

RWANDA REVENUE AUTHORITY

Taxes for Growth and Development



ANNUAL REPORT FOR 2007

Kigali, March 2008

Taxes for Growth and Development

TABLE OF CONTENTS

<u>1.0 FOREWORD BY THE COMMISSIONER GENERAL.....</u>	<u>4</u>
<u>2.0 OVERVIEW OF ECONOMIC PERFORMANCE.....</u>	<u>5</u>
<u>3.0 MAJOR ACHIEVEMENTS MADE BY RRA IN 2007.....</u>	<u>6</u>
3.1 BOARD OF DIRECTORS ACTIVITIES.....	6
3.2 REVENUE PERFORMANCE.....	6
3.2.1 Fiscal revenue performance.....	7
<u>THE FISCAL REVENUE PERFORMANCE FOR 2007 AMOUNTED TO RWF 246.954 BILLION AGAINST THE TARGET OF RWF 214.602 BILLION. THIS TRANSLATES INTO AN ACHIEVEMENT OF ABOUT 114.6%.....</u>	<u>7</u>
3.2.2 Comparison between 2007 and 2006 fiscal revenue performance.....	9
3.2.3 Actual revenue performance compared to the targets (2000-2007).....	10
3.2.4 Contribution by tax office.....	11
3.2.5 Comparing economic growth and revenue performance.....	11
3.2.6 Non-fiscal revenue performance.....	13
3.2.7 Audit activities in 2007.....	13
3.2.8 Dealing with tax fraud and investigation.....	14
3.2.9 Taxpayers' recruitment.....	15
3.2.10 Development of a strategic plan to broaden the tax base.....	15
3.3 RRA INCOMES AND EXPENDITURE OUTTURN 2007.....	15
3.3.1 Sources of Funds available in 2007 (Value in Rwf).....	15
3.3.2 Expenditure Outturn.....	16
3.4 MAINTAINING SOUND INTERNAL BUSINESS PROCESSES.....	17
3.4.1 Internal audit.....	17
3.4.2 RRA business plan and monitoring process.....	17
3.4.3 Review and develop processes and procedures.....	18
3.4.4 Legal Instruments.....	18
3.4.5 Work facilitation through computerization:.....	19
3.5 DEVELOPING A CAPABLE AND EFFECTIVE ORGANIZATION.....	20
3.5.1 Internal restructuring and re-organizations.....	20
3.5.2 Staff recruitment.....	20
3.5.3 Gender promotion in RRA.....	20
3.5.4 Staff discipline.....	20
3.5.5 Staff welfare.....	21
3.5.6 Enhancing staff capacity.....	21
3.5.7 Infrastructure development.....	21
3.6 SATISFYING CUSTOMER AND STAKEHOLDERS' REQUIREMENTS.....	21
3.6.1 Taxpayers' education and sensitization.....	21
3.6.2 Taxpayers' facilitation.....	22
3.6.3 Taxpayers' day celebration.....	24
3.6.4 Corporate social responsibility.....	24
3.6.5 Improving cooperation with regional and international bodies and other stakeholders.....	25
3.6.5.1 Preparations for East African Community (EAC) Customs Union.....	25
Activities undertaken by RRA in preparing for the EACCU.....	25
3.6.5.2 Cooperation with other bodies and stakeholders.....	26
3.6.5.3 Donor Support.....	27
<u>4.0 MAJOR CONSTRAINTS ENCOUNTERED BY RRA IN 2007.....</u>	<u>28</u>
4.1 CONTINUED RISE OF PETROLEUM PRODUCTS PRICES ON THE INTERNATIONAL MARKET.....	28
4.2 TAXPAYER COMPLIANCE.....	28
4.3 CONTINUED GROWTH OF INFORMAL SECTOR.....	29
4.4 SUSTAINABILITY OF RRA INFRASTRUCTURE AND INFORMATION TECHNOLOGY SYSTEMS.....	29

4.5 TRADE FACILITATION ENHANCEMENT AT CUSTOMS.....29

5.0 CONCLUSION.....29

INTRODUCTION

As a requirement by the law establishing RRA to produce a report of activities annually, the following is a report highlighting some of the major activities performed by RRA in 2007. These activities are reported against the set targets in the organisation’s business plan for the same period.

The report commences with a foreword by the Commissioner General that summarises most of the issues contained in the report and the strategic direction of the organisation. It continues with a brief overview of the 2007 economic outlook due to its impact on the revenues collected by the Authority.

The report further highlights achievements against the set targets and these are reported in line with the institution’s strategic direction. Also covered are some of the major constraints encountered in the same period.

It is worth mentioning here that RRA registered various achievements along other areas included in its medium term strategic direction other than maximising revenue collection. Most of these achievements were in form of administrative measures aimed at enhancing the organisation’s efficiency in its efforts to provide quality services and trade facilitation.

Consequently, the above measures boosted revenue performance and improved services offered by the organisation to its customers. Most of these are continuous and are intended to direct the organization towards attaining maximum efficiency.

The report ends with the conclusive remarks.

1.0 FOREWORD BY THE COMMISSIONER GENERAL

The year 2008 is a landmark for the RRA as we register 10 years of our existence. It is crucial to reflect on achievements, challenges encountered and draw firm strategies for the future to ensure continued growth and indeed the attainment of our vision being economic independence for Rwanda. The overriding goals were effective revenue mobilization, trade facilitation and tax education.

Reflecting on 2007, RRA collected 252.6 billion as total domestic resources from both fiscal and non fiscal revenue. This was against a target of 220 billion and reflects 114.8% achievement. The performance is resultant of the economic performance that registered a real GDP growth rate of 6%. Outstanding sectors were services and industry while agriculture met serious challenges. This growth positively impacted on revenue performance across most tax heads, with the Revenue to GDP growth recorded at 13.5%, exactly 1% over 2006.

Trade facilitation and improving the business-environment was high on the agenda and crosscutting in the organization. Expedited clearance regimes at Customs were effected; a one stop motor vehicle clearance centre at Customs; increased thresholds for clearance at borders to support SME's; issuance of tax clearance certificate within 2 days; expedited VAT refunds as well as strengthening the RIEPA one stop center, to mention a few can be highlighted.

The above gains can be attributed to major infrastructure development. The occupation of the RRA complex in the second half of 2007 as well as steady computerization were key in this. Staff development was also highly boosted by the establishment of the RRA Training Centre and indeed the continued flexible technical assistance by DFID (United Kingdom's Department for International Development). This was enhanced through targeted short and long term courses that have had a positive impact on staff confidence in executing their work.

However, it is also pertinent to report that some challenges were encountered. These include, low compliance as seen in tax avoidance and smuggling, reduced yields from petroleum products due to the volatile nature of the world prices and staff capacity issues in dealing with complex audits.

In all, great support was always availed to RRA by the Government, Board of Directors and partners like DFID, and indeed the enhanced good performance of the taxpaying public. The staff was focused and tenaciously handled their work too. Clearly, the partnership cannot be beaten in achieving our goals.

On RRA's behalf, I would like to record our gratitude. Considering the gains registered, overcoming challenges met and laying clear strategies to achieve our vision is our pledge and focus, in return.

Mary BAINE
Commissioner General

2.0 OVERVIEW OF ECONOMIC PERFORMANCE

2007 was yet another successful year for the economy in general and RRA in particular. RRA's performance depends heavily on the performance of the entire economy. This implies that the direction of economic performance directly influences the direction of RRA's performance. This is why it is imperative at this moment to first look at the general outlook of the economy in 2007 before embarking on RRA's performance.

Different economic indicators portrayed a strong performance for the year 2007. This performance was registered in almost all sectors of the economy. The economy registered a Growth Domestic Product of **6.0%** which is a **0.5%** increase when compared with that of 2006. This increase was mainly precipitated by a strong growth in the industry and services sectors that registered **12.5%** and **9.2%** respectively.

The following table depicts sector performance growth over a five year period.

Table 1 : Sector Performance 2003 – 2007, Figures in billion Rwf

Sector	2003	2004	2005	2006	Growth rate 2006	2007	Growth rate 2007
GDP	825.37	868.82	930.42	981.13	5.5%	1039.8	6.0%
Real GDP Growth	0.3%	5.3%	7.1%	5.5%	5.5%	6.0%	6.0%
Agriculture	303.5	303.8	318.5	321.98	1.1%	318.15	-1.2%
Of which: Food crop	263.8	259.2	275.7	275.7	0.0%	272.2	-1.3%
Industry	113.7	127.8	136.6	147.8	7.0%	166.3	12.5%
Of which: Construction	49.8	59.3	63.9	67.2	5.2%	77.9	15.9%
Manufacturing	56.4	60.0	62.1	70.3	13.1%	75.8	7.9%
Mining	3.4	5.0	6.6	5.6	-14.0%	7.9	39.8%
Services	360.9	389.3	424.6	459.0	8.1%	501.2	9.2%
Wholesale and retail trade	78.1	84.3	91.8	96.96	5.6%	107.1	10.5%
Transport and communication	47.5	53.1	58.7	63.1	7.5%	84.95	34.6%
Finance and insurance	29.9	35.0	38.7	46.5	20.3%	56.0	20.4%
Public Administration	60.2	61.5	64.1	71.1	10.9%	70.9	-0.2%

Source: 2003 – 2006 NISR, 2007 MINECOFIN

According to the above figures for real GDP growth rates, a strong growth was realised in the services and industry sectors. The vibrant services sector growth was mainly pushed by transport and telecommunication that grew by 34.6%, finance 20.4% and wholesale and retail trade with 10.5%.

On the side of the industry sector, construction continued to show a strong growth with 15.9% performance. This buoyant performance in these sectors and the increased monetisation of the economy that included an expansion in credit to the private sector positively contributed towards the performance of both direct and indirect taxes.

Agriculture's performance was bad with a -1.2% outcome due to adverse weather conditions that hindered growth as well as diseases that affected the roots and tubers particularly Irish potatoes and bananas.

3.0 MAJOR ACHIEVEMENTS MADE BY RRA IN 2007

3.1 BOARD OF DIRECTORS ACTIVITIES

In 2007, RRA's Board of Directors was very participative in all the achievements by the Authority and met on several occasions to deliberate and approve important issues that affected the operations of the organisation. The Board of Directors responsively supported the formulation and implementation of RRA policies and made key interventions in an effort to guide the organisation in its operations. Some of the activities handled by the Board include the following:

- Recommended putting in place an action plan by RRA to achieve the World Bank Doing Business report recommendations;
- Urged RRA to expedite activities in the EAC roadmap for Rwanda's accession to the Customs Union;
- Recommended RRA to accelerate the implementation of online declaration;
- Regarding Leasing, recommended that a detailed paper should be submitted to the Tax Policy Unit at the Ministry level indicating the institution's view on leasing and that the Law on leasing should be reviewed;
- Recommended RRA to work with MINALOC on the rental tax challenge;
- Recommended putting in place strategies to improve payment in order to avoid long queues by taxpayers especially during peak periods for VAT and PAYE taxes;
- Discussed an initiative to allow an annual one-off payment of pay-as-you-earn tax for motor vehicles' conductors who pay less than Rwf 2,500 per month and approved scrapping off of this tax on motor cycle cyclists.

Finally, RRA Board of Directors continued to provide guidance as far as RRA operations were concerned.

3.2 REVENUE PERFORMANCE

Revenue performance continued to show a steady and positive trend in 2007. This trend was very good on domestic taxes side compared to the trade taxes due to the regional integration effects. Trade taxes performance also was good due to the fact that there is a shift in the origin of goods from COMESA to non COMESA States.

The total revenue target was Rwf **220.002** billion and total revenue collection was **252.584** billion registering a surplus of Rwf **32.582** billion, which is **14.8%** above the target.

In comparison with the revenue collection for the fiscal year 2006, the overall revenue performance for 2007 was higher by Rwf **47.647** billion representing **23.2%** revenue growth between the two fiscal years.

Detailed collection figures against targets for the year 2007 are shown in table 2 below. The same table further compares performance for the fiscal year 2007 and 2006 for different types of taxes and explanations are provided thereafter.

Table 2: 2007 Revenue receipts against targets compared to 2006 (Value in billion Rwf)

Revenue instruments	Targets for fiscal year 2007	Revenue collections fiscal year 2007	Variance	% achievement	Revenue collections fiscal year 2006	% 2007/2006
Total Revenues	220.002	252.584	32.582	114.8%	204.937	123.2%
Total non fiscal revenues	5.400	5.630	0.23	104.3%	6.694	84.1%
Total fiscal revenues	214.602	246.954	32.352	115.1%	198.243	124.6%
<i>Direct taxes</i>	<i>72.829</i>	<i>86.623</i>	<i>13.794</i>	<i>118.9%</i>	<i>64.655</i>	<i>134%</i>
<i>Taxes on goods and services</i>	<i>109.119</i>	<i>121.087</i>	<i>11.968</i>	<i>111%</i>	<i>96.222</i>	<i>125.8%</i>
<i>Taxes on international trade</i>	<i>32.654</i>	<i>38.810</i>	<i>6.156</i>	<i>118.8%</i>	<i>37.166</i>	<i>104.4%</i>
Transfers from caution money account to OTR	-	0.434	-	-	0.2	217%

Source: RRA, 2007

3.2.1 Fiscal revenue performance

The fiscal revenue performance for 2007 amounted to Rwf **246.954** billion against the target of Rwf **214.602** billion. This translates into an achievement of about **114.6%**.

The overall tax collection was good mainly due to some tax heads that performed substantially well and surpassed their targets significantly. Their detailed analysis is highlighted below.

Direct taxes exceeded the target by **18.9%**, this was mainly attributed to the increased filing on time and growth in revenues from profit tax quarterly payments, good performance of withholding taxes compared with the previous year due to the sensitization of public institutions and close follow up of irregularities related to these taxes, improved capacity of auditors that led to increased yields and effective implementation of issue oriented audits and comprehensive operations to curb tax defaulters.

Also enforcement measures were strengthened and led to recovery of arrears amounting to Rwf **4.650 billion** against a target of Rwf **3.758 billion** registering a surplus of about Rwf **892 million** in the fiscal year 2007, decentralisation of RRA services to the regions has reduced the turnaround time and increased revenue performance from these areas. Other factors which contributed to the good performance of profit taxes include taxpayers' recruitment campaigns which led to increase in taxpayers in the tax net and expedited services due to computerisation program that has increased efficiency as well as our revenues.

Taxes on goods and services exceeded the set target by **11%**. This performance was mainly due to the strong **VAT** performance where collections amounted to Rwf **85.286 billion** against the target of Rwf **76.345 billion** which is **11.7%** above the target. VAT performance in 2007 was attributed to increased consumption due to various meetings that were held in Kigali and increased efforts made in identifying non-invoicing of VAT by some taxpayers. RRA realised that this tax was not performing well and operations such as single and short issue-oriented audits and surprise invoice checking were conducted.

Openness of the Rwandan economy has led to increased volume of goods imported to the country which has positively affected VAT at importation. Good performance of road fund and other customs fees registering **6.7%** or Rwf **0.392 billion** higher than the target set for the year contributed also to the impressive performance of taxes on goods and services in the fiscal year 2007.

Introduction of excise duty on airtime and adjustments in excise duty rates especially on cigarettes and beer led to increased revenue collections from these tax lines.

Taxes on international trade registered a positive performance of **18.8%** above the target. The main reasons for this good performance include: additional imports of finished goods originating from the non-COMESA region that attract the highest import duty rate, increased efficiency in RRA's services due to the computerisation program and non-tolerance of corruption.

Asycuda++ has been rolled down to at least over 85% of Customs stations thereby increasing efficiency. There were also intensified surveillance and intelligence operations that led to the seizure of smuggled goods. Lastly, in 2007 the threshold allowed for importers to pay from the border posts was increased which reduced clearance time and increased revenues from the regions.

Overall, a healthy macroeconomic environment with a 6% GDP growth rate boosted the performance of all sectors especially revenues from the services sector.

However, it should be noted that international trade taxes were greatly affected negatively by the petroleum products price rise that hit US\$100 a barrel almost for the first time in history. This trend seems to continue and similar impact will be felt in the domestic taxes as well since transport costs were increased in response to this rise.

In response to this price rise and in an effort to stabilise the macroeconomic situation, the Government increased its subsidy on the petroleum products imports. In **2007**, fuel subsidy was very high and claimed Rwf **56.811 billion** with the Government collecting only Rwf **28.292 billion** from these products. The revenue foregone through subsidy was equivalent to **66.8%** of the total revenue that would have been collected while the total tax collected was **33.2%** of the total revenue that would have been collected.

Overall, taxes on goods and services contributed the largest share of fiscal revenues representing 49% of the total, with direct taxes and taxes on international trade contributing 35.1% and 15.7% respectively. The main focus should be geared towards strengthening performance of direct taxes since these are more reliable than the other tax heads and move in the same direction with the general economic outlook.

3.2.2 Comparison between 2007 and 2006 fiscal revenue performance

In comparison with the year 2006, the fiscal revenue performance in 2007 is higher than that of 2006 by Rwf 48.711 billion and represents 24.6% growth between the two fiscal years. Overall detailed analysis reveals the following:

Table 3: Details of revenue collected by type of tax for 2006 and 2007

Type of tax	Revenue collected (in billion of Rwf)		
	2006	2007	% growth 2007/2006
Direct taxes	64.655	86.623	34%
*Tax on income and profit	63.814	85.598	34.1%
- of which profit tax	27.979	35.754	27.8%
- of which PAYE	35.093	48.079	37%
*Property tax	0.841	1.025	21.9%
Taxes on Goods and Services	96.222	121.087	25.8%
* VAT	67.213	85.286	26.9%
- on imports	30.775	36.010	17%
- domestic	36.438	49.276	35.2%
*Excises	23.253	29.524	27%
- on imports	7.575	8.909	17.6%
- domestic	15.678	20.615	31.5%
*Road fund	5.756	6.276	9%
Taxes on international trade	37.166	38.810	4.4%
*Customs duties	30.806	37.127	20.5%
*Other (including MAGERWA)	6.360	1.683	-73.5%
Transfers from caution money account to OTR	0.2	0.434	117%
TOTAL FISCAL COLLECTIONS	198.243	246.954	24.6%

Source: RRA, 2007

Explanations

As shown in table 3 above, direct taxes registered a satisfactory performance of about Rwf 21.968 billion more than that collected in the fiscal year 2006 and this represents 34% revenue growth between the two periods. This growth is mainly attributed to the higher growth in the taxes from PAYE which grew by 37% between two fiscal years due the increase in the civil service salaries in 2006 and continuous improvement in bringing to the net those liable for PAYE, followed by profit tax with a growth rate of 27.8% resulting from improved capacity of auditors that led to increased yields and effective implementation of issue oriented audits, comprehensive operations to curb tax defaulters, strong enforcement

measures to recover the collectible arrears and taxpayers' recruitment campaign which led to increase in the tax base.

Comparison between 2007 and 2006 for taxes on goods and services indicates an increase in revenue of about Rwf **24.865** billion which is a **25.8%** revenue growth. This mainly came from VAT performance that registered **26.9%** growth compared to 2006. Domestic VAT performance alone registered **35.2%** growth compared to 2006, while VAT on imports in 2007 was higher by **17%** compared to 2006.

On the other hand, excise duties and road fund performance grew by **27%** and **9%** respectively in 2007 when compared to 2006 due to increase in imports as well as good performance of excise taxes on beer, lemonade, air time, powdered milk and vehicles. The probable reason for this increase could be changes that were made in excise rates and increase in consumption of these products.

Revenue collection on taxes from international trade registered a fairly good performance in 2007 compared to the year 2006. The growth rate between taxes on international trade over the two periods indicates **4.4%** higher. This was largely attributed to an increase in CIF value due mainly to value and volume of imports between the two periods of about **36%** and **35%** respectively.

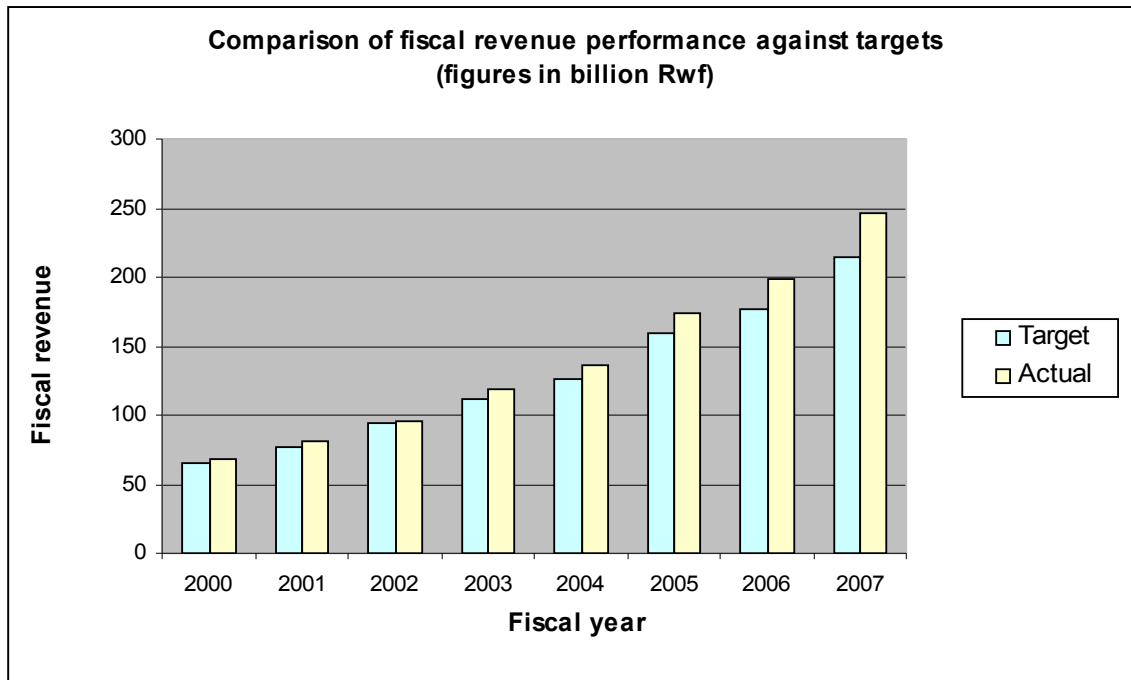
In 2007, taxes on international trade were affected by the increase in the revenue foregone through exemptions. Exemptions increased by about **38.7%** when compared to 2006 fiscal year. This development is due to a number of factors, the most important of which are a shift in the composition of imports with an increasing share of capital goods that do not attract duties and an increase in the volume of imports coming from COMESA over the previous years.

Another factor that affected international trade taxes performance was the scrapping off of **4% MAGERWA fees** in 2007. In 2006, MAGERWA fees collected by RRA amounted to Rwf **4.625** billion while in 2007 no fees from MAGERWA were collected by RRA.

3.2.3 Actual revenue performance compared to the targets (2000-2007)

The graph I below illustrates the positive performance registered by the Authority in achieving the tax revenue targets. Strategies continue to be designed today to ensure that tax performance remains on course while tax burden is widely distributed.

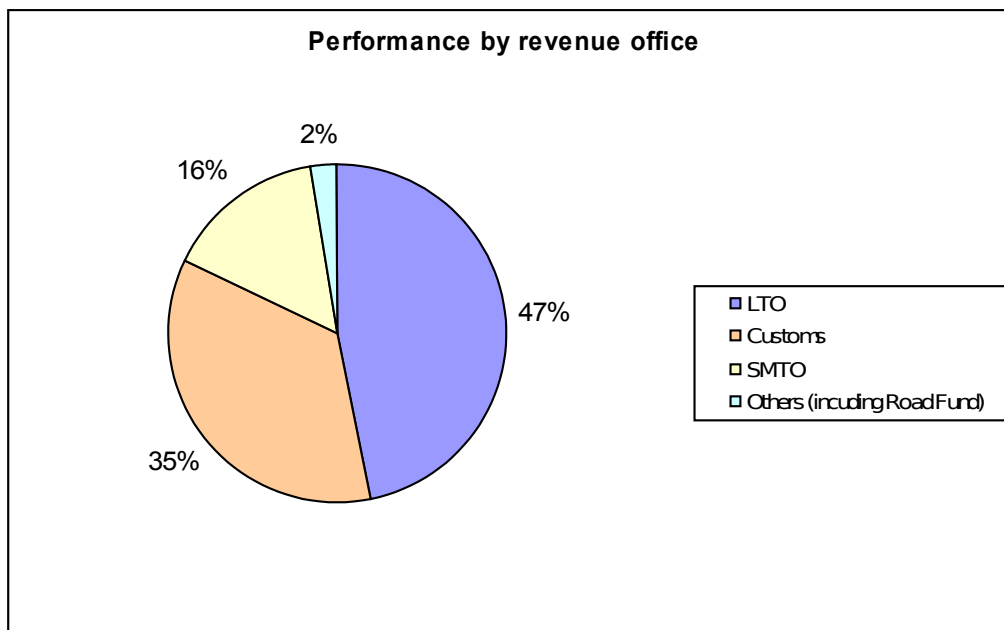
Graph I: Comparison of actual revenue performance against targets (2000-2007)



3.2.4 Contribution by tax office

The departmental contribution towards the overall tax revenue collection indicates that Large Taxpayers Office contributed **47%**, Customs and Excise Department **35%**, Small and Medium Taxpayers Office **16%**, while others including Road fund contributed **2%** as shown in graph II below.

Graph II: Revenue office contribution



3.2.5 Comparing economic growth and revenue performance

According to the growth estimates, the 2007 real GDP growth rate was higher by 0.5% than that of 2006 whereas revenue growth was 10.3% higher between the two periods. Tax revenue

to GDP ratio grew by 1% during this period. As earlier indicated, GDP growth rate mainly came from industry and services sectors. These two services equally impact tax revenue performance positively. Growth in tax revenue evidently was higher than GDP growth.

Major contributors towards this increase in revenue to GDP ratio are taxes on goods and services and direct taxes with 6.6% and 4.7% respectively. These have a direct relationship with industry and services sectors. This performance could have come as a result of stabilisation of structural changes that were made especially on profit and pay as you earn taxes whose highest rates were reduced from 35% to 30%.

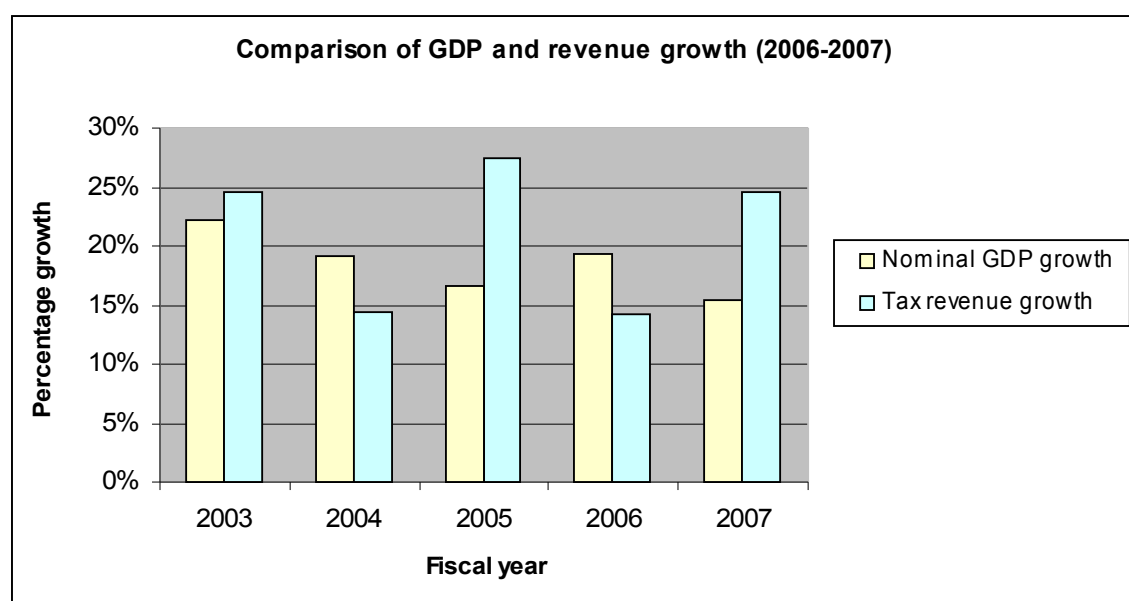
Other factors include increased computerisation that enhanced efficiency and increased efforts in tax collection all helped increase tax revenues collected. Table 4 shows a comparison of nominal GDP and revenue growth.

Table 4: Comparison of Nominal GDP and Revenue Growth (Rwf Bn)

Period	2003	2004	2005	2006	2007
Nominal GDP	955.2	1137.9	1327.1	1583.0	1826.2
Total Tax Revenue	119.1	136.2	173.5	198.2	246.95
Tax Revenue / GDP ratio	12.5%	11.97%	13.1%	12.5%	13.5%
Nominal GDP Growth	22.2%	19.1%	16.6%	19.3%	15.4%
Tax Revenue Growth	24.5%	14.4%	27.4%	14.2%	24.6%
Annual inflation rate	11.7%	11.9%	9.1%	8.9%	9.1%
Disparity between tax Revenue growth and Inflation	12.8%	2.5%	18.3%	5.3%	15.5%

Source: MINECOFIN & RRA

Graph III: Comparison of nominal GDP growth to revenue growth



Tax revenue to GDP ratio for the period between 2006 and 2007 increased by 1.0%. This increase is in line with the revenue growth reflected in the same period of 24.6% which is 10.4% higher than that realised in 2006. Comparing the nominal GDP and tax revenue growth

rates, the indication is that revenue growth was higher than the GDP growth. The disparity emanates from the sectors that contributed to the GDP growth.

Annual average inflation rate for 2007 was 9.1%. If this is factored out of the realised nominal revenue growth rate, the real revenue growth rate realised in 2007 is 15.5% which is 0.1% above the registered nominal GDP growth rate.

Measures to enhance revenue performance should be geared towards strengthening performance of companies that contribute towards direct taxes. This would eventually lead to increased profit tax revenues and increased disposable incomes to individuals.

3.2.6 Non-fiscal revenue performance

Total non-fiscal revenue collections for the year 2007 registered a modest performance of **4.3%** above the target. Administrative fees exceeded their targets by **19.3%**, while poor performance was registered on the sale proceeds from government-owned vehicles, revenue from public property and assets as well as fines and fees which underperformed by **77.4%**, **38.9%** and **0.3%** respectively.

Furthermore, non-fiscal revenue performance for the year 2007 was significantly less than that in 2006 by **15.9%**. This decrease resulted from lower sale proceeds from government vehicles.

A positive revenue performance registered in 2007 was also attributed to various revenue measures undertaken by RRA in order to achieve revenue targets. The following illustrate some of them.

3.2.7 Audit activities in 2007

During the fiscal year 2007, Small and Medium Taxpayers Office concluded **455** audit cases based on period (one fiscal year) against **480** audit cases planned which is an achievement of 94%. Issue oriented audits handled were 32 and the comprehensive audits were 423. In SMTO, additional assessment (tax and penalties) raised as a result of audits an amount equivalent to Rwf **3.2** billion or **8.3%** of total amount collected by the office as shown in the table below:

Table 5: Amount of additional assessments and penalties by tax in SMTO (Values in Rwf)

Type of Tax	Additional taxes		
	Principal	Penalties	Total
VAT	857,106,963	11,252,596	868,359,559
PAYE	131,391,156	66,466,498	197,857,654
Profit tax	1,564,960,924	594,245,307	2,159,206,231
Total	2,553,459,043	671,964,401	3,225,423,444

Source: RRA, 2007

Comparing amount recovered from audits and that collected through self assessment, the compliance ratio in this segment is 91.7%. This figure however good it is does not mean that informal sector has reduced. The reason is that the Authority has focused its efforts to the existing taxpayers in this segment in order to improve its compliance.

In Large Taxpayers Office, **266** cases were audited comprehensively against **256** cases planned, thus an achievement of **103.9%**. Out of **266** cases audited, **191** were finalised contributing an additional amount of Rwf **12.8 billion**. The table below shows in details the additional assessment raised as a result of audits for 2007 in LTO. This makes it 88.8% compliant.

Table 6: Additional assessments and penalties by tax in LTO (Values in Rwf)

Type of Tax	Additional taxes		
	Principal	Penalties	Total
VAT	4,353,407,287	812,028,587	5,165,435,874
PAYE	307,582,907	83,049,271	390,632,178
Profit tax	4,402,186,628	995,580,490	5,397,767,118
Excise duty	290,955	29,096	320,051
Withholding Tax	1,426,986,107	504,872,516	1,931,858,623
Total	10,490,453,884	2,395,559,960	12,886,013,844

Source: RRA, 2007

In Customs and Excise Department, **43** post clearance audits were conducted against **208** planned for 2007, thus an achievement of **20.7%** and revenues recovered totalled to Rwf **353.2 million**. This underperformance was due to restructuring that was going on and shortage of staff in the department.

3.2.8 Dealing with tax fraud and investigation

In 2007, efforts were focussed in fighting importers who were using forged invoices, dumping and monitoring international transit malt practices which had developed especially in paper work. Special attention was also given to operations aimed at fighting smugglers of some sensitive products such as liquors and wines, evaders of value added tax and users of forged documents. Also, operations were carried out in markets and trading centres where several smuggled goods were seized.

During the course of the year, **17** investigation cases out of **48** planned were finalised with a total assessment of **Rwf 1.065 billion** and **14** cases were in progress at the end of the year.

RRA encountered various forms of VAT refund and credit fraud, such as false claim on exports, overstated input tax, understated output tax and illegitimate businesses registered for the sole purpose of defrauding the government. On average, 18 percent of VAT refund claims lodged were rejected.

In addition, many seizures of fraudulent cases led to recovery of taxes that would have otherwise been evaded. The total revenue recovered was **Rwf 256.9 million**. **Thirty five** cases were sent for prosecution and were yet to be concluded in the courts of law. Other violations recorded in 2007 were undervaluation, misclassification, and transit violations.

Other efforts to eradicate or minimize customs fraud and tax evasion have been made by RRA. Information exchange with sister Revenue Authorities on imports destined and transiting through Rwanda was enhanced. Information and documents exchanged with other authorities are composed of true costs for the major exports and imports to our country and

will enable RRA create a database capacity for disqualifying fake invoices declared at customs. This has been the most practice used by a majority of non compliant importers.

3.2.9 Taxpayers' recruitment

During the fiscal year 2007, new taxpayers registered were **3,598**. This figure includes taxpayers who started for the first time their businesses and those operating in the informal sector. These were recorded after recruitment operations conducted in different zones of Kigali City.

By December 2007, Domestic Taxes Department administered almost **20,535** taxpayers in the whole country of which **10,584** were registered in Provinces, **9,662** in SMTO and **289** in LTO. Among all taxpayers administered by RRA at the end of the year, **11,842** were subject to profit taxes, **9,285** to PAYE, **3,741** were liable to VAT and **14** paid excise duties. In addition, at the beginning of 2007, **94** taxpayers were transferred from SMTO to LTO and **90** taxpayers from LTO to SMTO.

3.2.10 Development of a strategic plan to broaden the tax base

With the current trends in international and national economic progressions, and after having observed the tax payment compliance within the country, there was a need to develop a strategic plan aimed at ensuring that all able taxable undertakings are reached and taxed accordingly. In this line, RRA drew up terms of reference for a consultant to assist in preparing a strategic plan for widening the tax base and submitted them to MINECOFIN.

MINECOFIN hired consultants from Deloitte and Touche and RRA assisted and provided them all required facilities to enable them develop a strategy on widening the tax base. The final report on identifying areas of interest to widen the tax base was produced in October 2007 and forwarded to the Ministry of Finance and Economic Planning for consideration. Separately, and prior to the work done by Deloitte and Touche, RRA produced its own base-broadening report which was also sent to MINECOFIN.

3.3 RRA INCOMES AND EXPENDITURE OUTTURN 2007

3.3.1 Sources of Funds available in 2007 (Value in Rwf)

During the year 2007, the RRA financial resources rose to Rwf **10.802** billion. This comprised of the statutory RRA retention of **3.5%** of revenue collected, funds from donor support, incomes generated from replacement fees, as well as contributions from other stakeholders.

The government, through the state budget for the year 2007, contributed **71.8%** through provision of **3.5%** on government revenues collected and transferred to the National Treasury, and the remaining percentage was generated from other sources as indicated in the following table.

Table 7: Sources of funds available in 2007 (Value in Rwf)

SOURCE	AMOUNT
3.5% retention on revenue collections	7,759,283,565

Other transfer from Government (Bonus)	1,353,396,453
Grant from DFID	870,612,543
Incomes from replacement fees	771,881,155
Collection fees from road maintenance fund	19,788,092
Contribution from other institutions	6,929,750
Saving on laptop project	20,645,100
Total Income	10,802,536,658

3.3.2 Expenditure Outturn

The total expenditure in the fiscal year 2007 was largely in compliance with the resource envelope. Out of the total ordinary budget of Rwf **8.4** billion, RRA spent Rwf **7.6** billion resulting in an under spending of **0.8** billion.

However, despite the ordinary expenditure identified above, RRA spent **870.6 million** on DFID budget in the recurrent expenditure on capacity building, and **2.9 US Dollars** in furnishing RRA Complex. RRA as well received from MINECOFIN and spent **1.3** billion Rwf on staff bonus in recognition of the extra efforts used to collect government revenues in the course of the year.

Based on the ordinary expenditure highlighted above, RRA registered a reduction in the cost of collection from 3.4% in 2006, to 3.06% in 2007. However, despite the fall in the cost of collection ratio, it is worthy acknowledging the fact that not all incomes received in the year were spent.

The main reasons for the under spending highlighted above include planned staff recruitment that was not completed in time, the reforms in the National Tender Board that slowed down and consequently prolonged tendering processes leading to outstanding commitments at the end of the year.

The outstanding commitments were in form of Purchase orders that had been issued but not invoiced by end of year due to partial deliveries of the related goods and services, payment of which was pending final delivery. Some others were in the final stages of the tendering process. All these were not expensed and therefore not captured in the ordinary expenditures of the organisation which can be one of the reasons for the fall in the cost of collection for the year.

The details of the expenditure in the year 2007 are shown in the following table.

Table 8: Total RRA Expenditure in 2007 (Value in million Rwf)

Ordinary Operating Expenses	Budget 2007	Actual 2007	Variance	%
Wages & Salaries including NSSF	6,459.6	5,921.8	537.8	91.7%

Staff welfare	19.2	15.9	3.3	82.8%
Staff training costs	161.8	62.1	99.7	38.4%
Board expenses	5.4	2.9	2.5	53.7%
Travel and subsistence costs for official duties	121.5	123.0	-1.5	101.2%
Motor vehicle expenses	158.9	175.8	-16.9	110.6%
Repair and maintenance of office equipment and premises	59.0	76.3	-17.3	129.3%
Costs of office supplies	471.0	369.5	101.5	78.5%
Costs of utilities and other costs	279.0	300.8	-21.8	107.8%
Costs of investigation and intelligence	35.0	32.8	2.2	93.7%
Taxpayer's services and sensitization costs	154.5	136.9	17.6	88.6%
Finance charges and other fees	6.2	1.4	4.8	22.6%
Professional fees	199.6	195.9	3.7	98.1%
1.Total ordinary recurrent expenditure	8,130.7	7,415.1	715.6	91.2%
2. Total ordinary Capital Expenditure	275.1	160.2	114.9	58.2%
Total Ordinary Operating Expenses	8,405.8	7,575.3	830.5	90.1%
3. Extra Ordinary Expenses				
1. DFID capacity building expenditures		870.6		
2. Furnishing of RRA, AG and EC Complex		USD 2.9		
3. RRA Bonus		1,353.4		

3.4 MAINTAINING SOUND INTERNAL BUSINESS PROCESSES

3.4.1 Internal audit

The role of the internal audit function in RRA is to improve the operational effectiveness of the RRA's systems and procedures, and to provide an assurance to senior management, the Board of Directors and the Ministry of Finance that the systems of control in the RRA are economic, efficient and effective.

Cumulatively, in 2007, **25** internal audit activities were conducted and finalized against a target of **24** internal audit assignments that had been planned making **104.2%** achievement. Additionally, **4** quality audit assignments against **6** planned were finalized and **2** were in progress at the end of the year. Also, follow up on implementation of audit recommendations was done.

3.4.2 RRA business plan and monitoring process

RRA is an institution guided by corporate and business plans to objectively attain its pre-determined goals, aims and strategies.

At the beginning of 2007, RRA Board Chairman signed Performance Contracts (Imihigo) with the Minister of Finance and Economic Planning. These Contracts were based on the Ministry's goals and the RRA's mission. Monitoring of progress towards 2007 Performance Contracts was made on monthly and quarterly basis. RRA's score for 2007 was outstanding.

RRA also continued to implement and monitor its 2007 business plan, and evaluation of its effectiveness was done on a monthly and quarterly basis.

The 2008 RRA Business Plan preparation was completed; the document was published and now is being implemented. The implementation will be monitored on a monthly and quarterly basis.

3.4.3 Review and develop processes and procedures

RRA continued to develop different policy and procedure manuals aimed at harmonizing internal processes and procedures. In this respect, **14** policy and procedure manuals were developed during the fiscal year 2007. They include: pre-clearance procedures, risk management policy, CG's instruction on the extension and issuance of entry cards, tax recovery and enforcement manual, CG's instruction on the use of e-doc, handover process and procedures, customs transit procedures, licensing customs clearing agents procedure manual, public auction of warehoused goods procedure, RRA policy and procedure on use and recruitment of informer, policy and procedure manual on documentation, customer relations management manual, CG's instructions on issuance of Clearance Certificate (Quitus fiscal), a policy and procedure on prosecution of tax offenders.

These manuals help the organisation in the harmonisation of its activities in different departments and locations.

3.4.4 Legal Instruments

During the year 2007, RRA continued to monitor the application of the tax laws in order to identify any areas of difficulty that may require legislative amendment. In this respect, a document containing areas of possible amendment to the tax laws was prepared. This document has been updated since then and was used as a basis for proposing the amendments to both the Law on Direct Taxes on Income and the Law on Tax Procedures. The amendments are now in progress in the Ministry of Finance.

The changes proposed in this draft cover the following:

- a) Clearer presentation of the provision on depreciation¹ on Plant and Equipment, which poses ambiguity as to whether the rate for depreciation of heavy plant and machinery falls under the 5% straight line bracket method or if it falls in the depreciation method of pooling at 25%.
- b) The tax treatment of finance leases which is missing in the current tax legislation.
- c) Clarity on Thin- capitalisation rules.
- d) Review of Tax procedures law on the procedure of estimated assessments.
- e) Sanction against non-compliance to VAT invoicing: The requirements for items that should be shown in a VAT invoice are specified in the law on Tax Procedures. However, this provision is not supported by sanctions for non-compliance.

Also in 2007 RRA participated in the policy initiative of the law modifying law n° 26/2006 of 27/05/2006 determining and establishing consumption tax on some imported and locally

¹ Article 24, paragraph one, of Law No. 16/2005 on the Law on Direct Taxes on Income

manufactured products. The tax on airtime was dropped from 10% to 3%.

RRA further participated in the policy of the adoption of the Convention of double taxation avoidance to be negotiated with Kenya and the legal instruments to ratify Kyoto Convention.

Finally, RRA participated in the policy to authorize² it to retain part of revenue collected as its recurrent budget. The initial rate was 2.6% of revenue collected and Cabinet decided that the rate be raised to 3.5% but should not exceed the amount provided in the RRA budget.

3.4.5 Work facilitation through computerization:

During the fiscal year 2007, efforts to consolidate implementation of SIGTAS in Domestic Taxes department continued. RRA Business Analysts worked with CRC-SOGEMA team in an effort to handle outstanding issues with SIGTAS. The core modules of taxpayer registration, returns processing, identification of non-filers and/or late-filers are successfully working both at the LTO and SMTO. The causes of the reconciliation problem have been ironed out and changes have been made to the system.

As a move towards quick clearance of incoming, transit and export goods, in 2007 Asycuda ++ system was rolled out to **Cyanika border post**. Currently, Asycuda++ continues to function well at **85%** of customs operation.

RRA has proceeded with the upgrade of the Oracle license used by both SIGTAS and ASYCUDA++. The database product was upgraded from standard edition to enterprise edition which is required to implement the business continuity strategy.

During 2007, RRA single domain controller was successfully reviewed and the network security improved by implementing corporate group policy for all computers. Following a series of virus infection via USB flash memory which started at the end of 2006, the IT team conducted a technical investigation of the then current Trend Micro anti-virus software. The functionality and the performance was carefully analysed with the assistance of an IT consultant. In June, a detailed market research was conducted to identify new anti-virus software capable to protect RRA computer network. An anti-virus software called Kaspersky was acquired and installed on all computers and now it is fully operational.

Since December 2007, the RRA email server is fully operational with a backup server installed offsite. An email address has been assigned to each RRA employee. The RRA e-mail server allows any RRA employee to send and receive email with any other employee inside the organisation or with any other person accessing the internet. Training has been provided to RRA IT network specialists.

During the period, two tenders were prepared for consulting services and hardware to support **the business continuity project** which is vital to ensure that RRA can recover and restore partially or completely-interrupted critical functions was acquired.

Also during the period, RRA began a series of activities aimed at extending its IT services and network to the provincial offices. RRA prepared a tender for network cabling into each of the provincial offices and this will be followed by a second tender to procure the network and power supply for these offices.

² Ministerial order modifying Ministerial order n° 002/FIN of 16/03/2004.

Finally, in 2007 RRA managed successfully to provide **438** laptops to RRA staff under **the one-to-one computer access project**. This project initiated in 2005 allowed 438 RRA staff to acquire laptop computers in replacement of the existed desktop equipment, in order to resolve maintenance problem and facilitate flexibility in working hours and personal use. This is also viewed as an incentive initiative for RRA personnel. The most important of the project is the computer access, self confidence gained to use computer and help in National Information and Communications Infrastructure (NICI) plan universal computer access rights.

3.5 DEVELOPING A CAPABLE AND EFFECTIVE ORGANIZATION

3.5.1 Internal restructuring and re-organizations

At the beginning of 2007, RRA created a unit in charge of reform and modernisation with a mission of ensuring the successful management of RRA reforms and modernisation efforts that are geared towards the improvement of performance and service delivery. This unit was placed in the Commissioner General's office and is being mentored by the Project Manager.

On the other hand, RRA established the Risk Management Unit in Customs and Excise Department responsible for assisting the department in the implementation of risk management plans and processes.

3.5.2 Staff recruitment

In the year 2007, **53** new staff were recruited by RRA, received a three months special induction training, assessed their performance and finally made their placement with the help of RRA training institute.

Additionally, internal recruitment exercise was done in accordance with the internal recruitment policy and procedure. In 2007, **58** RRA employees were promoted to higher grades in order to fill vacant positions within different departments.

3.5.3 Gender promotion in RRA

RRA like any other public institutions is in support of the government initiatives to empower women to participate effectively in decision making ranks. It is against this background that about **44%** of female officers were recruited in the year 2007 and the overall female ratio is 36%.

3.5.4 Staff discipline

Regarding staff discipline in 2007, **46** investigation cases were completed and a total of **33** RRA officers were summoned to attend a disciplinary committee. These officers were summoned for different reasons ranging from theft, conspiracy with the taxpayers not to pay taxes and customs duties.

Out of 33 officers involved, **14** were dismissed, **5** officers were acquitted after being found not guilty, **11** employees received last written warnings and **3** received first written warnings.

3.5.5 Staff welfare

RRA continued to carry out activities in as far as staff welfare was concerned. In 2007, RRA implemented the quarterly bonus payment for its staff as approved by the Government and this contributed to the staff motivation. Also since January 2007, RRA staff salaries were revised according to the new public service scheme.

RRA continued to have significant role in sports and recreational activities. The aim of this is to enable its members of staff not only maximize the collection of revenues but also improve on their day to day health conditions and therefore be able to deliver tangible output.

3.5.6 Enhancing staff capacity

In an effort to enhance staff capacity, considerable trainings were delivered to staff in 2007. Twenty three (**23**) training and workshop programs were carried out internally, while **4** major programs that involved SATI, CATA, International Taxation and Audit Management Consultancy courses were externally delivered. **17** staff benefited from external courses while **671** staff benefited from locally conducted courses. All these were aimed at enhancing employee skills and effectiveness towards achieving institutional goals and providing excellent services to the public.

3.5.7 Infrastructure development

Completion of RRA Complex was accomplished in 2007 and RRA moved into the new building in July and was totally operational for the official inauguration held in August 4th 2007. The move was executed seamlessly without taxpayer service interruption and with no impact on revenue collection.

The new building is a shining example of the new Rwanda and delivers a modern, open-plan and customer-friendly working environment to the agencies. It is also a great example of aid partnership at work; Rwanda provided the resources to construct the building and DFID provided the funds to outfit the building with modern furnishings and telecommunication equipment. The new IP phone system is now fully operational in the new complex, Gikondo warehouse and the Airport; the system will greatly reduce communication costs.

Construction of the RRA Tax Training Institute was also completed and the building was officially inaugurated in July 2007. The institute has fully fledged facilities including training rooms, resident accommodation, catering facilities, a library, an internet café/computer training room and administration offices.

3.6 SATISFYING CUSTOMER AND STAKEHOLDERS' REQUIREMENTS

3.6.1 Taxpayers' education and sensitization

In 2007, taxpayers' education continued especially on the new tax and customs laws with a view to enhance taxpayers' compliance. Several seminars, workshops and consultative meetings with taxpayers, both small and large were organised in all provinces and Kigali City. Also three seminar sessions on new fiscal laws with lawyers were organized in collaboration with the Supreme Court. Sixty meetings at district level were also organised through Tax Advisory Councils.

RRA has taken ground breaking initiatives to sensitise the business community on Value Added Tax (VAT) collection. Some taxpayers are not informed about the law while others lack financial accounting skills and end up committing mistakes unintentionally. In this regard, VAT campaigns were organised in different venues of Kigali City. RRA has come closer to help taxpayers understand the law and train them to handle financial accounting matters so as to avoid fines. Also RRA wanted to hear the concerns of taxpayers to enable it tailor make solutions.

During the year 2007, RRA continued to give relevant information to taxpayers to enable them comply with their tax obligations. In this regard, the design and content of the RRA's website was upgraded to provide easily more comprehensive and targeted information to our customers.

3.6.2 Taxpayers' facilitation

In an effort to further improve our services, RRA put in place a string of facilities and incentives aimed at fostering business growth.

Construction of the RRA complex which housed all RRA departments under one roof has greatly contributed to the improvement of quality of services to taxpayers. A number of benefits have been registered from the new office:

- Management of peak periods has been improved since taxpayers are managed from one location office other than the previous one where taxpayers were scattered in various RRA offices down-town.
- Taxpayers have been able to get our services while they are sheltered from both rain and sunshine other than previously when long queues could extend to the outside compounds at Kinamba I and II former offices.
- Taxpayer queries have been managed and followed up easily because information can be retrieved from one stop office.
- Issuance of Tax Clearance Certificate (ANC) has been made easy and faster. A taxpayer can now request for an ANC and obtain it within two days maximally and further efforts are being made to reduce this time to minutes. This is due to the fact that the IT systems have helped us access all taxpayer's tax obligations from one point and eliminated the bureaucratic tendencies and several movements of taxpayers from one department to another following up the certificate.
- Taxpayers have also been able to enjoy courteous services from RRA officers who help them in the chasing of their documents from one department to another but within same building. This has prevented taxpayers from moving up and down in the building

looking for the concerned officers to serve them yet when they do not know where they could find them.

- Installation of a toll free hotline for taxpayers to use has made it easy for them to inquire any tax information they want faster and courteously.

Rwanda Revenue Authority, in its spirit to providing quality and courteous services to investors, has introduced an investors' desk at RIEPA one stop centre aimed at educating investors as well as simplifying all the paper work as legally required by the investment code. This initiative has significantly reduced the costs (time and monetary) involved in registration and correspondence from over three weeks to just 30 minutes.

RRA has also introduced a **pre-clearance system** which is a new service whereby a compliant taxpayer is allowed to process customs clearance of his merchandise without necessarily going through the rigorous customs bonded warehouse process. Under this initiative, importers with valid documents can easily lodge declarations and make payments, which exclude demurrage (MAGERWA) fees, before the arrival of goods to Rwanda customs area hence expediting the clearance time to a couple of hours and reducing the transaction costs.

Further, in an effort to improve the service provided by Customs Administration, RRA has introduced a new type of payment called **pre-payment system**. This is a system that allows importers or clearing agencies to deposit money to customs, paying anticipated duties, taxes and fees on imported goods before a declaration is lodged. The system operates under ASYCUDA++ that automatically debits the prepayment account every time a declaration is assessed.

As a supplement to speeding the clearance process of goods already in the customs bonded warehouse, RRA has boosted the **post clearance audit function** whereby compliant taxpayers can have their merchandise immediately released without physical verification with post audits performed later. This has been facilitated with the installation of ASYCUDA++ which automatically screens and selects items for immediate release.

In response to the numerous requests by taxpayers to have the maximum threshold clearable at border posts raised, RRA has increased this threshold and this has facilitated small and medium taxpayers especially those near the border posts to clear from the border posts.

Delays in the appeals process have been reduced to a minimum and further strategies to significantly improve services to taxpayers are under consideration.

A study has been started between RRA and WCO aimed at exploring all possibilities that may facilitate faster release of goods in bonded warehouses. The provisional findings from this study indicate an improvement in our services and the Authority is putting in place new initiatives to further facilitate trade.

From 2007, the tax law gave a chance to taxpayers to exercise their responsibilities as far as tax liabilities are concerned through a voluntary disclosure manual. This means that a taxpayer, who rectifies his or her tax declaration before he or she is notified of imminent control of his or her declaration, shall not be subject to the fine provided by the law on tax procedures.

3.6.3 Taxpayers' day celebration

RRA officially celebrated its 6th taxpayers' day in August 2007 in Kigali City. The theme for 2007 taxpayers' day was **"Your business is our concern, we commit to giving you quality services"**. The Chief Guest at the colourful celebrations was His Excellency Paul Kagame, the President of the Republic of Rwanda. The event was attended by government officials, business and commercial leaders, community leaders and other dignitaries. It was also attended by 20 foreign delegates from tax authorities in Sierra Leone, South Africa, Uganda, Kenya, Tanzania, Zambia, and the Democratic Republic of Congo. The 2007 taxpayers' day was combined with the official inauguration of the new government office which houses the Rwanda Revenue Authority, National Electoral Commission and the Auditor General's Offices.

The taxpayers' day was preceded by a taxpayers' week that commenced at the Prime holdings Conference Hall in Kigali on July 17th. During that week, RRA management visited different categories of taxpayers around the country to discuss how the way forward should look like for better service delivery. Meetings and workshops were held and taxation issues were debated. The feed back was good because this has helped taxpayers to freely speak on what should be done to strengthen their partnership with RRA.

3.6.4 Corporate social responsibility

RRA has not limited its vision to tax administration but has equally attached significant importance to its corporate social responsibility. What this means is that the authority has gone beyond its statutory obligations by bringing societal concerns to the forefront and participating in activities aimed at uplifting and improving the quality of local community welfare.

For the last couple of years, RRA has organized taxpayers' day celebrations, on which occasion, the authority recognizes and 'gives back' to the best and most compliant taxpayers as a token of appreciation, prizes of different forms. Through this goodwill gesture, RRA donated Rwf 500.000 as the Health Insurance (Mutuelle de santé) to Kicukiro Health Centre in Kigali City to cater for less privileged people who visit that hospital.

One Million Rwanda francs (1,000,000) was also donated to Muhima Hospital to start up a Solidarity Fund to cater for bills of new mothers who cannot afford payment.

RRA also extended a helping hand to Kinyinya orphanage home with a donation of Rwf 2.5 million for the construction of a bakery that would become an income generating source and contribute to the welfare of resident orphans.

Further still, the tax authority heeded the call of government in facilitating returning refugees from Tanzania in 2006 by donating bedding and foodstuffs worth 5 million francs. It should be noted that RRA staff made substantial monetary contributions towards these donations.

In 2007 RRA also organised students' competition on taxes and duties where about 508 students' country wide participated, 50 of them were awarded certificates and 25 were granted school fees. This is an event not only aimed at assisting students in continuing their education, but also sowing the seeds for a tax-paying culture for future taxpayers.

3.6.5 Improving cooperation with regional and international bodies and other stakeholders

3.6.5.1 Preparations for East African Community (EAC) Customs Union

Introduction

Rwanda acceded to the East African Community on 18th June 2007 at the Heads of States Summit in Kampala-Uganda. This implies that it acceded to the East African Customs Union. Entry into the Customs Union entails elimination of tariffs on intra-EAC trade and other charges of equivalent effect, elimination of non-tariff barriers, adoption of a Common External Tariff (CET) and adoption of EAC Rules of Origin and the East African Customs Management Act, principally.

With the inclusion of Rwanda and Burundi, the region's market grew to about 120 million people. The business community in the region is already warming up to these numbers. There is a shared view that this market and the resources in the five countries are enough to stimulate development in the region and transform it into one of the leading business destinations.

Activities undertaken by RRA in preparing for the EACCU

In preparing for the EACCU accession, a lot of activities and studies were undertaken. Key among these include:

a. Legal implications (Laws to be affected)

In this area, it was established that some laws will be amended to accommodate EAC systems and others will be repealed because they are discriminatory in nature. Those to be amended include: VAT law, Excise law and some provisions in Income tax while surcharge tax on imported sugar will be abolished because it is discriminatory in nature. Process for translation of the EAC laws has commenced.

b. Fiscal implication

Implementation of EAC Customs union will lead to some revenue implications due to application of Common External Tariff (CET), Elimination of EAC internal tariffs and application of EAC Customs management act. As a result of this there is an anticipated revenue loss. A consultancy was conducted to look at the potential revenue loss and produce the list of sensitive goods and findings are being looked at.

c. Restricted and prohibited goods

Every country prohibits or restricts certain goods in order to protect their citizens' safety, health and environment. Upon implementation of EAC Customs union, Rwanda will apply EAC Customs Management Act's (CMA) 2nd schedule of prohibited and restricted goods, but a clause within EAC CMA temporarily allows Partner States to continue applying their lists of prohibited and restricted goods alongside the EAC list.

d. Sensitive and raw material lists

In a bid to mitigate the revenue loss anticipated from accession to the EAC, Rwanda plans to negotiate lists of sensitive products and law materials as exceptions to the CET. Studies have already been conducted and the lists are at the level of validation.

e. Report on exemptions

Under EAC, partner states agreed to harmonize their exemptions regimes in respect of goods that are excluded from payment of import duties. A study was carried out to examine the impact of application of EAC exemptions which has a narrow coverage compared to Rwanda's national exemptions.

f. Roadmap for Rwanda to joining the EAC Customs union

A roadmap for Rwanda to join the EAC Customs union was developed and approved. Based on the decision from the negotiations on admission of Rwanda to EAC and the Heads of State Summit's decision to accelerate the implementation of economic integration, the EAC Secretariat developed and submitted to Rwanda a proposed roadmap to enable full migration to the EAC Customs Union.

Based on EAC's submission, where Rwanda is requested to participate in ongoing EAC Programs without technical implementation, Government of Rwanda concurred with EAC proposed time frame. However, concerning the Customs Union key components as stated above that require technical implementation; Rwanda proposed the following time frame for implementation which was approved by the EAC Secretariat:

- Elimination of Tariffs on Intra- EAC trade - **January 2009**
- East African Customs Management Act - **June 2009**
- Common External Tariff (CET) - **June 2009**
- Rules of Origin - **January 2009.**

3.6.5.2 Cooperation with other bodies and stakeholders

RRA continued to enhance its relationship with other bodies. In November 2007, RRA signed the COMESA customs bond guarantee scheme which is a customs transit regime designed to facilitate the movement of goods under customs seals in the COMESA region and to provide the required customs security and guarantee to the transit countries.

RRA, in collaboration with the other East Africa Revenue Authorities, have in principle agreed to merge border posts into a one-stop border post to address problems faced by the business community at borders in the region, especially unnecessary delays and bureaucratic tendencies thus promoting a vibrant business sector. The project is intended to simplify procedure in customs by minimising and eliminating duplication that results from the officious traditional two-stop borders currently existing along East African countries' borders.

RRA hosted an IMF technical assistance mission that analyzed the progress made by RRA in its reform and modernization programs and advised on the way forward.

RRA hosted the 23rd EARA Commissioners General meeting where heads of the tax bodies shared ideas on best practices in tax administration, deliberated on corporate strategies for enhancing trade facilitation and increased investments in the region. Another Commissioners General meeting was held in Ngorongoro-Tanzania and RRA participated in it.

RRA continued to share a range of information and training with the East African Revenue Authorities and South Africa Revenue Services and hopes to enhance this cooperation further. A Memorandum of Understanding (MOU) with SARS on training cooperation is under consideration and has made good progress.

RRA is becoming a leading light in the region and has learnt a lot from other countries. In May 2007, six revenue officers from the National Revenue Authority of Sierra Leone received tax audit training in Rwanda. Further, RRA hosted delegations from Burundi, Cameroon and Malawi Revenue Authorities which came for study tours to learn how RRA had undergone through its computerization strategy to improve its service delivery functions.

In this context also, the Director of Revenue Protection Department in RRA Mr. Albert CYABUKOMBE was seconded to COMESA to help Comoros Island start the ASYCUDA+. The secondment was initially for one year but was later extended for another six months.

RRA participated also in a number of regional and international trade activities, meetings and forum organised by among others COMESA, WTO, WCO, FIAS, EARA and others. Various RRA officers also benefited from trainings organized by these organizations thus enhancing their capacity.

RRA continued holding monthly meetings with stakeholders namely: MAGERWA, Association of Clearing Agencies (ADR), Rwanda Bureau of Standards, Private Sector Federation and Immigration to devise means of improving services through expedited clearance and release of goods.

3.6.5.3 Donor Support

In 2007, DFID extended its support further (phase VI) to RRA for **three years**. The sixth phase of support began on **1st April 2007** and has a value of **£3.55 million**.

In contrast with previous phases of DFID support, RRA will manage these funds by itself. A Reform and Modernisation Unit (RMU) has been established to manage the project.

The project purpose will be achieved through five interlocking outputs broadly aimed at (1) further increases in RRA's operational efficiency for higher tax returns, (2) further institutional strengthening to ensure increased accountability and motivations for better performance, (3) enhanced RRA support for revenue mobilisation by the local governments, (4) improved business environment, and (5) effective integration of Rwanda into the East African Community (EAC).

4.0 MAJOR CONSTRAINTS ENCOUNTERED BY RRA IN 2007

4.1 Continued rise of petroleum products prices on the international market

In 2007, China's increasing petroleum products demand, weakening of the United States Dollar as well as the mid-east conflicts pushed the international fuel prices up and this impacted fuel prices in Rwanda. This element has significantly affected performance of import duties from petroleum products. In 2007, the revenue foregone through subsidy was equivalent to 66.8% of the total expected revenue, while the total tax collected was 33.2% of the total expected revenue. Government of Rwanda had to increase subsidies to 100% from 85% and without subsidies the price would have doubled. At the petrol stations, petrol and diesel increased by 12.7% and 13.8% respectively.

4.2 Taxpayer compliance

Despite improvement in taxpayer compliance especially for large taxpayers, most small and medium taxpayers still faced difficulties in complying with their tax obligations. Some taxpayers still have difficulties in keeping books of accounts and as such have impact on certain taxes that require proper invoicing like VAT.

Medium-size enterprises generally keep records, however common compliance issues include understating sales, overstating purchases, falsifying documents (e.g., VAT invoices), and creative accounting (such as keeping of two sets of books). Small and micro business operators generally have low literacy and numerical skills, and have limited understanding of both the tax system and business record keeping. Also some taxpayers fail to file and pay on time.

In addition, RRA encountered many forms of VAT refund and credit fraud, such as fake exports, overstated input tax, understated output tax, and illegitimate businesses registered for the sole purpose of defrauding the government. On average, RRA rejected 18 percent of VAT refund claims lodged, the majority being from medium-size enterprises.

Smuggling of goods from neighboring countries continued also to surface in districts bordering Uganda and DRC. Other methods of smuggling and tax evasion were also being employed by the business community including forging of documents for imported goods.

4.3 Continued growth of informal sector

Many small and micro businesses are operating outside the tax net. Our country has a large shadow economy, with many small businesses failing to register, and engaging in cash transactions (many do not operate bank accounts). These enterprises are very difficult to detect because of their mobility and tendency not to record transactions.

4.4 Sustainability of RRA Infrastructure and Information Technology Systems

Rwanda Revenue Authority has substantially employed information technology systems in its operations with the support of the DFID. However, the practice in the information technology arena is that technology changes rapidly to the extent that our current systems might be obsolete in the near future. On the other hand the new computer systems have also revealed serious staff capacity challenges and slowed down reconciliation and accounting in our operations.

4.5 Trade facilitation enhancement at customs

RRA has put in place trade facilitation initiatives especially at Customs and Excise Department. This enables compliant importers access their goods immediately and reduces the turnaround time. However, this facilitation may be abused and revenue put at risk once this facility is manipulated by some importers.

5.0 CONCLUSION

It is pleasing that the performance during the year 2007 was impressive. The total revenue performance for the year 2007 was above the target by **14.8%** and performance against other key objectives set for the financial year 2007 was largely achieved.

The challenges encountered during 2007 were noted and considered in formulating the strategies for the year 2008. These are well articulated in the 2008 Business Plan. The Authority will continue to monitor the business environment to ensure that the approach enshrined in the business plan remains relevant and focused. We have high hope that our major objectives for the year 2008 will be achieved as has been the case for the previous years.