



Tax Alert

Insight into the latest Ministerial Orders from the Government

March 2024

Rwanda rewards taxpayers who demand electronic invoices in a move to improve transparency and compliance

The Minister of Finance and Economic Planning (MINECOFIN) has taken a significant step forward in the realm of tax administration and compliance with the introduction of new Ministerial Orders.

These orders are designed to operationalise key aspects of the VAT law No. 049/2023 and the Tax Procedures law 020/2023, marking a pivotal change in the way tax laws are implemented and adhered to in the country. The key orders introduced are:

- Ministerial Order on incentives for VAT-compliant individuals who obtain electronic invoices from vendors.
- Ministerial Order detailing the criteria and advantages of voluntary disclosure incentives.
- Ministerial Order outlining the application process for authorization to procure foreign services not available locally.

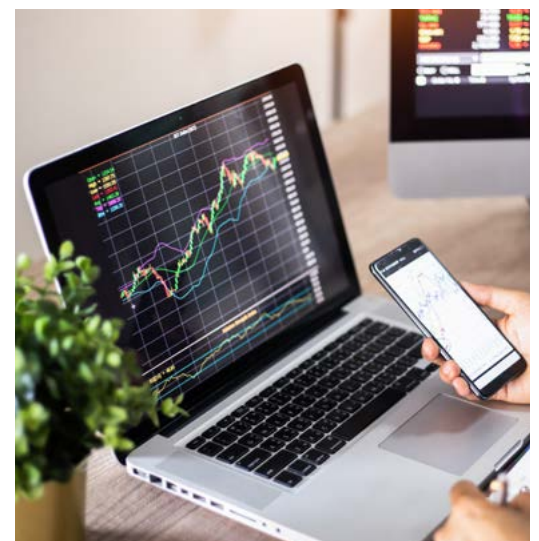
This Tax Alert explores the Orders in detail, explaining their potential impact, the advantages they offer, and the possible challenges they may present upon implementation.

Innovative VAT Compliance incentive program: An in-depth review

The newly introduced VAT compliance incentive program is a groundbreaking initiative aimed at enhancing tax compliance. It encourages consumers to demand electronic invoices, thereby promoting transparency and aiding the Rwanda Revenue Authority (RRA) in monitoring business transactions more effectively.

The program is a forward-thinking measure that is expected to significantly boost VAT compliance and reduce the shadow/informal economy's footprint. Its success, however, depends on the careful application of its regulations and the active participation of all stakeholders. The public is set to benefit from a more transparent and equitable tax system, which is expected to contribute to Rwanda's fiscal stability and development.

Rwanda's VAT compliance program is distinguished by its strategic application of technology to encourage consumer participation in tax compliance. The integration of electronic invoicing into the incentive structure not only streamlines transaction tracking and auditing for the RRA but also actively involves consumers in the compliance process. This approach of engaging consumers directly in tax compliance is relatively new



and demonstrates an innovative application of digital governance tools.

While other countries have implemented similar reward systems, the specifics of their design and execution differ significantly. Some have adopted lottery-style systems where receipts serve as lottery entries, while others provide direct financial rewards or discounts. Rwanda's focus on electronic invoicing to enhance transparency and compliance sets it apart from systems that do not utilise technology as extensively.

Goals and benefits

The main objective of this Order is to encourage end-consumers in "Business to Person" transactions to ensure that VAT is properly paid and recorded. This incentive program offers a 10% return on the VAT shown on electronic invoices. Moreover, consumers who report non-issuance of an electronic invoice can receive 50% of the penalties levied on the supplier for that invoice. This dual incentive scheme is designed to promote adherence to tax regulations by both consumers and businesses.

Eligibility and participation

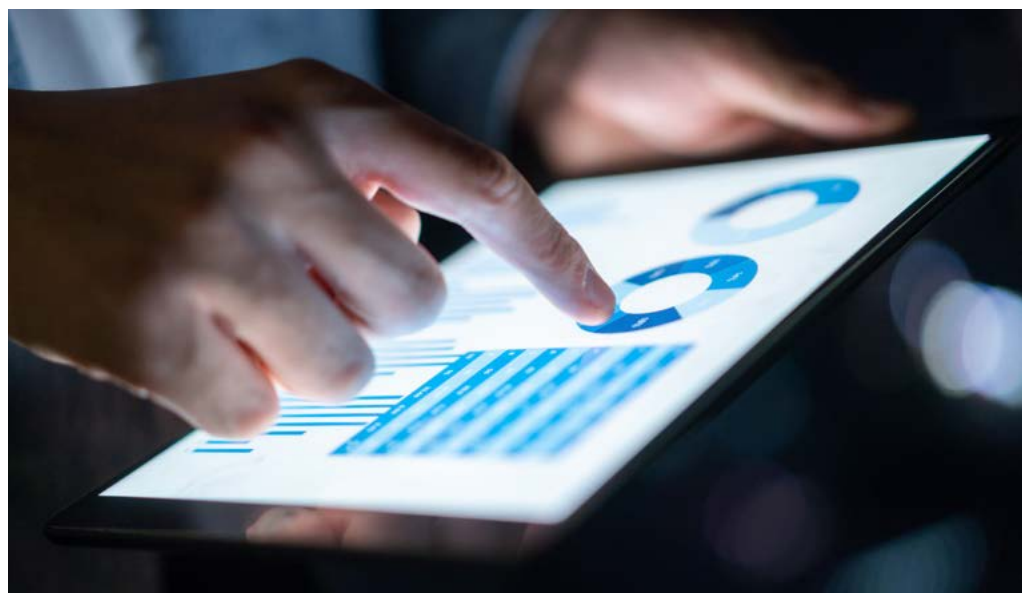
To qualify for the incentives, individuals must:

- Register for the VAT reward program with their personal information via an electronic platform provided by the RRA.
- Include their mobile number on the invoice.
- Report any instances where an invoice is not issued as required.

Rewards are transferred to the consumer's account within 15 days after the conclusion of each VAT quarter, subject to eligibility confirmation.

Transparency and assurance

The system permits consumers to verify their reward balance, which in turn promotes transparency. Invoices over one million Rwandan francs (Frw 1m) are verified to prevent fraudulent activities. The Commissioner General also reserves the right to request additional information before disbursing rewards, which acts as



a safeguard against misuse. The Ministerial Order may be accessed through this [link](#).

Voluntary disclosure incentives: A strategic approach to enhancing tax compliance

In another commendable move to enhance tax compliance and revenue recovery, the Minister has issued a Ministerial Order outlining the modalities and conditions for voluntary disclosure of past tax obligations. This initiative is designed to bolster tax compliance and facilitate the recovery of revenue, marking a proactive shift in the way tax affairs are managed. By introducing these incentives, the Minister provides taxpayers with a transparent and equitable mechanism to rectify their past tax positions, potentially circumventing harsher penalties. It is imperative for taxpayers to familiarise themselves with the specifics of the Order to fully leverage the benefits and adhere to compliance standards.

Overview of the Ministerial Order

The Ministerial Order provides a detailed set of guidelines that enable taxpayers to declare previously unpaid taxes resulting from inaccuracies, oversights, or failure to register, without the immediate threat of an audit. The initiative casts a wide net, encompassing a diverse group of taxpayers, including those not yet audited, those not registered

with the RRA, and those who have surpassed the audit deadline. The Order specifies the prerequisites for voluntary disclosure, the permissible timeframe for disclosures, the disclosure procedure, the Tax Administration's timeline for decision-making, payment conditions, criteria for revocation of the incentives, and the process for administrative appeals.

Eligibility and scope

The eligibility criteria outlined in the Order are broad, allowing a wide demographic of taxpayers to engage with the program. The categories include:

- **Registered Taxpayers Pre-Audit:** Those who declare and settle unpaid taxes prior to receiving an audit notification.
- **Unregistered Taxpayers:** Individuals who have yet to register but choose to declare and remit their taxes.
- **Registered Taxpayers Post-Audit Deadline:** Those who step forward after the audit window has closed. Notably, after the five-year audit window has closed, the Tax Administration's authority to audit is forfeited, which raises questions about the motivation for voluntary disclosure for this category.
- **Other Registered Taxpayers:** Taxpayers not encompassed by the above categories but who voluntarily declare and pay taxes within a designated time frame.



Conditions for voluntary disclosure

Taxpayers must meet several criteria to qualify for the incentives:

- The application must specify the type of tax, the applicable period, the amount due, and must be accompanied by supporting documents.
- The disclosure does not result in any tax refund or credit for the taxpayer.
- The tax period in question must have concluded at least one tax period prior to the tax declaration and payment deadline.

Disclosure period and modality

The Order allows for flexibility regarding the timing of disclosures:

- **Unregistered Taxpayers and Post-Audit Disclosures:** These groups may disclose at any time.
- **Pre-Audit Disclosures:** Taxpayers are required to disclose within a timeframe designated by the Tax Administration.

Voluntary disclosure applications must be submitted to the Commissioner General via an online system provided by the Tax Administration.

Decision timeline and tax payment terms

The Commissioner General is tasked with assessing voluntary disclosure applications and is obligated to respond within 30 days of receipt. Following approval, the taxpayer is required to pay the full disclosed tax amount within 30 days or, if warranted, may request a payment plan in instalments, not to exceed six months.

Revocation of incentives and administrative appeal

Should the taxpayer default on payment, breach the payment agreement, or submit false information, the Tax Administration reserves the right to withdraw the incentives. This, however, is not applicable to disclosures submitted after the audit period has concluded.

Taxpayers retain the right to contest revocations to the Commissioner General within 30 days, with the appeal decision being conclusive.

The voluntary disclosure incentives represent an innovative and forward-thinking approach that is consistent with global tax administration best practices. They offer taxpayers a structured avenue to amend their tax affairs in compliance with regulatory requirements. Taxpayers are urged to embrace this initiative, which presents an equitable and advantageous method to settle tax obligations. Participation in this program not only supports the nation's economic stability but also reflects a commitment to principled citizenship. The Ministerial Order may be accessed through this [link](#).

Analysis of Ministerial Order on authorization to acquire foreign services not available in Rwanda.

This Ministerial Order significantly alters the landscape for taxpayers intending to procure foreign services. This directive comes on the heels of the VAT law No. 049/2023, which was gazetted six months prior, mandating taxpayers to seek authorization from the Minister for such services. The delay in the issuance of this Order raises questions about how the RRA will address the actions of taxpayers who have imported services in the interim without the required approval.

Purpose and justification

The primary goal of the Order is to establish a transparent and uniform process for taxpayers to secure foreign services that are not locally



available. This initiative is intended to rectify past conflicts between taxpayers and the RRA, which arose due to the difficulty that taxpayers experienced in demonstrating the unavailability of services within the country. The Government's strategy is to simplify the authorization process for compliant taxpayers while underscoring the significance of tax regulation adherence.

Qualification and procedure

Taxpayers seeking authorization under this Order must be VAT-registered in Rwanda. The rationale for excluding entities such as NGOs, educational institutions, and banks, which either supply exempt items or are VAT-exempt, is sound as these entities cannot reclaim in VAT anyway, thus VAT being an additional cost on services procured both locally and abroad. The application process is rigorous, necessitating taxpayers to:

- Submit a formal request to the Minister, including evidence-based documentation that supports the need for foreign services.
- Show that a call for tenders was made but did not result in successful local bids.
- Acquire a letter of endorsement from an appropriate regulatory authority, verifying either the non-existence of local service providers or the insufficiency of local service standards.

Timing and potential hurdles

The stipulation that applications be submitted within two months prior to the service acquisition does not account for the time required to obtain regulatory endorsements, which may disrupt business operations. While the structured process benefits the local economy, it could hinder business agility in reacting to market needs due to the administrative demands and the lead time involved.

Suggestions for improving the process

To alleviate possible hold-ups and preserve Rwanda's standing as a business-friendly nation, it is advisable for the Government to maintain and periodically update a public list of services that are confirmed as unavailable locally. Should services appear on this list, taxpayers would bypass the need for authorization, thereby streamlining the procurement process and lessening the bureaucratic responsibilities of the Minister.

Anticipated benefits and adherence

The Order is anticipated to motivate businesses to prioritise local alternatives, bolstering the domestic market. It seeks a measured approach to the procurement of foreign services, safeguarding local industries while recognizing the necessities of international commerce. Taxpayers

are encouraged to acquaint themselves with these new directives and incorporate them into their business planning.

Although the Ministerial Order introduces additional regulatory measures, it seems to us that its intent is to nurture a stronger, self-reliant local market.

However, the government must be vigilant to ensure that the Order's execution does not inadvertently lead to bureaucratic hold-ups. Also, taxpayers must stay alert and proactive in adjusting to these changes to guarantee uninterrupted business activities and consistent compliance with these new requirements. The Ministerial Order may be accessed [here](#).

Conclusion

The new Ministerial Orders issued represent a bold move towards modernising tax administration in Rwanda. The VAT-based reward system, in particular, is an innovative strategy that could serve as a benchmark for other countries.

Its success will be a testament to the country's commitment to fostering a culture of compliance and transparency in tax matters. As the public becomes more familiar with these changes, it is anticipated that the collective effort will lead to a more robust and fair tax system.

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