

**REPUBLIC OF RWANDA
RWANDA REVENUE AUTHORITY
P.O. BOX 3987 KIGALI**



TAXES FOR GROWTH AND DEVELOPMENT

**ANNUAL ACTIVITY REPORT
2016/17**

OCTOBER 2017

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LIST OF ABBREVIATIONS

AEO	Authorized Economic Operators
ASYCUDA	Automated System for Customs Data
ATAF	African Tax Administration Forum
CBE	College of Business and Economics
CCA	Customs Clearing Agents
CEO	Chief Executive Officer
CIF	Cost Insurance and Freight
CIT	Corporate Income Tax
CMC	Control Monitoring Centre
CMU	Carnegie Mellon University
CRB	Credit Reference Bureau
CSD	Customs Services Department
DTD	Domestic Tax Department
EAC	East African Community
EACFFPC	East Africa Customs Freight Forwarding Practicing Certificate
EBM	Electronic Billing Machine
ESAMI	Eastern and Southern African Management Institute
ESW	Electronic Single Window
EUCL	Energy Utility Corporation Limited
FEAFFA	Federation of East African Freight Forwarders Associations
FY	Fiscal Year
GDP	Gross Domestic Product
HMRC	Her Majesty Revenue & Customs
ICPAR	Institute of Certified Public Accountants Rwanda
IFAK	Institut de Formation Apostolique de Kimihurura
INES	Institut d'Enseignement Supérieur
ISO	International Standard Organisation
IT	Information Technology
JICA	Japan International Cooperation Agency
KCB	Kenya Commercial Bank
KOICA	Korea International Cooperation Agency
KPMG	Klynveld Peat Marwick Goerdeler
KTNET	Korea Trade Network
LG	Local Government
LTO	Large Taxpayers Office
MBA	Masters in Business Administration
MDF	Module Description Form
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MININFRA	Ministry of Infrastructure

MOU	Memorandum of Understanding
NAEB	National Agriculture Export Development Board
NGO	Non Governmental Organization
PAYE	Pay as you Earn
PDA	Personal Digital Assistant
PFM	Public Finance Management
PIT	Personal Income Tax
PPF	Program Proposal Form
PSF	Private Sector Federation
QMS	Quality Management System
RAB	Rwanda Agriculture Board
RDB	Rwanda Development Board
R&DT	Regions and Decentralized Taxes
ECTS	Electronic Cargo Tracking System
REG	Rwanda Energy Group
ReSW	Rwanda electronic Single Window
RI&ED	Revenue Investigation and Enforcement Department
RRA	Rwanda Revenue Authority
RTV	Rwanda Television
RWAFFA	Rwanda Freight Forwarders Association
Rwf	Rwandan Franc
SCM	Supply Chain Management
SDC	Sales Data Controller
SFB	School of Finance and Banking
SMS	Short Message Service
SMTO	Small and Medium Taxpayers Office
TAC	Tax Advisory Council
TCC	Treasury Credit Cheques
TCS	TATA Consultancy Service
UAT	User Acceptance Test
UNCTAD	United Nations Conference on Trade and Development
UR	University of Rwanda
UR-CBE	University of Rwanda-College of Business and Economics
UTB	University of Tourism, Technology and Business Studies
VAT	Value Added Tax
WCO	World Customs Organisation
WHT	Withholding Tax

FOREWORD BY THE CHAIRPERSON OF THE BOARD OF DIRECTORS



As Chairman of the Board of Directors of Rwanda Revenue Authority (RRA), I am proud to oversee the successful achievement of RRA's revenue target for a second consecutive year, and the completion of a wide range of associated activities, as detailed in this 2016/17 RRA Annual Activity Report.

Over the past year, RRA has made great strides towards achieving the key strategic priorities set out in the 2015/16-2017/18 RRA Strategic Plan. In particular, the many efforts to widen the tax base have borne immediate fruit, with 16.2% increase in total registered taxpayers, and more than twice as much tax collected from newly registered taxpayers, compared to the previous fiscal year.

Similarly, RRA has continued to introduce new measures to facilitate taxpayers and improve service delivery including the launch of the Rwanda electronic Cargo Tracking System (ReCTS) to enhance cargo security and reducing the cost of doing business across the Northern Corridor.

The Board of Directors is grateful for the efforts of all RRA staff for the progress made towards these key strategic priorities, and wishes this RRA Annual Activity Report to reassure and encourage them that these efforts are resulting in real and visible benefits to the nation.

Overall, the Board of Directors is very satisfied with the progress made towards the RRA vision of becoming "a world-class efficient and modern revenue agency, fully financing national needs" and would like to state our continued appreciation for all taxpayers, stakeholders and RRA staff.

A handwritten signature in blue ink, appearing to be 'Yusuf Murangwa'. The signature is stylized and written over a light blue horizontal line.

Yusuf MURANGWA
Chair Person of RRA Board of Directors

FOREWORD BY THE COMMISSIONER GENERAL



It gives me great pleasure to present the 2016/17 Rwanda Revenue Authority (RRA) Annual Activity Report. This document celebrates the many successes of RRA during the past year, in particular, the achievement of the overall revenue target. RRA collected a total tax revenue of Rwf 1,086.5 billion, achieving 100.5% of the target and surpassing the one trillion Rwandan franc milestone for the first time in the institution's history.

This achievement could also not be possible without the continued compliance of our taxpayers. I am delighted to see that they have embraced our 'Here For You To Serve' campaign, resulting in greater cooperation with RRA and a strong growth in the number of registered taxpayers. My humble request is for your continued feedback to guide our improvement agenda.

Together, we can continue to contribute to the development of Rwanda and the growing prosperity of all citizens.

This was echoed in our theme for 2016 Taxpayers Appreciation Day, which was "*Voluntary tax compliance, the pillar for self-reliance*". This emphasises the vital role of taxpayers in stimulating the nation's fiscal independence, and encourages taxpayers to think of their taxes as an opportunity to contribute, rather than as an unwanted obligation.

This Annual Activity Report also highlights a range of other activities carried out by RRA during the fiscal year, including: greater collaboration and use of third-party data, the introduction of input VAT validation controls and increased taxpayer sensitisation. This emphasises the breadth of activities that RRA is engaged in to provide a level of service that is as efficient and high quality as possible.

The achievements of RRA this year took the full dedication of all our staff, who must be appreciated for their continued determination to improve and provide high quality service delivery. With their efforts, and taxpayers' voluntary tax compliance, I know that we can face the challenges and make a great success of the 2017/18 fiscal year.

A handwritten signature in blue ink, appearing to read 'Richard Tusabe'. The signature is stylized with a large initial 'R' and a long horizontal stroke extending to the right.

Richard TUSABE
Commissioner General

EXECUTIVE SUMMARY

In the 2016/17 fiscal year, the Rwandan economy recorded a slow performance in first three quarters; real GDP grew by 5.4%, 2.4%, 1.7% and 4.0% for Q1, Q2, Q3 and Q4 respectively, and inflation reached 6.8%. This low real GDP growth is below the annual projection of 6.0%.

The slow economic performance is attributed to poor agricultural production due to bad weather. The resulting food scarcities created inflationary pressures, with price indices for food and non-alcoholic beverages rising by a record high 18.6%.

The introduction of system controls for VAT input claims and the removal of CIT discounts based on employment level have had a positive impact on tax revenue performance. However, the slowdown in CIF growth of imports, especially in non-EAC imports, and lower taxable sales as a proportion of turnover because of increases in exempt sales had a negative effect on tax performance.

Total revenue collections (including tax, non-tax and local government taxes and fees) amounted to Rwf 1,150.7 billion over the 2016/17 fiscal year. This achieved 100.6% of the Rwf 1,143.5 billion target, a surplus of Rwf 7.3 billion.

The number of taxpayers within the RRA taxpayer registry increased by 16.2% over 2016/17, ending with 177,564 taxpayers. In addition, the domestic tax arrears collected from existing taxpayers grew by 10.2% to Rwf 36.8 billion recovered within the year.

The Electronic Billing Machine project continued to make great progress. The number of EBMs that had been activated grew by 27.7%, ending the year with 16,907 active machines and the number of EBM invoices issued recorded a year-on-year growth of 12.1%. In addition, the EBM version II called Supply Chain Management System was developed and is now at the piloting phase with 50 taxpayers.

RRA commissioned the Regional Electronic Cargo Tracking System, joining its partners in Kenya and Uganda. The system connects the three countries' electronic cargo tracking systems, enabling them to jointly track cargo from port to destination on a 24 hour basis.

RRA continues collecting local government tax and fees on behalf of districts. Although collections were below target by 2.7% in 2016/17, local government taxpayers' registration increased by 27.8% from 238,310 to 304,591 registered taxpayers by the end of 2016/17.

During the 2016/17 fiscal year, RRA's expenditure was Rwf 34.1 billion; this is a budget utilization of 98.1%. Based on the operating expenditure, RRA registered a collection-cost ratio of 2.6%.

RRA continues to face the challenge of the low compliance culture within some taxpayers and resignations of the most experienced and competent staff.

The recorded revenue performance confirms the potential that RRA has to effectively and optimally mobilise the revenue needed to finance Rwanda's development goals.

I. REVENUE PERFORMANCE FOR FY 2016/17

The **total revenue collection** (tax and non-tax, excluding local government collections) for FY 2016/17 amounted to **Rwf 1,102.8 billion** against the target of **Rwf 1,094.3 billion** which is an achievement of **100.8%**, and an excess of **Rwf 8.6 billion** over the target.

Tax revenue collection for FY 2016/17 was **Rwf 1,086.5 billion** while the target was **Rwf 1,081.4 billion**; this is an achievement of **100.5%**, and an excess of **Rwf 5.04 billion** above the target. Tax revenue posted a growth of **10.1%** during FY 2016/17, a nominal increase of **Rwf 99.8 billion** compared to FY 2015/16.

Non-tax revenue collected by RRA amounted to **Rwf 16.3 billion** compared to the target of **Rwf 12.8 billion**, performing at **127.4%**. Compared to FY 2015/16, it increased by **11.5%**. The good performance of non-tax revenue collections for FY 2016/17 is due to the unexpected collections from the rent of communication towers by MININFRA and revenue from public auction of cars by the Rwanda National Police.

Local Government (LG) taxes and fees collections totalled **Rwf 47.9 billion**, which is an achievement of **97.3%** of the **Rwf 49.2 billion** target resulting in a shortfall of **Rwf 1.3 billion**. This represents year-on-year growth of **18.6%**, which is below the projected growth of **21.8%**. The two main reasons for the shortfall are the unrealistic targets set by some districts; and the inclusion in the targets of some districts the “sale of district own properties/assets”, while these properties were not sold. Detailed performance is shown in Table 1:

Table 1: RRA revenue performance against targets for FY 2016/17 (billion Rwf)

Categories of tax	Target 2016/17	Actual 2016/17	Variance	Performance rate	Actual 2015/16	Growth 2016/17	Nominal increase
Total revenue	1,094.3	1,102.8	8.6	100.8%	1,001.3	10.2%	101.5
Non-tax revenue	12.8	16.3	3.5	127.4%	14.6	11.5%	1.7
Total tax revenue	1,081.4	1,086.5	5.0	100.5%	986.7	10.1%	99.8
* Direct taxes	436.8	450.9	14.1	103.2%	392.5	14.9%	58.4
* Taxes on G & S	554.6	544.4	-10.2	98.2%	510.3	6.7%	34.1
* Taxes on Int'l Trade	90.1	91.2	1.1	101.3%	83.9	8.7%	7.3
LGT	49.2	47.9	-1.30	97.3%	40.4	18.6%	7.5

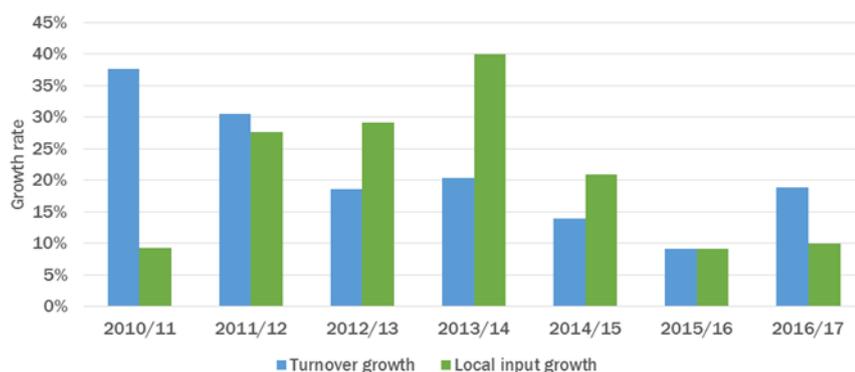
Source: RRA, 2017

I.1. FACTORS POSITIVELY AFFECTING REVENUE PERFORMANCE

a) VAT input system controls

The introduction of system controls for VAT input claims has had a positive impact on domestic VAT declarations submitted between January and June 2017. Compared to 2015/16, local input VAT has grown at approximately the same rate (10%) in 2016/17 compared to 9.2% in 2015/16. However, this growth is more subdued than we would expect given the increase in turnover over the same periods. Turnover grew by 18.9% in Jan-June 2016/17 compared to 9.2% in Jan-June 2015/16. As Figure 1 shows, the two growth rates have followed similar trends in recent years. The absence of a corresponding increase in the local input growth rate suggests an impact from the validation controls to reduce local input VAT claims.

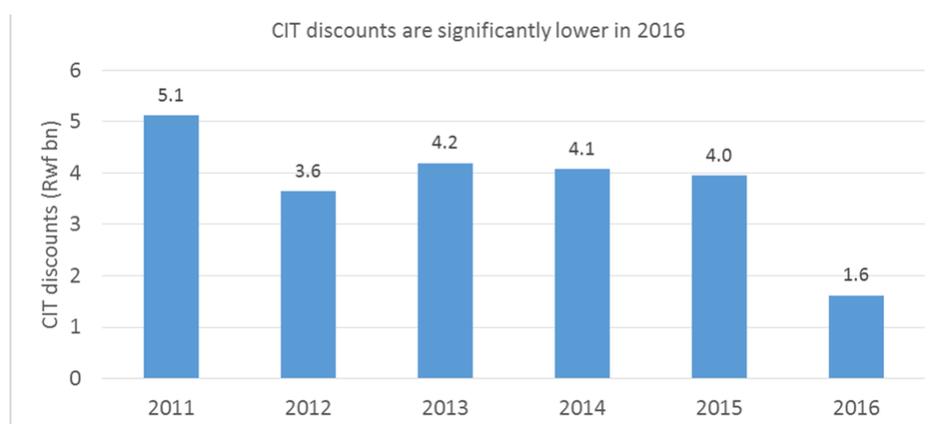
Figure 1: Turnover growth vs. local input VAT claims growth



b) Removal of CIT discounts

Figure 2 shows CIT discounts have reduced significantly, mainly driven by **2.4bn** fewer discounts for the financial sector (from 2.5bn in FY 2015/16 to 0.1bn in FY 2016/17). The reason for this is a change in the law on investment promotion and facilitation, removing CIT discounts based on employment levels, and it had a positive impact on CIT revenue for 2016.

Figure2: CIT discounts



I.2. FACTORS NEGATIVELY AFFECTING REVENUE PERFORMANCE

a) Macroeconomic Factors

Tax revenue collections are highly dependent upon the economic tax base:

- i. Tax revenue collections are dependent on the real economic growth rate and the rate of inflation. Performance change of any of these two indicators will result in a change in performance of tax revenue collections.
- ii. Lower real GDP growth rate than expected will result in lower tax revenue collections while higher real GDP growth rates will result in higher tax revenue collections

Table 2: Real GDP and Inflation Performance

		July-Sept	Oct-Dec	Jan-March	Apr-June	Fiscal Year
2016/17	Real GDP	5.4%	2.4%	1.7%	4.0%	3.4%
	Inflation	6.4%	7.0%	7.7%	6.2%	6.8%
2015/16	Real GDP	8.1%	10.0%	8.9%	7.4%	8.6%
	Inflation	3.0%	4.1%	4.5%	4.9%	4.1%
2014/15	Real GDP	10.5%	6.7%	8.0%	9.3%	8.6%
	Inflation	1.0%	1.1%	1.0%	2.0%	1.3%

Source: NISR & BNR

- iii.* **The Rwandan economy** recorded a poor performance in the first three quarters of 2016/17 fiscal year as real GDP grew by 5.4%, 2.4%, 1.7% and 4.0% for Q1, Q2, Q3 and Q4 respectively; the real GDP growth for FY 2016/17 is 3.4%. This is significantly lower than the annual projection of 6.0% and the two previous fiscal years average of 8.6%. This poor performance was mainly driven by rising of food prices due to shortage in food supply. This is attributed to the poor performance of agriculture production due to very poor harvests in seasons B and C following the droughts and floods in some parts of the country. Growth of the agricultural sector slowed to 3% in July-June 2016/17 compared to 5.5% recorded for 2015/16.
- iv.* **Inflation** stood at 6.8% in FY 2016/17. This was mainly driven by the high growth of **18.6%** in the price indices for “Food and non-alcoholic beverages” which was caused by the poor harvests. This also negatively affected the excise duty collections in FY 2016/17 as the increase in the cost of ‘food and non-alcoholic beverages’ means that there is less money available for people to spend on non-necessity goods and luxury goods that contribute a greater amount to excise collections. Subsequently, revenue from domestic excise duty decreased by **7.2%**, equivalent to Rwf 5.1 billion in nominal terms (from 70.5bn in FY 2015/16 to 65.5bn in FY 2016/17) and a shortfall of Rwf 7.3bn to the Rwf 72.8bn targets for FY 2016/17.

Table 3: Inflation and Tax Revenue Growth for FY 2012/13-2016/17

Fiscal Year	Tax Revenue in Bn Rwf	Nominal Tax Revenue Growth	Inflation Rate	Real Tax Revenue Growth
2016/17	1,086.5	10.1%	6.8%	3.3%
2015/16	986.7	14.8%	4.1%	10.7%
2014/15	859.1	12.5%	1.3%	11.3%
2013/14	763.4	17.1%	3.4%	13.7%
2012/13	651.9	17.3%	4.6%	12.6%
2011/12	556.0			

Source: RRA and NISR

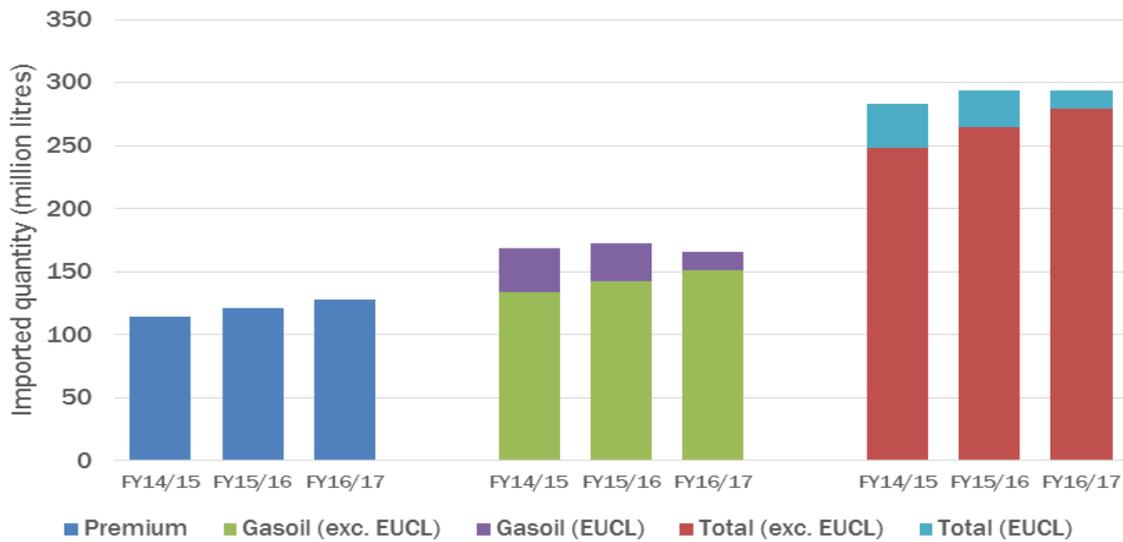
b) Slowdown of growth in CIF compared to stable growth before

For FY 2016/17, compared to 2015/16, the growth in the value of imports (excluding petroleum products) has slowed down from 8.4% to 2.8%. There are product-specific trends underlying the performance of import taxes:

- i.* The policy to increase tax rates on worn clothing has reduced their imports by 97%. After taking into account the expected positive impact on imports of new clothes, we estimate that import tax revenue was reduced by **Rwf 8.9bn**.
- ii.* An industry-wide reduction in cement imports (i.e. not driven by one taxpayer) saw total import taxes on cement reduce by **Rwf 2.1bn** compared to 2015/16.

- iii.* The products for which CIF decreased the most are:
1. Worn clothing (Rwf 17.2bn decrease)
 2. Computer parts (Rwf 15.6bn decrease)
 3. Cement (Rwf 12.0bn decrease)
 4. Dishwashing and cleaning machines (Rwf 9.4bn decrease)
- iv.* The decrease in worn clothing imports was driven by the policy change to increase tax on worn clothing. This decreased import taxes from worn clothing by Rwf 9.9bn, of which Rwf 4.1bn was from customs VAT, Rwf 5.2bn from import duty, Rwf 0.4bn from withholding taxes and Rwf 0.2bn was from the infrastructure development levy. One anticipated effect was that it would increase new clothing imports. However, this effect is small, which meant a large net negative impact in 2016/17 of Rwf 13.5bn decrease in import CIF and **Rwf 8.9bn** decrease in total import taxes.
- v.* The CIF of office machines and computer accessories was high in 2015/16 because of 19.1bn of purchases by Positivo (PBG Rwanda Ltd), which fell to 3.8bn in 2016/17. Therefore, this taxpayer alone explains a 15.3bn decrease in the CIF. Import levels were high in 2015/16 because of the government policy to purchase domestically produced laptops, which significantly boosted demand for parts to make laptops. All these Positivo imports were exempt from import taxes, which explains why the total import taxes for this product group were at a low level (93m and 119m in 2015/16 and 2016/17 respectively). Dishwashing machine imports are unusually high in 2015/16 compared to 2016/17, and this is caused by one-off imports by Bralirwa.
- vi.* The reduced cement import is caused by lower imports from several companies and not just one. For the top twenty cement importers of 2015/16, imports decreased by Rwf 5.5bn in 2016/17 while their total import taxes decreased by 0.6bn. The import CIF only increased for two of these top twenty importers.
- vii.* The slowdown in petroleum import growth is likely to explain the observed reduction in tax revenues as well – particularly customs excise – from petroleum products. Figure 3 shows the amount imported and declared for home consumption. While EUCL consumption has decreased by 51%, there is no increase in total petroleum consumption, compared to a 4% increase in FY 2015/16.

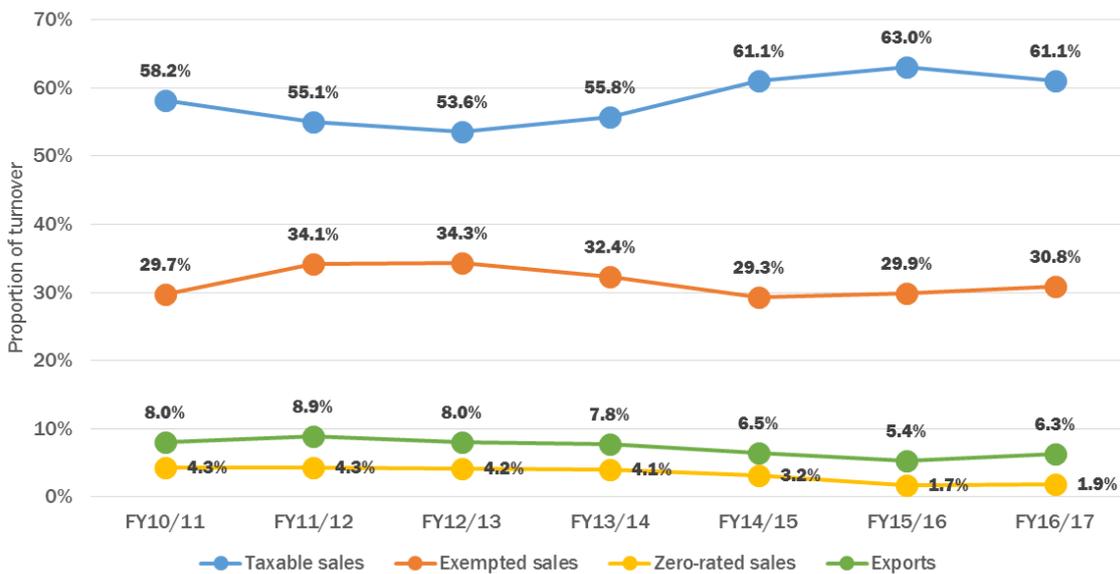
Figure 3: Petroleum import quantity



c) Decrease in growth of taxable sales as a percentage of VAT turnover for VAT Declarations FY 2012/13 - 2016/17

- i. Figure 4 below shows taxable, exempt, zero-rated and export sales as % of total value of supplies (i.e. turnovers). In FY 2016/17, exempt sales formed 30.8% of the total value of supplies; export sales were 6.3% while zero-rated sales were 1.9%. Because of increases in exports and exempt sales, taxable sales have decreased as a percentage of turnover from 63.0% in 2015/16 to 61.1% in 2016/17. This is driven by stronger growth in non-taxable sales for the 'Wholesale and Retail Trade' sector.

Figure 4: Taxable and non-taxable sales as % share of turnover



- ii. The exempt sales were at their highest percentage level in 2012/13 with the percentage share of 34.3% before falling slightly to a range of 29%-30% between FY 2014/15 and FY 2016/17. The removal of VAT exemptions of agro-processing industry effective from September 2013 may explain the slight decrease in the share of exempt sales observed in the last 3 years. However, the percentage share of exempt sales (30.8%) is still very high.

I.3. REVENUE PERFORMANCE BY BROAD CATEGORIES

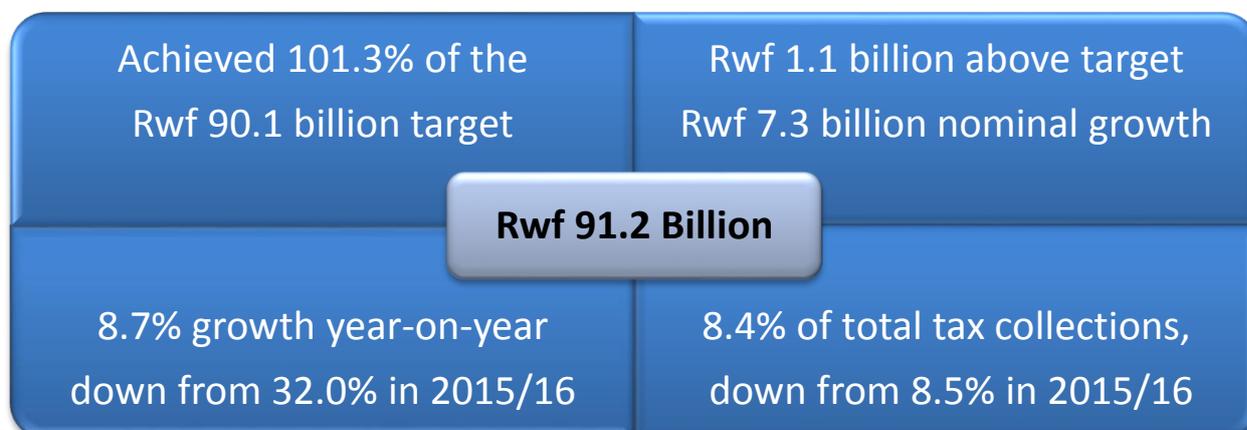
Direct Taxes



Taxes on Goods and Services



International Trade Taxes



I.4. REVENUE PERFORMANCE BY TAX TYPE

Further analysis on tax revenue performance for FY 2016/17 by tax type is shown in Table 4.

Table 4: Tax revenue performance by tax type (Rwf billion)

Tax heads	Target 2016/17	Actual 2016/17	Variance	Performance rate	Actual 2015/16	Growth 2016/17	Nominal increase
PAYE	254.8	257.7	2.9	101.1%	229.7	12.2%	28.1
PROFIT TAX (CIT,PIT & WHT)	178.3	190.5	12.2	106.8%	159.3	19.5%	31.1
VAT	352.4	352.0	-0.4	99.9%	323.2	8.9%	28.8
Imports	125.1	123.6	-1.5	98.8%	109.1	13.3%	14.5
Local	227.3	228.4	1.1	100.5%	214.1	6.6%	14.2
EXCISE	146.9	134.2	-12.7	91.3%	138.1	-2.8%	-3.9
Imports	74.1	68.7	-5.4	92.7%	67.5	1.8%	1.2
Local	72.8	65.5	-7.3	90.0%	70.5	-7.2%	-5.1
MINING ROYALTIES	2.6	3.3	0.7	126.6%	3.0	10.6%	0.3
CUSTOMS DUTIES	75.7	76.5	0.8	101.1%	72.9	4.9%	3.6
ROAD FUND	43.1	44.6	1.5	103.5%	37.3	19.5%	7.3
STRATEGIC RESERVES LEVY	9.6	10.2	0.6	106.6%	8.7	18.0%	1.6
INFRASTRUCTURE DEV. LEVY	10.6	10.62	0.1	100.5%	8.75	21.3%	1.9

OTHER TAXES	7.50	6.80	-0.70	90.7%	5.74	18.5%	1.06
TOTAL TAX	1,081.4	1,086.5	5.0	100.5%	986.7	10.1%	99.8

Source: RRA, 2017

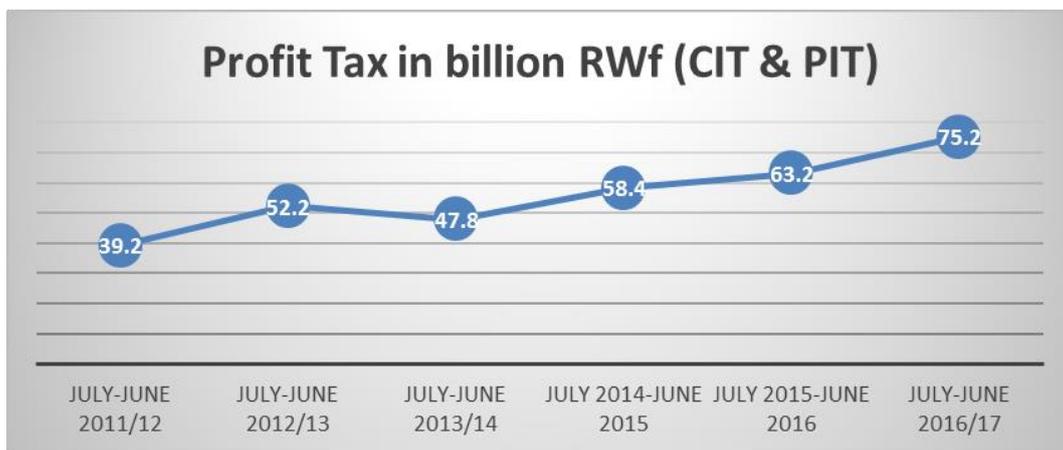
I.4.1. PROFIT TAXES

The overall profit tax (CIT, PIT & WHT) for FY 2016/17 amounted to **Rwf 190.5 billion** against a target of **Rwf 178.3 billion**, a surplus of 12.2bn over the target and achievement of 106.8%. Compared with FY 2015/16, overall profit tax collections grew by **19.5%**, a nominal increase of **Rwf 31.1 billion**.

I.4.1.1. Corporate Income Tax (CIT) and Personal Income Tax (PIT)

- a) In FY 2016/17, corporate income tax (CIT) and personal income tax (PIT) amounted to **Rwf 75.2 billion** against a target of **Rwf 72.3 billion**, recorded a performance of **104.1%**. When compared with collection of FY 2015/16, CIT-PIT collections increased by **19.1%**.

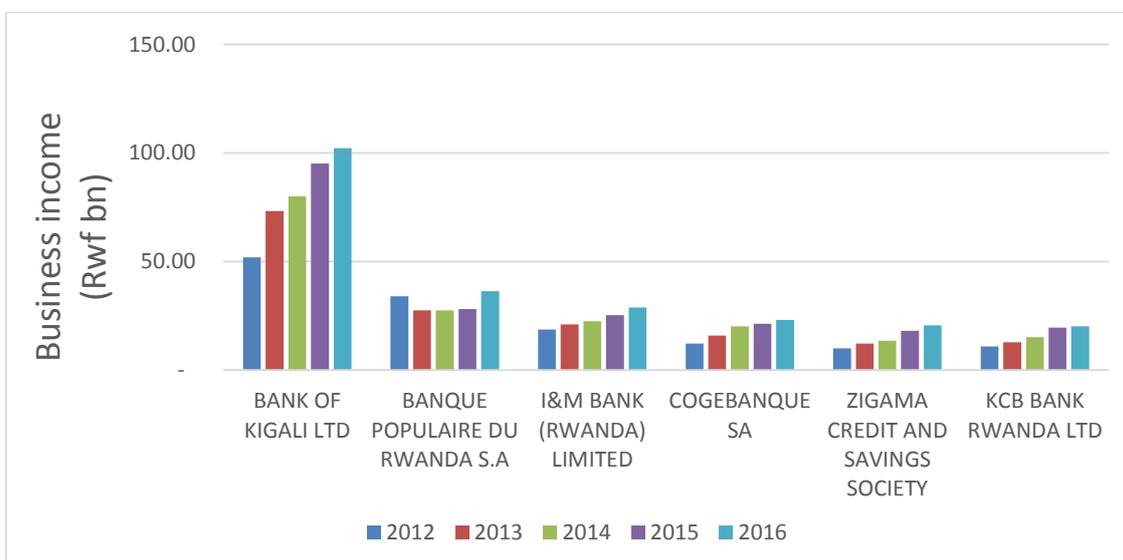
Figure 5: Profit Tax in billion Rwf (CIT & PIT)



- b) Although business income growth reduced sharply to 0.9% from 13.7% average growth of the three preceding years, taxable income growth was 4.3%.
- c) CIT discounts have reduced significantly, mainly driven by fewer discounts for the financial sector (from 2.5bn in 2015 to 21mn in 2016). The reason for this is a change in the law removing CIT discounts based on employment levels, and it had a positive impact on CIT revenue collected for 2016/17.
- d) Another prominent payment of 3bn for CIT was from the profit made when Umubano Hotel was sold to Madhvani group.
- e) Sectors performed differently in 2016. The good performance of profit tax collections was mainly from financial sector (banks), service (hotels and telecommunication). The good performance in financial sector was driven by Bank of Kigali, whose payments for CIT contributed 26.8% to the total collections of profit tax. However, some other banks like Banque Populaire du Rwanda, I&M Bank, COGEBANQUE, Zigama Credit and Savings

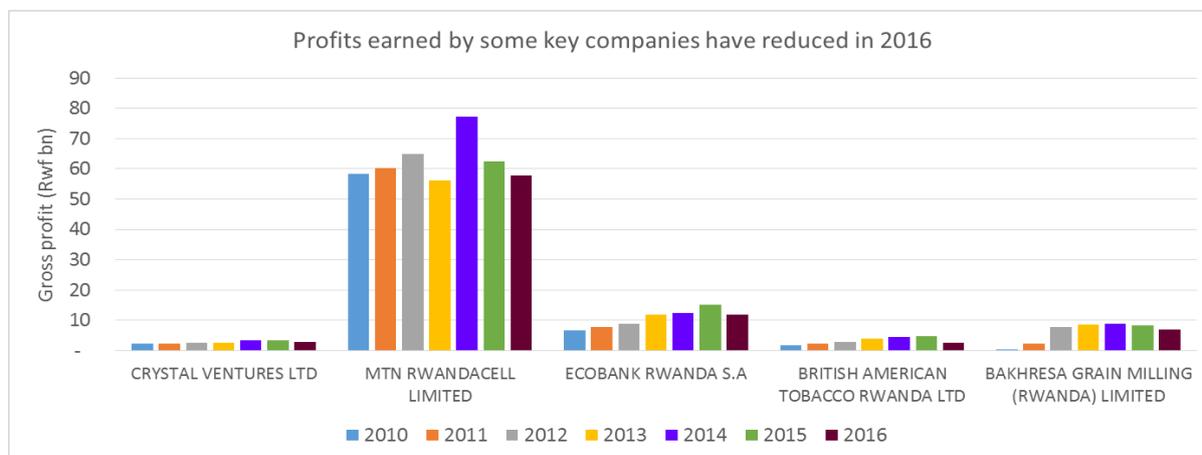
Society, and KCB Rwanda made a significant profit in 2016. On average, the business income for the top six banks (Bank of Kigali included) grew by 12.7%. Figure 6 below illustrates the performance by banks for the previous five years.

Figure 6: Strong turnover growth in the financial sector/banks



- f) Decreases were observed in the Information and Communication, Manufacturing, Agriculture, Forestry & Fishing and Wholesale & Retail Trade of 1.4bn, 1.3bn, 0.6bn and 0.4bn respectively in CIT declared. This was mainly due to big investment allowances claimed in telecommunication and manufacturing sectors combined with the poor harvest of season B that caused the high growth in the price indices for “Food and non-alcoholic beverages”. The largest decreases in CIT occurred among some notable companies – Crystal Ventures, MTN, Ecobank, British American Tobacco and Bakhresa. These were caused by decreases in business income, which translated into decreases in gross profit.
- g) Impact of preferential rates on 2016/17 income tax revenue, based on calculation of effective rate used in declaration of the period 2016, we noted that 26 taxpayers used preferential rates.
- Eighteen banks and micro-finance institutions used 0% preferential rate. Revenue loss from this category was neutral because they were also exempt in the old Investment code.
 - Five tea companies declared using a preferential rate of 15% instead of 30%, leading to revenue foregone of Rwf1 billion.

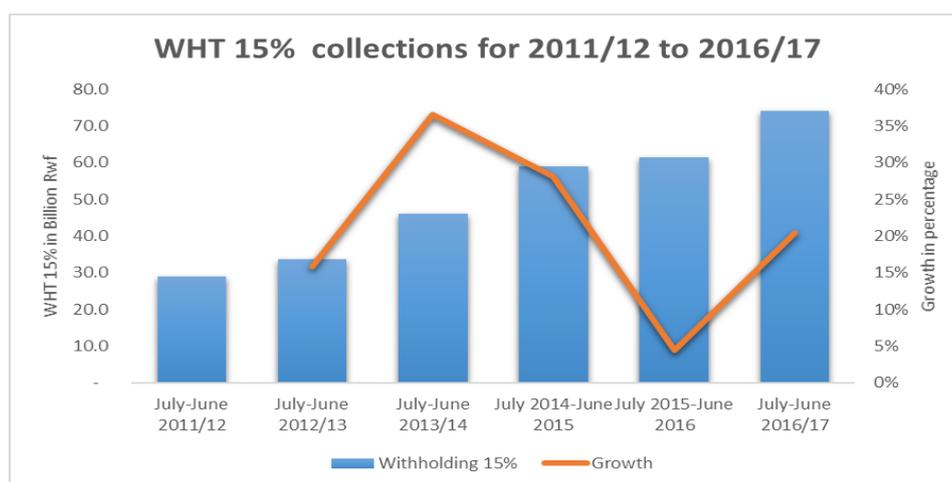
Figure 7: Gross profit for companies paying less CIT



I.4.1.2. Withholding tax 15%

- a) Withholding 15% collected was Rwf 73.7 billion in the 2016/17 fiscal year. This achieved 103.3% of the Rwf 71.3 billion target, an excess of Rwf 2.4 billion. This represents a year-on-year growth of 19.9%, from 4.4% in 2015/16. In nominal terms, WHT 15% collections increased by Rwf 12.2 billion year-on-year.

Figure 8: Trends of WHT 15%



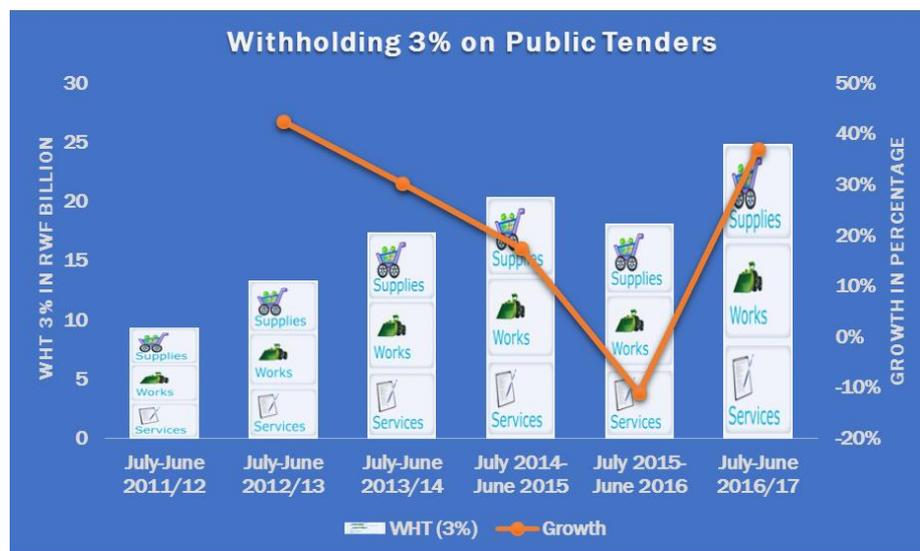
- b) Government spending mainly triggered this good performance of WHT 15%. Payments from government bodies and public corporations increased by 28.7% (i.e. Rwf8.1 billion) from a low growth of 4.4% registered in 2015/16, when WHT 15% performed poorly due to low government spending. In 2016/17, payments from government bodies accounted for 49.1% of all WHT 15% payments.

c) However, private corporations also contributed significantly. When compared to previous FY 2015/16, payments for WHT 15% grew by 11.5% (i.e. Rwf3.2 billion), and contributed 42.6% to all WHT 15% payments. The remaining 8.3% of payments were from public corporations and NGOs.

I.4.1.3. Withholding tax 3%

a) Withholding 3% on public tenders collected was Rwf 24.8 billion in the 2016/17 fiscal year. This achieved 148.4% of the Rwf 16.7 billion target, an excess of Rwf 8.1 billion. This presents a year-on-year growth of 36.7% from a reduction of 11.0% in FY 2015/16. In nominal terms, WHT 3% collections increased by Rwf 6.7 billion year-on-year.

Figure 9: Trends of WHT 3%



b) As the base for this withholding tax is the government spending through works, services and supply tenders for its institutions, this shows that public tenders performed strongly in 2016/17.

I.4.1.4. Withholding tax 5%

Withholding 5% collected was Rwf 16.7 billion in the FY 2016/17. This achieved 93.1% of the Rwf 17.9 billion target, a shortfall of Rwf 1.2 billion. This represents year-on-year growth of 1.1%, down from 27.1% growth in 2015/16. As previously explained, the growth in the value of imports (excluding petroleum products) slowed down from 8.4% to 2.8%, affecting WHT 5%.

I.4.1.5. Pay as You Earn (PAYE)

a) **PAYE** collected was **Rwf 257.7 billion** in the FY 2016/17. This achieved 101.1% of the Rwf 254.8 billion target, a surplus of Rwf 2.9 billion. This represents a year-on-year growth of 12.2%, which is above the projected growth of **11.0%** in 2015/16. In nominal terms, PAYE collections increased by Rwf 28.1 billion year-on-year.

- b) This good performance is mainly triggered by the increase in salaries and bonus for some institutions. In FY 2016/17, government bodies and public corporations contributed 41.3% to the total payments for PAYE, and their PAYE payments increased by 26.5% from the previous FY 2015/16.
- c) Amongst the ten top taxpayers of PAYE, the largest increases in payments were for MINECOFIN, Rwanda National Police, Banque Populaire du Rwanda, and Rwanda Revenue Authority, and they grew by 152%, 57.7%, 54.4%, and 52.5% respectively.

I.4.2. Excise Taxes

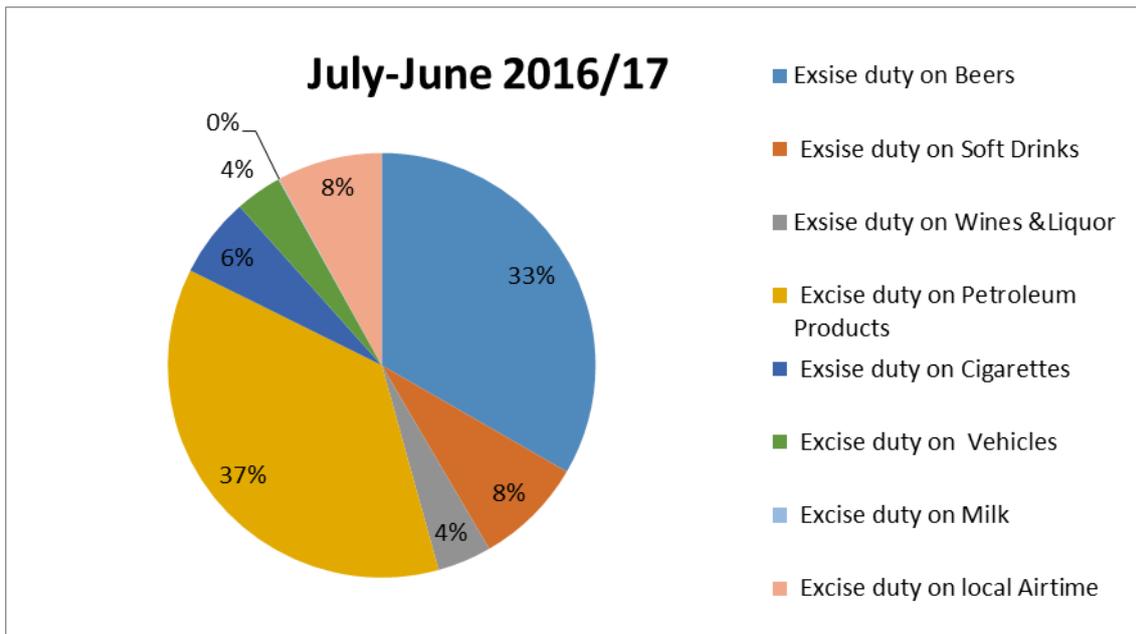
Total excise taxes for FY 2016/17 totalled **Rwf 134.2bn**, recording a shortfall of 12.7bn over the set target of **Rwf 146.9bn** and realised an achievement of **91.3%** and a decrease of **2.8%** compared with the projected growth of **6.4%**. For the four largest contributors to excise duty, beers, petroleum products, soft drinks and local airtime, we observe decreases in excise revenue of 4.7%, 1.9%, 11.7% and 9.7% respectively. Therefore, these declines have driven the overall trend of a decrease in total excise taxes. Table 5 and Figure 10 illustrate the performance by product and the relative contributions of each product.

Table 5: Excise Duty Collections by product

	2014/15	2015/16	2016/17	2015/16 Growth	2016/17 Growth
Excise Duty	120.64	138.06	134.17	14.4%	-2.8%
Excise duty on Beers	39.58	46.97	44.82	18.7%	-4.7%
Excise duty on Soft Drinks	11.34	12.54	11.07	10.6%	-11.7%
Excise duty on Wines & Liquor	4.03	5.25	5.49	30.4%	4.4%
Excise duty on Petroleum Products	46.71	50.13	49.16	7.3%	-1.9%
Excise duty on Cigarettes	5.44	7.79	8.14	43.1%	4.6%
Excise duty on Vehicles	2.68	3.48	4.74	29.8%	36.1%
Excise duty on Milk	0.13	0.10	0.10	-25.4%	2.1%
Excise duty on local Airtime	10.74	11.80	10.66	9.9%	-9.7%

Source: RRA, 2017

Figure 10: % Share of Excise by products



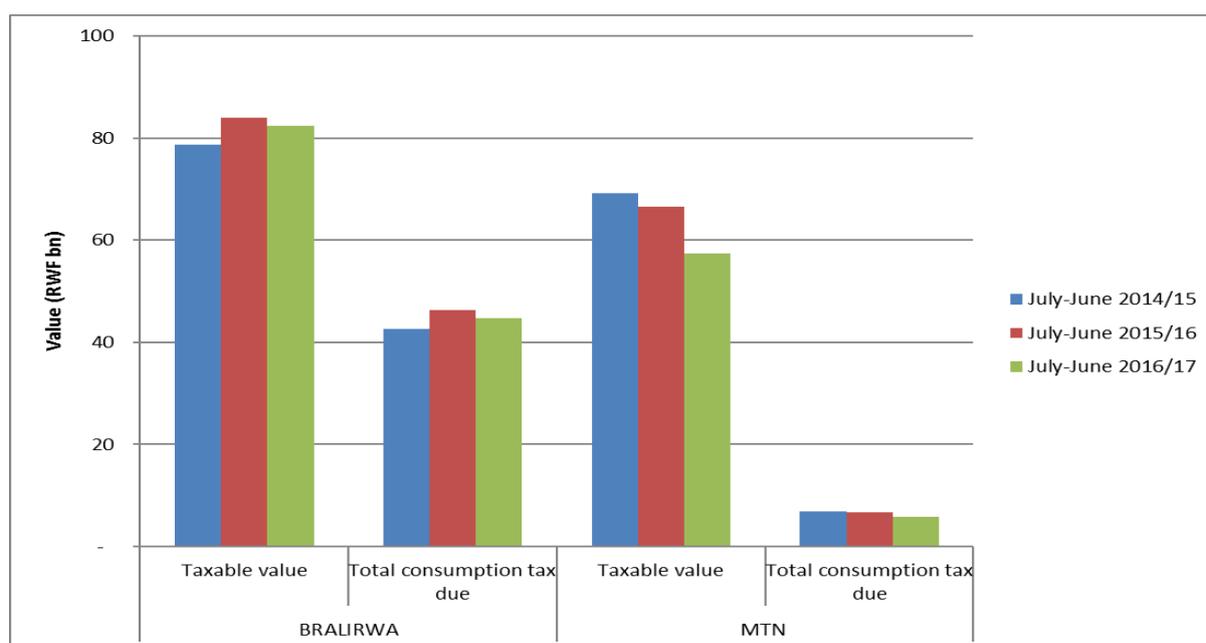
I.4.2.1. Domestic Excise Taxes

Domestic excise taxes for FY 2016/17 totalled **Rwf 65.5bn**, recording a shortfall of **Rwf 7.3bn** over the set target of **Rwf 72.8bn**. This is an achievement of **90.0%** and a reduction of **7.2%**. The underperformance of domestic excise taxes was driven by the bad performance of excise from beer, soft drinks and Airtime. As shown in figure 11, the gap is especially observed in Bralirwa and MTN, which results from the following facts:

- a) The use of a credit note of **1.2bn** by Bralirwa in October 2016.
- b) There was a decrease in taxable sales of **1.8%** in FY 2016/17 for Bralirwa compared to 6.7% growth in FY 2015/16, which meant that their excise tax due decreased by 3.1% in FY 2016/17 compared to 8.4% growth in FY 2015/16.
- c) There was a decrease in taxable sales of **13.7%** in FY 2016/17 for MTN compared to 3.9% decrease in FY 2015/16, which meant that their excise tax due decreased by 13.0% in FY 2016/17 compared to a 3.8% decrease in FY 2015/16.

If we adjust for the 3.5bn (one-off) collections of excise on beer arrears in FY 2015/16 and the credit note of 1.2bn in FY 2016/17, then the domestic beer excise duty growth rate would be 6.5% instead of -4.6%.

Figure 11: Domestic excise Declarations for Bralirwa and MTN



I.4.2.2. Excise Taxes on Imports

Excise taxes on imports totalled **68.7bn**, recording a shortfall of **5.4bn** on the target (74.1bn) and registering an achievement of **92.7%** and growth of **1.8%**. The main reason is a **1.9%** decrease in excise revenue from petroleum products, which resulted from reduced payments of excise duty by REG for its petroleum imports. The performance of excise taxes for imported products is presented below:

- a) **Excise taxes on vehicles** totalled **4.7bn**, missing the target by **0.3bn** and resulting in an achievement rate of **95.6%**.
- b) **Excise tax from petroleum products** totalled **49.2bn** in FY 2016/17 recording a shortfall of **6.0% (2.9bn)**, implying a reduction of **1.9% (1.0bn)** when compared to collections of FY 2015/16. Since there is a slowdown in growth of petroleum imports (local consumption) from 3.8% in FY 2015/16 to 0.1% in FY 2016/17, these appear to be the causes of the lower customs excise revenue.
- c) **Excise on imported wines and liquors** totalled **Rwf 4.9bn** registering an achievement of **108.6%** and recorded a growth of **19.2%** compared to FY 2015/16.
- d) **Excise on imported cigarettes** totalled **Rwf 6.0bn**, performing at 87.8% and recording a shortfall of **Rwf 0.8bn** over the target, despite an increase of **1.4%**.

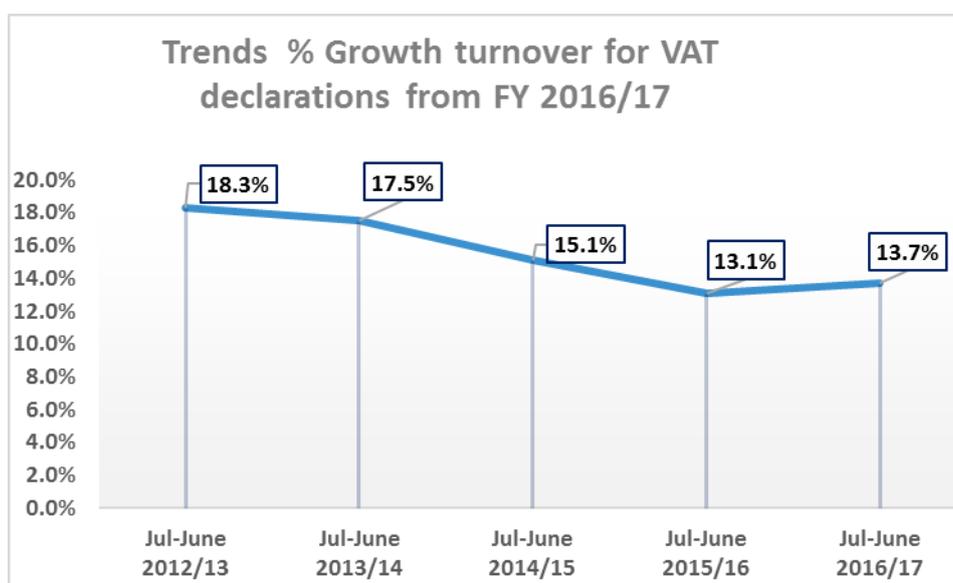
I.4.3. Net VAT Collections

Net VAT collections for FY 2016/17 totalled Rwf **351.9 billion** which is an achievement of **99.9%** of the target. A growth of 8.9% (nominal increase of Rwf 28.8 billion) was realised, compared to 12.9% that was realised in 2015/16.

I.4.3.1. Domestic VAT collection

- a) Domestic VAT collection for FY 2016/17 totalled Rwf **228.4 billion** against a target of Rwf 227.3 billion, registering an achievement of **100.5%**, exceeding the target by Rwf 1.1 billion. There was an increase of 6.6% (equivalent to Rwf 14.2bn) when compared with FY 2015/16, above the projected growth of 6.1%; while the growth realised in FY 2015/16 was 14.8%.
- b) VAT performance was driven by a few factors:
 - i. Sustained turnover growth at a similar level to the previous year
 - ii. Reduction in taxable sales as a proportion of turnover
 - iii. Introduction of the input VAT validation system in January 2017 increased domestic VAT collections by slowing down the increase in local input claims since it was introduced.
- c) Turnover growth is similar to FY 2015/16, but has generally slowed down over time. Turnover growth is driven by services but the growth reduced for construction. The majority of the increase in turnover is from the service sector – in particular from ‘Wholesale and Retail Trade’ (Rwf 195bn increase), ‘Other Service Activities’ (Rwf 163bn increase) and ‘Financial and Insurance Activities’ (Rwf 57bn).

Figure 12: VAT turnover growth trend

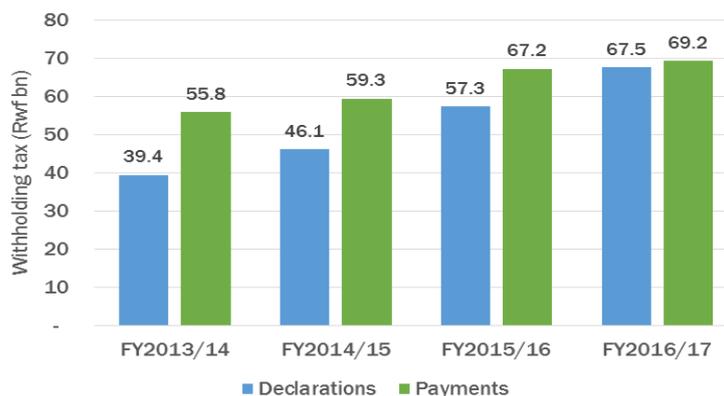


- d) As earlier explained non-taxable sales have grown more than the tax base. Taxable sales grew by 9.6% in 2016/17, whereas exempt sales and exports grew by 16.6% and 32.3% respectively in 2016/17. As a result, taxable sales have decreased as a

proportion of turnover from 63.0% in 2015/16 to 61.1% in 2016/17, as illustrated in **Figure 2**. This is driven by stronger growth in non-taxable sales for the ‘Wholesale and Retail Trade’ sector.

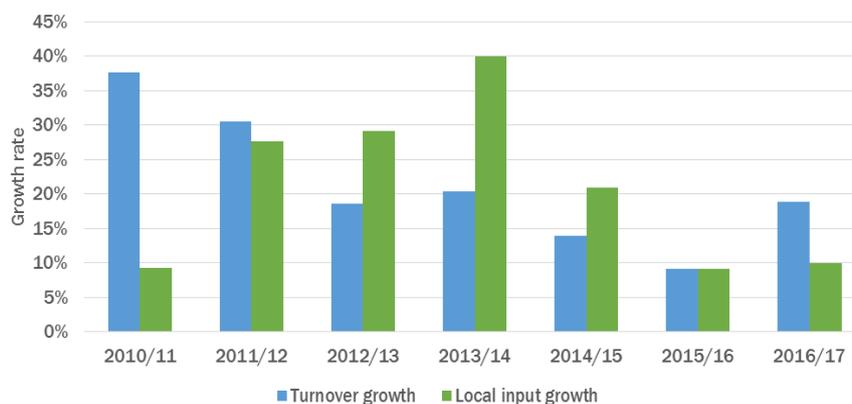
- e) Historically, VAT withholding collections have been generally above their declarations levels by Rwf 9.9bn – Rwf 16.4bn, as illustrated in
- f) Figure 13. This was also the case in 2016/17, but to a much smaller extent of Rwf 1.7bn.

Figure 13: VAT Withholding tax retained by public institutions



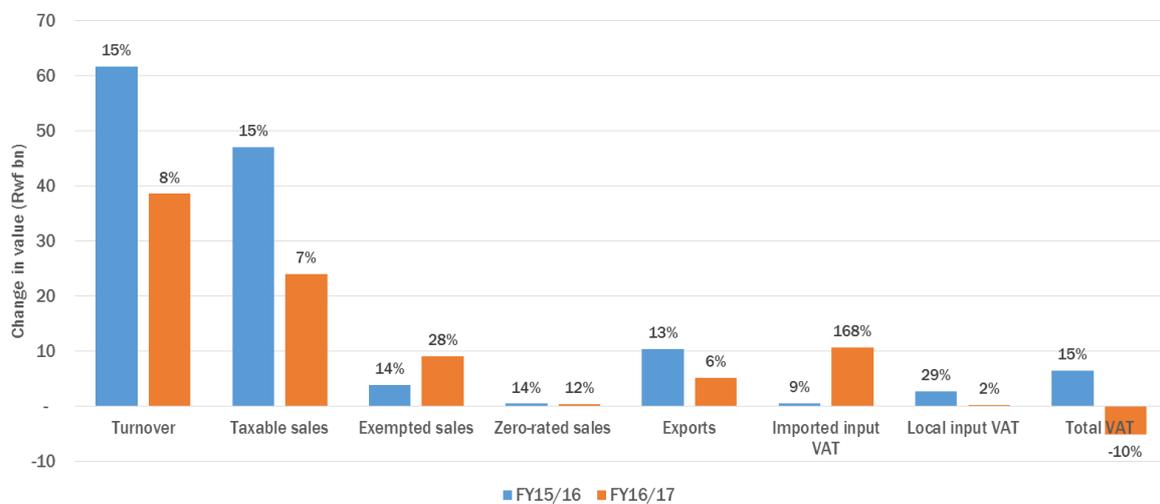
- g) At the macro-level, during 2016/17 consumption was negatively affected by the unexpected rising of food prices that was driven by the reduction in food supply and the poor performance of agriculture production due to very poor harvests. The increase in the cost of food and non-alcoholic beverages meant that there was less money available for people to spend on alcoholic beverages and processed soft drinks, therefore affecting domestic sales and VAT collections of those items.
- h) Input VAT validation controls, figure 14 shows that the two growth rates (turnover and local input VAT) have followed similar trends in recent years. The absence of a corresponding increase in the local input growth rate suggests an impact from the validation controls to reduce local input VAT claims.

Figure 14: Turnover growth vs. local input claims growth for Jan-June



- i) Performance of VAT by sector: Analysis shows that VAT payments have increased significantly for construction and decreased significantly for manufacturing. Manufacturing sector payments decreased due to three reasons, shown in Figure 15.
- Slowdown in turnover growth** from 14% and 15% in 2014/15 and 2015/16 respectively to 8% in 2016/17;
 - Growth in exempt sales** from -32.2% and 13.7% in 2014/15 and 2015/16 respectively to 28.3% in 2016/17; and
 - Significantly higher VAT paid on imported inputs** – Rwf 17.1bn in 2016/17 compared to Rwf 6.4bn in 2015/16.

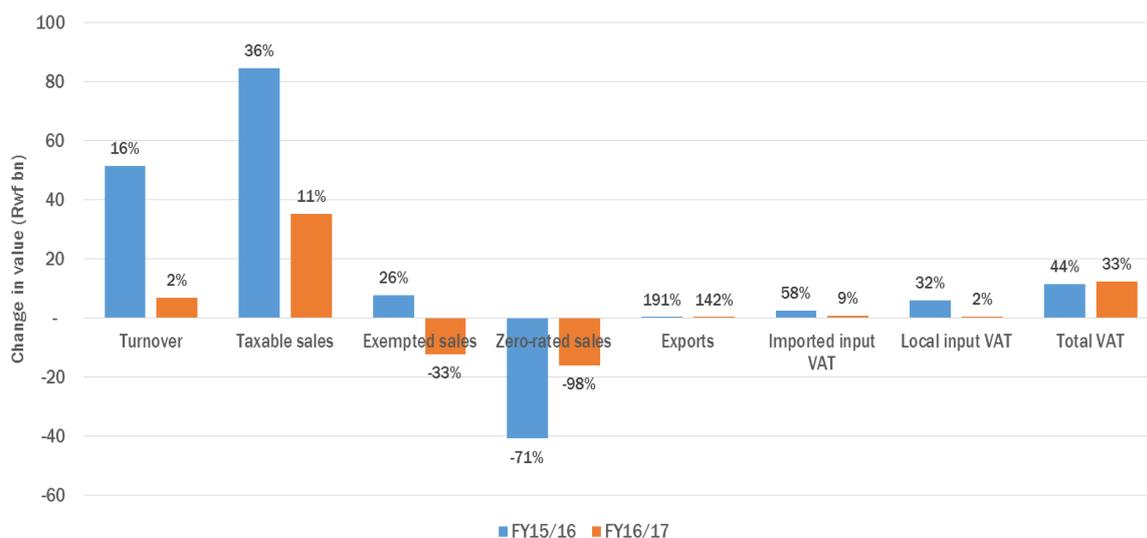
Figure 15: VAT declaration summary of manufacturing sector



As Figure 16 illustrates, construction sector payments increased because of:

- Reduction in non-taxable sales** (exempted and zero-rated). Exempted sales decreased by 33.1% in FY2016/17 while zero-rated sales fell by 98% from Rwf 16.3bn in 2015/16. The latter is driven by a lack of zero-rated sales in 2016/17 by three companies– Real Contractors Ltd, China Road & Bridge Corporation Ltd and China Henan International Corporation Group Ltd.
- Slowdown in VAT input claims growth** (imported and local inputs). Imported input claims growth slowed down from 58.3% in 2015/16 to 8.9% in 2016/17, while local input claims increased by 1.5% in 2016/17 compared to 32.1% in 2015/16.

Figure 16: VAT declaration summary of construction sector



j) Performance of VAT by taxpayer:

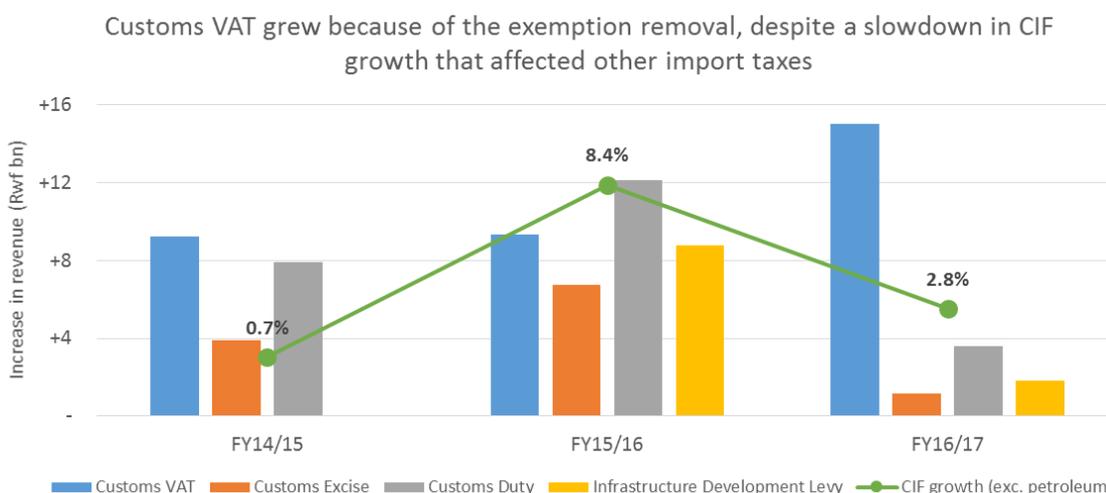
- i. The boost for turnover growth in services was driven by Societe Petroliere Aviation Ltd (Rwf 48.8bn increase), Banque Populaire du Rwanda (BPR) (Rwf 31.7bn increase), Excel Energy Resources Trading Ltd (Rwf 31.4bn increase) and Mount Meru Petroleum (Rwanda) Ltd (Rwf 25.8bn increase).
- ii. The reduced growth in construction sector turnover was caused by several companies, particularly China Road & Bridge Corporation Ltd (turnover decreased by Rwf 23.8bn in 2016/17) and Real Contractors Ltd (turnover decreased by Rwf 7.8bn in 2016/17).
- iii. The higher growth in non-taxable sales for 'Wholesale and Retail Trade' was driven by two energy wholesalers – Excel Energy Resources Ltd (increase in exempted sales by Rwf 31.4bn) and Mount Meru Petroleum (Rwanda) Ltd (increase in exempted sales by Rwf 25.8bn); and Societe Petroliere Aviation Ltd, for whom exports increased by Rwf 46.3bn in 2016/17.

I.4.3.2. VAT collections on imports

- a) VAT collections on imports totalled **123.6bn** in FY 2016/17, compared to a target of 125.1bn an achievement rate of **98.8%**. This represents a year-on-year growth of **13.3%**, down from the projected growth of 14.7%. In nominal terms, VAT customs collections increased by **Rwf 14.5 billion** year-on-year; while the average growth realised in last three fiscal years was 13.0%.
- b) There were three main factors affecting VAT on imports performance in opposing ways. These are the significant exchange rate depreciation in 2016/17, the decrease in the volume of imports, which is the tax base for VAT on imports (negative impact) and the removal of the VAT exemptions for investors (positive impact). However, overall the negative impact outweighed the positive.

- c) The import CIF (excluding petroleum products) for FY 2016/17 increased by **2.8%**, compared to a growth of 8.4% in FY 2015/16. Since it is the tax base for customs VAT, it had a negative impact on customs VAT collections. In the absence of the VAT exemption removal for investors, customs VAT would have been negatively affected, as import duty was (4.9% growth compared to 19.9% in FY 2015/16).
- d) The removal of the VAT exemptions for investors improved VAT customs performance and deteriorated domestic VAT performance. Without this policy change, we would expect the slowdown in CIF to result into a slowdown in customs VAT. Therefore, we can plausibly attribute most (or all) of this observed increase in customs VAT (between July and December 2016) to the policy.
- e) Over 2016/17, there was a significant exchange rate depreciation in the Rwandan franc relative to the US Dollar. This depreciation was higher than expected. This had a significant effect on revenue collections. VAT customs benefited from the significant exchange rate depreciation in 2016/17 as the price inelastic demand for imports in Rwanda means that quantity falls by a comparatively lower percentage as prices rise.

Figure 17: Growth of import taxes and CIF



Compared to 2015/16, the growth in the value of imports (excluding petroleum products) slowed down from 8.4% to 2.8%.

I.4.4. ROAD MAINTENANCE FUND

Road maintenance fund (composed of fuel levy and road toll) collections totalled **Rwf 44.6 billion** against a target of **Rwf 43.1 billion**, registering an achievement of **103.5%** and recording a growth of **19.5%**. In nominal terms, road maintenance fund collections increased by **Rwf 7.3 billion** year-on-year. Road fund collections benefited from a policy change in March 2016.

In order to increase the money available for road maintenance, the road fund fuel levy was increased from Rwf 82.37 per litre to Rwf 115 per litre in March 2016. This policy change is estimated to have increased 2016/17 road fund collections by Rwf 6.3 billion.

I.4.5. MINING ROYALTIES

Revenue collection from **mining royalties** amounted to **Rwf 3.3 billion** against a target of **Rwf 2.1 billion**; this is an achievement of **126.6%**. Compared to FY 2015/16, this was an increase of 10.6%, which was significantly better than the FY 2015/16 decrease of 27.5%. The collections from mining royalties were majorly boosted by: *“the recovery of fall in mineral prices”* on the international market since June 2015.

I.4.6. STRATEGIC RESERVES LEVY

Revenue collection from **strategic reserves levy** totalled **Rwf 10.2bn**, recording a surplus of **Rwf 0.6bn** over the target of **Rwf 9.6bn**, with an achievement of **106.6%** and a growth of 18.0%. The strategic reserves levy is a tax policy measure implemented in mid-July 2015 in order to improve fuel security by funding the purchase of more fuel reserves. It is a levy applied on each litre of fuel imported. The tax is Rwf 32.73 per litre of fuel.

I.4.7. IMPORT DUTY

The performance of international trade taxes was impacted by a slowdown in imports growth. **2.8%** growth in CIF of imports (excl. petroleum, for which the tax base is the quantity) during 2016/17, compared to CIF growth of 8.4% recorded in FY 2015/16. This was despite the continued depreciation of the Rwandan Franc, which did offset the reduction in volumes to some extent.

Particularly important for import duty, a slowdown in growth in CIF (excl. petroleum) for non-EAC was recorded from 11.5% in 2016/17 to 2.5% in 2015/16.

Import duty collections totalled **Rwf 76.4bn** recording an excess of **Rwf 0.8bn** on the target of **Rwf 75.7bn**, with an achievement of **101.1%**. It registered a growth of **4.9%** and a nominal increase of **3.6 billion**. This performance is a reflection of the 2.5% increase in CIF for non-EAC imports (compared to 11.5% growth for FY 2015/16 non-EAC imports).

I.4.8. INFRASTRUCTURE DEVELOPMENT LEVY

Collections for infrastructure development levy were Rwf 10.6 billion in the 2016/17 fiscal year. This achieved 100.5% of the Rwf 10.6 billion target, a growth rate of 21.3% compared to FY 2015/16. The tax is 1.5% of the CIF of most goods imported from outside of the EAC. There are various exempted products for this levy, including fertilisers and seeds, live animals, medicine and pharmaceutical products, medical equipment, mosquito nets, industrial machinery and equipment for energy and water sectors, and goods for investment projects with investment certificates.

I.4.9. REVENUE FOREGONE DUE TO CUSTOMS EXEMPTIONS AND DOMESTIC TAX INCENTIVES

I.4.9.1. Customs exemptions

Revenue foregone due to exemptions granted on imports for FY 2016/17 shows a decrease of 26.9% when compared to FY 2015/16 and represents 34.0% of FY 2016/17 customs collections (excl. TCC). The decrease was driven by 59.1% decrease of revenue foregone in the category of Investment code (loss varied from Rwf 84.6bn in FY 2015/16 to Rwf 34.6bn in FY 2016/17). This high decrease is caused by the new policy to remove the customs VAT exemption on raw materials for investors that was introduced on 28th May 2016/17 and rescinded on 2nd December 2016/17. It meant that more VAT customs revenue was collected, hence reduced revenue foregone from customs exemptions of FY 2016/17. Table 6 below shows estimated revenue foregone due to tax exemptions granted on imports.

Table 6: Revenue foregone due to exemptions granted on imports for FY 2014/15, 2015/16 and 2016/17

Exemptions	Revenue foregone due to exemptions granted on imports for FY 2014/15, 2015/16 and 2016/17				
	FY 2014/15 (Rwf)	FY 2015/16 (Rwf)	% change	FY 2016/17 (Rwf)	% change
INDUSTRIAL INPUTS	391,163,244	79,822,781	-79.6%	10,119,944	-87.3%
INVESTMENT CODE	67,454,029,053	84,562,662,843	25.4%	34,573,475,696	-59.1%
OTHER CUSTOMS LAWS	51,129,964,187	60,815,190,611	18.9%	71,681,496,927	17.9%
TOTAL	118,975,156,485	145,457,676,235	22.3%	106,265,092,567	-26.9%
Customs collections	238,962,196,064	288,520,378,296	20.7%	312,867,430,889	8.4%
RRA tax collections	859,141,840,311	986,672,245,445	14.8%	1,086,845,892,012	10.2%
Revenue foregone as % of customs collections	49.8%	50.4%		34.0%	
Revenue foregone as % of RRA tax collections	13.8%	14.7%		9.8%	

Source: RRA, 2017

I.4.9.2. Domestic tax incentives

Revenue foregone due to domestic tax incentives granted in 2016 amounted to Rwf 273.6billion, showing an increase of 13.5% as compared to that recorded in 2015 and representing 37.5% of total domestic tax revenue for 2016/17 fiscal year. This is broken down in three major categories:

a) Use of preferential rates as granted by the new Investment Law

Based on calculation of effective rate used in declaration of the period 2016, five tea companies have declared using a preferential rate of 15% instead of 30%, leading to revenue foregone of Rwf 0.9 billion and representing 0.1% of total domestic tax revenue.

b) Revenue foregone due to use Domestic tax discounts

Total Tax Discounts claimed in 2016/2017 fiscal year amounted to Rwf 1.6 billion which represents 0.2% of total domestic tax revenue (Rwf 729.2 billion). They were in three categories as follows:

- ✓ Tax discounts from Exports, amounted to Rwf 1.1 billion
- ✓ Tax discount for Free trade zone amounted to Rwf 0.364 billion

- ✓ Tax discount for Microfinance amounted to Rwf 0.137 billion

c) Revenue foregone due to VAT exempted sales

The Revenue foregone due to VAT exempted sales amounted to Rwf 271.0 billion in 2016/17 fiscal year representing 37.2 % of total Domestic tax revenue.

II. ADMINISTRATIVE MEASURES THAT SUPPORTED REVENUE TARGET ACHIEVEMENT

During the 2016/17 fiscal year, RRA continued the implementation of various administrative measures in order to enhance revenue collection and achieve target. Key administrative measures included:

II.1. WIDEN THE TAX BASE THROUGH ENHANCING TAXPAYER REGISTRATION

Activities aimed at widening the tax base through enhancing taxpayer registration were carried out. The following strategies were used to identify new taxpayers to be registered:

- Sector-wise approach: Door to door registration campaigns were conducted for VAT registration purpose through sector registration e.g. bars and restaurants, hardware shops, supermarkets, spare parts and garages, etc. Also, taxpayer' registration activities were conducted focusing on sport associations, commercial houses especially for VAT on rental income, architects, environment risk assessors, property valuers, construction engineers, bailiffs, suppliers of construction materials, operators in brick laying business, etc.
- Use third party information: RRA worked with other stakeholders e.g. Rwanda Government Board to avail a list of NGOs and identify those eligible to be registered for PAYE; Ministry of Foreign Affairs to identify local employees of embassies eligible for PAYE, Banks, telecoms and EUCL dealers to identify those who are not registered on domestic taxes while they are eligible.
- Business Intelligence System has been used to identify potential taxpayers registered in local taxes and importers and exporters without tax accounts.
- A review of CIT/ PIT turnovers was done and taxpayers achieving the required thresholds were registered for VAT.

During the 2016/17 fiscal year, newly registered taxpayers for different tax types contributed Rwf 4.8 billion as indicated in Table 7 below.

Table7: The contribution of new taxpayers who paid tax in 2016/17, in Rwf billions

Tax Type	Number of new registered taxpayers who paid domestic tax in 2016/17	Domestic tax paid by new registered taxpayers in 2016/17 (Bn Rwf)	Total domestic tax paid by all domestic registered taxpayers in 2016/17	% contribution of tax paid by new registered taxpayers to total domestic tax
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			(Bn Rwf)	paid in 2016/17
PAYE	967	3.07	257.7	1.19%
Profit Tax	1,290	0.2	75.2	0.26%
Excise	3	0.002	65.5	0.00%
VAT	640	1.3	228.4	0.57%
WHT on Public Supplies (other than VAT)	53	0.07	24.8	0.28%
Other WHT	75	0.2	73.7	0.26%
Total	4,060	4.8	729.3	0.66%

Source: RRA, 2017

As a result of taxpayers registration activities mentioned above, the total number of taxpayers in the RRA tax register increased to **177,564** as of end June 2017. This represents a year-on-year growth of **16.2%** from the **152,791** registered taxpayers as of end June 2016.

Of the current registered taxpayer, 372 are categorised as large taxpayers, 0.2% of the total; 775 are medium taxpayers, 0.4% of the total; and 176,417 are small or micro taxpayers, 99.4% of the total.

In addition, 14,381 vehicles were newly registered during the 2016/17 fiscal year. This represents a year-on-year decrease of 21.4% from the 18,300 that were newly registered in 2015/16. The total number of vehicles registered in Rwanda by RRA by the end of the 2016/17 fiscal year was 179,799 from 165,418 by end of the 2015/16 fiscal year.

II.2. TAX AUDITS AND POST-CLEARANCE AUDITS

II.2.1. Small and Medium Taxpayers Office and RRA Provinces

During the 2016/17 fiscal year, the Small and Medium Taxpayer Office (SMTO) in Kigali completed 172 comprehensive and issue audit cases against 180 planned, of which 56 were comprehensive and 116 were issue audits. In addition, 360 desk audit cases and 4,374 non-payers cross checking cases were conducted by SMTO.

The initial tax declared by all these cases totalled Rwf 6.1 billion. However, the re-assessed tax (principals only, before appeals) totalled Rwf 23.7 billion, an additional assessment of Rwf 17.6 billion. The average tax declared by all audited SMTO taxpayers including desk and

cross checking cases amounted to just 25.7% of the total re-assessed tax (principals only, before appeals).

RRA region offices completed 290 audit cases, of which 98 were comprehensive audits and 192 were issue audits.

II.2.2. Large Taxpayers Office

During the 2016/17 fiscal year, the Large Taxpayers Office (LTO) completed 99 comprehensive and issue audit cases against 128 planned, of which 96 were comprehensive and 3 were issue audits. In addition, 323 desk audit cases were conducted by LTO.

The initial tax declared by all audited taxpayers totalled Rwf 148.4 billion. However, the re-assessed tax (principals only, before appeals) totalled Rwf 166.3 billion, an additional assessment of Rwf 17.9 billion. The average tax declared by audited LTO taxpayers amounted to just 89.2% of the total re-assessed tax (principals only, before appeals).

II.2.3. Customs Services Department

During the 2016/17 fiscal year, Customs Services Department (CSD) completed 108 post-clearance audit cases against 109 planned. The initial tax declared by all audited taxpayers totalled Rwf 0.6 billion. However, the re-assessed tax (principals only, before appeals) totalled Rwf 1.5 billion, an additional assessment of Rwf 0.9 billion. The average tax declared by audited taxpayers amounted to 40% of the total re-assessed tax (principals only, before appeals).

II.3. COMBATING TAX EVASION

During the 2016/17 fiscal year, Revenue Investigation and Enforcement Department (RIED) completed 30 tax investigation cases against 28 planned, of which 19 were comprehensive-related cases, 6 were issue-related cases and 5 were customs investigation cases.

The additional tax assessed (principals only) amounted to Rwf 2.6 billion. In addition, 81 fraud cases were forwarded to prosecution in 2016/17, up from 40 cases in 2015/16.

Through surveillance operations, 214 operations were conducted against fraud both in Kigali and provinces and a range of unaccustomed goods were impounded. The top smuggled goods included palm cooking oil, used clothes and shoes, rice, juice, liquors and wines. Tax amounting to Rwf 1.2 billion was recovered through statement of offences and public auctions were conducted that recovered a further Rwf 0.2 billion.

RRA identified dummy companies which were formed to issue and sell EBM invoices on commission and taxpayers who claimed fictitious input VAT from 2014 to 2016.

II.4. RECOVERING TAX ARREARS

During the 2016/17 fiscal year, enforcement of domestic tax arrears by LTO and SMTO recovered Rwf 36.8 billion. This represents a year-on-year growth of 10.2% from the Rwf

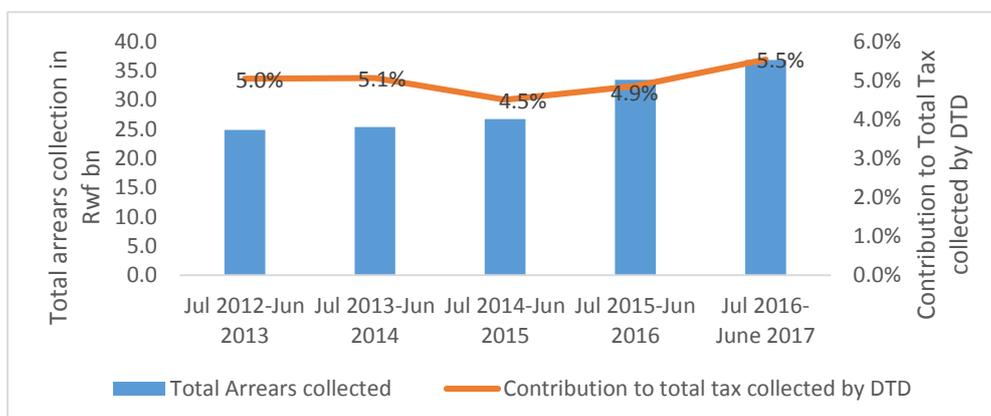
33.4 billion collected in 2015/16. Of this amount of tax arrears collected in 2016/17, Rwf 19.7 billion came from the SMTO, 53.5% of the total; and Rwf 17.1 billion from the LTO, 46.5% of the total. Revenue collections from LTO and SMTO tax arrears accounted for 5.0% of the total domestic tax collections in the 2016/17 fiscal year compared to 5.1% in 2015/16. The arrears collections by tax type are displayed in Table 8 below.

Table 8: Domestic tax arrears collections by tax type, in Rwf billions

	2016/17	2015/16	Variance	% change
VAT	18.3	14.2	4.1	28.9%
Profit Tax	8.7	7.3	1.4	19.2%
PAYE	4.9	3.9	1.0	25.6%
Withholding	4.7	3.9	0.8	20.5%
Excise Duties	0.09	3.8	-3.7	-97.6%
Mining Royalties	0.1	0.3	-0.2	-66.7%
Total	36.8	33.4	3.4	10.2%
LTO Sub-Total	17.1	20.5	-3.4	-16.6%
SMTO Sub-Total	19.7	12.9	6.8	52.7%

Source: RRA, 2017

Figure 18: Total arrears collections and its contribution to total tax rev. collected by DTD



The following measures were enacted to recover domestic tax arrears:

- a) Warning and reminder letters
- b) Profiling of assets
- c) Caveat on immovable and motor vehicles
- d) Searching motor vehicles of tax defaulters for auctioning purposes
- e) Prompt follow up to Land centre so as to get the land title in order to proceed with auction of immovable assets
- f) Identification shareholders and Profiling their assets
- g) Identifying different tenders held by the tax defaulters for garnishment purposes
- h) Garnishment
- i) Closure of businesses premises
- j) Seizure of tax defaulters' assets
- k) CRB reporting
- l) SMS warning letter on tax account status.

However, despite efforts made in recovering tax arrears, there still exists a large amount of unrecovered tax arrears. Total domestic tax arrears (in SMTO and LTO) at the end of the 2016/17 fiscal year amounted to Rwf 138.1 billion. This represents a year-on-year growth of 7.3% from the Rwf 128.7 billion stock of arrears at the end of 2015/16. This increase in the debt portfolio was mainly due to the actions and measures undertaken by RRA to detect and punish taxpayers who claimed fictitious VAT inputs, new cases from tax audits and actions undertaken by the compliance unit. This is displayed in table 9 below.

Table 9: Domestic tax arrears by tax office and age, in Rwf billions

Age of domestic tax arrears	LTO domestic tax arrears at end of 2016/17	SMTO domestic tax arrears at end of 2016/17	Total domestic tax arrears at end of 2016/17	Total domestic tax arrears at end of 2015/16	Year-on-year growth
Less than 3 months overdue	11.7	17.6	29.3	27.2	7.8%
Between 3 and 6 months overdue	3.2	8.6	11.8	9.4	25.8%

Between 6 and 12 months overdue	12.8	9.9	22.7	8.0	183.4%
More than 12 months overdue	17.1	57.1	74.3	84.1	-11.7%
Total	44.8	93.3	138.1	128.7	7.3%

Source: RRA, 2017



At the end of the 2016/17 fiscal year, there were domestic tax arrears of Rwf 29.3 billion related to debts less than 3 months overdue, this is 21.2% of the total stock of arrears. On the other hand, Rwf 74.3 billion related to debts of more than 12 months, 53.8% of the total.

In terms of the stock of tax arrears, Rwf 60.8 billion are categorised under potentially recoverable cases (including instalments), this represents 44.0% of total domestic tax arrears. In contrast, Rwf 62.8 billion are categorised as difficult cases (including cases in courts, amicable settlement and appeal cases) accounting for 45.5% of total arrears. Finally, Rwf 14.5 billion is believed to be irrecoverable, 10.5% of the total. Table 10 below displays domestic tax arrears by different categories.

Table 10: Categories of domestic tax arrears at the end of 2016/17, in Rwf billions

Category	Number of cases	Amount of domestic tax arrears	Percentage share to total domestic tax arrears
installment	106	8.1	5.9%
Potential cases	149	52.7	38.2%
Amicable cases	4	4.7	3.4%
Difficult cases	99	50.2	36.4%

Cases in courts	84	5.5	4.0%
Irrecoverable cases	70	14.5	10.5%
Appeals to the Commissioner General	1	2.4	1.7%
Total	513	138.1	

Source: RRA, 2017

II.5. MONITORING OF NON-FILERS AND NON-PAYERS

A compliance monitoring unit has been established in domestic tax department and played an important role in enforcing compliance among taxpayers, especially on tax filing and payment monitoring.

II.6. TAXPAYERS' EDUCATION AND SENSITISATION

1. In FY 2016/17 RRA continued to intensify tax education and sensitization programs across the country. Different key players in the economy were considered and various subjects, issues and topics relating to taxation and tax compliance were discussed with taxpayers and other stakeholders. Some of the activities carried out during 2016/17 include the following:

- a) **Tax education sessions for 2,764 newly registered** taxpayers were conducted in 16 districts as follows: Rubavu (106), Rwamagana (65), Huye (110), Ruhango (273), Muhanga (99), Musanze (160), Nyagatare (72), Nyanza (142), Rusizi (306), Nyamasheke (81), Ngoma (35), Bugesera (98), Kayonza (57), Nyarugenge (443), Gasabo (465) and Kicukiro (252).
- b) **Tax education sessions on different types of taxes** were conducted, targeting different groups including 80 refugees, 56 wood sellers operating in Gakiriro/Gisozi, 250 STECOM members, 50 taxpayers operating in Nyarugunga, 40 and 86 operating in Kanombe and Gitega Sectors respectively, 7 staff members from La Croix du Sud Hospital, 30 agriculture and livestock cooperatives beneficiaries of projects funded by World Food Program, 120 farmers' representatives of Eastern Province, 44 farmers' representatives, 19 women entrepreneurs, 28 cyber coffee staff members, desk audit dialogue with 100 taxpayers and 200 headmasters of private schools in Kigali. In total, 1,110 people were trained under this category.
- c) **Door to door tax campaigns** were conducted in different trading centres where taxpayers were visited at their premises as follows: 64 in Batsinda trading centre, 65 in Byangabo, 61 in Kinigi, 10 in Nyanza, 73 in Karongi, 24 at Down Town and Chic Ltd and 43 in Mulindi wa Nasho. In total 340 taxpayers were visited.
- d) **Tax seminars on e-tax filing and payment** were held with 160 public institutions, 101 public institutions operating in Gasabo, Kicukiro and Nyarugenge Districts and with 41 local staff from different embassies operating in Rwanda. In total 302 people attended these seminars.

- e) **Tax education sessions with tax friend club members and students from five secondary schools** were held at Saint Aloys Rwamagana (250 students attended), Doctrina Vitae Secondary School (80 students attended), Saint Andre Secondary School (30 students attended), Ndera Tax Friend Club (13 club members attended) and students from New Vision High school (90 students attended). In total, 463 students attended these sessions.
- f) **New tax friend clubs were created** in four secondary schools as follows: Groupe Scolaire de Kabare (470 students joined the club), College Ami des Enfants Kinyinya (463 students joined the club), Lycée de Kigali (1,420 students joined the club) and IFAK Kimihurura where 230 students joined the club. In total, 2,583 students joined these new tax friend clubs.
- g) **Training sessions/workshops with different stakeholders in different areas** were conducted as follows: training on tax laws with 12 prosecutors; workshop on Electronic Cargo Tracking System with 165 RRA stakeholders technicians who use this system; training on WHT 15% and PAYE with 50 staff members working at TV 10 and RADIO 10; workshop on CIT, PIT, WHT and VAT with 93 persons from the Ministry of Defence and its agencies and workshop on PAYE, WHT and VAT with 25 local NGOs funded by CARE International. In total, 345 people attended these trainings and workshops.
- h) **Training sessions on VAT inputs validation controls** with taxpayers registered in VAT operating in following districts: 498 in Nyarugenge, 150 in Gasabo, 304 in Kicukiro, 130 in Rubavu, Nyabihu and Ngororero, 107 in Huye, Gisagara, Nyaruguru and Nyamagabe, 135 in Karongi and Rutsiro, 104 in Rusizi, Nyabihu and Nyamasheke, 110 in Muhanga, Kamonyi, Ruhango and Nyanza, 227 in Musanze, Burera, and Gakenke, 163 in Kayonza and Rwamagana, 98 in Bugesera, 113 in Gicumbi and Rulindo, 153 in Nyagatare and Gatsibo, 98 in Ngoma and Kirehe Districts. Also 118 tax advisors were trained. In total, 2,508 people were trained on VAT inputs validation controls.
- i) **Public lectures on EBM awareness** were conducted at CBE (former SFB); INES Ruhengeri/Musanze; Kigali Independent University/Rubavu Campus and University of Tourism, Technology and Business/Rubavu Campus.
- j) **Consultative meetings** with the following stakeholders were held: 24 ICPAR members, 85 tax advisors and PSF members in Kigali on fictitious invoices, 82 stakeholders on cargo tracking system, 46 tourism operators on VAT mechanism, 28 private institutions and 25 public institutions on information exchange. In total, 290 attended these meetings,
- k) **Tax workshops on RRA compliance improvement plan for FY 2016/17** were conducted with the following taxpayers: 208 construction companies, 310 large taxpayers, 332 medium taxpayers and 86 hotel sector operators. In total, 936 taxpayers attended these workshops.

- l) **Tax dialogues were conducted with three groups:** 1,146 opinion leaders in 4 Provinces, 444 PSF representatives from different provinces and 32 from City of Kigali and with 15 religious leaders. In total, 1,637 people attended these tax dialogues.
- m) **Breakfast dialogue with 38 Media Houses Managing Directors** on the role of media in increasing tax compliance was conducted.
- n) **Tax dialogue on decentralised tax law review** was conducted with Ministers of MINECOFIN, MINALOC and Local Government Authorities.
- o) **Fifty two (52) Tax Advisory Council (TAC) meetings** were conducted in Districts and Kigali City.
- p) **Two (2) Tax Business Dialogues** were organized and held between PSF and RRA and chaired by the RRA Commissioner General and PSF Deputy CEO.
- q) **Meetings on EBM usage, VAT obligations and issue of fictitious invoices** were conducted with the following stakeholders: University of Sinhgad Technical Education Society-Rwanda (110 persons attended), University of Lay Adventists of Kigali (300 persons attended), ULK Gisozi (1,500 persons attended), Mount Kenya University (200 persons attended), University of Rwanda-CAVM (250 attended), University of Tourism, Technology and Business Studies (150 persons attended), University of Rwanda-CBE/Former-SFB (427 persons attended), medium taxpayers, ADARWA, APARWA & COPCOM (150 persons attended), 40 selected users of EBM phase II (supply chain management system), 83 EBM users from Rubavu District Trading Centre and 98 Tax Advisors Association. In total, 3,308 persons attended these meetings.

2. Additionally, during July-August 2016, RRA celebrated the 14th taxpayers' day. The event was celebrated in all provinces countrywide, which was later crowned with celebrations at the national level at Kigali Conference and Exhibition Village in Kigali City on August 22nd 2016. The Guest of Honour was the Prime Minister Anastase Murekezi.

3. The theme for 2016 taxpayers' day was "**Voluntary tax compliance, the pillar for self-reliance**". The aim of this theme was to emphasise the role of voluntary tax compliance in stimulating the nation's self-reliance. During the event celebrations, RRA took good opportunity to unveil a **HERE FOR YOU TO SERVE** campaign. This is the RRA promise to serve taxpayers in a friendly, helpful and professional manner. Primary role of RRA is to serve taxpayers.

4. Furthermore, a new tax awareness and social media strategy was implemented with the help of a communication consultant, Fideli. In this regard, RRA publicised relevant information to its stakeholders through different communication channels and launched a **HERE FOR YOU TO SERVE** campaign. TV and radio talk shows were conducted on TVR, Isango TV, Radio Rwanda, KISS FM, Flash FM, Community Radios, Umucyo Radio and Isango Star.

5. Also online media like newtimes.co.rw, igihe.com, umuseke.com, makuruki.rw and isange.com were used to disseminate RRA information.

6. Print newspapers like Imvaho Nshya, The Newtimes, The East-African as well as social media platform like Twitter, Facebook and YouTube were also used to inform taxpayers and the general public on different RRA programs and services.

7. Moreover, RRA updated its website with the aim of making its operations widely accessible. Finally, RRA continued to operate the call centre, on the 3004 toll-free number, to help adequately handle taxpayers' queries.

II.7. DISPUTE RESOLUTION

Taxpayer disputes were timely resolved through the RRA's appeal and amicable settlement committees. Alternative court litigation was required when taxpayers were not content with the results.

During the 2016/17 fiscal year, RRA had **1,177** appeal cases; this is a year-on-year decrease of 9% from the 1,294 appeal cases recorded in 2015/16. Of the **1,177** appeals in 2016/17, **899** were completed (of which 93 were received in fiscal year 2015/16 and 806 in fiscal year 2016/17), **169** were rejected (of which 8 were from 2015/16 and 161 from 2016/17) and **109** were carried forward into 2017/18.

The finalised appeals cases had the reassessed tax liability reduced by the appeal committee from Rwf 21.8 billion to Rwf 18.7 billion, representing an 18.2% reduction.

During the 2016/17 fiscal year, there were 109 requests received for amicable settlement. This is a year-on-year decrease of 23.8% from the 143 requests received in 2015/16. There were also 10 requests for amicable settlement cases brought forward from 2015/16 fiscal year, and in total there were 119 cases in 2016/17 fiscal, out of them 22 were completed, 77 were rejected and 20 were carried forward into 2017/18.

The amicable settlements had the tax liability reduced from Rwf 7.8 billion to Rwf 5.0 billion, representing 35.9% reduction. Also, 88 requests for waiver of penalties and interest were received and all of them were carried forward to the 2017/18 fiscal year.

Additionally, 116 cases were heard in the Courts of Law. This is a year-on-year decrease of 14.7% from the 136 cases heard in 2015/16. Among cases heard in the Courts in 2016/17 fiscal year, 93 were ruled in favour of RRA, **80.2%** of the total number of cases, compared to **55.1%** recorded in 2015/16. Also, 23 cases were ruled in favour of the taxpayers in 2016/17 fiscal year, **19.8%** of the total, compared to **36.8%** in 2015/16.

II.8. REVIEWING AND DRAFTING OF LEGAL INSTRUMENTS AND PROVIDING LEGAL ADVICE

During the 2016/17 fiscal year, RRA continued to provide advice on tax issues as mandated. RRA actively participated in:

- a) Drafting law modifying and complementing the Law n° 25/2005 of 04/12/2005 on Tax Procedures;
- b) Drafting the amendment of income tax law;

- c) Drafting law establishing Rwanda Revenue Authority and determining its organization, functioning and responsibilities;
- d) Drafting and publishing Commissioner General Rules modifying and completing Commissioner General Rules n° 002/2013 of 12/09/2013 implementing the Ministerial Order n° 002/13/10/TC of 31/07/2013 on modalities of use of certified electronic billing machine;
- e) Drafting the Ministerial Orders provided for in the draft law establishing taxes on income;
- f) Drafting and publishing Commissioner General Rules n° 01/2017 of 22/02/2017 governing the procedure for implementing zero rated goods and services intended for special persons;
- g) Drafting and publishing Commissioner General Rules n°02/2016 of 08/08/2016 determining the conditions and modalities of representation;
- h) Drafting and publishing Commissioner General Rules n° 01/2016 of 08/07/2016 determining the conditions for professional accountants certifying financial statements.

In addition, RRA actively participated in the negotiation and drafting of Double Taxation Agreement between the Republic of Rwanda and Morocco for avoidance of double taxation and the prevention of tax fraud and fiscal evasion. RRA also participated in the first round of negotiation of Agreement between the Government of the Republic of Rwanda and the Government of the Republic of Turkey for the Avoidance of Double Taxation.

Moreover, the following public rulings and ruling cases were prepared and published during the 2016/17 fiscal year:

- a) Ruling issued by the Commissioner General on article 27 of the law n° 25/2005 of 04/12/2005 on tax procedures as modified and complemented to date;
- b) Public Ruling issued by the Commissioner General on paragraph 3 of article 60 of the law n° 25/2005 of 04/12/2005 on tax procedures as modified and completed to date;
- c) Public Ruling issued by the Commissioner General on article 30 of the law n° 37/2012 of 09/11/2012 establishing the value added tax as modified and completed to date;
- d) Public Ruling issued by the Commissioner General on articles 1 and 2 of the law n° 37/2015 of 30/06/2015 modifying and completing law no 26/2006 of 27/05/2006 determining and establishing consumption tax on some imported and locally manufactured products as modified and completed to date;
- e) Public Ruling issued by the Commissioner General on article 15 of the law n° 37/2012 of 09/11/2012 establishing Value Added Tax as modified and completed to date;

- f) Public Ruling issued by the Commissioner General on article 1 (5°) of the law n° 02/2015 of 25/02/2015 modifying and complementing law no 37/2012 of 09/11/2012 establishing Value Added tax;
- g) Ruling case on VAT on transport for Bralirwa distributors;
- h) Ruling case on fictitious VAT inputs.
- i) Ruling case on non-using the Electronic Billing Machines.

III. PROGRESS ON THE MAIN MODERNISATION PROJECTS

During the 2016/17 fiscal year, RRA continued to implement various projects aimed at improving service delivery and enhancing revenue mobilisation. Key modernisation projects being implemented include the following:

III.1. ELECTRONIC BILLING MACHINES (EBM)

At the end of the 2016/17 fiscal year, 14,504 VAT registered taxpayers had EBMs. This represents a year-on-year growth of 26.8% from the 11,436 who had EBMs at the end of 2015/16. In addition, 16,907 EBMs were activated at the end of 2016/17. This represents a year-on-year growth of 27.7% from the 13,238 activated machines at the end of 2015/16. Furthermore, in FY 2016/17, 28,205,330 EBM invoices were issued compared to 25,158,446 recorded in FY 2015/16, representing a year-on-year increase of 12.1%.

There were a number of actions undertaken to encourage taxpayers to use electronic billing machines; these include:

- a) EBM staff members were deployed in various busy areas of Kigali City and in different provinces. In this regard 624 affidavits were established on non EBM compliance cases and 824 fines notifications were given to taxpayers. In addition, there were 14 special EBM operations that resulted into 4,319 premises visited, 318 affidavits established and 291 taxpayers registered for VAT.
- b) Closely monitored some restaurants, supermarkets, bars and night clubs and continuously checked and reported on the under-reporting of goods and services prices on EBM invoices.
- c) In a bid to increase awareness on the usage of EBMs, RRA conducted the second phase of the EBM promotion campaign dubbed "Izihirwa". Different winners were awarded with different prizes for demanding EBM receipts from merchants and submitting their number for a lottery; customers had a chance of winning exciting prizes worth millions of francs, including cars, motorcycles, flat screen television sets and smart phones.
- d) Carried out EBM lottery advertisement through RTV, live EBM tombola on RTV and participated in live talk shows, DJ mentions and spot publicity in KISS FM Radio, TVR and Radio Rwanda and sent short messages (SMS) to all telecom companies' subscribers in Rwanda reminding them their right and obligations on EBM usage.

- e) Held various meetings with taxpayers on EBM issues especially on the fictitious VAT input claims.
- f) Monitored EBMs whose SDCs were not reporting to the RRA server in order to identify reasons for not reporting. These reasons include, but are not limited to, Airtime, technical and nature of work issues.
- g) Different campaigns were conducted in various busy areas of Kigali City encouraging taxpayers to register their business in VAT, to use EBMs appropriately, and to sustain their bookkeeping as required by the law. There was deployment of an increased number of RRA staff to monitor EBM usage one day per week.

III.2. SUPPLY CHAIN MANAGEMENT SYSTEM (EBM II)

This project consists of development of the Supply Chain Management System (SCM) that shall help RRA monitor the stock movement from Customs/local manufacturer to retailer through wholesalers at all levels of business.

This system, also called EBM version 2, is an upgraded version of the current electronic registers that are used in the management of VAT.

The Supply Chain Management System was developed by KTNET through the support of KOICA. The Early Warning and Control System monitoring room has been established, the equipment to be used by the system has been delivered including 100 POS to cover the pilot phase, the needed web services were developed, IT staff members are being trained on the usage of the systems and the system is now at the piloting phase with 50 taxpayers. All identified issues have been corrected by the system provider.

III.3. E-TAX ENHANCEMENT

During the 2016/17 fiscal year, the following improvements and additions have been made to the e-tax systems:

- a) In a bid to improve the VAT declaration process and reduce the fictitious VAT input claims, RRA has enhanced the e-tax system to help taxpayers avoid claiming wrong VAT input credits while filing their declarations. The validation of VAT information provided in the declaration annexure has been successfully developed and incorporated in E-Tax. With effect from January 2017, all VAT declarations are processed together with the validation of all input VAT information attached in the annexure. The validation is basing on the existing EBM receipts data.

Furthermore, there were other improvements made on the VAT input validation controls to prevent taxpayers from claiming VAT purchase invoices that have future dates e.g. claiming invoices that were made in August when filing for July of the same year hence reducing the VAT payable for July.

- b) RRA has completed and tested a single unified declaration form for PAYE, pension and medical contributions declaration and have successfully piloted on 152 contributors. However, the activities to rollout the single unified declaration to all contributors have

been put on hold in order to include the new maternity leave scheme module into single unified declaration. This is expected to be fully launched by October 2017.

- c) The integration of Electronic Single Window system (ESW) for customs data exchange with E-Tax was implemented. Today, E-Tax is able to check the VAT retained at Customs through ASYCUDA world. This helps to deter the wrongful claims of VAT retained on imports and avoid double claims.
- d) The data exchange between RRA and RDB on company shareholders with their NIDs and other contact details of the company directors is now completed and implemented through E-Tax.
- e) RRA developed and implemented the standardized financial statements schedules for balance sheet and income statement under E-Tax.
- f) Completed the following system capabilities within the refund module being developed: automated refund case identification from all VAT declarations submitted, automated identification of refund sources, refund case assignment system process, automated refund case management and approvals, automated refund case tracking, system based refund case re-allocation to another staff, automatic computation of the total number of days on case per officer, online request for privileged persons refund, automated processing of refund audits; and automated refund adjustments process, indicating the original figures and the adjusted figures within the refund module.
- g) The enforcement, audit, appeal & objections modules are being developed to automate their processes within DTD. Business requirements specifications were clarified and re-submitted to TCS developers. Development activities for these modules are ongoing and are planned to be completed by September 2017.

III.4.COLLECTION OF LOCAL GOVERNMENT REVENUE

RRA continued collecting rental income tax, trading licenses, fixed asset tax and fees on behalf of districts during the 2016/17 fiscal year. Total local government revenue collection (both tax and fees) for the 2016/17 fiscal year amounted to Rwf 47.9 billion. This achieved 97.3% of the Rwf 49.2 billion target, a shortfall of Rwf 1.3 billion.

Local government taxpayers' registration for the three taxes continued across the country. At the end of the 2016/17 fiscal year, 304,591 registered taxpayers were captured in the system as compared to 238,310 at the end of 2015/16; this is a year-on-year growth of 27.8%.

Compliance and enforcement activities were carried out using interns from National Capacity Building Secretariat. During this exercise, the recruited interns facilitated and supported taxpayers to declare and pay using mobicash, mobile money and banks; registered new taxpayers and deregistered those who requested for the same; explained to the newly registered taxpayers their obligations to pay the different taxes and fees; engaged and monitored newly identified taxpayers to help them understand their tax obligations;

advised tax payers to use cell phones on land lease declarations; and conducted joint field visit together with outsourced Company (Ngali Holdings) in Kigali city.

The RRA has provided tax education on local taxes to 1,230 new taxpayers registered in 2016 from Muhanga, Musanze, Bugesera and Rubavu Districts and from Gitega Sector in Nyarugenge District. Also provided tax education on local taxes, VAT input validation and other taxes to over 300 local taxpayers in Rubavu District and carried out a drama production with 24 episodes for local taxpayers.

III.5. RWANDA ELECTRONIC SINGLE WINDOW AND CUSTOMS MANAGEMENT SYSTEMS

Developments accomplished during the 2016/17 fiscal year to upgrade Rwanda electronic Single Window (ReSW) include the following:

- a) **Development of an e-certificate of origin:** eight types of preferential certificate of origin issued by Customs have been automated and implemented at national level.
- b) **Regional customs interconnectivity:** data exchange interfaces with other EAC countries developed during the initial stage of Single Customs Territory had many technical issues that caused data migration failure and affected the Single Window performance system. RRA conducted a comprehensive review of data exchange interfaces with other Revenue Authorities, which made the interfaces more stable.
- c) **Upgrade of interfaces to link ReSW and other Ministries/Governmental Agencies:** the integration of ReSW with different modules of other Government Agencies – namely RAB, NAEB and Ministry of Health – has been completed. Currently 270 export certificates issued by the above agencies are transmitted (request and issuing) into ReSW.
- d) **Licensing of warehouse operators' module:** this module enables all warehouse operators to apply and get an operating license online. Development, testing and training of users was completed and the licensing is done through the Electronic Single Window System.
- e) **Support implementation of the Automated System for Customs Data (ASYCUDA) on Personal Digital Assistant (PDA) devices:** this output has been cancelled and replaced by the M-declaration to facilitate traders importing goods with a CIF value below 500,000 Frw. Initially, it was planned that Customs officers would use the PDA wherever they are to release the consignments even during non-working days; however, it was found out that they have to be in the office since they need to consult the Customs tariff book or Customs valuation database to ensure the accuracy of the declaration. The new output of M-declaration introduced facilitates small cross-border traders to declare their consignments in Customs through mobile phones via SMS and/or internet. The module has been developed and it is currently in use.

- f) **ASYCUDA performance indicators:** this aims to objectively assess the activity of its structures and its officers, as well as that of its partners from the private sector. The implementation is performed in two phases: descriptive and prescriptive. It will make use of a United Nations Convention on Trade and Development ASYCUDA Performance Measurement (UNCTAD ASYPM) Handbook and a World Customs Organization (WCO) Guide describing the performance measurement approach step by step. Data and user requirements have been gathered however the live implementation of the module is not yet completed.
- g) **Technical and Business support:** technical support and the coaching of local IT team have been done through the development of the following modules:
 - i. *Arrears and enforcement module is operation and all statements of offences are captured in the Electronic Single Window.*
 - ii. *Appeal module has been implemented and appeal cases are registered in ESW.*
 - iii. *Online licensing of clearing agencies and transporters to facilitate licensing exercise.*
- h) **Petroleum products management:** this module manages the evaporation of petroleum products. It writes off quantities imported vis a vis the quantity warehoused; quantities warehoused vis a vis the quantity declared; and quantities declared vis a vis the quantity exiting from petroleum depots. Currently the requirements of gathering, development, testing and live deployment have been successfully completed.
- i) **Electronic query:** this module allows customs administration and the trading community to query entries on customs declaration. The module was developed, tested and implemented to replace manual procedure.

III.6. ELECTRONIC CARGO TRACKING SYSTEM (ECTS)

In March 2017, Rwanda Revenue Authority commissioned the Electronic Cargo Tracking System, joining its partners in Kenya and Uganda. The system connects the three countries' electronic cargo tracking systems, enabling them to jointly track cargo from port to destination on a twenty-four-hour basis.

The ECTS is expected to enhance cargo security and curb diversions that will ultimately reduce transit time, cost of cargo transportation and enhance transparency as all stakeholders will have access to the system.

The following activities were carried out to allow implementation of ECTS:

- a) The ECTS Control Monitoring Center was completed and fully equipped. Four RRA Staff were deployed and they are now tracking trucks in transit.
- b) All (14) ECTS servers were delivered, tested and accepted. Among the servers' components delivered include 3 storages to back up data, 2 firewalls, 4 switches and 2 load balancers.

- c) 1,500 E-seals were delivered, tested and they are currently in use.
- d) Conducted trainings to customs staff, rapid response unit, business analyst, IT and Control Monitoring Center staff on the basic functionality of ECTS system.
- e) Validation of the Standard Operating Procedure Manuals for CMC, rapid response unit and system users.

III.7. AUTHORISED ECONOMIC OPERATORS (AEO)

The Authorised Economic Operators project is still ongoing. The following activities were performed during 2016/17 fiscal year:

- a) Met with regional Authorised Economic Operators on AEO program to update them on the status of the program and the compliance level expected from them.
- b) Conducted training on Risk Management, Post Clearance Audit and Project management: in 2016/17, five RRA officers were trained in Risk Management, three in Post Clearance Audit and four in Project Management.
- c) Conducted sensitization for staff, Clearing Agencies, Other Government Agencies and Operators in Kigali and at 2 Borders. 345 people have been sensitized and the campaigns were held in Kigali and at Kagitumba and Cyanika Border posts.
- d) The AEO joint working group, composed of representatives from RRA (4), Operators (4) and Cross Border Regulatory Agencies (10), has been appointed and it held its first meeting. The meeting objective was to brief the participants on the progress made on the AEO program since its implementation and discuss the terms of reference of the working group. The group recommended including new agencies as members of the joint working group, frequency of the meeting and the composition of the bureau.
- e) A training of trainers was organised by the World Customs Organization in Mombasa and it was attended by a number of AEO project members and training coordinators within the EAC. Its objective was to enhance the capacity of the AEO project team members in the area of AEO validation so that they can train others in their respective countries.
- f) A regional communication strategy has been developed and it awaits for the approval by the regional project steering committee by December 2017.

III.8. DATA WAREHOUSE, RISK MANAGEMENT AND BUSINESS INTELLIGENCE SYSTEM

The Data Warehouse team continued to train RRA staff on using the system. During the 2016/17 fiscal year, six training sessions were organised and 104 RRA staff members from

different departments – mostly DTD (SMTO, LTO and R&DT), CSD, RI&ED and Finance – were trained.

Continuous offshore support was provided which focused on fixing issues encountered by the system users. Onsite support by ITEC Consultants was carried out in March 2017; issues identified by users were resolved.

Five (5) new risk rules were configured and 20 other rules were revised with the help of ITEC Consultants. The revised rules are mostly in preparation for Risk Audit.

New data in e-tax enhancement was integrated with Data Warehouse System:

- i. IREMBO Rwanda online system was integrated with Data Warehouse System and testing was completed.*
- ii. Enhanced integration of EBM to E-Tax was done to facilitate verification of receipts while taxpayers are declaring VAT inputs. Testing was done before deployment.*
- iii. Different E-Tax annexes were also integrated with Data Warehouse System.*

The automated performance measurement reports were designed in the Data Warehouse System focusing on four RRA core functions (registration, filling, payment and accurate report).

III.9. TAXPAYER REGISTER CLEAN UP

The taxpayer clean-up project was created to address the inaccurate and low reliability of taxpayer information (taxpayers' registry in RRA). The project started with piloting on Large and Medium Taxpayers that contribute over 80% of RRA total collections. The first phase of updating the registration details of all large and medium taxpayers was completed successfully in FY 2015/16.

During 2016/17 fiscal year, RRA recruited 60 interns to clean up the small taxpayers' register. These interns were trained on how to carry out the exercise. By end June 2017, 118,661 taxpayers' information was updated against the target of 165,435 to be updated.

III.10. ACCOUNTING AND REPORTING SYSTEM SAGE X3

The contract for supply and implementation of the accounting and reporting system SAGE X3 was signed on 17th June 2016. After signing the contract, the following tasks were completed:

- a) Scoping mission and system configuration to RRA business.
- b) End user and super user training.
- c) User Acceptance Test (UAT) and data migration.
- d) Go live and post go live support.

IV. ACHIEVEMENTS TOWARDS STRENGTHENING INTERNAL CAPACITY

During the 2016/17 fiscal year, a number of activities were performed by RRA in order to enhance the sustainability and security of IT systems, strengthen human resources management, internal control systems and skills capacity. Below are some of them:

IV.1. ENHANCE RRA OPERATIONS THROUGH ICT SYSTEMS

In addition to the IT developments mentioned in section III of this report, there were other key activities carried out by RRA aimed at enhancing the sustainability and security of IT systems. These include:

IV.1.1. Data centre refurbishment and establishment of a new Disaster Recovery Site

The data centre refurbishment project was carried out since 2015/16. The new disaster recovery site was established in August-September 2016 and training of IT staff members in charge of data centre management was conducted in December 2016. The training was covering the Red Hat Systems Administration and the DELL switching as well. Today the new data centre equipment is fully operational.

The fire protection system and cooling system are being reviewed. By end June 2017, the fire protection system has been installed while the cooling system was being installed.

IV.1.2. Audit Trail and Database Firewall project

The audit trail and database security system helps to increase database security by proactively monitoring database activity on the network and inside the database together with protecting against potential malicious activities. Moreover, it provides extensive reporting and alerting capabilities that provide auditors and security personnel with access to detailed information and early warning alerts on potential malicious activity.

The tender for Audit Trail and Database Firewall project started in FY 2015/16. The installation has been completed and the system is live. Currently, the system is in post-implementation support period.

IV.1.3. IT security awareness campaign

Continual users' training on IT security is essential, and so RRA staff working at Head Quarters, Kanombe Airport and Customs Gikondo have obtained an opportunity to be

trained on basic IT security and safety. Moreover, all RRA staff members were introduced to IT security during the general staff assembly.

IV.2. STRENGTHEN HUMAN RESOURCES MANAGEMENT

RRA performed a number of activities that contributed to the development of staff capacity and achievement of efficiency in its service delivery and other set targets. These include:

IV.2.1. ENHANCING STAFF CAPACITY

IV.2.1.1. Training courses delivered

During the 2016/17 fiscal year, RRA conducted 30 planned major training courses out of 38 that were planned. The attendance number for these 30 courses was 2,930 out of the 2,230 that was initially targeted.

The main reasons for not covering the planned courses are:

- a) EAC Certificate in Customs Administration: RRA is still waiting for the accreditation of the program by the High Education Council. The application was introduced to the University of Rwanda.
- b) ESAMI (MBA in Customs Administration): RRA is still waiting for sponsorship from PFM basket. However, a candidate has been selected.
- c) Training on classification of highly technical products (chap 84, 85, 90): negotiations were still ongoing with a skilled institution to deliver this training.
- d) Call centre benchmarking program has been carried forward to next fiscal year (2017/18) to allow time to identify a centre of reference.
- e) Other training like managing a training function, how to conduct a training needs assessment, talent management and succession planning, were also carried forward to 2017/18 fiscal year due to some strategic changes in the corporate plan.

On the other hand, there were three unplanned training courses conducted and attended by 26 staff members. These unplanned courses were conducted in respect of the RRA's urgent needs by incorporating some new courses proposed by different departments.

In total, during the 2016/17 fiscal year, 33 training courses were conducted (planned and unplanned) and attended by **2,956** RRA staff members. The number of attendance increased by **72%** in comparison with the status of 2015/16 fiscal year. The main reason for this high increase is the training on processes and procedures through RRA e-learning platform that was completed by **1,017** staff members.

IV.2.1.2. Professional courses attended

In order to enhance the capacity of employees of public institutions, the Government of Rwanda has encouraged and sponsored some public institutions to allow their staff to take

professional courses. It is in that context that since 2010, RRA employees have benefited from studying professional courses sponsored by the Government of Rwanda through the Ministry of Finance and Economic Planning.

In 2016-/17 fiscal year, 275 RRA employees undertook professional courses as follows: 46 RRA staff undertook the Association of Chartered Certified Accountants (ACCA), 188 staff undertook the Certified Public Accountants (CPA) and 41 staff undertook the Certified Accountant Technicians (CAT).

IV.2.1.3. Cooperation with partners in strengthening skills capacity

1. Cooperation with KOICA

With KOICA cooperation, the following activities were performed: Training on Development skills for Domestic Tax Officers (Development Skills Enhancement); Training on Development skills for Domestic Tax Officers (Tax Audit); Project Management Enhancement; Project Management for IT; Oracle Advanced; and HS Classification.

2. Cooperation with JICA

JICA works together with African countries for developing economic corridors and construction of One Stop Border Post for trade facilitation. During 2016/17 fiscal year, the following activities were carried out under cooperation with JICA/WCO:

- a) Provided a refresher course on the harmonised system for master trainers; this was held in Kenya and attended by five RRA staff.
- b) Provided the 4th refresher course on customs valuation; this was held in Tanzania and attended by five RRA staff.
- c) Provided the 3rd refresher course on intelligence analysis, which was held in Uganda and attended by three RRA Staff.
- d) Organised a workshop on risk assessment and selectivity, held in Tanzania and attended by four RRA Staff.
- e) Conducted a joint evaluators' meeting for the terminal evaluation of Japanese technical cooperation for the project on capacity development for TFP in EAC, which was held in Kenya and attended by two RRA Staff.

3. Cooperation with WCO-ESA ROCB

The World Customs Organization (WCO), East and Southern Africa Regional Office for Capacity Building (ESA ROCB) in their efforts to build capacity for the national customs administrations has organised different workshops in order to build a body of knowledge in the East and Southern Africa Region. The following training sessions and workshops were organised and attended by RRA staff during 2016/17 fiscal year:

- a) The 2nd WCO Regional Training of Trainers workshop focusing on empowering the trainers. The Workshop was held in Mauritius in September 2016 and attended by one RRA staff member.

- b) The 3rd Online training of trainers (TOT) on trade facilitation agreement for TOT Team and non-TOT participants. Two RRA staff followed it from 1st to 30th April 2017.
- c) The WCO organised a Regional Workshop for ESA on customs valuation and transfer pricing held in Zimbabwe from 20th to 24th February 2017, and was attended by one RRA staff member.
- d) The ROCB collaborated with the WCO in supporting providing members with WCO revenue packages materials, accessible through the WCO ESA ROCB member's online website.
- e) The 7th Knowledge Academy for Customs and Trade focusing on the development of technical skills for customs and trade practitioners was held from 19th to 24th June at WCO Headquarters.

4. Cooperation with Her Majesty Revenue & Customs (HMRC)

Under cooperation with HMRC, the following training courses were delivered: Performance Management for Lead Trainers attended by 14 RRA Staff; Performance Management for Staff attended by 145 RRA Staff; Performance Management for Senior Managers attended by 26 RRA staff; Investigation Skills attend by 26 RRA staff.

5. Cooperation with the US Treasury

Under cooperation with US Treasury, the following courses were delivered: Developing Skills for Domestic Tax Officers in Practice on Direct Examination Timesheet and Debt Management.

6. Cooperation with ATAF

Under cooperation with ATAF, four RRA staff completed Master program (one in Tax Policy, one in Finance and two in Leadership and Organizational Design); seven RRA staff successfully completed an online course on introduction to tax audit. Unfortunately, they could not attend the face-to-face intermediate seminar on tax audit organised by ATAF in Tanzania, which was mandatory to qualify for certification.

7. Cooperation with EAC Secretariat

Under cooperation with EAC Secretariat, RRA representatives attended a meeting held in Kampala/Uganda on review of implementation of the EAC Customs training curriculum. The purpose of the meeting was to review the EAC Customs Training Curriculum; review the accreditation of the EAC Customs training Curriculum; the progress made towards preparing Institute of tax administration as an EAC centre of excellence on customs and tax training; review of the EAC curriculum for training clearing agents; and draft a roadmap on EAC customs training for the next five years.

RRA representatives attended a meeting held in Dar-es-Salaam (Tanzania) on the Single Customs Territory (SCT) capacity building and change management technical working group. The purpose of the meeting was to consider the status of the implementation of the SCT; to prioritise the issues to communicate to stakeholders; prepare an update on the implementation of the SCT; and develop a mechanism for sustainable coordination of the capacity building and change management for SCT.

8. Cooperation between University of Rwanda (UR) and Rwanda Revenue Authority

The accreditation of the EAC Customs curriculum by the Customs training institutions in partner states has been ongoing process. In an effort to secure the accreditation of RRA Customs curriculum, RRA has opted for using the MOU with UR-CBE (University of Rwanda-College of Business and Economics) as a collaborating higher learning institution or national accreditation body.

Given the change in the Customs operating environment and accreditation requirements, there was need to review the Customs Training Curriculum for the postgraduate program which will specifically provide specialised training in the concept and skills involved in the Customs administration process as well as providing solid grounding in the legal background at national and international level. The program will also offer advanced research skills to cope with trade and Customs data analysis and provide a good link to a master level. In view of the above, the following progress has been registered during 2016/17 fiscal year:

- a) RRA representatives met with representatives of UR-CBE (University of Rwanda-College of Business and Economics) to review the requirement for submission of the Customs curriculum to the High Education Council (HEC) for its accreditation.
- b) There was a retreat with UR experts to review production process of the new curriculum composed of Program Specification Form (PSF); Program Proposal Form (PPF) and Module Description Form (MDF) that is composed of nine modules.
- c) The program has been approved up to college level and there is a need to re-write the comprehensive training material.

9. Cooperation between RRA- RWAFFA

The Federation of East African Freight Forwarders Associations (FEAFFA) partnered with Revenue Authorities in EAC member states to launch a formal training program for practitioners in the customs clearing and freight forwarding sector.

The program aims to equip practitioners with improved technical skills and professional ethics in line with emerging trends in industry dynamics; this culminates into an award of a certificate after six months of intensive training. This certificate, titled "East Africa Customs Freight Forwarding Practicing Certificate" (EACFFPC) is intended to become the main criteria for licensing of Customs Clearing Agents (CCA) by the Revenue Authorities in the EAC. During 2016/17 fiscal year, RRA has been able to coordinate the 10th and 11th intake of the

EAFPPC. Overall, 112 candidates have qualified for the award of the EACFPPC during 2016/17 fiscal year.

10. Cooperation with Carnegie Mellon University - Africa

In May 2017, the Rwanda Revenue Authority and Carnegie Mellon University – Africa have signed a Memorandum of Understanding (MoU) that allows the two institutions to work towards enhancing data science capabilities in tax administration.

In the last three years, RRA has improved its data analytics capability through development of its Data Warehouse and Business Intelligence systems. RRA has since realised that it needs to expand its capabilities in the areas of IT and data science in order to take a modern approach to tax administration.

Thus, RRA has made it a key priority to build capabilities to make better use of the data it holds about its taxpayers and exploit data sharing opportunities with third party institutions. The expectation is that it will then make more effective resourcing decisions to improve compliance and give taxpayers a better service. Similarly, the use of information technology is driving the way that RRA thinks about its service delivery and internal processes.

Therefore, this MoU between RRA and CMU – Africa, a world-class institution known for excellent capacities in data science, is meant to enable the two institutions to engage in technical cooperation in line with the above mentioned vision.

IV.2.2. STAFF RECRUITMENT AND PROMOTIONS

During the 2016/17 fiscal year, 149 new permanent employees were recruited by RRA in order to fill vacant positions within different departments, of which 126 employees (84.6% of all new employees) were appointed in Customs Services Department and Domestic Tax Department.

At the end of the 2016/17 fiscal year, RRA had 1,277 permanent staff. This is a year-on-year growth of 8.4% from the 1,178 staff at the end of 2015/16. Permanent staff members were also supported by 115 police officers and 176 temporary staff (of which 116 equivalent to 65.9% worked for EBM project and 41 corresponding to 23.3% worked for the taxpayer register clean-up project as of end June 2017).

In addition, 53 RRA employees were promoted or confirmed to higher grades in order to fill vacant positions. Of these employees, 25 (equivalent to 47.2% of all promoted staff) were appointed in the Finance Department mainly due to the exercise of reviewing and restructuring this department that was conducted in 2016/17 fiscal year based on recommendations from a performance audit. All promotions were done in accordance with the terms and conditions of RRA's internal processes and procedures for staff.

IV.2.3. SENIOR MANAGERS APPOINTMENTS

In 2016/17, the Board of Directors appointed two new RRA senior managers as follows:

- a) Mr. Richard HAKIZIMANA NGABO, Commissioner for Finance Department, was appointed by the Board of Directors on 16th November 2016;
- b) Mr. Frank GATO, Deputy Commissioner for Finance Department, was appointed by the Board of Directors on 31st March 2017.

IV.2.4. STAFF INTEGRITY MANAGEMENT

Disciplinary investigations on 39 cases involving 44 staff members were carried out. Of these, 29 employees were sanctioned including 12 dismissals, while 15 were acquitted. The 44 staff members' cases involved the following malpractices:

- a) 17 concerned facilitating tax evasion.
- b) 1 was accused of unjustified increases in wealth.
- c) 1 concerned embezzlement of government collected revenue.
- d) 8 were accused of failing to abide by rules and regulations.
- e) 2 were accused of mismanagement of RRA budget.
- f) 3 were accused of tarnishing the RRA image.
- g) 11 were accused of other forms of malpractices.
- h) 1 was accused of deserting work without known genuine reason.

Out of the 44 staff summoned and investigated, 12 were dismissed compared to 7 dismissed in 2015/16, and 15 were acquitted. The remaining 17 officers received reprimands, suspension without pay, last, first and oral warnings.

IV.3. STRENGTHEN INTERNAL CONTROL SYSTEMS

During the 2016/17 fiscal year, the annual internal audit plan was fully implemented and the implementation of the internal, external and Quality Management System audit recommendations was reviewed on a regular basis.

As per the approved internal audit plan, 24 audit engagements were conducted and 235 audit recommendations were raised.

Out of 274 internal audit recommendations issued in 2013/14, 2014/15 and 2015/16 fiscal years that were still open at the beginning of 2016/17 fiscal year: 220 were fully implemented, representing 80.3% of the total; 38 partially implemented, 13.9% of the total; while 16 recommendations had not been implemented by the end of 2016/17, 5.8% of the total.

The implementation of the Auditor General's recommendations was reviewed on a regular basis within concerned departments. Good progress has been made in implementing the recommendations. At the end of 2016/17, out of 155 Auditor General's recommendations for 2013/14 and 2014/15 audit periods that were still open at the beginning of the fiscal

year: 108 were fully implemented, representing 69.7% of the total; 32 were partially implemented, 20.6% of the total; and 15 had not been implemented, 9.7% of the total.

The implementation of IT external (KPMG) audit recommendations was also reviewed. Out of 73 recommendations that were still open at the beginning of the fiscal year: 64 were fully implemented, representing 87.7% of the total; 6 were partially implemented, 8.2% of the total; and 3 had not yet been implemented, 4.1% of the total.

In order to continue the improvement of Quality Management System (QMS) to comply with ISO 9001:2008 requirements, the 15 planned QMS audits were conducted in different departments and 126 QMS audit recommendations were raised. The implementation of QMS audit recommendations for the previous periods was also reviewed. Out of 140 corrective actions raised in 2013/14, 2014/15 and 2015/16 fiscal years, 136 (97.1%) were fully implemented, while 4 (2.9%) were partially implemented as of 30th June 2017.

IV.4. MONITORING THE USE OF RISK REGISTERS AND IMPLEMENTAION OF COMPLIANCE IMPROVEMENT PLAN 2016/17

After developing the risk management policy, establishing risk management committees at corporate and departmental levels, and introducing a system of risk registration using online risk registers within every department, the following activities were performed during 2016/17 fiscal year:

- a) Put in place departmental electronic risk registers;
- b) Prepared a corporate risk register based on the risk escalations made by the Risk Management Committees;
- c) Held departmental and corporate risk management committee meetings on a quarterly basis for review, assessment, ranking and escalation of the identified risks;
- d) Established strategies to mitigate the identified corporate and departmental risks and prepared their annual implementation action plan;
- e) Reviewed risk ranking/status and prepared quarterly evaluation reports on risk mitigation implementation status. The final evaluation showed that implementation level of overall risk mitigation strategies was 67.5% as of end June 2017.

The compliance improvement plan for 2016/17 approved in June 2016 was implemented from July 2016 to June 2017 and implementation progress reports were produced on quarterly basis. Compliance actions planned for the construction sector, hotel sector, large, medium and small taxpayers were implemented at 80% as of end June 2017.

V. RRA'S EXPENDITURE FOR FY 2016/17

The total RRA approved budget for the 2016/17 fiscal year was Rwf 34.77 billion and RRA's expenditure was Rwf 34.13 billion, representing a budget utilisation of 98.1%.

Based on the total expenditure (including capital expenditure), RRA registered a cost of collection of 2.96%, while based only on operating expenditure the cost of collection was 2.57%.

The details of the expenditure in 2016/17 compared with 2015/16 are shown in Table 16.

Table 16: Total RRA expenditure in 2016/17

Expenses	Total amount FY 2016/17 (Frw)	Total amount FY 2015/16 (Frw)	% growth
Operating expenses			
Compensation of Employees	18,808,638,987	12,907,900,104	45.7%
Use of Goods and Services	10,693,911,627	6,988,503,394	53.0%
Social Assistance	53,376,091	6,150,000	767.9%
Other Expenses	95,058,714	72,654,582	30.8%
Total Operating Expenses	29,650,985,419	19,975,208,080	48.4%
Capital Expenditure	4,478,679,284	3,091,492,873	44.9%
Total Expenses	34,129,664,703	23,066,700,953	48.0%

Source: RRA, 2017

VI. KEY CHALLENGES FACED BY RRA IN FY 2016/17

Though we have reported good achievement during the last fiscal year, RRA encountered some challenges that include the following:

- a) Erosion of the existing tax base resulting from tax incentives and exemptions: Tax exemptions and incentives are provided to promote investment in the country. However, some of them jeopardize revenue and no proper monitoring and evaluation is done to enable a cost-benefit analysis that would guide policy makers while taking decisions on tax exemptions/incentives to offer. Efforts should be geared towards streamlining the existing tax incentives and exemptions.
- b) Transfer pricing and tax planning by large businesses and multinationals are on the increase while RRA has limited skills for tax auditors to deal with this challenge; this leads to revenue loss. RRA is trying to put in place the resources needed like skilled and experienced human capacity to deal with complex intra group transactions.
- c) Cash economy: Taxpayers have a behavior of making transactions using cash rather than using electronic systems such as bank cheques and credit/debit cards. This challenges RRA to ascertain the actual total business transactions made by taxpayers in a particular period. Currently, RRA is approaching this issue by encouraging taxpayers to use both ordinary and e-banking systems. This will sustainably resolve the issue of cash transactions in the Country. Interventions by other government

institutions e.g. MINECOFIN, BNR, are required e.g. putting a limit on amount of cash transactions.

- d) Some taxpayers still have poor compliance where they do not declare and pay their tax; declare but do not pay on time or intentionally lower their taxable income to evade tax. In addition, some taxpayers are still reluctant to use Electronic Billing Machines, which is one of the most effective tools to collect accurate tax information in real time. In addition, the culture of requesting for tax invoices by most Rwanda consumers is still very low.
- e) Some business operators still undervalue their goods during import clearance process while there has been an increase in smuggled items from neighbouring countries. Both of these negatively affect revenue collections.
- f) Most citizens are not yet willing to paying Land Lease Fees and there is insufficient cooperation by some district leaders for enforcement of Local Government taxes and fees.
- g) Continued staff turnover due to RRA's inability to attract and retain highly qualified and competent staff. From July 2016 to June 2017, RRA recorded 30 employees who left voluntarily composed of 17 resignations and 13 leave of absence cases. This is an increase of 11% from 27 who left voluntarily in 2015/16. Of the 30 employees who left voluntarily, 2 were senior managers, 4 were middle managers while 24 were technical staff. Although in general the number is not alarming, we did lose a number of skilled and experienced staff and this adversely affected RRA performance and service delivery.

VII. CONCLUSION

In 2016/17 fiscal year, RRA registered a tax revenue performance of 100.5% resulting in a tax revenue growth of 10.1% compared to the 2015/16 fiscal year tax collection. Several factors contributed to this performance in different directions and magnitudes. The achievement of the revenue target confirms the RRA's ability to effectively and optimally mobilise the revenue needed to finance Rwanda's development goals and to ultimately help ensure that Rwanda becomes self-reliant in the near future.

The challenges that were not resolved in the 2016/17 fiscal year have been noted and considered in the 2017/18 RRA action plan. We hope the good record registered will be maintained for the years ahead. This requires identifying potential areas where revenues may be evaded or avoided and focusing on other key areas that influence revenue performance.