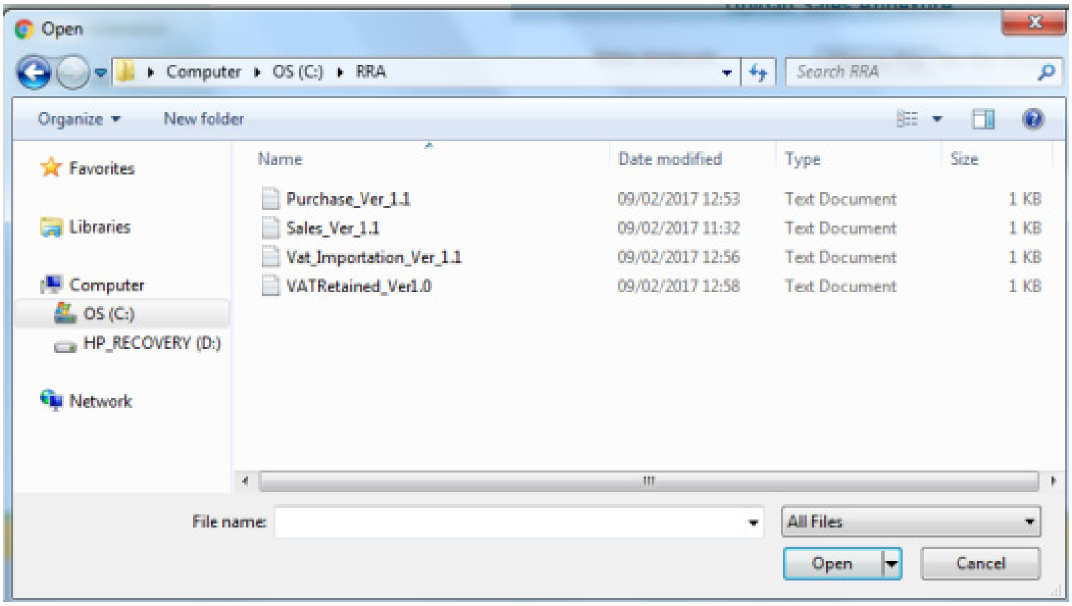
To support the declaration form, the previously validated and saved annexures must also be uploaded as evidence. The annexures that can be uploaded depend upon the tax type that is being declared. Each annexures tab is uploaded separately.

Example

Amahoro continues her VAT declaration as saved above. She uploads ‘Sales’, ‘Local Purchase’, ‘VAT Importation’ and ‘VAT Retained’ annexures as required. She has no ‘Deductible VAT Reverse’ to declare in this tax period, so this annexure is not uploaded.



For each of the applicable annexures, she clicks ‘Upload’, then ‘Choose File’. All annexures are automatically saved in the C: drive, in the ‘RRA’ folder. Once selected, she clicks submit, and repeats for all relevant annexures.



After annexures have been uploaded, they can be checked by clicking on ‘view’, and changed by clicking on ‘delete’ and then re-uploading. Once all relevant annexures are uploaded and correct, click on ‘Compare with Declaration’.

This allows comparison between the declaration and the annexures. If these are equal, then certify that the entries on this declaration are true and correct and confirm understanding that a false declaration may result in prosecution by clicking on ‘I accept’. Then submit the declaration by clicking ‘Submit’.

If the declaration and annexures are not equal, it is not possible to submit the declaration. Either the declaration or the annexures must then be changed until they are equal and accurate. To change the declaration form, click ‘Modify Declaration’. To change the annexures, click ‘Delete’ on the relevant annexure, make necessary changes in the annexures spreadsheet, validate and save as before, and then re-upload the revised annexures. Then follow the same steps as before to certify and submit the declaration.

Example

Amahoro checks that the values of the declaration form and annexures are equal, certifies that the values are true and correct, then submits the VAT declaration.

Upload Annexures

TIN: [illegible] | Business Name: [illegible] | CentreName: GICUMBI TC

Sl. No.	Document No.	Tax Type Description	Tax Period	Decade	Month	Year	Due Date	Payment DueDate	Type	Status
1.	40731371	VAT-VALUE ADDED TAX	01-Oct-2016 to 31-Oct-2016	NA	October	2016	15-Nov-2016	15-Nov-2016	Original	In Progress

Sales	Upload	View	Delete
Local Purchase	Upload	View	Delete
VAT Importation	Upload	View	Delete
Deductible VAT Reverse	Upload	View	Delete
VAT Retained	Upload	View	Delete

Compare with Declaration | Back To Documents

Comparison between Declaration and Annexures

Sales	Total Sales Value (Col:5 in declaration)	300000	Total Sales Amount (Col:F in Sales Excel Annexure)	300000
Sales	VAT on Taxable Sales (Col:35 in declaration)	45000	VAT Total (Col:K in Sales Excel Annexure)	45000
Local Purchase	VAT on Local Purchase (Col:55 in declaration)	17500	VAT Total (Col:G in Local Purchase Excel Annexure)	17500
VAT Importation	VAT on Import (Col:50 in declaration)	5000	VAT Total (Col:G in VAT Importation Excel Annexure)	5000
Deductible Vat Reverse	VAT reverse Charge deductible (Col:65 in declaration)	0	Vat Reverse charge Deductable Amount(Col:F in Deductable Vat Reverse Excel Annexure)	0
VAT Retained	Total amount on invoices to Public institutions (Col:76 in declaration)	20000	Total amount on invoices to Public institutions (Col:G in VAT Retained Excel Annexure)	20000
VAT Retained	VAT Withholding retained by MINECOFIN(Col:80 in declaration)	3600	Withheld Amount (Col:H in VAT Retained Excel Annexure)	3600

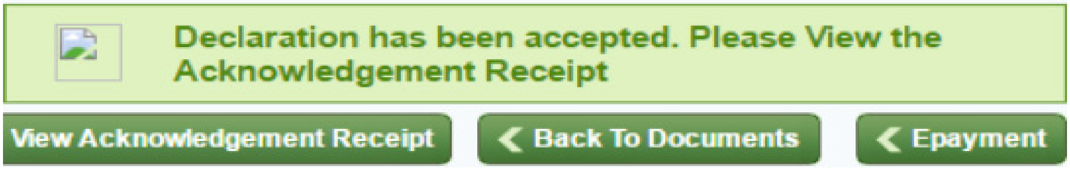
Modify Declaration

Certification:

I certify that the entries on this declaration are true and correct.
I understand that a false declaration may result in prosecution.

I ACCEPT | Submit

There may be a slight delay as the declaration is submitted. If the declaration is submitted successfully, the following screen is loaded.



Acknowledgement Receipts

After submitting a declaration, for all types of taxes and fees, there is an option to download and view the acknowledgement receipt.

Acknowledgement receipts confirm the details of the taxpayer, contain details of the taxes and fees that must be paid, and provide the RRA Reference Number for the account the tax must be paid into. This RRA Reference Number is also known as the 'Doc ID', 'Doc No' or 'Assessment Number'.

The RRA Reference Number is very important to ensure that the taxes are paid into the correct RRA tax account, and that the payment is attributed to the correct taxpayer. The RRA Reference Number and total tax due is highlighted in the examples for each broad tax type below

Alternatively, from the E-Tax homepage, hover the mouse on 'Tax Declaration' and click on 'Submitted Declarations'. Choose the year of the tax period, and optionally the tax type, then click submit. Find the relevant submitted tax declaration, click on the Document Number, and the following options appear. Again, click on 'View Acknowledgement Receipt'.

An example acknowledgement receipt for domestic tax declarations is displayed below. The associated RRA Reference Number and total tax due are highlighted.

Full Name :				Tax Center:	
TIN:		Tax Type:	PAYE	Doc No:	0074570280
From Date :	01-Jan-2016	To Date :	31-Jan-2016	Submitted Date:	15-Feb-2016
Assess No:	10380040	Declaration Due Date:	15-Feb-2016	Payment Due Date:	15-Feb-2016
Tax To Pay:	28,526,264	Penalty To Pay:	0	Interest To Pay:	0
Tax Paid:	28,526,264	Penalty Paid:	0	Interest Paid:	0
Credit Claimed:	0	Total Tax Due:	0		

a) Customs Duties

In the case of customs duties, the acknowledgement receipt is more commonly referred as the 'Assessment Notice'. This can be accessed by Clearing Agents through the Rwanda electronic Single Window (ReSW) system. The Clearing Agent then provides the taxpayer with the assessment notice in order to pay the taxes and fees due.

Different types of customs duties can be required to be paid to different accounts. Therefore, each assessment notice may have multiple RRA Reference Numbers with different amounts of tax due. The associated RRA Reference Numbers and amounts of tax due are highlighted in different colours in the example below.

Rwanda Revenue Authority
Customs Services Department

Assessment Notice

Customs office: 11GI - Gikondo

Declaration reference

Model	Customs reference	Declarant reference	Assessment reference	Packages
IM 4	19/06/2017 C 15566		20/06/2017 L 22389	867

Declarant

Consignee

Global taxes

Tax code	Tax description	Tax code
PRF	Computer Processing Fee	3,000
	Total Global taxes	3,000

Item taxes

Tax code	Tax description	Tax value
C02	Customs duty non petroleum products	662,498
V02	Value Added Tax non petroleum prods	1,861,939
W01	Withholding tax	0
QIF	Quality Inspection Fees	14,454
IDL	Infrastructure Development Levy	75,213
	Total Item taxes	2,614,104

0025654-11-65 Receveur des Douanes BCR

Tax code	Tax description	Tax value
C02	Customs duty non petroleum products	662,498.00
QIF	Quality Inspection Fees	14,454.00
	Total 0025654-11-65	676,952.00

005551087588000

0025654-12-62 Receveur TVA BCR

Tax code	Tax description	Tax value
V02	Value Added Tax non petroleum prods	[illegible]
	Total 0025654-12-62	1,861,939.00

005551087588100

Office stamp Signature

Customs office: 11GI - Gikondo

Declaration reference

Model	Customs reference	Declarant reference	Assessment reference	Packages
IM 4	19/06/2017 C 15566		20/06/2017 L 22389	867

Declarant

Consignee

0025654-16-50 Redevance Informatique BCR

Tax code	Tax description	Tax value
PRF	Computer Processing Fee	[illegible]
	Total 0025654-16-50	3,000.00

005551087588300

50470780164 Infrastructure Development Levy BCR

Tax code	Tax description	Tax value
IDL	Infrastructure Development Levy	[illegible]
	Total 50470780164	75,213.00

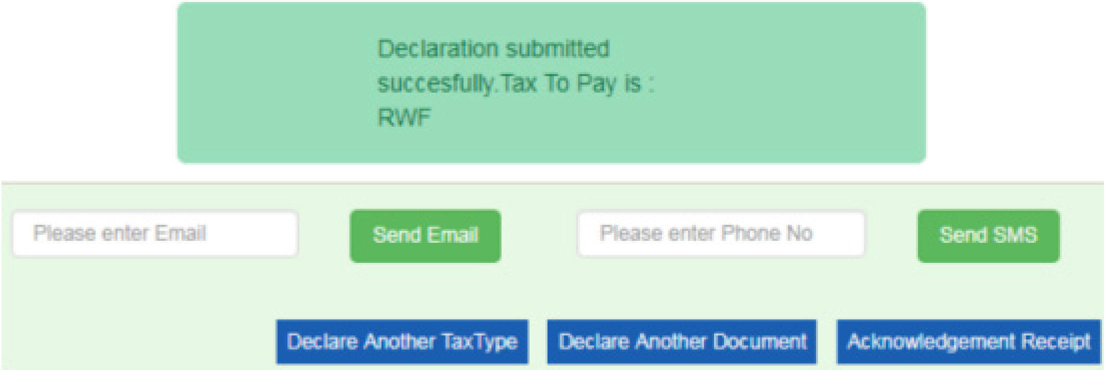
055510875810000

Total assessed amount for the declaration 2,617,104

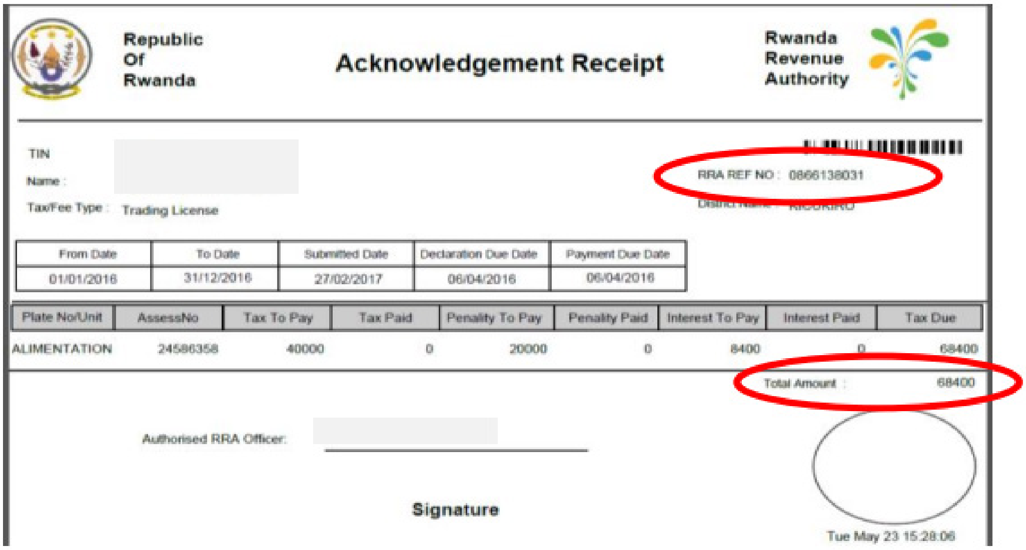
Total amount to be paid 2,617,104

a) Local Government Taxes and Fees

In the case of Local Government Taxes (LGT) and Fees on the LGT system, this can vary slightly for the type of tax or fee. Typically, acknowledgement receipts can be viewed by clicking 'Get Acknowledgement' immediately after submitting the declaration, as seen below.



The taxpayer can also enter their email address or phone number to receive the RRA Reference Number and tax due. An example acknowledgement receipt for LGT and fees declarations is displayed below. The associated RRA Reference Number and total tax due are highlighted.



Republic Of Rwanda

Acknowledgement Receipt

Rwanda Revenue Authority

TIN
Name :
Tax/Fee Type : Trading License

RRA REF NO : 0866138031
District Name :

From Date	To Date	Submitted Date	Declaration Due Date	Payment Due Date
01/01/2016	31/12/2016	27/02/2017	06/04/2016	06/04/2016

Plate No/Unit	AssessNo	Tax To Pay	Tax Paid	Penalty To Pay	Penalty Paid	Interest To Pay	Interest Paid	Tax Due
ALIMENTATION	24586358	40000	0	20000	0	8400	0	68400

Total Amount : 68400

Authorised RRA Officer:

Signature

Tue May 23 15:28:06

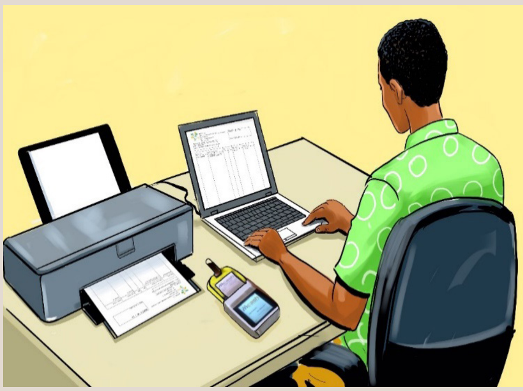
Application activity 8.2

Q1. Discuss the methods of tax declaration

Q2. What is E-Tax?

8.3: Print out of a Tax declaration (Acknowledgment receipt) and Methods of Tax payment

Learning Activity 8.3



Follow the picture above and answer the following question.

1. Which things are you seeing at the above pictures?
2. What kind of paper print out after making tax declaration?

8.3.1. Print out a tax declaration form and Methods of Tax payment

1. **Print out a tax declaration form**

Before for making payment of taxes and filling document for physical filing you must print out a tax declaration form using a printer.

2. **Methods of Paying Taxes**

Taxpayers should submit tax declarations before paying taxes. Tax declarations provide the necessary information to calculate the correct amount of tax due.

The process of submitting the relevant tax declarations is different for each tax type

However, after declaring, the methods of paying taxes are the same for all types of domestic taxes, customs duties and local government taxes and fees. There are four possible methods of paying all types of taxes and fees:

- Online using Internet Banking and E-Payment.
- On mobile phones or through agents using MTN Mobile Money.
- Through Mobicash agents.
- In person at a bank.

It is important to note that it is not possible to pay taxes in cash at RRA offices.

The details needed each method of paying taxes are the same? However, there are many advantages for taxpayers to paying taxes online, on mobile phones or through licensed agents.

For all methods of paying taxes, it is important to save any receipts confirming the payment.

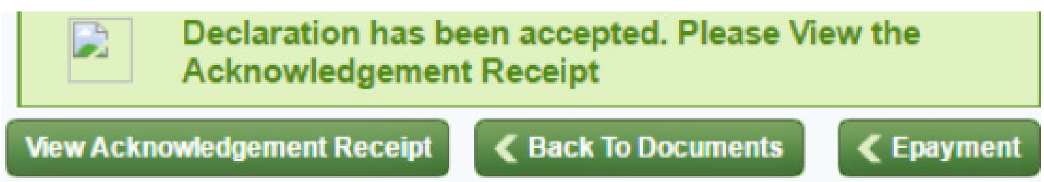
a) Paying Taxes online using Internet Banking and E-Payment

Option 1: Using the banks' internet banking systems

All commercial banks in Rwanda now offer internet banking services. However, the process of using these internet banking systems varies depending on the bank. It is not possible to cover each system in this Tax Handbook, but bank staff will be able to assist with registering and using internet banking, including explaining how to pay taxes.

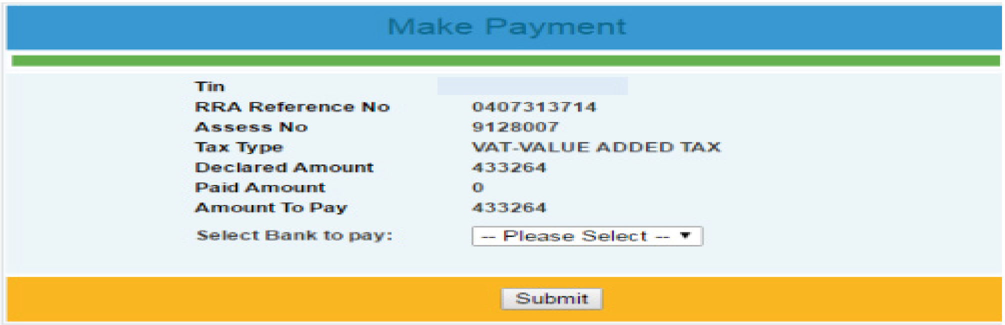
Option 2: Using the Domestic Taxes E-Payment system

In the case of domestic taxes, after submitting the declaration it is possible to directly access the domestic taxes E-Payment system, by clicking 'Epayment'.



This shows the following screen. Clicking on the 'Select Bank to Pay' drop-down menu lists the banks that are linked with the domestic taxes E-Payment system.

It is important to note that taxpayers may need to register for internet banking directly with their bank before paying taxes on the E-Payment system.


Make Payment

Tin	
RRA Reference No	0407313714
Assess No	9128007
Tax Type	VAT-VALUE ADDED TAX
Declared Amount	433264
Paid Amount	0
Amount To Pay	433264
Select Bank to pay:	-- Please Select --

Submit

After the taxpayer has selected their bank from the dropdown menu and clicked 'submit', they will be directed to the online banking system of their bank. Follow the bank instructions to complete the payment. The exact steps may vary by bank.

b) Paying taxes on mobile phones using MTN Mobile Money

Paying taxes through mobile money is currently only available on MTN Mobile Money. This can be done individually, or through an MTN Mobile Money agent. To pay taxes individually, register on MTN Mobile Money requires an MTN SIM-card, and registering an account at any MTN Mobile Money agent. The taxpayer does not need to register with MTN to pay taxes through an agent

It is important to note that there are small additional transaction fees payable to MTN that vary depending upon the amount of tax being paid.

Once registered, and with sufficient funds in the account to cover the amount payable, including transaction fees, follow these steps to pay taxes individually:

- Dial *182# to enter the mobile money platform.
- Choose the Language.
- Choose the 'Pay Bill' option.
- Choose the 'RRA' payment option.
- Enter the RRA Reference Number from the Acknowledgement Receipt.
- This will then show the Amount and Taxpayer Name. If these details are correct, enter '1' to proceed with payment.
- Enter Mobile Money PIN to confirm the payment.

To pay through an MTN Mobile Money agent, provide the agent with the RRA Reference Number from the Acknowledgement Receipt and sufficient funds to cover the amount payable, including transaction fees.

a) Paying taxes through agents with Mobicash

Paying taxes with Mobicash is currently only available through Mobicash agents. The taxpayer does not need to register with Mobicash to pay taxes through an agent.

It is important to note that there are small additional transaction fees payable to Mobicash that vary depending upon the amount of tax being paid.

To pay through a Mobicash agent, provide the agent with the RRA Reference Number from the Acknowledgement Receipt and sufficient funds to cover the amount payable, including transaction fees.

b) Paying taxes at a Bank

Taxes can be paid at all registered commercial banks in Rwanda. This can be done using a cash deposit slip or by bank cheque. Any payments of FRW 500,000 (five hundred thousand Rwandan francs) or more must be paid by bank cheque only.

When writing a bank cheque, make it out to 'Rwanda Revenue Authority', making sure to include the RRA Reference Number, total tax due and tax type.

On the Cash Deposit Slip, enter the following details:

- Beneficiary:

  - Account Number – Write the RRA Reference Number from the Acknowledgement Receipt.
  - Of – Write 'Rwanda Revenue Authority'.
  - Amount – write the "Total Tax Due".
  - Paid in by:
  - Name – Write the Taxpayer Name.
  - Address – Write the address of the business or the PO Box number if applicable.
  - Comment: Write the tax type, e.g. "VAT".

The advantages of paying taxes using Internet Banking, E-Payment, MTN Mobile Money or Mobicash

The benefits of paying online, on mobile phones or through licensed agents are:

- Pay taxes anytime, anywhere.
- Avoid travel costs of visiting a bank.
- Avoid queuing times at banks.
- Avoid safety risks of carrying cash.

Application activity 8.3

Discuss the modes of payment for taxes

8.4: Filing system

Learning Activity 8.4

Baptiste is an Accountant of XYZ Tea factory, on 25th March 2022 has declared CIT for 2021 after declaration process he printed out the Acknowledgement receipt/ invoice and he went to Bank of Kigali Gisenyi Branch to pay that tax and he came back in the office with proofs of payments.

Questions

1. What should be the next step to be done by accountant with those proofs of Payment?
2. What do you know about filing?

8.4.1: Definition of filing system and The purpose of filing system

A. Definition of filing system

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

that whenever it is needed it could be found very easily.

B. 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 them 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

8.4.2: Methods of filing system,Advantages and disadvantages methods of filing system

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.

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 organizations 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 are filed together in one file.
- 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.

8.4.3: 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 hel to locate the file quickly when it is required.

11. **Retention:**

All 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.

Application activity 8.4

Q1. Identify and explain brief two (2) methods of filing system.

Q2. Outline the advantages of alphabetical classification system.

Skills Lab Activity 8

In group discussion, invite a resource person from RSSB to share with students on the tax declaration and filing system then ask students to share the findings

End of unit assessment 8

Q1. Discuss the period that taxpayers start declaring and paying taxes

Q2. Define the term filing

Q3. Discuss the quality of goods filings

Q4. Identify any three (3) methods of good filing

Q5. Jean Baptiste is a taxpayer who had total sales of FRW 10,000,000 for the first quarter of January through March 2020 and his total reported revenues/sales for fiscal year 2019 were FRW 50,000,000. The annual tax calculated in 2019 was FRW 80,000.

a) Compute the Instalment Quarterly Prepayment (IQP) payable

b) Indicate the deadline that Jean Baptiste must have paid his IQP

Unit 9 TAX ADMINISTRATION

Key unit competence: Identify tax administration according to rules and regulations

Introductory activity

Scenario

Taxpayers have the obligation to report and pay taxes, and thus contribute to the economic growth and development of their Countries. The actions of taxpayers – whether due to ignorance, carelessness, recklessness, or deliberate evasion, as well as weaknesses in the tax administration mean that instances of failure to comply with the tax law are inevitable. Therefore, tax administration should have in place strategies and structures to ensure that non-compliance with tax laws is kept to a minimum. The art of good tax administration is based on vision and mission of Rwanda Revenue Authority, enumerate the importance of Rwanda Revenue Authority and the purpose of tax audit to the government

9.1: Description of the Tax administration (Rwanda Revenue Authority)

Learning Activity 1.3

Scenario:

Any person who sets up a business or other activities that may be taxable is obliged to register with the Tax Administration within a period of seven (7) days from the beginning of the business activity, Tax administration have the ability to collect taxes for increasing country's capacity to finance social services such as health and education, critical infrastructure such as electricity and roads, and other public goods with research. Outline Core values of RRA.

9.1.1: General introduction of tax administration: Rwanda Revenue Authority

1. Official mandate

The Rwanda Revenue Authority was established under Law No 15/97 of 8 November 1997 as a quasi-autonomous body charged with the task of assessing, collecting, and accounting for tax, customs and other specified revenues. This is achieved through effective administration and enforcement of the laws relating to those revenues. In addition, it is mandated to collect non-tax revenues.

2. Vision

"To become a world-class efficient and modern revenue agency, fully financing national needs."

3. Mission

"Mobilize revenue for economic development through efficient and equitable services that promote business growth."

4. Core values

We are Customer-Focused:

- We treat our customers with fairness and equity,
- We cater for our customer needs when delivering services,
- We are open to customer concerns, ideas and criticism for our continuous improvement.

We act with Integrity:

- We are honest, sincere and have high ethical standards,
- We are fair and considerate in our treatment to others,
- We show respect, courtesy and tolerance to the views of others,
- We are open and work with clarity and consistency in dealing with our customers.

We are Accountable:

- We embrace our government given mandate and trust for revenue collection and endeavour to deliver on it
- We assume responsibility for our decisions and actions as they affect our customers,
- We are open, reliable and transparent in dealings with our customers.

We work as a Team:

- We empower our people
- We involve our staff
- We value team work
- We are engaged.

We are Professional:

- We commit to provide quality services to our clients
- Our work always aims to provide solutions to our clients
- We embrace best practice and innovations for continuous improvement,
- We demonstrate confidentiality in dealing with our customers,
- We commit to work with Passion.

- **The Structure**

This includes the shape and type of the logo in a rose form. The structure symbolizes three elements:

RRA RWANDA REVENUE AUTHORITY TAXES FOR GROWTH AND DEVELOPMENT	– Unity and Equity; – Growth and Development; and – Prosperity

- **Colors**

The Colors to the logo which are Green, Blue and Orange symbolizes the following

Green: Health environment, Harmony, Growth and Prosperity;

Blue: Universal, Light Friendly and Calm;

Orange: Essential, Sincere, Commitment and Strength.

The change logo shall be reflected change in attitude, service delivery, opportunities, best practices and approaches of the tax administrators towards taxpayers.

5. RRA strategic principles

The strategic principles to support core values and explain the way we design RRA's services are as follows:

a) Efficiency

We collect more revenue with less resource. Our customers experience our services to be efficient. Our services and products meet international standards.

b) Fairness

We are fair, even-handed and consistent in our treatment of staff and customers. There is transparency in our decision-making, which leads to a stable and predictable environment for our stakeholders. We respond to feedback in a flexible and timely manner.

c) Customer-centered

We take time to understand how customers operate and we tailor our services so that it is easy, simple and cost-effective for our customers to comply.

d) Data and Technology driven

We use data, evidence, and technology to drive our decision-making and inform our operations. We are resilient to threats through the internal controls we build.

9.1.2: Description of recruitment, registration and de-registration

1. Recruitment

Recruitment in taxation is the process of actively seeking out, finding Tax payer for a given time by making sensibilization of tax and improving awareness of tax to the citizens.

This sensibilization and awareness is done through different ways, such Publicity, Entertainments, Sponsors of public events.

2. Registration

a) Meaning of Registration

Registration means to put information, especially your name, into an official list or record

b) Registered person in Tax Administration

Any person who sets up a business or other activities that may be taxable is obliged to register with the Tax Administration within a period of seven (7) days from the beginning of the business activity.

Registering a company owned by an individual or group of people is done by Rwanda Development Board (RDB) via online services. This service is immediate and free of charge. After company registration, the certificate is issued by RDB.

For individual businesses, registration can be done by RRA, and Tax Identification Number (TIN) certificate is issued freely at countrywide spread RRA branches. There is an RRA office in all 30 districts of Rwanda.

Every taxable business activity with a turnover exceeding Twenty Million Rwanda Francs (Rwf20m) in the previous fiscal year or Five Million (Rwf5m) in the preceding quarter is required by law to register for Value Added Tax (VAT) within seven (7) days from the end of the year or quarter respectively.

Based on the above point, a business that has registered for VAT is legally obliged to acquire an EBM with immediate effect because issuing any other invoice other than the electronic one or not issuing it attracts penalties.

Businesses not meeting the above requirements may register for VAT voluntarily and thus acquire EBM to meet the law provisions.

Any changes, whether related to the taxpayer or line of business shall be notified in writing to the tax administration within seven (7) days from the day of the notice of the change.

For example; if ownership of the business is transferred from Mr. A to B or changes from trading in business to hardware. Failure to make the nonfictions contravenes the law and attracts penalties.

The Commissioner General issues instructions regarding the registration and cancellation of registration on persons who no longer carry out business activities.

c) Rights of a registered business:

- Base of application for tax clearance certificate to participate in income enhancing activities such as bidding, obtaining a loan
- Base of application for Quitus Fiscal
- Base of interaction with Tax Administration, benefiting for trainings on tax matters
- Base of transfer of title for movable assets

d) Obligations of a registered business:

i. **Centralized Taxes:**

- Must file tax returns such as Personal Income Tax (PIT), Corporate Income Tax (CIP), VAT (for those registered for VAT), PAYE (for those qualifying), Consumption Tax (for those qualifying), Withholding Tax of 3% and 15% for those qualifying.
- Each tax declared must be paid immediately as provided by the law.

ii. **Decentralized Taxes:**

Must file these taxes and Fees: Trading License Tax, Fixed Assets Tax, Rental Income Tax and Cleaning Fees.

3. De-registration

a) meaning of de-registration

De-registration is where a taxpayer is removed from the obligations to declare a certain tax.

Non-filing of returns is not an automatic condition for de-registration. RRA must be satisfied that the taxpayer is not operating at all or is operating to the required level to continue being registered for a given type of tax.

De- registration is decided on a tax-by-tax basis. For example, a taxpayer could remain registered for PAYE while being de-registered for VAT.

De-registration becomes effective when RRA is satisfied that the taxpayer is not at the time of application for de-registration, operating at a level that makes it liable to a particular tax. De-registration becomes effective when the taxpayer is issued a de-registration letter confirming that he/she is deactivated for a specific head tax as mentioned above.

b) The documents are needed for de-registration

In the cases of both de-registration of a specific tax type and full de-registration, RRA may request any documents of proof as necessary. The documents that are required may differ depending upon the nature of the request.

c) The time taxpayer de-register for a specific tax type

If a taxpayer is no longer required to declare a specific tax type, they may request for de-registration from that tax type. This can be due to a permanent or temporary change in circumstances of the taxpayer.

It is important to note that a taxpayer must continue to submit declarations until he/she receives confirmation that RRA has approved the de-registration.

In addition, a taxpayer cannot be de-registered for a tax type if they still have arrears due for that tax type.

9.1.3: Registration and De-registration procedures

1. Registration procedures

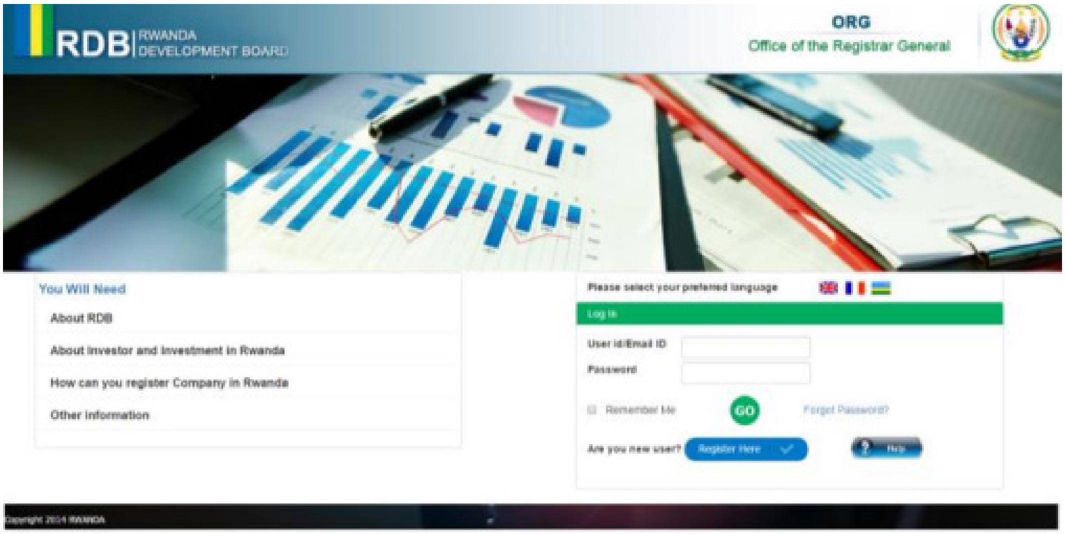
Step-by-Step Guide to Business Registration

Step 1: Register on the RDB business registration system

Access the RDB business registration system at

http://org.rdb.rw/busregonline.

The RDB business registration login page is shown below.



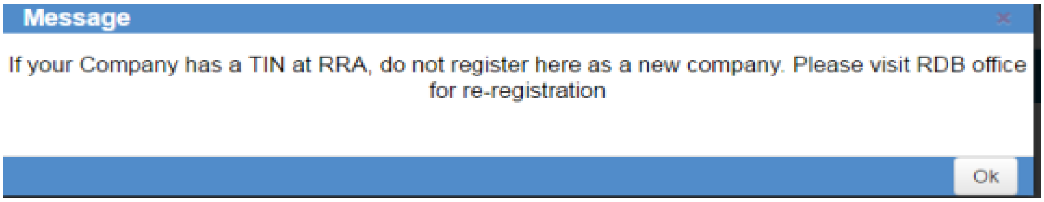
New users must first register an account by clicking on 'Register Here'. This leads to the 'Create New Online User' screen. Enter the required personal details and click submit to register an account.

The RDB system will then send an email to the given email address containing a website link. Click on the link provided to validate and activate this account.

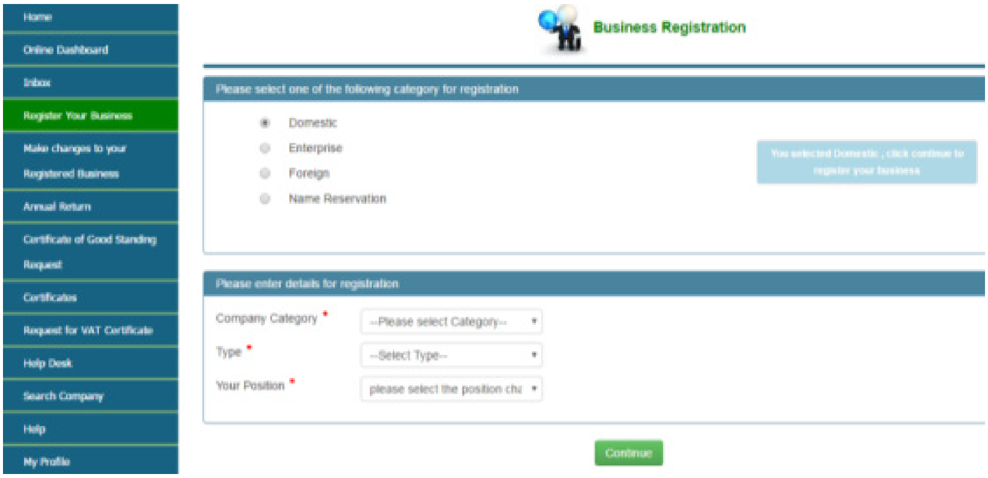
Once the account has been activated, return to the RDB business registration system and enter the chosen login details to begin the business registration process.

Step 2: Choose the business category to be registered

Once logged in, an initial message advises that if the company already has a unique Taxpayer Identification Number (TIN), then do not use this system to register.



If the company does not yet have a TIN, click OK to continue to the business registration system screen below.

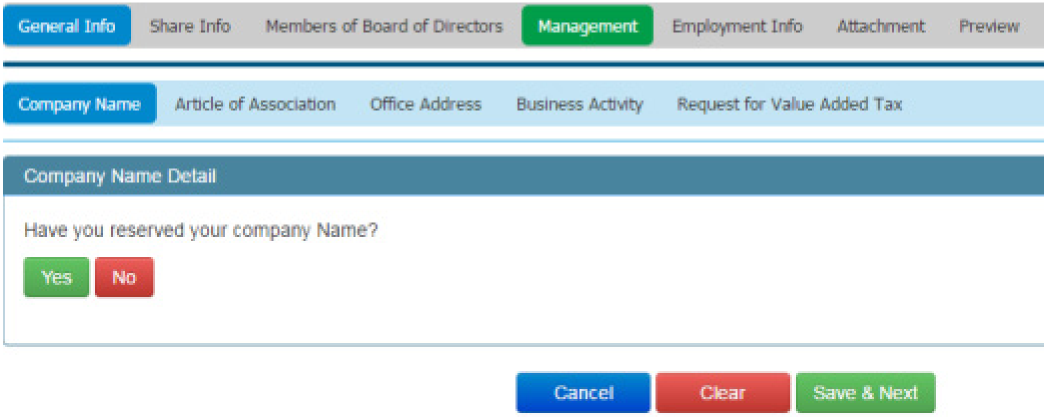


The business registration system first requires selection of the type of business being registered.

Note that the 'Name Reservation' option does not register a business, but can be used to reserve a business name for registration in the future. For each of the categories, 'Your Position' within the business must be noted. In addition, 'Domestic' requires a choice of 'Company Category' which can be public or private and 'Type'.

Step 3: Complete the business registration application

Depending upon the business type selected, the details that must be completed differ slightly. The screen below shows the tabs after selecting a domestic, private, limited by shares company registration.



Note that each of the major tabs ('General Info', 'Share Info' etc.) has separate minor tabs ('Company Name', 'Articles of Association' etc.) Ensure to complete all tabs before submitting the registration. Once all tabs are completed, click the 'Preview' tab to check that all the details entered are correct, before

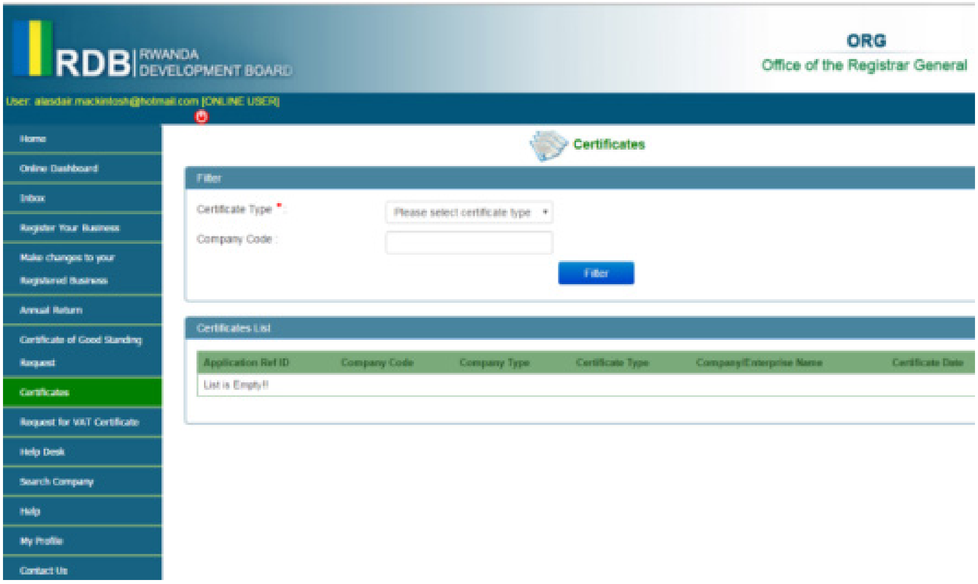
clicking 'Submit' to submit the business registration application.

After submitting, RDB will validate that the information entered is correct. If this is approved, an SMS will be sent to inform the taxpayer that the application has been sent to RRA to issue a Taxpayer Identification Number (TIN). Once the TIN is issued, another SMS will be sent to inform the taxpayer that their business has been registered.

Step 4: Print Certificates

After receiving the second SMS, confirming that RDB has validated the business registration application and RRA has issued a TIN, the taxpayer must log back in to the RDB Business Registration system.

Once logged in, click on the 'Certificates' option on the left hand side. There are two certificates that must be printed and kept securely.



Firstly, choose the 'Certificate Type' that matches the application type, for example 'Domestic' if the business type that was registered was a domestic company. Once selected, download and print this certificate. Secondly, choose the 'Certificate Type' titled 'Memorandum' and also download and print this certificate. If there are any other applicable certificates, for example a 'Value Added Tax' certificate, then these should also be printed at this stage

Once registered, the business can operate and declare and pay taxes as normal. The immediate obligations of the taxpayer.

Step 5: Register, declare and pay all required taxes

The taxpayer is automatically registered for Income Tax. Visit RRA offices to register for any additional required taxes, including visiting LGT tax centers immediately to register for Trading License Tax and Public Cleaning Service Fees.

2. De-registration procedures

Once de-registration has been requested by a taxpayer, or concerned parties, there are four steps to de-registration:

- RRA checks the information and reasons.
- RRA checks if the taxpayer has any arrears.
- If the reasons are approved, and there are no arrears, RRA may de-register the taxpayers. At this time, RRA will provide a letter to the taxpayer confirming the de-registration and stating they no longer need to submit declarations.

- RRA may audit the taxpayer at any time, taxpayers should keep all relevant documents for a minimum of five (5) years.

Application activity 9.1

Q1. True or false for the following which step guide to business registration

a) Choose the business category to be registered

b) Complete the business registration application

c) Interaction with Tax Administration

Q2. Give the meaning of de-registration

Q3. How much does it cost to register a business?

Q4. Match the element in column A to the corresponding one in column B so as to get a correct meaning of each element in column A for Mission, Vision and official mandate of RRA (Rwanda Revenue Authority)**.**

1.	**Mission**	a.	The Rwanda Revenue Authority was established under Law No 15/97 of 8 November 1997 as a quasi-autonomous body charged with the task of assessing, collecting, and accounting for tax, customs and other specified revenues.
2.	**Vision**	b.	Mobilize revenue for economic development through efficient and equitable services that promote business growth
3.	**Official mandate**	c.	We commit to provide quality services to our clients
		d.	To become a world-class efficient and modern revenue agency, fully financing national needs.

9.2: Self-assessment

Learning Activity 1.3

Scenario:

Tax administration allow tax payer alone to assess the tax to be paid without intervention of tax administration and after computing tax payable a tax payer takes next step of paying that tax and file proof of Payment. Any time tax administration can conduct tax audit to examine true and fair of tax computation done by tax payer, this is done by performing re-assessment of tax. In case tax administration find out miscomputation of tax, tax payer is liable to pay understated tax together with fines and penalties.

9.2.1: Self-assessment

Tax administration is the system of assessment, declaration, payment and collection of taxes.

1. Tax Assessment

This is the calculation of the amount of taxable income and gains after deducting relief and allowances; a calculation of income tax payable after taking into account tax deducted at source and tax credits on dividends.

Tax assessment is composed of two systems that are a self-assessment system and assessment by Rwanda revenue authority.

A. Self-assessment system

The self-assessment system relies upon the company or individual completing and filing a tax return and paying the tax due. The system is enforced by a system of penalties for failure to comply within the set time limits, and by interest for late payment of tax. Dormant companies and companies which have not yet started to trade may not be required to complete tax returns. Such companies have a duty to notify RRA when they should be brought within the self-assessment system.

B. Notice of Assessment

The notice of assessment constitutes full legal basis for the recovery of tax, interest, penalties and all costs incurred collection.

- **Reasons for Issuance of a Notice of Assessment**

A notice of assessment is issued when:

1. the tax declared on time has not been paid;
2. the audit by the Tax Administration indicates an additional tax to be paid;
3. there are serious indications that the taxpayer has the intention to evade tax Issuance of the notice of tax assessment and written notification of an administrative fine

- **Content of the Notice of Assessment**

The notice of assessment mentions:

i. The taxpayer's name, taxpayer identification number and address;

ii. The modalities of calculation of the tax and the amount of tax to be paid;

iii. The tax declaration or its rectification note, the assessment notice on which the declaration is based;

iv. The date of issuance of the notice of assessment;

v. The address of the Commissioner General to which an appeal has to be sent;

vi. The conditions to be fulfilled in order to lodge an appeal

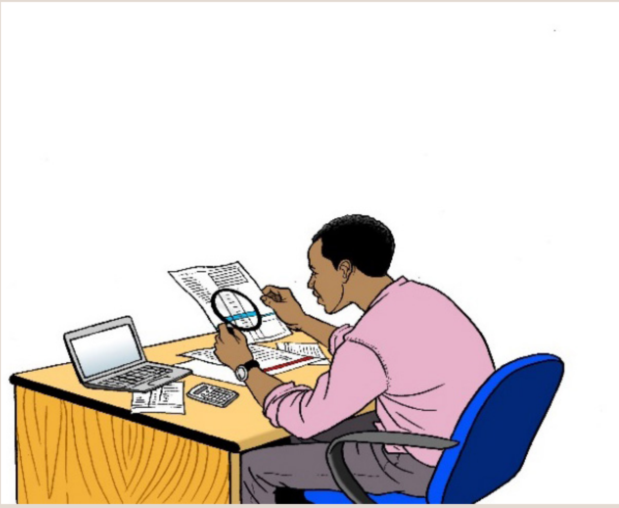
Application activity 9.2

Q1. Define Tax assessment.

Q2. Outline content of the notice of assessment

9.3: Tax audit

Learning Activity 9.3



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Why at the end of financial report Tax administration comes in the business in order to be sure that the activity done related to the tax computation has been done properly according to tax laws and regulations provided by revenue authority.

9.3.1: General introduction on tax audit

1. Meaning of tax audit

Tax audit is an examination of whether the taxpayer has correctly assessed and reported the tax liability and fulfils other obligations.

Tax audit is one of the methods Tax Administration uses to ensure that taxpayers are correctly declaring and paying their taxes. Audits involve Tax Administration checking the relevant documents concerning a taxpayer's tax obligations for any tax period(s) within the past five years.

If there is evidence of non-compliance, the taxpayer will be issued with an assessment notice. This contains details of the offence(s), and the unpaid tax due, as well as additional penalties or fines that must be paid. It is important to note that being selected for an audit does not necessarily mean that RRA suspects the taxpayer of non-compliance.

It simply means that RRA wishes to check taxpayer's declarations and payments in more detail, to encourage a high level of voluntary compliance across all taxpayers. The processes for audits is similar for domestic taxes, Local Government Taxes (LGT) and fees, and for Post-Clearance Audits (PCAs) regarding customs duties.

2. Audit notice

The Tax administration informs the taxpayer in writing, at least seven (7) working days before conducting an audit, about the following:

1. the audit to be conducted;
2. the place where the audit is to be conducted and the possible duration of the audit;
3. any document required to be audited or any information required.

If the taxpayer is not ready for audit, he or she writes to the Tax administration requesting for a postponement which should not exceed thirty (30) days and can only be allowed once.

- **Contents of the notice of tax assessment**

The notice of tax assessment indicates the following information:

1. name, identification number and address of a taxpayer;
2. calculation of the tax and the amount of the tax to be paid;

3. the tax declaration or the audit closure report on which the tax assessment notice is based;
4. the date of establishment of the tax assessment notice;
5. the taxpayer's right to lodge an appeal to the Commissioner General;
6. the conditions for lodging an appeal;
7. time limit for payment of the tax.

3. Obligations of the taxpayer during audit

During audit, the taxpayer must:

1. provide tax auditors with appropriate working environment;
2. provide tax auditors with books and records prescribed by this Law and other related documents and provide them with their copies.

4. Unique audit principle

The Tax administration audits a taxpayer only once on a type of tax and for a tax period.

However, the Tax administration may conduct a new audit only once in case of one of the following circumstances:

1. complicity of the taxpayer and the tax auditor to evade taxes or commit any other act intending to non-payment of required tax;
2. if the first audit was based on forged documents;
3. if the first audit was issue-oriented and the Tax administration wants to conduct a comprehensive audit,
4. when the Commissioner General cancels the first audit based on appeal.

5. Purpose of tax audit

i. To exam in whether taxpayer fulfils his/her required obligation
ii. To maximize revenue collected from taxpayer inform of tax
iii. To reduce tax fraud (tax evasion)
iv. To detect error and fraud committed in the books of accounts
v. To verify the accuracy of the books of accounts

6. Matter examined in a tax audit

i. Tax liability

ii. Tax value

iii. Financial statements

iv. Accounting record

v. Third parties' information

7. The required from the taxpayers

- Declaration form
- Acknowledgement receipts
- Accounting source document
- Audit reports of previous years

8. Instruction, guideline for source a tax audit

- Tax Law
- Ministerial orders
- International auditing standard (IAS) and IFRS (International reporting standard)
- What types of taxpayers are subjected?

9. The objectives and contents of the tax audit report

a) Objective

- To show for view of taxpayer
- To prove if a taxpayer is evader
- To detect and prevent error and fraud

b) Contents of audit reports

Contents of an audit report

Main contents of the audit report are:

Description	Contents
1. Title	1. Auditor's report
2. Address	2. It is addressed to the shareholders or board of directors of a company. It should be normally addressed to shareholders.

3. Scope	3. The scope and extent of the audit is mentioned. It includes the names of financial statements like balance sheet, profit and loss account, name of company and the period of audited statements.
4. References	4. The report indicates the references of companies act, auditing standard and guidelines followed in the conduct of the audit.
5. Opinion	The auditor's opinion is given in the report regarding the financial statements and accounting records. The words "the accounts show a true and fair view" are normally used.
6. Auditor's address	The auditor gives his address
7. Date of report	It means the date on which the auditor submitted this report.

10. Action to be taken after and closed tax audit

- Advice taxpayer
- Proposed punishment
- Taxpayers' business can be closed
- Fine and penalties
- Taxpayer can be appreciated

9.3.2: Importance of audit function

1. Importance of the audit

For the shareholders:

a) Audit ensures to them if management is acting on their behalf
b) They use audit to determine amount to be paid to dead partner
c) They use audit to admit a new partner by examining his business
d) Audit ensures that regulations and statutory requirements are followed

For the employees:

a) Audit keeps accounting staff vigilant and careful in their work
b) Employees ensure their job security and continuity of good remuneration by the audited company
c) Act as a detective and preventive measure against errors and frauds

For the state:

a) Audited companies ensure the accomplishment of fiscal duties regarding companies (payment of taxes and social contributions)
b) The government is assured that public funds are being well used
a) The government ensures continuity of business for the purpose of general interest of the people
a) The state ensures that books of accounts are maintained according to legal requirements and companies act

For the management of an enterprise and third parties in general:

a) Audit provides assurance and credibility to the accounts for interested parties
b) Third parties not taking active part in the organization are protected against risks
c) Audited accounts minimize disputes between parties
d) Audited accounts are acceptable as the basis of ascertaining tax liability
e) The auditor promotes general management efficiency by advising management
f) Audited accounts are used as a basis for asking loans banks and procurement

9.3.3: Types of tax audits

1. Types of audits

There are three main types of audit:

- Desk audit
- Issue-oriented audit
- Comprehensive audit

Desk audits are conducted by RRA staff using information that has already been submitted to RRA.

Issue-oriented audits are usually focused on a single tax type, single aspect or single tax period. Refund audits are a type of issue audit, focused on tax declarations claiming refunds from RRA. Issue audits may be desk-based or involve visits to the taxpayer's business premises.

Comprehensive audits are more in-depth and time intensive. These are usually conducted by RRA staff whilst visiting the taxpayer's business premises and reviewing all relevant documents.

2. The time taxpayers informed about audits

In the case of desk audits, taxpayers may not be informed about the audit unless a specific problem is identified. Taxpayers will always be invited to offer explanations before being issued with assessment notices.

In the case of issue-oriented audits, taxpayers will be notified at least three days beforehand. The postponement of such an issue-oriented audit cannot exceed seven (7) working days.

In the case of comprehensive audits, taxpayers will be notified at least seven days beforehand. If the taxpayer is not ready, they may write to RRA requesting an extension, up to a maximum of thirty days.

9.3.4: Features of an effective audit plan

1. Systematic Process

Auditing is a systematic and scientific process that follows a sequence of activities, which are logical, structured, and organized.

2. Three-party Relationship

The audit process involves three parties: shareholders, managers, and auditors.

3. Subject Matter

Auditors give assurance on a specific subject matter. However, the subject matter may differ considerably, such as – data, systems or processes, and behavior.

4. Evidence

The auditing process requires collecting the evidence, that is, financial and non-financial data, and examining thereof.

5. Established Criteria

The evidence must be evaluated regarding established criteria, which include International Accounting Standards, International Financial Reporting Standards, Generally Accepted Accounting Principles, industry practices, etc.

6. Opinion

The auditor has to express an honest and professional opinion as to the reasonable assurance of the entity's financial statements.

Conclusion on Audit Features

The most important feature of any audit is that; it is a systematic process of expressing a professional opinion on financial position of a company based on gathering and evaluating the evidence.

Audit features influence the objectives of the audit to refer to the security of the information and systems, the protection of the personal data, and access to some databases with a sensitive informational character.

9.3.5: Definition of tax arrears and Debt classification

1. Definition of tax arrears

Tax arrears refer to any amount owned by taxpayers to administration. This includes any unpaid taxes after the deadline and unpaid penalties, fines and interest.

Tax arrears is tax due to government but not paid

There are many enforcement actions legally available to the tax administration for the collection for unpaid tax arrears. The typically process is in three steps. Firstly, the tax payer receives a warning letter from the tax administration, requesting them to visit tax office to discuss the arrears situation and repayment options.

If there is no response within 15 days, the tax administration may begin "garnishment" procedures. This means that the tax administration may work with third parties, such as banks, to freeze the taxpayer's accounts.

Finally, the tax administration may begin search and seizure of movable and immovable assets and may sell these at public auction within eight days of notification to the taxpayer.

2. Debt classification

Debtors of the taxpayer and possessors of the taxpayer's funds

In case the tax is not paid within the fifteen (15) days period, the Tax administration may require any debtor, bank or any other party in possession of the taxpayer's funds to pay to the Tax administration the amount due to the taxpayer against the tax liability.

Application activity 9.3

Q1. State the Obligations of the taxpayer during audit

Q2. state objective of audit to the country

Q3. List and explain the different types of audits

Skills Lab Activity 9

Via internet search, visit the RRA website and write a note on the following aspects

1. RRA mandate, mission, vision and core value
2. Requirements for starting a business and how to register a business
3. Tax audit requirements

End of unit assessment 1

Q1. Discuss action to be taken after and closed tax audit

Q2. Outline types of tax audits

Q3. State the objectives and contents of the tax audit report

Q4. Give the condition for registered person in Tax Administration

Q5. Discuss about official mandate, vision and mission of Rwanda Revenue Authority

Q6. State the instruction, guideline for source a tax audit

Q7. Describe the period tax authorities inform taxpayers about audits

Q8. Discuss RRA (Rwanda Revenue Authorities) strategic principles

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