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A guide to taxation in Rwanda

2015 tax facts and figures

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Introduction

Tax compliance is increasingly taking up a central position in business management. Today, tax is one of the key risks in business. We have seen management dedicating more time to tax compliance, or worse, the impact of non-compliance.

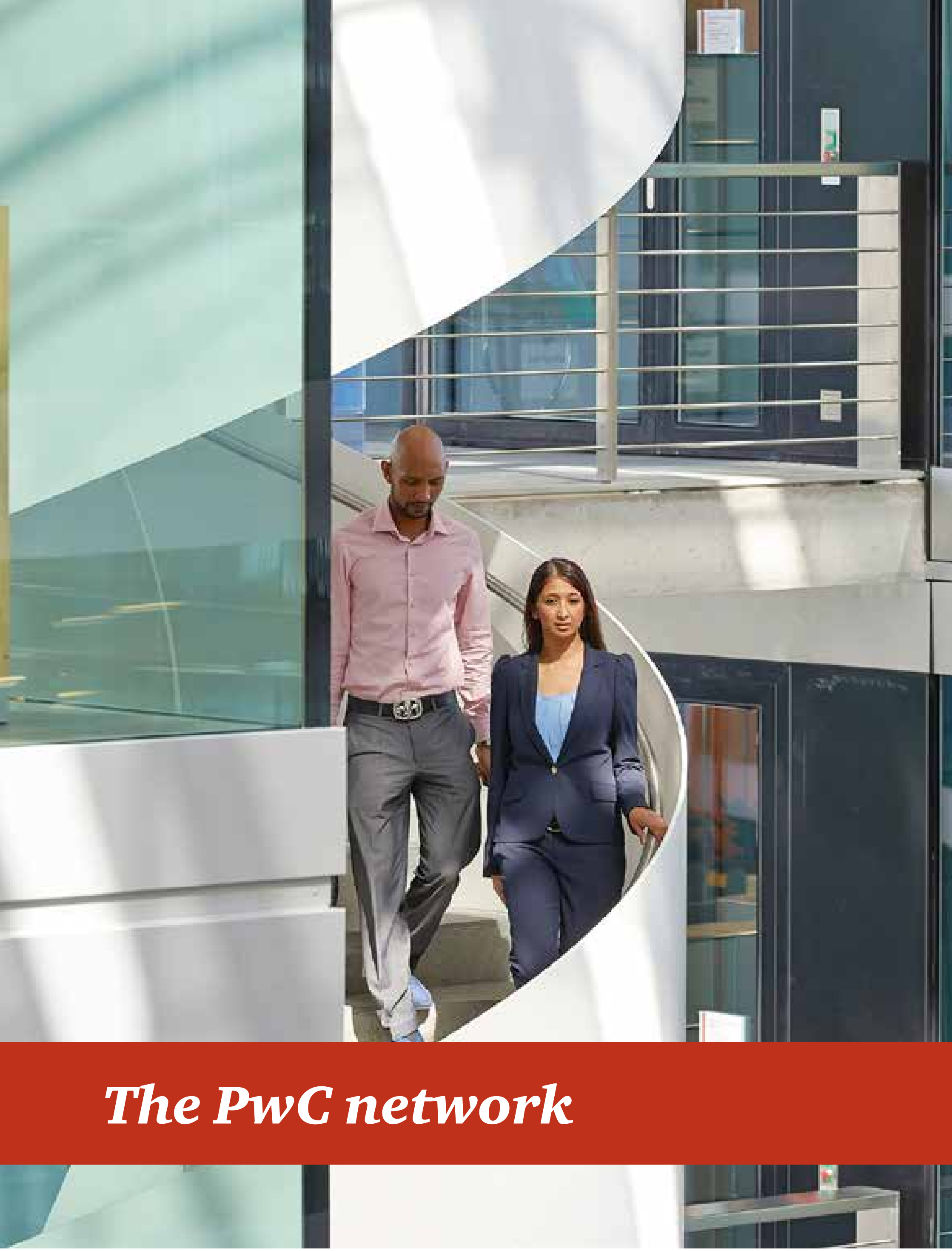
Tax authorities around the world are becoming more assertive as they seek to improve compliance and increase revenue collection. Rwanda has not been left behind. It has enacted tax laws to facilitate the collection of taxes and enhance compliance with tax laws.

It is in this context that PricewaterhouseCoopers Rwanda Limited (PwC Rwanda) has prepared this guide to help you understand the basics of Rwanda tax legislation. The guide is a useful, quick reference tool for people who have a responsibility for tax, such as tax accountants and managers, chief accountants, finance managers and company directors, as well as for inbound investors.

In preparing the guide, we have relied on the following legislation:

- Law on Direct Taxes on Income no 16 of 2005 as amended
- Law on Value-added tax no. 37 of 2012, as amended
- Law on Tax Procedures no. 25 of 2005
- The Commissioner General's Rules
- Ministerial orders.

A note of caution: This guide is prepared as a general overview of Rwandan tax legislation, updated as at 1 January 2015. Given the complexity of tax and the legislation surrounding it, it is crucial that you seek professional advice for more detailed planning and do not rely solely on this guide.



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Our local capability comprises national professionals and expatriate residents who are able to combine their in-depth understanding of local business, social, cultural and economic issues with their extensive functional and industry knowledge. All our local experts are able to draw from the combined skills, experience and successes of other specialists within the PwC network, ensuring that our clients receive world-class service.

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General provisions of the law

Income liable to tax

Income tax is levied in each tax period on the total income of both resident and non-resident persons earning an income in Rwanda.

A resident person must pay income tax on all income earned, from domestic and foreign sources. A non-resident person must pay income tax only on income which has a source in Rwanda.

Resident persons

An individual is considered to be resident in Rwanda for tax purposes if that individual:

- has a permanent residence in Rwanda; or
- has an habitual abode in Rwanda; or
- is a Rwandan representing Rwanda abroad.

In addition, an individual who stays in Rwanda for more than 183 days in any 12-month period, either continuously or intermittently, is considered to be resident in Rwanda for the tax period in which the 12-month period ends.

An entity is resident for tax purposes if it:

- is a company or an association established according to Rwandan laws; or
- has its place of effective management in Rwanda at any time during a tax period; or
- is a Rwandan government company.

Taxable income

The taxable income of a person is that person's total income for the tax year less the total amount of deductions allowed for that person. Taxable income comprises the following:

- employment income
- business profits
- investment income.

Taxation of individuals

Monthly tax rates (individuals)

Bands of taxable income	Taxable income	Tax rate
Rwf	Rwf	%
0 – 30 000	30 000	0%
30 001 – 100 000	70 000	20%
100 000 +		30%

Income from employment

Income from employment comprises gains or profits from employment. It includes any allowances or benefits paid in cash or given in kind to or on behalf of the individual. Some allowances or benefits are exempt from tax.

Contributions to retirement benefit schemes

The Government has established a national pension scheme, the Rwanda Social Security Board (RSSB), to provide social security services to employees in Rwanda. The RSSB requires all salaried workers in Rwanda, both nationals and foreigners, to contribute to the scheme.

Rates of contribution

The employer must contribute 3% of the employee's gross salary to the pension scheme. The employee's contribution is also 3%. The employer must also contribute 2% of the employee's gross salary towards a mandatory occupational hazards scheme.

Gross salary means the total remuneration received by the employee. It includes allowances, bonuses, commissions and all other cash benefits as well as any fringe benefits, but excludes the reimbursement of business expenses and transport allowances.

Remittance of contribution

The employer must deduct social security contributions from employees every month. Employers may remit the total contribution once a quarter, in the month following the end of each quarter.

An employer cannot recover the employee's contribution by deducting in arrears.

The mandate for collecting social security contributions was transferred to the Rwanda Revenue Authority (RRA) in the second quarter of 2010.

Surcharge for late payment

All remittances made after the deadline attract a surcharge of 1.5% of the total contribution amount for each month or fraction of the month of delay. In addition, the employer must pay a fine of 1.5% per quarter for all late payments.

Tax deduction for contributions

The assessable income of a business may be reduced by a contribution made to the state social security fund.

Benefits in kind

Benefits in kind (non-cash benefits) received from employment are generally taxable.

When the employer provides the following facilities to an employee, the benefit is taxed as follows:

Facility provided	Taxable benefit
Motor vehicle (with or without a driver)	10% of the employee's total cash emoluments
Loan interest benefit	The difference between: deemed interest, calculated at the rate of interest offered to commercial banks by the National Bank of Rwanda; and the actual interest paid by the employee in that month.
Accommodation (whether furnished or not)	20% of the employee's total cash emoluments
Other benefits	Open-market value of the benefit

Non-taxable benefits/income

The following benefits are not taxable:

- The discharge or reimbursement of expenses incurred by the employee;
- Retirement contributions made by the employer to the state pension scheme;
- Pension payments made by the state pension scheme;
- Retirement contributions to an approved pension fund made by the employer on behalf of the employee and/or contributions made by the employee, to a maximum of 10% of the employee's employment income, or Rwf1 200 000 a year, whichever is the lowest;
- Employment income for the performance of aid services paid to an employee who is not a citizen of Rwanda by a foreign government or a non-governmental organisation, under an agreement signed by the Government of Rwanda; and
- Employment income for performance of services in Rwanda paid to a non-resident individual by an employer that is not a resident in Rwanda, unless such services are related to permanent establishment of the employer in Rwanda.

Resident individuals

Resident individuals must pay tax on all income from their employment in Rwanda, regardless of where income is paid.

Non-resident individuals

Non-resident individuals must pay tax on any income derived in Rwanda, including employment income, at the withholding tax rate of 15%. The person making the payment to the non-resident individual has the obligation to deduct the withholding tax.

Pay-as-you-earn tax (PAYE)

PAYE should be deducted at source from salaries, wages and taxable benefits earned by employees.

The employer has an obligation to remit PAYE to the RRA by the fifteenth day of the month following the month in which the deduction was or should have been made.

Tax year of assessment (individuals)

The tax year of assessment and the tax period for individuals is the same as the calendar year (1 January to 31 December).

Calculating income tax payable

The example below demonstrates how an individual is assessed for tax.

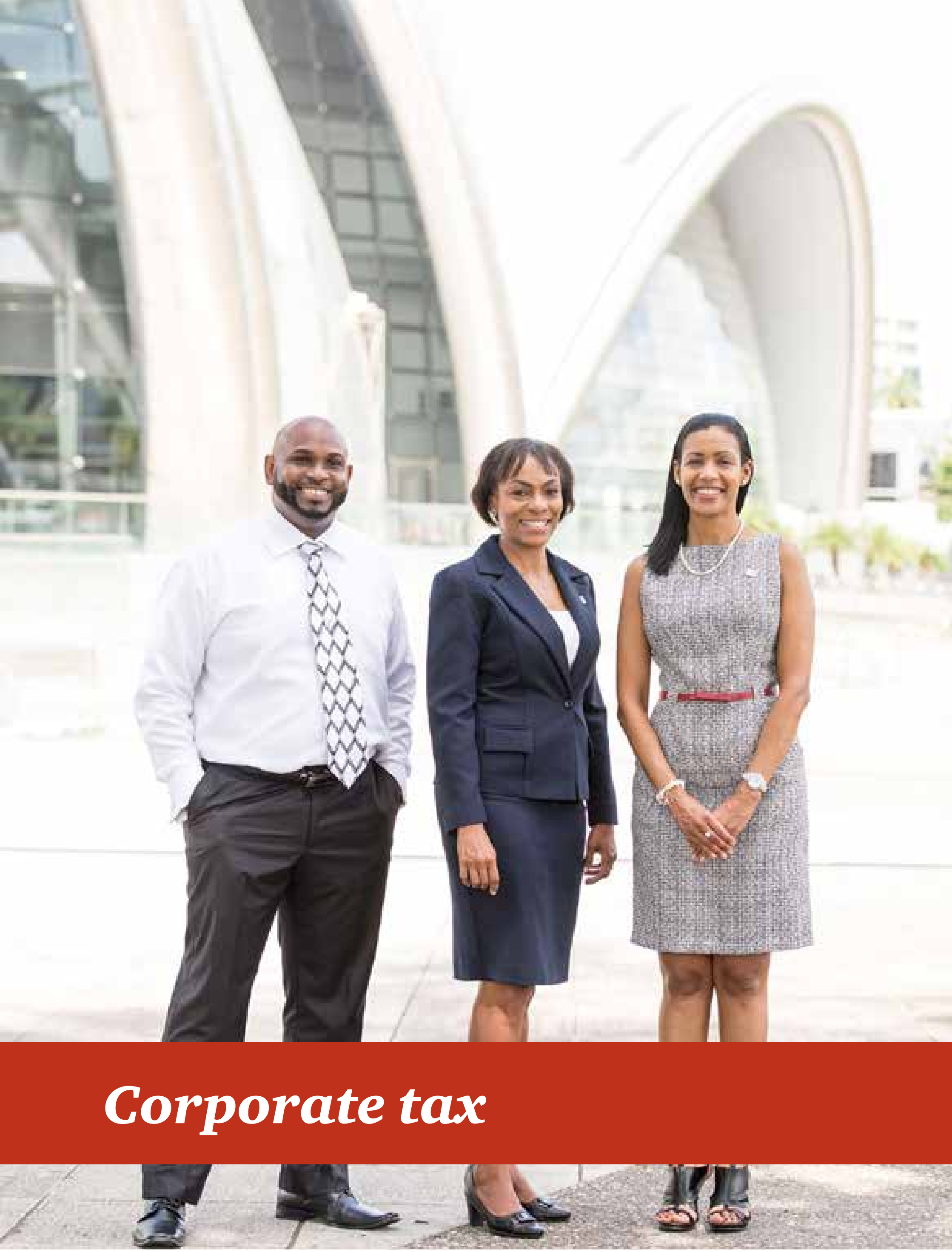
Question

Calculate the income tax payable by a resident individual whose annual income is Rwf45 000 000. The employee is provided with furnished accommodation and a fuelled car for private use. The employee has two children attending school. The employer provides an education allowance of Rwf 7,200,000 a year, paid on a monthly basis.

Solution

Item	2014 Monthly* Rwf
Salary	3 750 000
Education allowance	600 000
Total cash	**4 350 000**
Add: Non-cash benefit	
Accommodation benefit (20% of Rwf4 350 000)	870 000
Car benefit (10% of Rwf4 350 000)	435 000
Taxable income*	**5 655 000**
PAYE thereon	1 680 5000
Net pay	3 974 500

**The annual salary has been divided by 12 to give a monthly salary.*



Corporate tax

Rates of tax

The income tax rates applicable to companies are as follows.

Generally, businesses pay tax at the rate of 30%.

Newly listed companies on capital markets are taxed as follows for a period of five years.

- If the company sells at least 40% of their shares to the public: 20%
- If the company sells at least 30% of their shares to the public: 25%
- If the company sells at least 20 % of their shares to the public: 28%

The following companies pay 0% tax:

- Venture capital companies registered with the Capital Markets Authority in Rwanda
- Investment entities that operate in a Free Trade Zone
- Foreign companies that have their headquarters in Rwanda

Companies that carry out micro-financing activities pay 0% for five years.

Registered investors are entitled to a profit tax discount if they employ a certain number of Rwandans, as detailed below, for at least six months during a tax period.

The number excludes employees who pay tax at 0%:

- Employs between 100 and 200 Rwandans: 2%
- Employs between 201 and 400 Rwandans: 5%
- Employs between 401 and 900 Rwandans: 6%
- Employs more than 900 Rwandans: 7%

Companies that export commodities and services that bring into the country the following amount of export revenue are entitled to a tax discount as follows:

- Between USD3,000 000 and USD5 000 000: 3%
- More than US $5 000 000: 5%

Capital gains resulting from sale of immovable commercial property are taxed at 30%.

Small business taxpayers

Small enterprises must pay a lump sum tax amount of 3% of their annual turnover. Small enterprises are defined as any businesses with turnover between Rwf12 million and Rwf50 million per year.

However, small enterprises can opt for the corporate tax system that applies to large businesses. If they do, they must inform the RRA and cannot reverse this election until 3 years elapse.

Small enterprises pay a flat tax, as summarised below:

Annual turnover (Rwf)	Flat tax (Rwf)
2 000 000 to 4 000 000	60 000
4 000 001 to 7 000 000	120 000
7 000 001 to 10 000 000	210 000
10 000 001 to 12 000 000	300 000

Entities subject to corporate income tax (CIT)

The following entities must pay CIT:

- Companies established in accordance with Rwandan law or foreign law;
- Cooperative societies and their branches;
- Public business enterprises;
- Partnerships;
- Entities established by districts, towns and municipalities, and the City of Kigali, to the extent that these entities conduct business; and
- Companies, associations and any other entities that perform business activities and are established to realise profits.

Entities exempt from CIT

The following entities do not have to pay CIT:

- The City of Kigali
- Districts, towns and municipalities
- The National Bank of Rwanda
- Entities that carry out activities only of a religious, humanitarian, charitable, scientific or educational character
- International organisations, agencies of technical cooperation and their representatives, if such exemption is provided for by international agreements
- Qualified pension funds
- The Rwanda Social Security Board
- The Rwanda Development Board.

Tax period (companies)

The standard tax period is a calendar year, that is, 1 January to 31 December. However, the Minister may allow a taxpayer to apply for any other 12-month period as a tax period.

Deductions allowed

Expenses may be deducted for tax purposes if they:

- were incurred for the direct purpose and in the normal course of business;
- can be substantiated with proper documents;
- lead to a decrease in the net assets of the business; or
- were used for activities relating to the tax period in which they are incurred.

The following expenses are generally allowed:

- Tax depreciation allowance;
- Specific bad debts: the debts must be written off from the books of accounts and evidence that the debtor is unable to pay (e.g. due to bankruptcy) needs to be provided;
- Tax losses brought forward from previous years (limited to five years);
- Foreign currency exchange losses, other than of those of capital nature which may be capitalised, and capital allowance granted thereon; and
- Training, and research and development expenditure.

Deductions not allowed

- Expenditure of a capital nature;
- Expenditure not wholly, exclusively and necessarily incurred in the production of income;
- Cash bonuses, attendance fees and other similar payments made to the members of the Board of Directors;
- Dividends declared and paid;
- Reserve allowances, savings and other special-purpose funds;
- Fines and similar penalties;
- Donations and gifts exceeding 1% of turnover;
- Donations given to profit-making persons, irrespective of the amount;
- Income tax paid on business profit and recoverable VAT;
- Non-business expenses;
- Entertainment expenses;
- Expenses incurred on the revaluation of assets and related depreciations;
- Expenses paid on business overheads (e.g. telephone, electricity and fuel) whose use cannot be practically separated from private or non-business use. Allowable expenses in this case are determined by the administrative rules issued by the Commissioner General. Currently, 20% of such an expense is treated as non-deductible;
- Interest paid on loans and advances from related entities if the total amount of these loans and/or advances is at least four times the amount of equity during the tax period. The definition of equity does not include provisions and reserves. This provision does not apply to commercial banks and insurance companies; and
- Accounting depreciation.

Tax depreciation

Tax depreciation is granted to persons who own depreciable assets at the end of the tax period and use those assets to produce income.

Type of asset	Basis for granting tax depreciation	Rate
Land, fine arts, antiquities, jewellery and any other assets that are not subject to wear and tear or obsolescence	Not Applicable	Nil
The cost of acquiring, constructing refining, rehabilitating, or reconstructing buildings, equipment and heavy machinery fixed in walls	Straight line	5%
The cost of acquiring, developing, improving, rehabilitating or reconstructing intangible assets, including goodwill that is purchased from a third party	Straight line	10%
Computers and accessories, information and communication systems, software products and data equipment	Reducing-balance	50%
All other assets	Reducing balance	25%
Investment allowance • Investment within Kigali of at least Rwf30 million and held for at least three years. If the assets are sold before the end of the three-year period, the investment allowance claimed is forfeited and any underpaid tax, penalties and interest are payable. • The investment allowance is not granted on investment in motor vehicles carrying less than 8 persons except those exclusively used in tourist business.	Not Applicable	40%

Type of asset	Basis for granting tax depreciation	Rate
Investment allowance • Investment within priority sectors defined by the Rwandan Investment Code, or registered business located outside Kigali. • The amount of business assets invested should be at least Rwf30 million and held for at least three years. • If the assets are sold before the end of the three-year period, the investment allowance claimed is forfeited and any underpaid tax, penalties and interest are payable. • The investment allowance is not granted on investment in motor vehicles carrying fewer than eight people, unless the vehicle is used exclusively for a tourism business.	N.A.	50%

Carryover of tax losses

Tax losses can be carried forward over the next five tax periods. Earlier losses are deducted before later losses.

If, during a tax period, the direct or indirect ownership of the share capital or the voting rights of an unlisted company change by more than 25% in value or by number, the company may not carry forward losses incurred during the tax period and previous tax periods.

Capital gains

Capital gains arising from the sale or cession of commercial immovable property are taxed at the rate of 30%. However, capital gains arising on secondary market transactions on listed securities are exempt from tax.

A law on capital gains tax has been drafted and is currently under deliberation. It is expected to be introduced before the end of the year.

Corporate reorganisation

Capital gains and losses arising from a corporate reorganisation are exempt from tax. The receiving company may also carry over the reserves and provisions created in the transferring company, under the same conditions that would have applied to the transferring company if the reorganisation did not take place. The receiving company assumes rights and obligations in respect of the reserves and provisions.

Reorganisation is defined as follows:

- A merger of two or more resident companies;
- The acquisition or takeover of 50% or more (in number or value) shares or voting rights in a resident company in exchange for shares of the purchasing company;

- The acquisition of 50% or more of the assets and liabilities of a resident company by another resident company solely in exchange for shares in the purchasing company; or
- Splitting a resident company into two or more resident companies.

Dividends

Dividends and similar distributions received from an investment in Rwanda by a resident or non-resident person are subject to final withholding tax at 15%. The withholding tax on dividends does not apply to a dividend paid by a resident company to another resident company.

Rental income

Income received from the rental of machinery, land and livestock are included in the taxable income, reduced by:

- 10% of gross revenue as deemed expenses;
- interest paid on the loans; and
- tax depreciation expense.

Income received from the rental of buildings or houses is subject to corporate income tax, and not taxed as set out above.

Free-trade zone developers and foreign companies with headquarters in Rwanda

Companies registered to operate as free-trade zone developers or foreign companies with headquarters in Rwanda are entitled to:

- pay corporate income tax at the rate of 0%;
- exemptions from withholding tax; and
- tax-free repatriation of profits.

Lease transactions

The law currently recognises both operating and finance leases. Under an operating lease arrangement, the lessor qualifies for depreciation allowances while paying tax on lease payments it receives from the lessee. In the case of a finance lease, the lessor is liable to tax on the lease rentals and does not qualify for capital allowance. Instead, the allowance is allowed to the lessee.

Law on minerals tax

There is a minerals tax which is fixed as follows:

- 4% of the norm value for base metals and other mineral substances of that kind;
- 6% of the norm value for precious metals of gold category and other precious metals of that kind; and
- 6% of the gross value for precious metals of diamond category and other precious stones of that kind

The gross value of minerals shall be determined on the basis of the market value. A Prime Minister's Order shall determine the authority responsible for determining the gross value of minerals, as well as the evaluation method and its publication.

Minerals tax paid is deductible when determining taxable income from the company.

A withholding tax of 15% shall be levied on the net winnings of a player of gaming activities. The 15% tax applies to the difference between the winnings of a player and the amount wagered. In calculating withholding tax, income of up to Rwf30,000 shall be taxed at 0%.

The tax on minerals is due at the date of exportation. It must be paid to the Rwanda Revenue Authority within 15 days of the end of each month.

Gaming law

Tax on gaming activities is 13% of the difference between the total amounts wagered and the winnings awarded. The tax return must be submitted and the tax due paid to the RRA within 15 days of the end of each month.

Gaming activity is defined as any game played with cards, dice, tickets, equipment, or any mechanical, electronic or electromechanical device or machine, for money, property, cheque, credit or credit card or any other representative value. A wager refers to a sum of money or representative of the value that is risked on an occurrence for which the outcome is uncertain (a bet).

A withholding tax of 15% shall be levied on the net winnings of a player of gaming activities. The 15% tax applies to the difference between the winnings of a player and the amount wagered. In calculating withholding tax, income of up to Rwf30,000 shall be taxed at 0%.

The tax return must be submitted and the tax due paid to the RRA within 15 days of the end of each month.

International transactions

Geographical source of income

Income from sources in Rwanda includes:

- Income generated from services performed in Rwanda, including income generated from employment. Income from employment exercised in Rwanda is treated as being derived or accrued in Rwanda and is taxable in Rwanda, whether paid in Rwanda or elsewhere;
- Income generated by a craftsperson, musician or a player from his or her performance in Rwanda;
- Income generated from activities carried out by a non-resident through a permanent establishment in Rwanda;
- Income generated from the sale of immovable assets owned by a permanent establishment in Rwanda;
- Income generated from the following assets in Rwanda:
  - immovable assets and accessories thereto,
  - livestock and inventory generated from agriculture and forestry,
  - rights derived from an immovable asset, if such as asset is in Rwanda, and
  - income generated from the sale of the abovementioned assets;

Dividends distributed by a resident company;

- Profit shares distributed by a resident partnership;
- Interest paid by the central Government, districts, towns or municipality, by a resident of Rwanda, or by a permanent establishment that a non-resident maintains in Rwanda;
- Licence fees, including lease payments and royalties, or artistic fees paid by a resident, or by a permanent establishment owned by a non-resident in Rwanda; and
- Income generated from any other activities carried out in Rwanda.

Double Tax Treaties (DTT)

Rwanda has DTTs with Mauritius, Belgium and South Africa. These treaties aim to eliminate the double taxation of income or gains arising from one territory and paid to residents of another territory. They provide for lower withholding rates on payments of dividends, interest, management and professional fees, and royalties between the two territories. Professional advice is required in order to understand the operation of double tax treaties, as they include legislative provisions that may not be straightforward.

Foreign tax credit

If a person who is a resident in Rwanda generates income from business activities performed abroad, the income tax payable by that person in respect of that income is reduced by the amount of foreign tax payable on that income. This credit is allowed if there is appropriate evidence to support it, such as a tax declaration, a withholding tax certificate, or any other similar acceptable document.

Anti-avoidance schemes

Transfer pricing

The Commissioner General is allowed to adjust the charges or income applied in transactions with related parties if it is believed these transactions were not at arm's length.

The law on direct taxes proposes the following methods to be used in determining the arm's-length price in case of related persons:

- the comparable uncontrolled price method;
- the resale price method;
- the cost plus method; or
- any other method that the fiscal administration deems appropriate.

Thin capitalisation

The interest paid on loans and advances from related entities is not tax deductible when the total amount of loans or advances is more than four times the amount of equity during the tax period. For the purposes of this determination, equity excludes provisions and reserves. This provision does not apply to commercial banks and insurance companies.

Withholding tax rates

A resident individual or resident entity must deduct withholding tax of 15% when making the following payments:

Income	Rate (%)
Interest – unlisted securities	15
Interest – listed securities and listed bonds with maturity of three years and above	5
Dividend	15
Dividend – listed securities	5
Royalty income	15
Service fees, including management and technical services fees, with the exclusion of international transport	15
Performance payments made to an artist, a musician or a sportsperson	15
Lottery and other gambling proceeds	15
Good supplied by companies or physical persons not registered as taxpayers in Rwanda	15
Goods imported for commercial use	5
Payments by public institutions to winners of public tenders	3

The withholding tax deducted should be paid to the RRA within 15 days of the month of the deduction. Confirmation of this payment should be provided to the recipient of the income.

The withholding tax on payments to countries for which Rwanda has a double tax treaty is as follows:

Services	South Africa	Belgium	Mauritius
Dividends	10%	0%	10%
Interest	10%	10%	10%
Management and technical service fees	10%	10%	12%
Royalties	10%	10%	10%

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

Exempt income

The following types of income are exempt from tax:

- Income accruing to registered collective investment schemes and employee share schemes;
- Income derived from agricultural and livestock activities if the proceeds from these activities do not exceed Rwf12 000 000 in a tax period;
- capital gains from secondary market transactions in the listed securities.
- Employment income received for the performance of aid services in Rwanda by an employee who is not a citizen of Rwanda, from a foreign government or a non-governmental organisation, under an agreement signed by the Government of Rwanda specifically providing for tax exemption;
- Employment income received for the performance of services in Rwanda by a non-resident individual, from an employer who is not a resident in Rwanda, unless such services are related to a permanent establishment of the employer in Rwanda;
- Pension payments made under the state social security system; and

Note: Capital gains or losses arising from revaluation of investment properties are not specifically provided for in the tax law. However, in practice any revaluation gains or losses reported in the income statement could be treated as taxable or deductible, though this treatment may vary in its application. A draft law on capital gains tax is under deliberation as at the date of issuing this guide.

Administrative procedures

Tax declaration – companies

An annual tax declaration on income should be filed with the RRA by 31 March of the following tax year. The tax declaration should include financial statements and any other documents that may be requested by the RRA.

Tax declaration – individuals

Individuals must also file their annual tax declaration by 31 March of the following tax year, except in the cases listed below.

- A non-resident person who has no income accruing in or derived from Rwanda during the year;
- A non-resident person who suffers a final withholding tax on income derived in Rwanda;
- A resident employee whose only income is employment income and on whose behalf an employer has furnished a return; and
- A resident individual who receives investment income that is subject to withholding tax.

Notice of assessment

The Commissioner General may raise a notice of assessment on a taxpayer in the following instances:

- The taxpayer files their tax declaration on time but has not paid the tax on time;
- Following an RRA investigation or audit; or
- There are indications that the taxpayer may not settle their tax obligations.

Payment of tax

Tax instalment payments are due on 30 June, 30 September and 31 December. Each instalment is 25% of the tax liability, as calculated in the tax declaration of the previous tax period. This amount can be reduced by withholding tax paid during the tax period.

An overpayment of tax from a previous tax period may be used to settle future tax obligations, or be refunded to the taxpayer. A written request should be made to RRA, who will approve the request once they ascertain that prior tax obligations have been discharged and that the overpayment is available to the taxpayer.

If a taxpayer uses a tax period that does not coincide with the calendar year, the quarterly prepayments should be paid not later than the last day of the sixth month, the ninth month and the twelfth month of the tax period.

Withholding tax is due on the fifteenth day after the month in which the deduction was made.

Tax payable under notice of assessment is due within fifteen days of notice.

Persons allowed to sign the declaration

The signatory to the tax return declaration must be the person indicated as the owner or legal representative at the time of registration, which could be one of the following:

- The proprietor, in the case of a sole proprietorship;
- A partner, in the case of a partnership;
- A director or chief executive officer, in the case of an incorporated company; and
- Any other person authorised by the taxpayer to act on his/her behalf.

E-filing and e-payments

The RRA has introduced an e-filing and e-payment system for large and medium taxpayers for corporation tax, PAYE, withholding tax and VAT.

The following e-services are available:

- Application for a tax clearance certificate;
- Filing of tax returns;
- Paying taxes using e-payments; and
- Tracking of returns filed and payments made.

Value-Added Tax

Scope of VAT

Other than exempt goods and services, value-added tax (VAT) is charged on the following:

- Every taxable supply in Rwanda; and
- Every taxable import of goods or services.

A person must register for VAT if they carry out a business in Rwanda that deals in taxable supplies and has, or is likely to have a turnover of more than Rwf20 million in any tax year or Rwf5 million in a calendar quarter.

The tax is paid by:

- The taxable person making the supply, in the case of taxable supply;
- The importer, in the case of imported goods; or
- The receiver of the service, in the case of imported services.

If a supplier is deemed to have a place of supply in Rwanda and makes supplies in the course of their business in Rwanda, then they are liable to register and account for VAT in Rwanda.

VAT rates

Once it is established that a supplier falls within the scope of VAT in Rwanda, it is necessary to determine whether the supplier makes taxable or non-taxable (exempt) supplies. Taxable supplies are supplies which are subject to VAT at a rate of 0% (zero-rated) or 18% (standard-rated).

The VAT Act specifies those supplies that are classified as exempt or zero-rated supplies. Exempt supplies are not subject to output VAT.

In the case of zero-rated supplies, VAT is chargeable, but at 0%. Suppliers who provide services or goods which are zero-rated are entitled to recover the input VAT they have incurred. For exempt supplies, input VAT recovery is restricted.

Any supplies which are not specifically included in the exempt and zero-rated schedules under the VAT Act will be subject to VAT at the standard rate of 18%.

VAT is also payable on the importation of goods and services into Rwanda. VAT paid on the importation of goods is treated in the same way as input VAT on local supplies, that is, it can be recovered unless there are restrictions. On the other hand, a VAT reverse charge payable on the importation of services cannot be automatically reclaimed.

VAT reverse charge

A local recipient of services from a foreign supplier will be required to account for a VAT reverse charge at 18% of the value of the services procured. The VAT Act further provides that the recipient may not reclaim the corresponding input VAT unless the services so procured are not available in the local market. Services are considered not to be available in Rwanda if there is no person in the local market that can deliver identical or similar services. This means that when the service is deemed not to be available, the cost of any services procured from outside Rwanda will increase by 18% since the VAT reverse charge is not recoverable. The RRA may deem services to be available in Rwanda even when the actual services procured are of a different specification or standard to those available locally.

However, consumers of imported transport services are allowed a deduction of VAT reverse charge even if the services are available in Rwanda.

Time of supply

VAT on the supply of goods and service must be accounted for with reference to the tax point rules.

The tax point for any supply will be the earliest of the:

- date of supply
- date of invoice
- date of payment
- date on which goods are either removed from the premises of the supplier or given to the recipient.

Compliance obligations

When suppliers make a taxable supply or procure services from abroad for the purposes of their business, they must charge VAT (output VAT for supplies or VAT reverse charge for imported services) at the appropriate rate (0% to 18%) and account for it to the RRA.

A supplier who is registered for VAT and incurs input VAT on business purchases may, subject to specific statutory exclusions, reclaim the input VAT by offsetting it against the output VAT liability.

The net liability to VAT, including the VAT reverse charge, must be accounted for to the RRA in the prescribed VAT declaration, and relevant, supporting schedules must be included. The VAT return must be filed with the RRA and any payment due made to the RRA within 15 days of the end of the month for which the VAT is accounted for.

From July 2010, VAT taxpayers with an annual turnover of Rwf200 million or below may choose to make declarations or payments quarterly or monthly.

Failure to register as a taxable supplier, to submit the VAT return on time, to pay VAT due on time, or the submission of an incorrect return, will render the taxpayer liable for interest and penalties.

Input tax not deductible (blocked VAT supplies)

Input tax is not deductible on the following goods:

- Passenger vehicles and spare parts or repair and maintenance services for these vehicles (unless the taxpayer is involved in resale or leasing of such vehicles and they were acquired for this purpose);
- Goods acquired or imported for entertainment purposes (unless the taxpayer is in the business of entertainment and these goods are acquired for this purpose and were not provided by a partner or employee);
- Goods acquired for accommodation purposes, unless:
  - the taxpayer is in the business of providing accommodation and these goods were acquired in the ordinary course of business, or
  - the accommodation was provided to a person who was away from his/her usual residential home or on official duties;
- Goods that give right to membership or accession to a sporting association, or social or recreational clubs; and
- For business overheads such as telephones and electricity whose use cannot be practically separated between private and business use, 60% of input VAT incurred.

Time limit for claiming input tax

Input tax may not be deducted or credited after two years from the date of the relevant tax invoice.

Tax paid prior to registration

On registration as a taxable supplier, one may claim input tax paid in respect of goods acquired in the first VAT declaration if those goods were held in store on the last day before registration.

VAT refund

If a person registered for VAT is in a position to claim a VAT refund because of input tax exceeding output tax, the Commissioner General may order the claim to be verified, and the taxpayer and RRA must respond within three months of the date the claim was lodged. All outstanding tax declarations should be filed.

If a person registered for VAT is in a position to claim a VAT refund because of input tax exceeding output tax, the Commissioner General may order the claim to be verified. In the event of an audit, the RRA must respond within three months from the date the claim was lodged. All taxpayer's outstanding tax declarations should have been filed.

Withholding VAT

As set out in the international agreements, foreign diplomatic missions, foreign governments and international government organisations are eligible for VAT refunds on goods and services. The Commissioner General sets procedures for claiming these refunds.

Government and public institutions must withhold VAT on taxable supplies when making payment to suppliers. The VAT withheld is remitted to RRA by the fifteenth day of the following month. The supplier must account for output VAT and show the VAT declared as a credit, thus resulting in a nil effect.

Electronic billing machines (EBMs)

Persons registered for VAT must use a certified electronic billing machine which generates invoices or receipts indicating the tax charged. The procedures for installing EBMs are set out in the law.

The penalties for taxpayers not using an EBM are as follows:

Taxpayer's overall annual turnover (Rwf)	Penalty (Rwf)
12 000 001 to 50 000 000	5 000 000
50 000 001 to 400 000 000	10 000 000
above 400,000,000	20 000 000

Administrative fines are also levied. These range between Rwf500 000 to Rwf10 million, depending on the taxpayer's turnover.

Taxable value of goods or services

The taxable value of goods or services is determined as follows:

- The consideration (payment) paid in money by the recipient, except where the law provides otherwise; or
- Fair market value (exclusive of VAT), if goods and services are supplied for:
  - a non-monetary consideration,
  - a monetary consideration for one part and non-monetary consideration for the other, or
  - a consideration that is less than the market value of goods and services.

Requirements of a valid tax invoice

All suppliers registered for VAT must raise a tax invoice which includes the following:

- The word 'tax invoice', in a prominent place
- The name of the supplier
- The address of the supplier
- The VAT registration number of the supplier
- The serial number of the invoice
- The and date the invoice was issued
- The quantity or volume of the goods or services supplied
- A description of the goods of services supplied
- The selling price, excluding VAT
- The total amount of VAT charged
- The selling price, including VAT.
- Attached to EBM receipt.

Invoices that do not include this information may be admissible if they contain:

- The selling price including VAT; or
- A statement that the price includes VAT, with the rate of VAT provided.
- Simplified tax invoice –EBM receipt.

Simplified tax invoice

The law provides for the issue of a simplified tax invoices by a taxable supplier who makes taxable supplies of less than Rwf1 000 (USD 1.7) per supply.

Exempt supplies

Supplies that are specifically exempt are as listed below:

Item	Description
Supplying clean water and ensuring environmental treatment of water for non-profit making purposes, with the exception of sewage pumping-out services	
Goods and services related to health	• Health and medical services; • Equipment designed for persons with disabilities; and • Goods and drugs appearing on the list provided for by an order of the Minister in charge of health and approved by the Minister in charge of taxes. Bodies eligible for this exemption must be recognised by Rwandan laws as public institutions, social welfare organisations, or any other form of voluntary or charity institutions.
Educational materials and services	Educational materials, services and equipment appearing on the list made by the minister in charge of education and approved by the minister in charge of taxes.
Books, newspapers and journals	

Item	Description
Transport services provided by licensed persons	• Transportation of people by road in vehicles which have a seating capacity of 14 people or more • Transportation of people by air; • Transportation of people or goods by boat; and • Transportation of goods by road.
Lending leasing and sale	• Sale or lease of land; • Sale of a building, or part of a building, meant for residential purposes; • Renting of, or granting the right to occupy, a house used predominantly as a place of residence to one person and his/her family, for more than 90 days in a row; and • Lease of movable property by licensed financial institutions.
Financial and insurance services	• Premiums charged on life and medical insurance services; • Bank charges on current account operations; • Exchange operations carried out by licensed financial institutions; • Interest chargeable on credit and deposits; • Operations of the National Bank of Rwanda; • Fees charged on vouchers and bank instruments; • Capital market transactions for listed securities; and • Transfer of shares.
Precious metals	Sale of gold in bullion form to the National Bank of Rwanda.

Item
Any goods or services in connection with the burial or cremation of a body, as provided by an order of the Minister in charge of finance.
Energy supply equipment appearing on the list made by the Minister in charge of energy and approved by the Minister in charge of taxes.
Trade union subscriptions
Leasing of exempted goods
All agricultural and livestock products, except processed ones which are exempted from value-added tax. However, processed milk (excluding milk and milk-derived products) is exempted from this tax.
Agricultural input and other agricultural and livestock materials and equipment appearing on the list made by the Minister in charge of agriculture and livestock, and approved by the Minister in charge of taxes.
Personal effects of Rwandan diplomats returning from foreign postings, and Rwandan refugees and returnees entitled to tax relief under customs laws.
Goods and services meant for special economic zones (SEZs) imported by a registered SEZ operator.
Mobile telephones and subscriber identification module (SIM) cards;
Information communication and technology equipment appearing on the list made by the Minister in charge of information and communication technology, and approved by Minister in charge of taxes.

The following items are zero-rated supplies:

Item
Exported goods and services;
Minerals that are sold on the domestic market;
International transportation services of goods entering Rwanda and those in transit to other countries, and related services;
Goods sold in shops that are exempted from tax as provided for by the law governing customs;
Services rendered to a tourist for which value-added tax has been paid.

Item	Description
Goods and services intended for special persons, in line with the rules and procedures set out by the Commissioner General	Goods and services: • intended for diplomats accredited to Rwanda that are used in their missions, but whose countries should also give the same privileges to the Rwandan diplomats • intended for international organisations that have signed agreements with the Government of Rwanda • donated to local non-governmental organisations (NGOs) and which have been acquired through funding by organisations that have signed agreements with the Government of Rwanda, and are being used for the purposes for which they were intended • intended for projects funded by partners that have signed agreements with the Government of Rwanda.

Offences and penalties

There is a comprehensive and punitive system of fixed penalties and interest payable for non-compliance with Rwandan tax laws. Offences include incorrect declarations on returns, late submission of tax declarations or payments, and the understatement of tax payments, among others. In some cases, criminal liability also applies.

Monetary penalties for various offences relating to corporate tax, PAYE, VAT and withholding tax are shown in the table below.

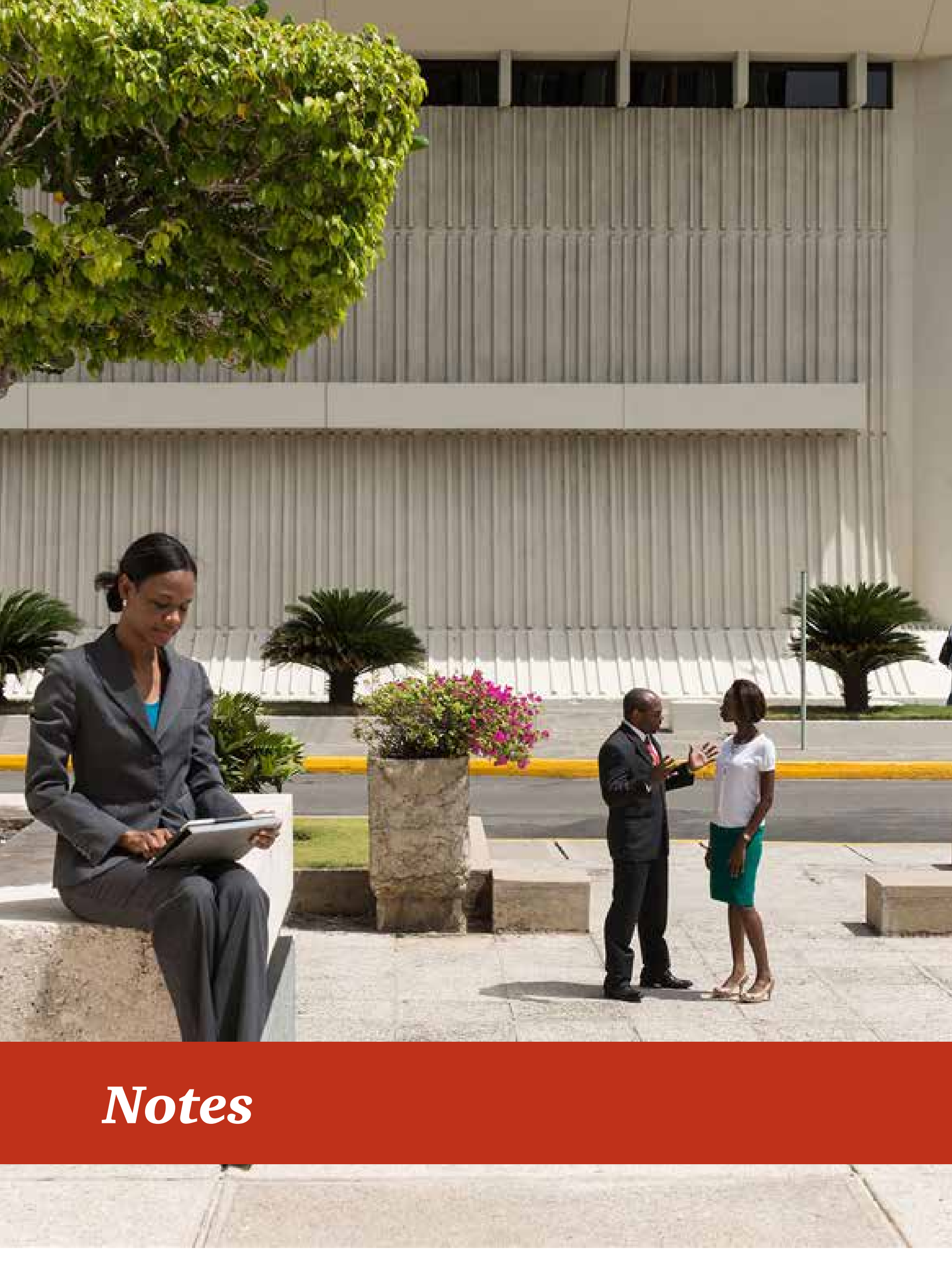
Offence	Category of taxpayer	Interest and fines
Interest for late payment of tax	All taxpayers	1,5% per month simple interest
Fixed fines for failure to:	• If the taxpayer's annual turnover is less than or equal to Rwf20 000 000:	Rwf100 000
• File a tax declaration on time • File a withholding declaration on time • Compute and pay withholding tax • Provide information required by the tax administration • Cooperate with RRA officers during a tax audit.	• If the taxpayer's annual turnover is more than Rwf20 000 000:	Rwf300 000
	• If the taxpayer was informed by the tax administration that he or she is in a large-taxpayer category:	Rwf500 000
	Note: If the same violation is committed twice in five years, the fine is twice the original fine. If the same violation is committed a third time within five years, the fine is four times the original fine.	
Late payment fines	All taxpayers	
If the amount of tax shown on a tax declaration or the amount of tax which is the result of an adjusted assessment by the tax administration is not paid in time.		10% of the tax payable

Offence	Category of taxpayer	Interest and fines
Understatement fines	All taxpayers	
	If the understatement is equal to or more than 5% but less than 10% of the tax liability:	5% of the tax payable
	If the understatement is equal to or more than 10% but less than 20% of the tax liability:	10% of the tax payable
	If the understatement 20% or more but less than 50% of the tax liability:	20% of the tax payable
	If the understatement is 50% or more of the tax liability:	50% of the tax payable
Administrative penalties	All taxpayers	
	A taxpayer who has declared due taxes on time but did not pay the taxes on time:	50% of due taxes
	A taxpayer who has not declared taxes on time:	Due taxes plus 60% of due taxes.
Value-added tax violations (administrative fines)	All taxpayers	
	Operation without VAT registration where VAT registration is required:	50% of tax payable
	Incorrect issuance of a VAT invoice resulting in a decrease in the amount of VAT payable or an increase of the VAT input credit, or failure to issue a VAT invoice:	100% of the amount of VAT for the invoice or on the transaction
	Issuing of a VAT invoice by a person who is not registered for VAT:	100% of tax payable

Offence	Category of taxpayer	Interest and fines
Tax fraud	All taxpayers	
A taxpayer who commits fraud is subject to an administrative fine of 100% of the evaded tax amount. In addition, the taxpayer may be prosecuted under criminal law. If convicted, the taxpayer can be imprisoned for six months to two years.		100% of evaded tax amount

In duplum rule:

- Interest accrued cannot exceed 100% of the amount of tax.
- The late-payment fine does not apply to interest or administrative fines.



Notes