Tax Alert: Rwanda's new transfer pricing rules

The era of substance has arrived

01

Introduction

Rwanda has entered a new phase of transfer pricing enforcement. On 29 April 2026, the Minister of Finance and Economic Planning issued Ministerial Order No. 003/26/10/TC, which consolidates and updates rules on transfer pricing complementing Rwanda's 2022 income tax framework. The Order builds on Rwanda's 2020 transfer pricing rules, but the direction of travel is clear: the Rwanda Revenue Authority is moving from a documentation-focused regime to a substance-focused regime.

For businesses in Rwanda, the core question has shifted from "Do we have documentation?" to "Can we defend the business reality of this transaction?" The RRA is likely to look closely at whether the transaction makes commercial sense, whether the party earning the return actually controls the relevant risks, and whether the pricing outcome reflects economic reality. This is a major development for multinational groups, Rwandan companies with related-party dealings, and businesses transacting through low-tax jurisdictions.

02

Why this matters in the Rwanda context

Rwanda has consistently positioned itself as a regional investment hub, supported by a strong compliance culture, tax administration modernisation and an increasingly sophisticated approach to international tax. Against that background, the updated transfer pricing rules should be understood as part of a broader policy direction: protecting Rwanda's tax base while giving taxpayers clearer rules for managing cross-border and related-party arrangements.

The previous framework, Ministerial Order No. 003/20/10/TC of 11 December 2020, established general rules on transfer pricing between related persons involved in controlled transactions. It applied where one party was located in Rwanda and subject to tax in Rwanda and the other party was a related person located in or outside Rwanda. It also covered transactions involving permanent establishments in Rwanda and certain dealings with persons located in beneficial tax regimes.

The 2026 Order does not abandon that foundation. Instead, it appears to sharpen it by strengthening enforcement, broadening practical exposure and placing greater emphasis on economic substance.

03

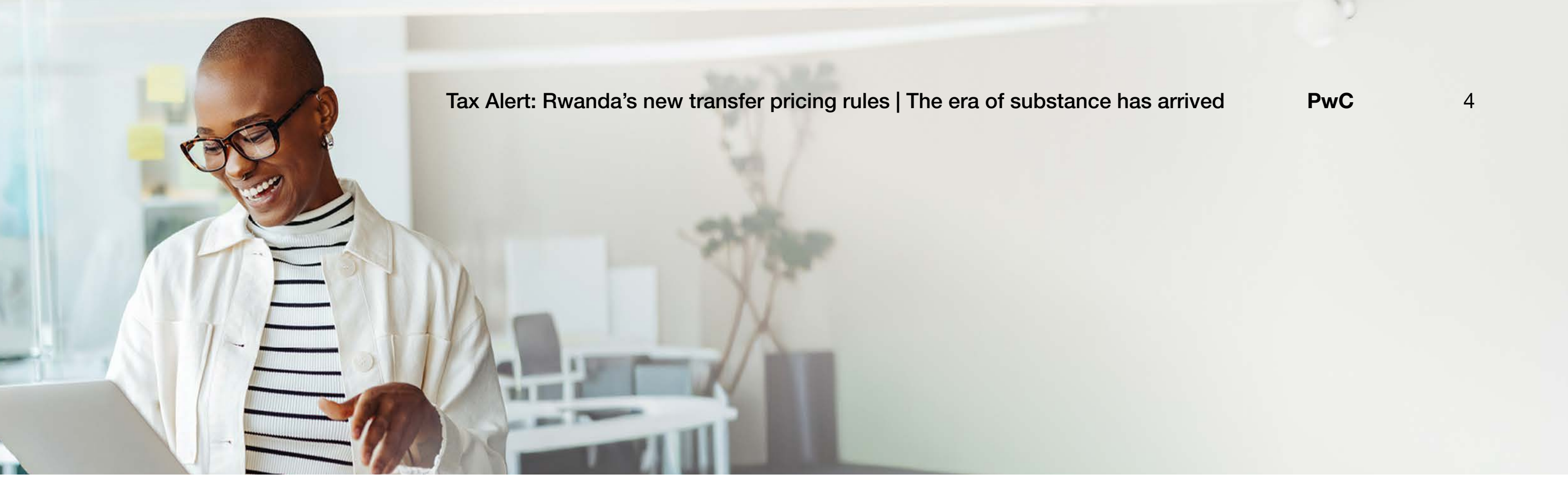
From paperwork to economic reality proof

The most important message from the 2026 framework is that transfer pricing compliance is becoming more substantive. The new rules emphasise that profit allocation should align with control over risk and financial capacity. They also reinforce the ability of the tax administration to disregard transactions that lack commercial rationality.

This represents a significant development from the earlier 2020 framework. Under the 2020 rules, taxpayers involved in controlled transactions were already required to develop a transfer pricing policy and maintain documentation showing that the conditions of those transactions were consistent with the arm’s length principle. The documentation requirements were detailed and included information on the taxpayer’s business, group structure, supply chain, business strategy, comparability analysis, method selection, and financial data.

The new Order appears to take that framework further by asking taxpayers to explain not only the price of the transaction, but also the existence, structure and commercial rationale of the transaction. In practical terms, a management fee, financing arrangement, procurement structure, or intermediary arrangement may be challenged if the economic benefit, risk control, or commercial substance is weak.

Take a simple example. Assume a Rwandan company pays an annual “regional management fee” to a related offshore company. If the offshore company cannot show what services were actually provided, who performed them, how the Rwandan business benefited, and why the charge reflects arm’s length pricing, the issue will not be solved simply by producing an invoice, a management agreement and a TP policy. The RRA will ask whether the arrangement has real commercial substance, whether the service recipient received measurable value, and whether the entity earning the income had the people, assets, and authority to justify the return.



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The NET is wider than many taxpayers expect

Rwanda's transfer pricing rules have long been broader than the narrow related-party-only model used in some jurisdictions. The 2020 rules already applied to controlled transactions and deemed controlled transactions, including transactions involving Rwanda taxpayers, permanent establishments, and persons in beneficial tax regimes. The 2020 rules defined a beneficial tax regime by reference to factors such as low- or no-income taxation, tax breaks for non-residents, lack of substantial economic activity requirements, low or no tax on foreign-sourced income, and lack of access to information on corporate structures and ownership.

The 2026 Order reportedly lowers the relevant tax threshold for non-related-party transactions in beneficial tax regimes from 20% to 15%. That change is important because more jurisdictions and arrangements may now fall within scope. Rwandan businesses sourcing goods, services, or financing through low-tax jurisdictions should therefore expect more scrutiny.

The practical impact is especially relevant for procurement hubs, offshore service companies, treasury centres, intellectual property holding companies, and intermediary entities that participate in transactions touching Rwanda. Businesses should not assume that a counterparty being unrelated automatically removes transfer pricing exposure where a low-tax jurisdiction is involved.

Consider a Rwandan distributor who buys equipment from an unrelated trading company incorporated in a low-tax jurisdiction. Even if the seller is not part of the same corporate group, the transaction may still attract transfer pricing scrutiny if the legal conditions for a deemed controlled transaction are met. The business would therefore need to retain evidence showing that the price, margin, and commercial terms are comparable to what independent parties would have agreed in similar circumstances.

05

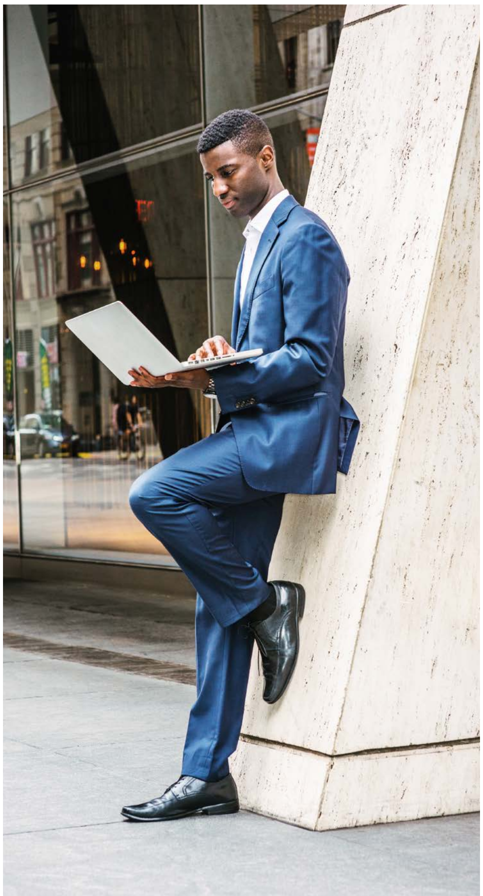
Artificial transactions may be disregarded, not just adjusted

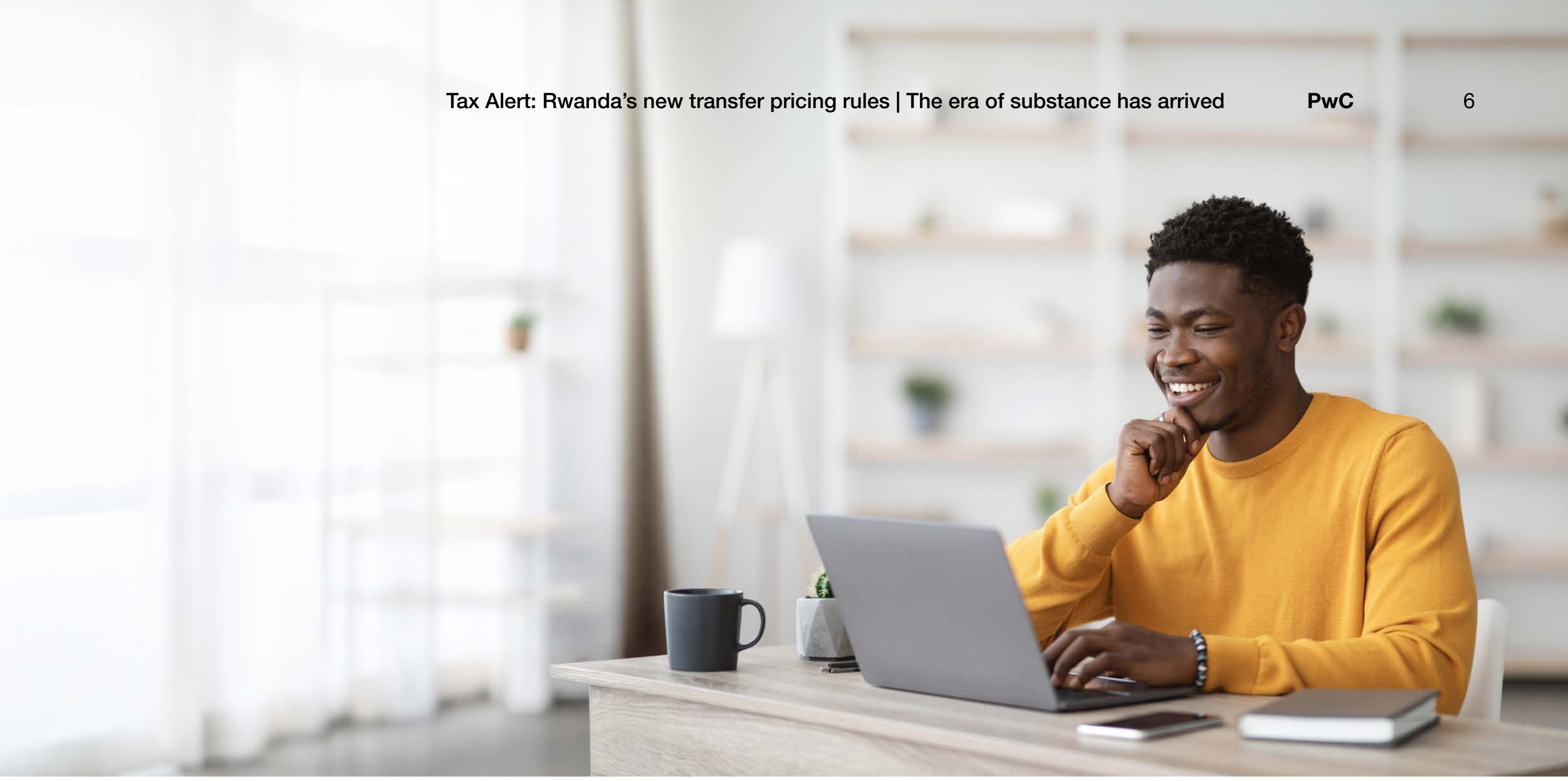
One of the clearest enforcement themes is RRA's power to disregard transactions. The 2020 rules already allowed the tax administration to disregard a controlled transaction for tax purposes where arrangements between related persons differed from arrangements that independent persons acting rationally would adopt in comparable circumstances, and where that difference prevented the determination of an acceptable arm's length price. The 2026 Order appears to reinforce and operationalise that concept.

This means that artificial transactions may not merely be repriced. They may be treated as if they did not occur. The commercial consequences for taxpayers can be significant because the RRA may adjust taxable profit, deny deductions, or recharacterise the tax outcome of arrangements that lack economic reality.

Businesses should therefore pay special attention to management fees without demonstrable benefit, service charges without evidence of actual services, intermediary companies without people or assets, and financing arrangements where the party earning the return does not control the relevant financial risk.

For example, a Rwandan operating company may borrow from a related finance entity abroad. If the finance entity merely passes funds through from another group company, has no meaningful decision-makers, and does not control the credit risk, the RRA may question whether the interest return should be allocated to that entity. The lesson for taxpayers is that contractual labels such as "lender", "service provider", or "principal" should be backed by real functions, decision-making authority, and financial capacity.





06

Familiar methods, tougher analysis

The core transfer pricing methods remain familiar. The earlier rules recognised the comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method, and transactional profit split method. The 2026 framework reportedly keeps these methods, but places stronger emphasis on method-selection justification, reliable data, and the quality of the comparability analysis.

This is a practical warning to taxpayers. A transfer pricing report that simply selects a method without explaining why it is the most appropriate method is likely to be vulnerable. The 2020 rules already required consideration of the strengths and weaknesses of methods, the nature of the controlled transaction, the availability of reliable information, and the degree of comparability between controlled and uncontrolled transactions.

Rwanda-specific comparability also matters. The 2020 rules allowed foreign comparables where no comparable uncontrolled transaction was available in Rwanda but required reliability to be determined case by case. They also required consideration of geographic differences and other factors affecting prices, such as consumer preferences, transport costs, market competition, and accounting standards. That approach remains highly relevant in Rwanda's market, where local facts may materially affect the reliability of regional or global benchmarks—but they are not a substitute for a Rwanda-sensitive analysis.

07

Documentation must tell the business story

Documentation remains central, but the story it must tell is changing. Under the 2020 rules, taxpayers involved in controlled transactions had to develop transfer pricing policies and prepare documentation supporting arm's length compliance. The required information included business operations, group structure, multinational enterprise business descriptions, supply chains for key products and services, business strategy, controlled transaction descriptions, functional analysis, method selection assumptions, and comparability analysis.

The 2026 Order reportedly deepens these expectations through more detailed functional analysis, greater focus on business strategy and market conditions, and expanded use of country-by-country reporting and group-structure disclosures. This is consistent with a substance-over-form approach because the documentation must show who does what, who controls which risks, who owns or uses which assets, and why the profit allocation follows from those facts.

08

Advance Pricing Agreements (APAs): a useful route to certainty

A major development in the 2026 Order is the introduction of clearer requirements for Advance Pricing Agreements. APAs had been referenced in the 2022 income tax law, but there was previously no clear guidance on the requirements. The new Order allows taxpayers to agree transfer pricing methodologies in advance, which can reduce uncertainty and disputes.

This is particularly relevant for large multinationals, long-term contracts and complex cross-border arrangements. In Rwanda, APAs may become an important tool for taxpayers with recurring high-value transactions, complex service arrangements, financing structures, or regional supply chain models.

A useful example is a regional group that manufactures or distributes products in Rwanda and pays annual royalties, management fees, or procurement charges to related entities abroad. Instead of waiting for an audit after several years of filings, the group may consider an APA to agree the transfer pricing methodology in advance. This can be especially valuable where the same transactions repeat every year, and the amounts involved are material.

However, APAs should not be treated as permanent protection regardless of facts. The RRA may consider an APA null and void:

- where the taxpayer breaches the agreement or critical assumptions,
- where a relevant foreign jurisdiction requests cancellation under a double tax agreement context,
- where domestic law or international conventions materially affect the APA,
- where the taxpayer is involved in tax evasion, or
- where actual facts deviate from the agreed circumstances.

Cancellation generally takes effect 30 days after notification but may take immediate effect in cases involving tax evasion.

09

The big unresolved questions businesses should monitor

The new framework strengthens compliance expectations, but several practical questions remain.

- The first and most immediate question is how the new transfer pricing rules interact with the statutory limitation on deductions for management fees, technical fees and royalty fees. Rwanda's income tax framework restricts the deductibility of such payments to 2% of the company's turnover, meaning that transfer pricing analysis may, in practice, be used only to defend the deductibility of amounts that fall within that 2% ceiling.

- This creates a practical tension. If a Rwandan company receives genuine high-value technical support, specialised software, brand rights, engineering assistance or regional management services from a related party, the transfer pricing rules may require the company to demonstrate that the charge is arm's length, commercially rational, and supported by substance. Yet, even after doing that work, a significant portion of the payment is still denied if the total fees exceed 2% of turnover.

2%

If the arm's length charge exceeds this the taxpayer may be left defending only the amount within the cap

- Consider a fast-growing Rwandan technology business that needs specialised cybersecurity, software development, and systems-integration support from a regional group company. If those services are essential to the business but the arm's length charge exceeds 2% of turnover, the taxpayer may be left defending only the amount within the cap while losing deductibility for the balance. The commercial question then becomes whether multinational groups will continue providing the same level of support to Rwanda, or whether they will reduce services, technology access, and skills transfer because the tax treatment does not fully recognise the cost of those inputs.

- That outcome would be counterproductive if it discourages the very knowledge transfer, technology deployment, and regional integration that Rwanda's investment environment seeks to attract. The policy challenge is therefore to protect the tax base from excessive or artificial charges without making Rwanda less attractive for legitimate technical, managerial, and intellectual-property support. In this sense, the 2% cap may become one of the most important practical limits on the relevance of the new transfer pricing rules for service fees and royalties.

- The second question concerns low-tax jurisdictions. The new rules appear to widen scrutiny over transactions involving beneficial tax regimes, including where the relevant tax threshold is reduced from 20% to 15%. That approach is understandable where payments are routed through low-tax entities with little substance, but it may be more difficult where the recipient in the low-tax jurisdiction has real people, assets, risks, and commercial functions.

- For instance, a Rwandan company may contract with an unrelated supplier or a group service centre located in a jurisdiction with a lower tax rate, but the supplier may still provide genuine procurement, treasury, technology, or support services. If the law treats the jurisdiction itself as a trigger for enhanced scrutiny, taxpayers will need to prove not only that the price is arm's length, but also that the arrangement is not merely a tax-driven structure. The concern is that legitimate commercial arrangements may become more administratively burdensome simply because the counterparty is located in a lower-tax jurisdiction.

- The third question is treaty compatibility. Where Rwanda has entered into a tax treaty, broad domestic rules that treat payments differently because of the residence or tax profile of the foreign recipient could raise questions under non-discrimination principles. The issue is not that Rwanda cannot police base erosion; it clearly can. The more delicate question is whether anti-avoidance and transfer pricing rules can be applied in a way that protects the domestic tax base without creating unequal treatment for treaty-protected foreign taxpayers or cross-border transactions.

These questions matter because Rwanda's economy is increasingly integrated into regional and global value chains. Businesses need rules that protect the tax base while still allowing commercially justified cross-border investment, procurement, financing, technology access, and services. The success of the new framework will therefore depend not only on how strongly it is written, but also on how proportionately it is administered in practice.

10 What businesses should do now

- Businesses should conduct a transfer pricing health check covering all related-party transactions and all transactions involving low-tax jurisdictions.
- They should review management fees, royalties, financing arrangements, procurement structures, offshore services, and intermediary entities for evidence of commercial benefit and economic substance.
- They should update transfer pricing documentation to reflect risk allocation, market conditions, business strategy, group structure, and reliable comparability analysis.
- They should also consider APAs where recurring or high-value transactions create material uncertainty.

The key message is straightforward: transfer pricing compliance in Rwanda is no longer a year-end paperwork exercise. It is now a strategic governance issue that should be considered when transactions are designed, contracts are signed, services are performed, and profits are allocated.

11 Final takeaway

Rwanda's 2026 transfer pricing reforms signal a more mature and assertive tax environment. The RRA is likely to focus more closely on whether transactions have substance, whether returns follow functions and risks, and whether documentation reflects the real business facts. Businesses that act early can reduce audit risk, strengthen tax governance, and use the new APA framework to obtain greater certainty.

For Government, the key implementation challenge will be to ensure that a stronger transfer pricing regime does not become a costly administrative burden for both taxpayers and the tax administration. The RRA may therefore need to adopt a risk-based approach, focusing detailed audits on high-value, high-risk or low-substance arrangements, while allowing simpler compliance expectations for smaller taxpayers and routine low-risk transactions. This would help preserve administrative resources and avoid requiring every taxpayer to prepare complex transfer pricing analysis for transactions that present limited revenue risk.

Government should also consider practical guidance on how the new rules will interact with the 2% deductibility cap on management, technical, and royalty fees. Without clear guidance, taxpayers may be required to prepare detailed transfer pricing support for payments that are commercially necessary but largely non-deductible above the statutory cap. A more workable approach would be to clarify the circumstances in which transfer pricing documentation is expected for capped payments, whether simplified evidence may be accepted for amounts already denied under the cap, and how taxpayers should document the commercial benefit of services where only part of the cost is deductible.

A similar practical approach is needed for low-tax jurisdiction rules. Because the new framework appears to widen scrutiny over transactions involving beneficial tax regimes and lowers the relevant threshold from 20% to 15%, Government should clarify that the location of the counterparty is a risk indicator, not conclusive evidence of avoidance. Clear guidance should explain what evidence will be sufficient to show that a low-tax jurisdiction arrangement has commercial substance, including personnel, decision-making, assets, risk control, service-delivery evidence, and independent pricing support.

Government could also reduce uncertainty by publishing sector-specific examples, standard documentation templates, APA application guidance, safe harbours for routine services where appropriate, and clear escalation channels for complex cases. The APA framework should be administered in a way that is accessible, timely and commercially useful, especially for recurring transactions involving regional services, financing, procurement, technology, and royalties. If the process is too slow, costly, or uncertain, taxpayers may not use it, and both taxpayers and the RRA may end up resolving the same issues repeatedly through audits rather than through advance certainty.

Finally, implementation should include sustained consultation with taxpayers, ICPAR members, professional advisers, and industry bodies. That engagement would help the RRA identify where the rules are creating practical bottlenecks, where documentation requests may be disproportionate, and where legitimate cross-border services, technology transfer, and financing arrangements may be unintentionally discouraged. The objective should be a regime that protects Rwanda's tax base while remaining predictable, proportionate, and administratively workable.

12 How the PwC team can help

The PwC team can assist taxpayers in:

1 Assessing how the new transfer pricing rules affect their Rwanda operations, including by mapping related-party and deemed controlled transactions.

2 Reviewing exposure to low-tax jurisdiction rules.

3 Testing management, technical and royalty payments against both the arm’s length principle and the 2% deductibility cap.

4 Preparing or updating transfer pricing documentation.

PwC can also support taxpayers with functional and risk analyses, benchmarking, APA readiness and applications, audit defence, dispute management, and practical governance processes that help ensure transfer pricing positions are commercially defensible before transactions are implemented.

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