RRA ANNUAL ACTIVITY REPORT 2015/16

RWANDA REVENUE AUTHORITY
TAXES FOR GROWTH AND DEVELOPMENT

RRA

OUR VISION

To become a world-class efficient and modern revenue agency, fully financing national needs.

OUR MISSION

Mobilise revenue for national development through efficient and equitable services that promote business growth.

OUR CORE VALUES

Integrity
Transparency
Professionalism
Customer focus
Team work

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FOREWORD BY THE CHAIRPERSON BOARD OF DIRECTORS

Under the governance of the Board of Directors, Rwanda Revenue Authority continues to implement the reforms necessary to fulfil the vision of "becoming a world-class efficient and modern revenue agency, fully financing national needs." This Annual Activity Report highlights the numerous improvements made by RRA over the 2015/16 fiscal year.

This report also provides a detailed analysis of the revenue collections within the 2015/16 fiscal year. Through dedication and determination, RRA achieved the revenue target. This is crucially important, as even when implementing long-term strategic reforms, we cannot afford to lose sight of our short-term obligations as an institution.

There is a high level of responsibility placed upon RRA. The development goals of the Government of Rwanda depend upon increasing domestic revenues, as does the national aim of fiscal self-reliance. The continued improvement to a current tax-to-GDP ratio of 16.1% is evidence of the seriousness with which RRA takes these responsibilities and ambitions.

In turn, RRA shares this responsibility with its most important stakeholder: the Rwandan taxpayers. The focus upon improving service delivery and reducing the costs of compliance within the activities completed in 2015/16 show the commitment of RRA to work fairly with all Rwandan citizens, for our mutual benefit.

Overall, I would like to commend the RRA management, staff and stakeholders for their efforts over the 2015/16 fiscal year and emphasise to them, on behalf of the Board of Directors, our gratitude and also our conviction that RRA can continue to maintain this positive momentum going forward.

Yusuf MURANGWA

Chair Person of RRA Board of Directors

FOREWORD BY COMMISSIONER GENERAL

I am very pleased to present the Rwanda Revenue Authority Annual Activity Report for the 2015/16 fiscal year. This report highlights the activities, the successes and the challenges faced by RRA during the past year.

The 2015/16 fiscal year was very successful for RRA. Total tax revenue collections amounted to Rwf 986.7 billion, an achievement rate of 104.3% and a surplus of Rwf 37.5 billion from our original target. This revenue is of vital importance to our country's development, and through exceeding our target; RRA has been able to contribute even more towards the public spending and self-reliance of Rwanda.

This report contains in-depth analysis of tax collections by tax type. It also details the important micro- and macro-economic factors currently affecting tax revenues within Rwanda. This report also details the various administrative measures that have been introduced and enacted to boost revenue collections and service delivery in the 2015/16 fiscal year. Section 3 explains the progress of key modernisation projects within RRA, whilst Section 4 highlights the improvements to internal capacity within RRA made this year. Finally, this report highlights the expenditure of RRA, as well as the challenges that were faced during the past year.

I would like to wholeheartedly commend the staff and stakeholders who have contributed to such a successful year for this institution and thank them all for their efforts. In particular, I would like to praise the honesty and integrity demonstrated by the vast majority of taxpayers in meeting their tax obligations in full and on time during the past year. Our success is truly a shared effort and I wish to remind all taxpayers that RRA is "HERE FOR YOU – TO SERVE".

Together, we will strive to improve and overcome the challenges faced in the 2015/16 fiscal year, and look forward to continued success as an institution and as a country in the future.

Richard TUSABE

Commissioner General

BOARD OF DIRECTORS

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Board Chairperson

Rwamuganza Caleb
Board Vice-Chairperson

Rwangombwa John
Board Member

Safari Innocent
Board Member

Uwase Peace
Board Member

Rugira Alice
Board Member

Gurmit S. Santokh
Board Member

Tusabe Richard
Board Member & RRA Commissioner General

SENIOR MANAGEMENT TEAM

Tusabe Richard
Commissioner General

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Deputy Commissioner General and
Commissioner for Corporate Services

Mwumvaneza Felicien
Commissioner for Quality Assurance

Kayigi H. Aimable
Commissioner for Domestic Taxes

Tugirumuremyi Raphael
Commissioner for Customs Services

Gakwaya Lawrence
Deputy Commissioner for
Large Taxpayers Office

Dada Richard
Deputy Commissioner for
Small and Medium Taxpayers Office

Gakwerere JM Vianney
Deputy Commissioner for Regions
& Decentralised Taxes

Musoni William
Deputy Commissioner for
Customs Services

Munyentwali Gad
Deputy Commissioner for Corporate
Risk Management

Kanyangeyo Agnes
Deputy Commissioner for
Planning & Research

Mugabe Robert
Deputy Commissioner for Revenue
Investigation & Enforcement

Ntihemuka Joel
Deputy Commissioner for
Information Technology

Muhirwa Seth
Deputy Commissioner for
Human Resource

Mukashyaka Drocelle
Deputy Commissioner for
Taxpayer Services

Mwesigye Patrick
Deputy Commissioner for
Administration & Logistics

Ntaganda Evarist
Deputy Commissioner for
Training

Kagame Charles
Deputy Commissioner for Legal
& Board Secretariat

Gato Frank
Ag. Commissioner for Finance

Mwebaze Augustine
Head of Single Project Implementation Unit

EXECUTIVE SUMMARY

In the 2015/16 fiscal year, the Rwandan economy grew by 6.5% in real terms and 9.0% in nominal terms. In contrast, nominal tax collections grew by 14.8%, resulting in the tax/GDP ratio increasing from 15.3% in the 2014/15 fiscal year, to 16.1% in 2015/16. This is indicative of the longer term progress being made by RRA.

Total revenue collections (including tax, non-tax and local government taxes and fees) amounted to Rwf 1,001.3 billion over the 2015/16 fiscal year. This achieved 104.3% of the Rwf 960.3 billion target, a surplus of Rwf 41.0 billion.

Tax revenues made up the vast majority of total revenues. Tax revenue collections totalled Rwf 986.7 billion. Disaggregating by broad categories, this was made up of 39.8% from direct taxes, 51.7% from taxes on goods and services and 8.5% on taxes on international trade.

Relative to the targets, the best performing tax type was import duties which achieved 121.7% of their target, whilst the worst performing tax type was mining royalties, which was hit by the fall in global mineral prices, and achieved only 58.2% of the target.

The number of taxpayers within the RRA taxpayer registry increased by 15.9% over this period, ending with a total of 152,791 taxpayers. In addition, the arrears collected from existing taxpayers grew by 25.0% to a total of Rwf 33.4 billion recovered within the year.

The Electronic Billing Machine (EBM) modernization project continued to make great progress. The number of EBMs that had been activated grew by 30.8% over the year, ending with a total of 13,238 active machines. In addition, the EBM lottery scheme continued to encourage consumers to request for EBM receipts and over Rwf 15,000,000 had been awarded to lucky winners as well as a flat-screen TV and a smart phone worth over Rwf 300,000 and 100,000 respectively.

Responsibility for the collection of local government taxes and fees was recently returned to RRA. Although collections were below target in 2015/16, registration had increased enormously from 40,013 registered taxpayers at the beginning of the fiscal year to 238,310 registered taxpayers by the end of 2015/16.

During the 2015/16 fiscal year, RRA’s expenditure was Rwf 22.9 billion, this is a budget utilization of 91.7%. Based on the total expenditure, RRA registered a collection-cost ratio of 2.2%, slightly above 2.1% set target.

RRA continues to face the challenge of the low compliance culture within the country, with significant taxpayer sensitization efforts aimed at reducing this weakness and emphasizing that RRA is “HERE FOR YOU”. In addition, RRA also continues to face the challenge of administrative inefficiency due to high turnover of the most experienced and competent staff.

The activities completed within 2015/16 have built strong foundations for future success.

1. REVENUE PERFORMANCE

Total revenue collections (including tax and non-tax, but excluding local government collection) were Rwf 1,001.3 billion in the 2015/16 fiscal year. This achieved 104.3% of the Rwf 960.3 billion target, a surplus of Rwf 41.0 billion. This represents a year-on-year growth of 14.8%, up from 12.7% in 2014/15. In nominal terms, total revenue collections increased by Rwf 129.0 billion. Figure 1 below displays the details of revenue collections by broad categories.

Of the total revenue collections, Rwf 14.6 billion were non-tax revenues in the 2015/16 fiscal year. This achieved 131.8% of the Rwf 11.1 billion target, a surplus of Rwf 3.5 billion.

Of the total revenue collections, Rwf 986.7 billion were tax revenues in the 2015/16 fiscal year. This achieved 103.9% of the Rwf 949.2 billion target, a surplus of Rwf 37.5 billion. This represents a year-on-year growth of 14.8%, up from 12.5% in 2014/15. In nominal terms, tax revenue collections increased by Rwf 127.5 billion.

Local Government (LG) taxes and fees collections totaled Rwf 40.5 billion in the 2015/16 fiscal year. This achieved 88.4% of the Rwf 45.8 billion target, a shortfall of Rwf 5.3 billion. This represents year-on-year growth of 1.0% and a nominal increase of Rwf 0.3 billion.

Figure 1: Details of revenue collections by broad categories, in Rwf billions:

	Actual 2015/16	Target 2015/16	Variance 2015/16	Achieve-ment Rate	Actual 2014/15	Growth 2015/16
Total Revenue	1001.3	960.3	41.0	104.3%	872.3	14.8%
Non-Tax Revenue	14.6	11.1	3.5	131.8%	13.2	11.1%
Tax Revenue	986.7	949.2	37.5	103.9%	859.1	14.8%
Direct Taxes	392.5	390.8	1.7	100.4%	358.7	9.4%
Taxes on G&S	510.3	485.9	24.4	105.0%	436.9	16.8%
Taxes on Int'l Trade	83.9	72.5	11.4	115.7%	63.5	32.0%
LG Taxes and Fees	40.5	45.8	-5.3	88.4%	40.1	1.0%

1.1. Macroeconomic Factors Positively Affecting Revenue Performance

The Rwandan Franc depreciated significantly against the US Dollar in 2015/16. The Rwandan Franc depreciated by 7.1% against the US Dollar in the 2015/16 fiscal year, above the average of the previous three years of 4.9%.

As Figure 2 displays, across the four tax types of Net VAT Customs, Import Duty, Excise Duty Customs and WHT 5%, the total nominal increase year-on-year was Rwf 31.7 billion. Across these tax types, collections would have been Rwf 5.4 billion lower with average depreciation and Rwf 17.6 billion lower with zero depreciation.
Inflation increases the tax base and tax collections in nominal terms. Inflation in the Rwandan economy averaged 4.1% year-on-year during the 2015/16 fiscal year. This is up from 1.1% in 2014/15, and above the projected inflation of 3.5%.
Tax buoyancy measures the efficiency of the tax authority to collect revenue in response to changes in the tax base. The long term tax buoyancy rate of RRA (2003/04 to 2015/16) is 1.27, already indicating high efficiency. Moreover, Figure 3 displays the improving trend of tax buoyancy over this period. For the past four fiscal years, the tax buoyancy has been above the long-term average, with tax buoyancy of 1.64 in 2015/16.

1.2. Macroeconomic Factors Negatively Affecting Revenue Performance

The average nominal growth rates of the Rwandan economy are lower since the global financial crisis. Figure 4 illustrates the difference in growth trends before and after the crisis. If the Rwandan economy had continued to grow at pre-crisis levels, it is estimated that GDP would have been Rwf 422.0 billion higher in 2015/16.

Tax revenue collections are highly dependent upon the economic tax base. Applying the current tax-to-GDP ratio of 16.1%, this model predicts that tax revenue collections would have been approximately Rwf 67.9 billion higher in the 2015/16 fiscal year, if the Rwandan economy had continued to grow at pre-global financial crisis levels. Figure 5 shows the link between growth of GDP and tax revenues, each below long-term averages for the past four years.

The fall in global mineral prices, in addition to the VAT Zero-Rating policy on minerals, has severely reduced tax revenues from the mining sector. VAT from the mining sector fell by Rwf 1.7 billion and mining royalties fell by Rwf 1.1 billion year-on-year in 2015/16.

Low government spending in 2015/16 also reduced tax collections. WHT 15% from public institutions fell by Rwf 0.7 billion and WHT 3% fell by Rwf 2.0 billion year-on-year in 2015/16. Across all domestic tax types, payments (including withholding) from public institutions grew 4.3% year-on-year, whilst payments from private enterprises grew by 12.1%. Private enterprises accounted for 71.8% of total domestic payments in 2015/16, up from 70.3% in 2014/15.

Figure 2: Contribution to Year-on-Year Nominal Increase of Customs Collections in 2015/16

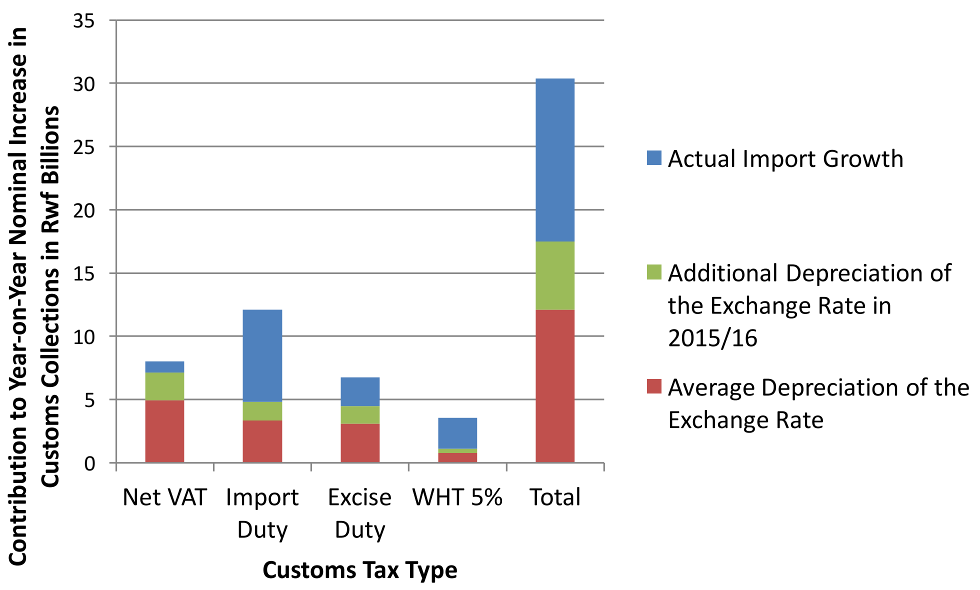


Figure 3: Fiscal Year Tax Bouyancy Rate Against Long-Term Average

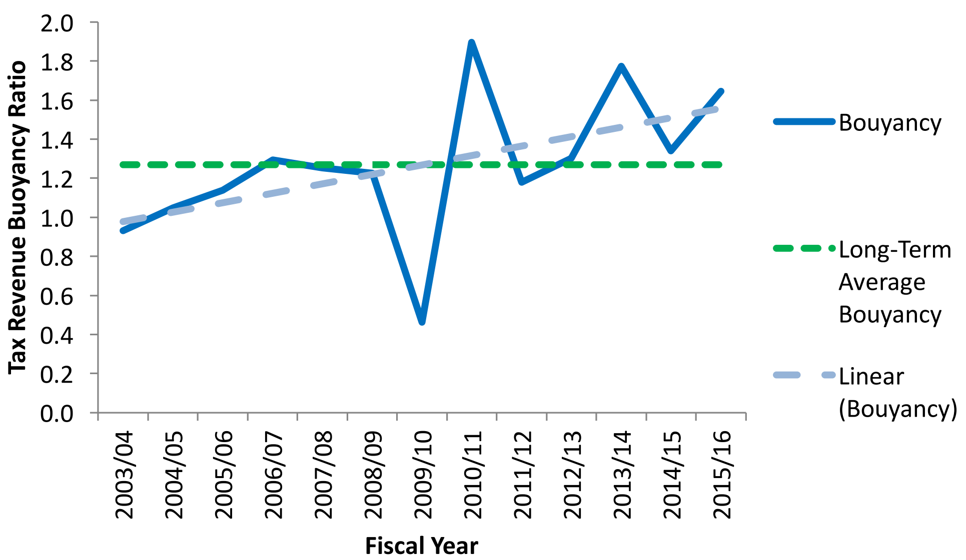


Figure 4: Nominal GDP Growth Trends Before and After the Global Financial Crisis

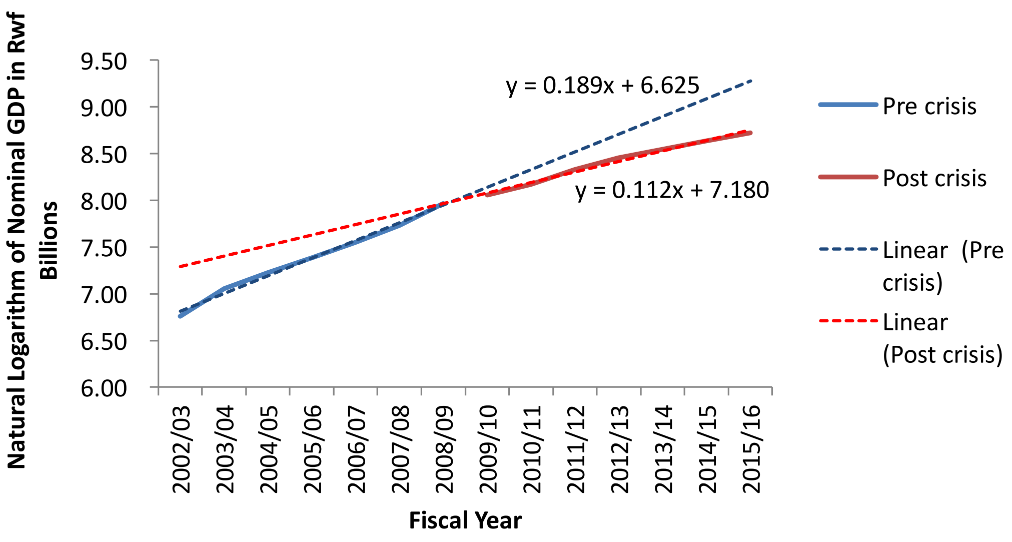
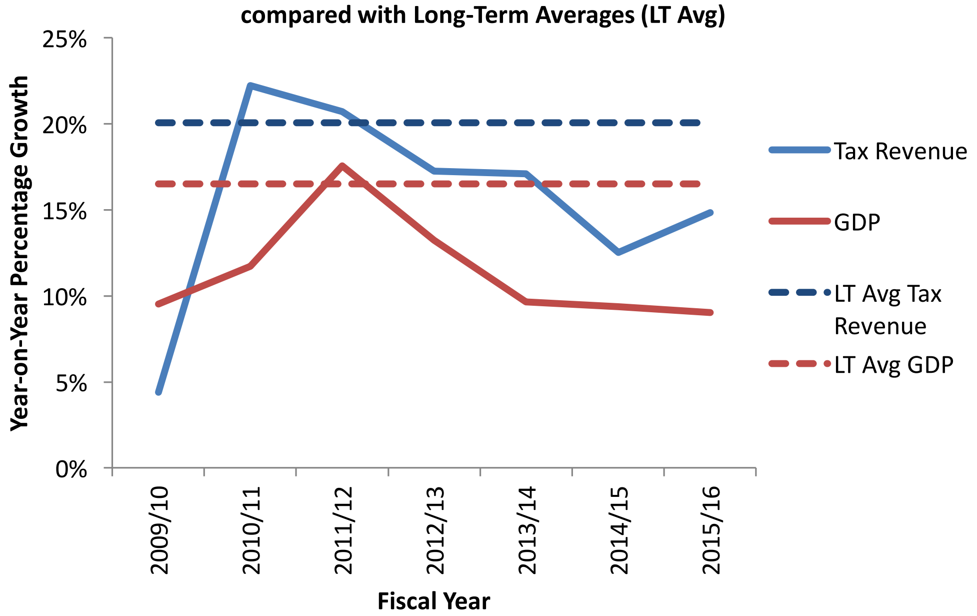


Figure 5: Nominal GDP and Tax Growth since the Global Financial Crisis, compared with Long-Term Averages (LT Avg)



1.3. Macroeconomic Fiscal Year Data

Figure 6 below displays the macroeconomic variables affecting revenue collections and subsequent measures of revenue efficiency and performance. This uses the rebased GDP data released by NISR in September 2016. Tax buoyancy is calculated by dividing the tax growth by the nominal (nom.) GDP growth rate.

Figure 6: Macroeconomic data by fiscal year

	Real GDP Growth	Inflation	Nom. GDP Growth	Tax Growth	Tax Buoyancy	Tax/GDP Ratio
2011/12	9.5%	7.5%	17.6%	20.7%	1.18	13.4%
2012/13	6.8%	4.7%	13.2%	17.3%	1.31	13.9%
2013/14	5.1%	3.6%	9.6%	17.1%	1.77	14.8%
2014/15	7.3%	1.1%	9.4%	12.5%	1.34	15.3%
2015/16	6.5%	4.1%	9.0%	14.8%	1.64	16.1%

Figure 7 below displays the contribution of each major tax type to the Tax/GDP ratio over the past five years. Figure 8 shows revenue collections against revenue targets.

Figure 7: Contributions to Tax-to-GDP Ratio by Tax Type

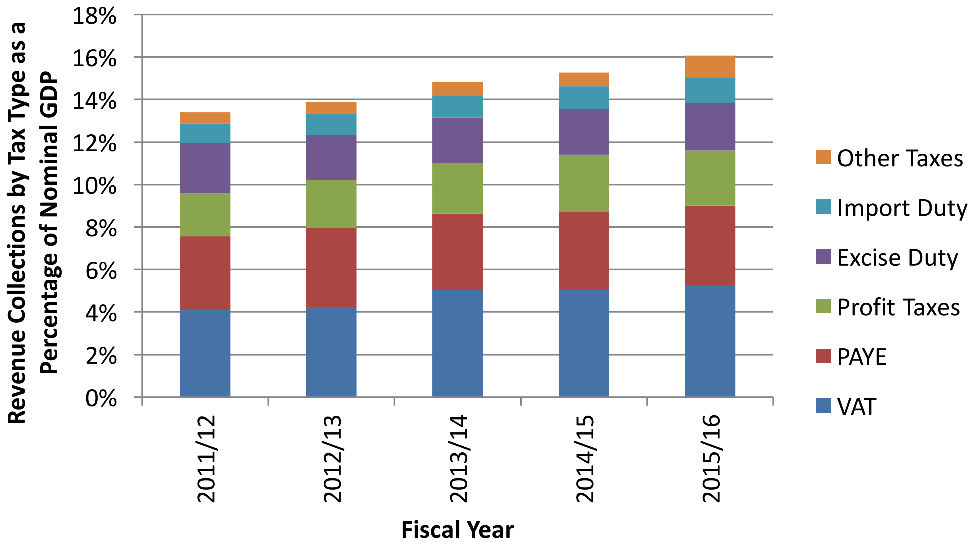
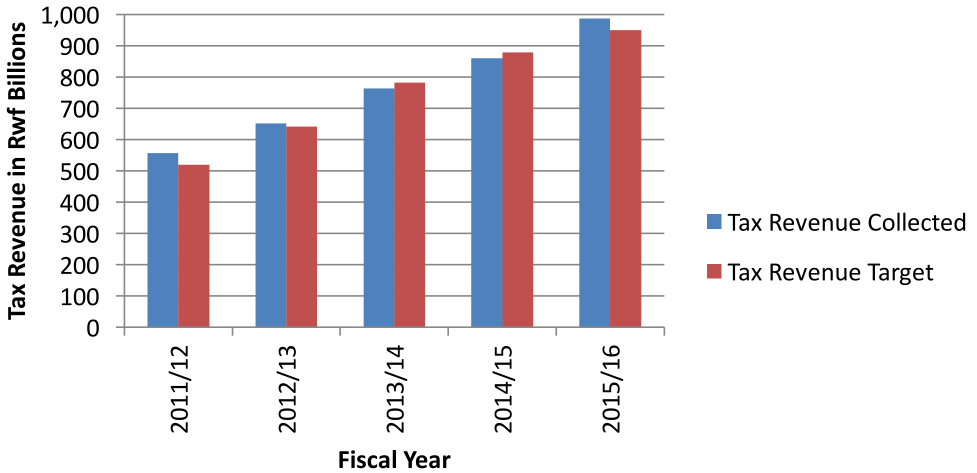


Figure 8: Fiscal Year Revenue Collections Against Revenue Targets



1.4. Microeconomic Factors Positively Affecting Revenue Performance

PAYE – Strong growth of the 'Construction' and 'Financial and Insurance Activities' International Standard for Industrial Classification (ISIC) sections. PAYE due declared by the 'Construction' sector grew by 34.8% year-on-year, a nominal increase of Rwf 1.6 billion. PAYE due declared by the 'Financial and Insurance Activities' sector grew by 8.5% year-on-year, a nominal increase of Rwf 2.1 billion.

VAT – Electronic Billing Machines (EBMs) are now owned by 11,436 taxpayers. Previous IGC research found that taxpayers using EBMs raised VAT payments by an average of 5.4%.

Excise – An amicable agreement with Bralirwa resulted in Rwf 3.5 billion paid in arrears.

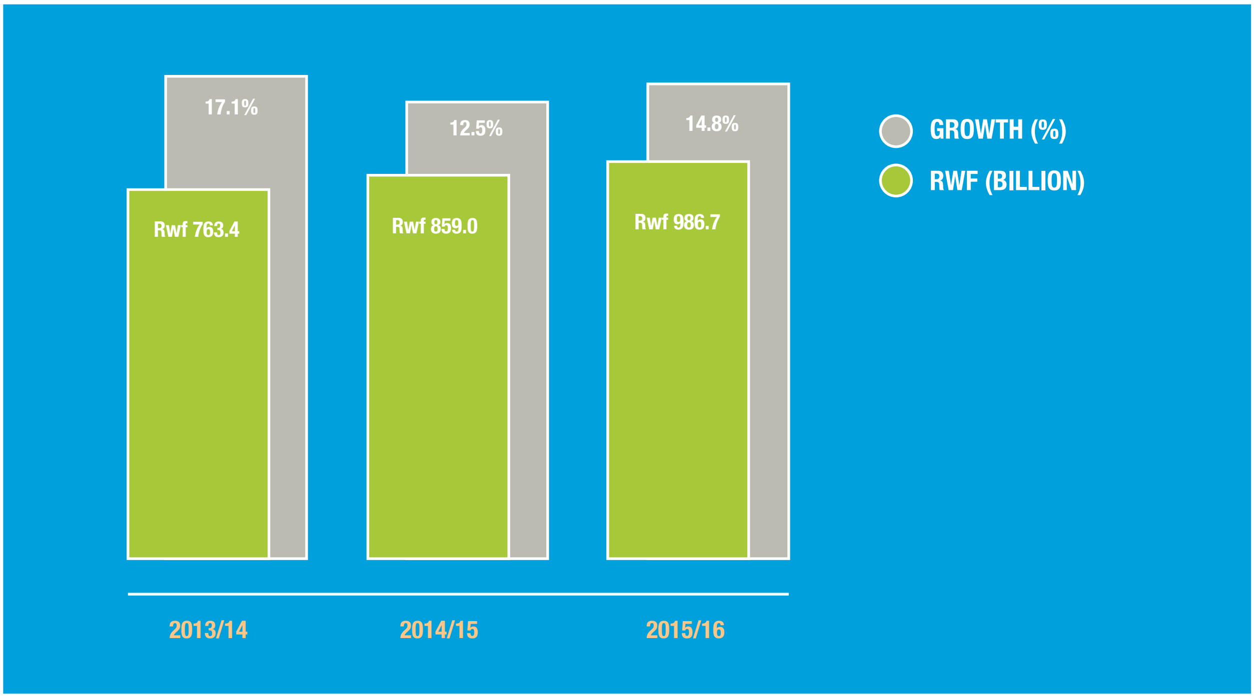
Import duty – Increased demand for non-EAC imports, which grew by 11.5%, compared to EAC imports, which grew by 0.1%, contributed approximately Rwf 7.3 billion of the Rwf 12.1 billion total nominal increase year-on-year for import duty.

1.5. Microeconomic Factors Negatively Affecting Revenue Performance

Excise Tobacco – Policy change in 2015/16 approximately doubled the price of cigarettes and subsequently reduced demand. Revenue projections did not fully take into account the behavioral implications of the price rise.

Infrastructure Development Levy – Delayed implementation and slightly over-ambitious targeting led to new tax type underperforming relative to the target.

Total Tax Revenues



2015/16

- **103.9%** Achievement
- **Rwf 37.4** Billion Above Target

Achieved 103.9% of the Rwf 949.2 billion target

Rwf 37.4 billion above target
Rwf 127.5 billion nominal growth

Rwf 986.7 Billion

14.8% year-on-year growth up from 12.5% in 2014/15

Tax/GDP ratio of 16.1% up from 15.3% in 2014/15

1.6. Revenue Performance by Broad Categories

Direct Taxes

Achieved 100.4% of the Rwf 390.8 billion target

Rwf 1.7 billion above target
Rwf 33.8 billion nominal growth

Rwf 392.5 Billion

9.4% growth year-on-year down from 15.8% in 2014/15

39.8% of total tax collections, down from 42.3% in 2014/15

Taxes on Goods and Services

Achieved 105.0% of the Rwf 485.9 billion target

Rwf 24.4 billion above target
Rwf 73.3 billion nominal growth

Rwf 510.3 Billion

16.8% growth year-on-year up from 10.7% in 2014/15

51.7% of total tax collections, up from 50.4% in 2014/15

International Trade Taxes

Achieved 115.7% of the Rwf 72.5 billion target

Rwf 11.4 billion above target
Rwf 20.3 billion nominal growth

Rwf 83.9 Billion

32.0% growth year-on-year upfrom 8.8% in 2014/15

8.5% of total tax collections, up from 7.3% in 2014/15

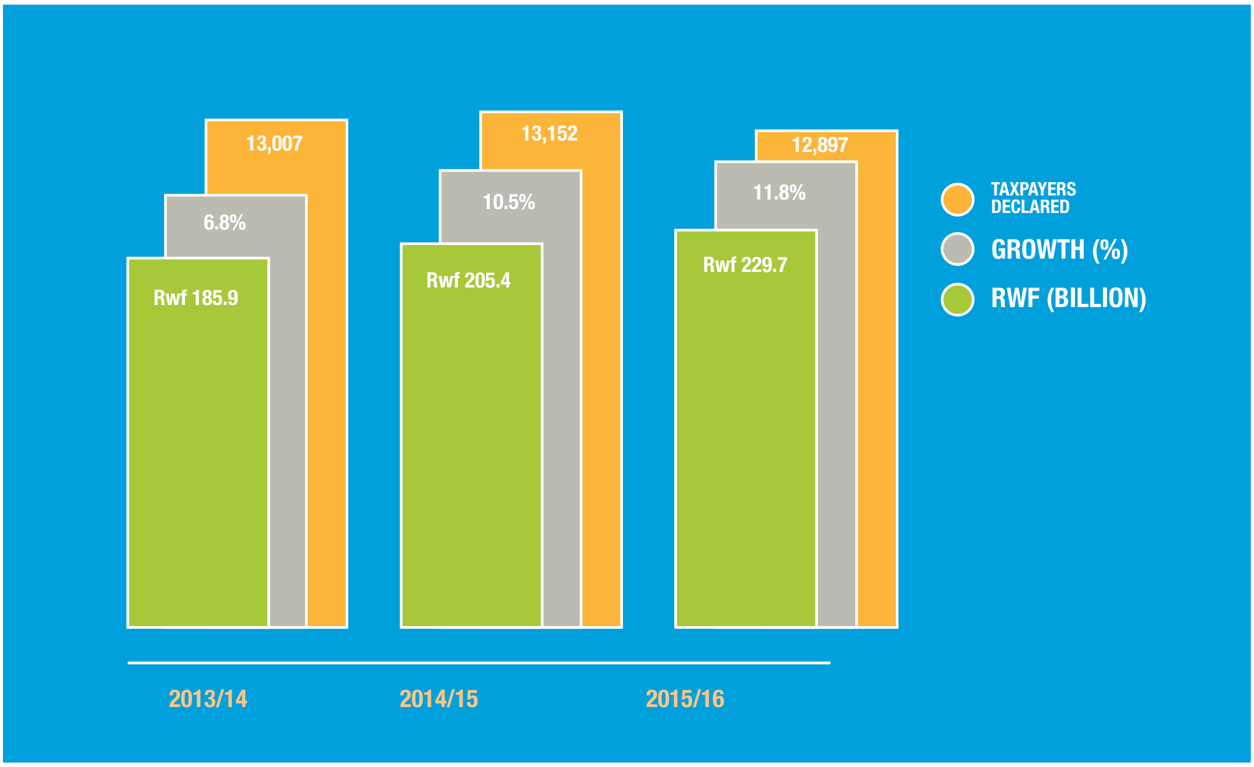
1.7. Revenue Performance by Tax Type

Further analysis on tax revenue performance for FY 2015/16 by tax type shows the following.

Figure 9: Tax revenue collections by tax type, in Rwf billions

Tax Type	Actual 2015/16	Target 2015/16	Variance	Achieve-ment	Actual 2014/15	Growth	Nominal Increase
PAYE	229.7	220.5	9.2	104.2%	205.4	11.8%	24.3
Profit Tax (CIT, PIT & WHT)	159.3	167.3	-7.9	95.3%	150.7	5.8%	8.7
VAT	323.2	305.0	18.2	106.0%	286.2	12.9%	37.0
VAT Customs	109.1	99.9	9.2	109.2%	99.8	9.3%	9.3
VAT Domestic	214.1	205.1	9.0	104.4%	186.5	14.8%	27.6
Excise Duties	138.1	135.5	2.6	101.9%	120.6	14.4%	17.4
Excise Customs	67.5	66.9	0.6	100.9%	60.8	11.1%	6.8
Excise Domestic	70.5	68.6	2.0	102.9%	59.9	17.8%	10.7
Mining Royalties	3.0	5.2	-2.2	58.2%	4.2	-27.5%	-1.1
Import Duties	72.9	59.9	13.0	121.7%	60.8	19.9%	12.1
Road Fund	37.3	31.5	5.8	118.3%	25.9	44.1%	11.4
SR Levy	8.7	8.7	0.0	100.3%	0.0		8.7
ID Levy	8.8	10.6	-1.8	82.6%	0.0		8.8
Other Taxes	5.74	5.13	0.61	112.0%	5.35	7.4%	0.39
Total	**986.7**	**949.2**	**37.5**	**103.9%**	**859.1**	**14.8%**	**127.5**

Pay As You Earn (PAYE)



2015/16

12,897 taxpayers declaring the wages of...

302,550 employees (on average each month), earning ...

Rwf 863.7 billion in total taxable income over the year.

0 - 99 employees

- **Rwf 80.1** billion PAYE declared
- **12,498** taxpayers
- **101,188** employees

100+ employees

- **Rwf 134.7** billion PAYE declared
- **399** taxpayers
- **201,362** employees

Taxable Income **Rwf 863.7billion**

Total Basic Pay **Rwf 621.5 billion**			Total Taxable Benefits **Rwf 242.1 billion**		
Permanent Employees Rwf 580.1 billion	Casual Employees Rwf 27.6 billion	Employees with more than one employer Rwf 13.8 billion	Total Allowances in Cash Rwf 167.7 billion	Total Benefits in Kind Rwf 25.1 billion	Other Taxable Payments Rwf 49.3 billion

RSSB Contributions by Employers Rwf 31.3 billion + RSSB Contributions by Employees Rwf 19.8 billion = Total RSSB Contributions Rwf 51.0 billion

1.7.1. PAY AS YOU EARN (PAYE)

Pay as You Earn collections totaled Rwf 229.7 billion in the 2015/16 fiscal year. This achieved 104.2% of the Rwf 220.5 billion target, a surplus of Rwf 9.2 billion. This represents a year-on-year growth of 11.8%, up from 10.5% growth in 2014/15. In nominal terms, PAYE collections increased by Rwf 24.3 billion year-on-year.

In terms of declarations, 12,897 taxpayers made PAYE declarations during the 2015/16 fiscal year. This is a year-on-year decline of -1.9% from the 13,152 taxpayers who declared in 2014/15. The cause of the decline is the reduction of newly declaring taxpayers of 1,645 in 2015/16, down from 1,847 in 2014/15. The number of taxpayers who stopped declaring was comparable to previous years.

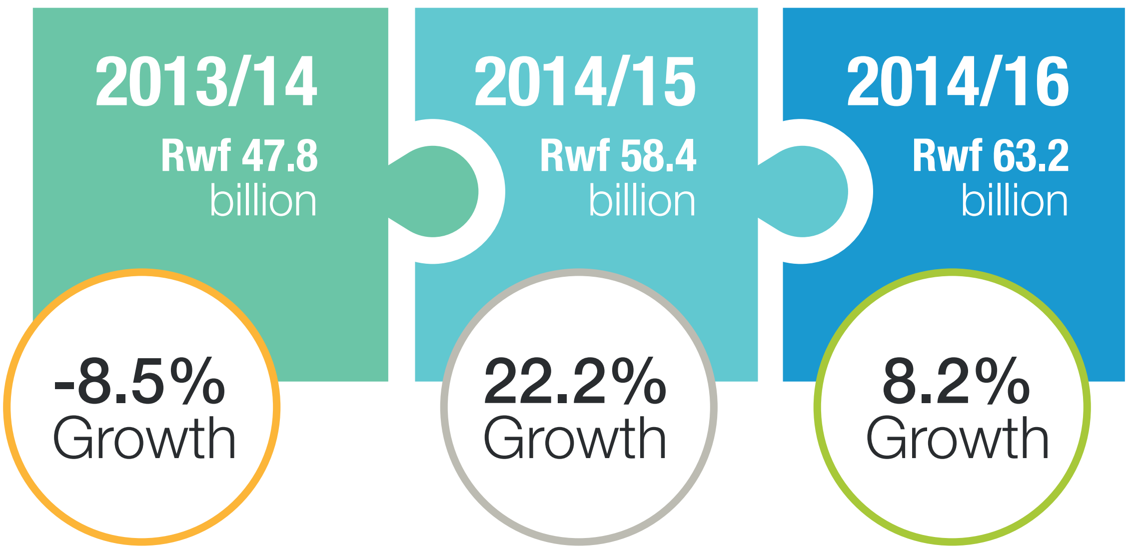
At an aggregate level, the declarations show year-on-year growth in total employees of 1.5%. The average number of total employees declared each month is 302,550. This represents a nominal increase of 4,488 formal jobs year-on-year. Combined, these taxpayers were paid a total of Rwf 863.7 billion over the 2015/16 tax year period. This is year-on-year growth of 6.0%. In total, PAYE due declared increased by 7.2% over the 2015/16 fiscal year. However, PAYE collections are approximately Rwf 14.9 billion higher than PAYE due declared, of which only Rwf 3.5 billion is accounted for in arrears.

Disaggregating by ISIC sections, the most notable performance comes from 'Construction' and 'Financial and Insurance Activities'. Construction has only increased employees by 1.1% year-on-year in 2015/16, but has increased remuneration by 30.5% leading to a total increase in PAYE due declared of 34.8%. In nominal terms, this has increased PAYE due declared by Rwf 1.6 billion year-on-year to a total PAYE due declared of Rwf 6.3 billion in the 2015/16 fiscal year. The construction sector now accounts for 8.3% of all employees and 3.0% of total PAYE due.

This strong performance has largely resulted from the current construction boom in Kigali. Notable taxpayers include 'Summa Turizm Yatirimciligi Anonim Sirketi', a new taxpayer who declared Rwf 0.6 billion PAYE due, as well as existing taxpayers 'NPD Cotraco SARL', 'Horizon Construction', 'Real Contractors Ltd' and 'Roko Construction' whose PAYE due declared increased year-on-year by Rwf 0.4 billion, Rwf 0.3 billion, Rwf 0.2 billion and Rwf 0.2 billion respectively.

The financial and insurance sector has increased their employees by 5.3% year-on-year in 2015/16, whilst remuneration has increased by 7.5% resulting in an increase in PAYE due declared of 8.5%. In nominal terms, this has increased PAYE due declared by Rwf 2.1 billion year-on-year to a total PAYE due declared of Rwf 27.3 billion in the 2015/16 fisal year. The financial and insurance sector now accounts for 4.2% of all employees and 12.7% of total PAYE due declared. This strong performance has benefited from large bank bonuses to employees.

Profit Taxes (CIT, PIT & WHT)



Corporate Income Tax (CIT)

Declared in March 2016 for 2015 Calendar Year Tax Period

13.2% year-on-year growth in declarations

10.7% year-on-year growth in Business Income

10.9% year-on-year growth in CIT Payable

	Total	Real Regime	Lump Sum	Flat Amount
Declarations	25,678	9,991	13,626	2,061
Business Income (BI)	Rwf 3,849.4 billion	Rwf 3,791.1 billion	Rwf 51.8 billion	Rwf 6.5 billion
CIT Payable	Rwf 51.7 billion	Rwf 49.9 billion	Rwf 1.6 billion	Rwf 0.2 billion
Ratio of CIT Payable to BI	1.3%	1.3%	3.1%	2.5%

Real Regime

2015 Calendar Year
42.0% declared net-positive taxable income totalling Rwf 177.2 billion

2015 Calendar Year
23.2% declared net-negative taxable income totalling Rwf -739.5 billion

2014 Calendar Year
37.4% declared net-positive taxable income totalling Rwf 165.0 billion

2014 Calendar Year
26.4% declared net-negative taxable income totalling Rwf -647.2 billion

Personal Income Tax (PIT)
Declared in March 2016 for 2015 Calendar Year Tax Period

-3.2% year-on-year growth in declarations

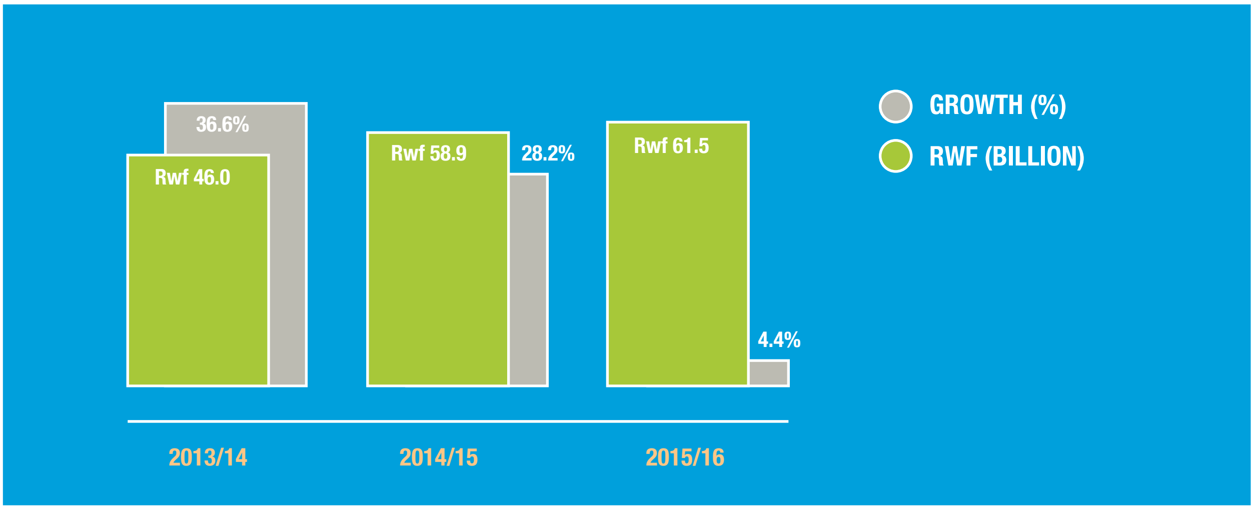
1.2% year-on-year growth in Business Income

4.7% year-on-year growth in PIT Payable

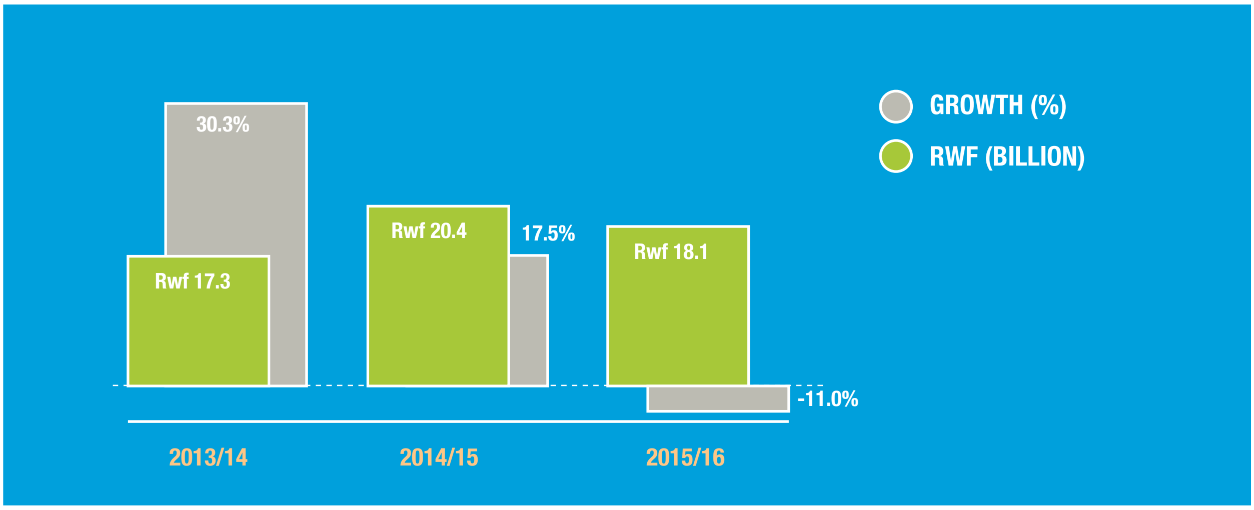
CIT and PIT – Flat Amount

Annual Turnover	Annual Flat Tax Due Declared	2014 Calendar Year	2015 Calendar Year
Below Rwf 2 million	Zero	2,621	1,081
Rwf 2 - 4 million	Rwf 60,000	8,586	9,958
Rwf 4 - 7 million	Rwf 120,000	1,625	1,659
Rwf 7 - 10 million	Rwf 210,000	390	346
Rwf 10 - 12million	Rwf 300,000	194	156

Withholding 15% (WHT 15%)



Withholding 3% (WHT 3%)



1.7.2. PROFIT TAXES

1.7.2.1. Corporate Income Tax (CIT) and Personal Income Tax (PIT)

CIT and PIT collections totaled Rwf 63.2 billion in the 2015/16 fiscal year. This achieved 97.9% of the Rwf 64.5 billion target, a shortfall of Rwf 1.4 billion. This represents a year-on-year growth of 8.2%, down from 22.2% growth in 2014/15. In nominal terms, profit taxes collections increased by Rwf 4.8 billion year-on-year.

CIT and PIT can be declared as real regime, lump sum or flat amount depending upon the size of the business. Real regime includes the full, accounting format, details. The main reason CIT and PIT trends may differ from VAT trends is because real regime CIT and PIT declarations take into account varying factors such as operating expenses, depreciation and investment allowances.

In terms of declarations, the total number of taxpayers declaring CIT and PIT combined was 52,051. This is a year-on-year increase of 4.2% from the 49,941 taxpayers who declared in 2014/15. Disaggregating by tax type, 25,678 taxpayers declared CIT in 2015/16. This is an increase of 13.2% on the 22,689 who declared in 2014/15. In contrast, 26,373 taxpayers declared PIT in 2015/16. This is a decrease of -3.2% of the 27,252 who declared in 2014/15.

Combined, the business income (turnover) of PIT and CIT declarations totaled Rwf 4,285.6 billion for the 2015 calendar year. This represents year-on-year growth of 9.7% from the Rwf 3,907.9 billion declared for the 2014 calendar year.

Furthermore, the CIT Payable and PIT Payable (including Annual Flat Tax Due) totaled Rwf 56.2 billion for the 2015 calendar year. This represents year-on-year growth of 10.4% from the Rwf 50.8 billion declared for the 2014 calendar year.

Focusing on payments by taxpayer and disaggregating by ISIC sections, there are many notable aspects of performance. However, it is first important to clarify that Profit Taxes are acknowledged as a volatile tax type, year-to-year. This volatility is caused by significant variations in incomes, investment and depreciation year-to-year.

Comparing 2015/16 and 2014/15 payments, there are some significant falls in ‘Construction’ and ‘Transportation and Storage’. In particular, payments from the construction sector were Rwf 5.9 billion in 2015/16, down Rwf 8.4 billion from the Rwf 14.3 billion paid in 2014/15. Payments from the construction sector accounted for 9.8% of all profit tax payments in 2015/16, down from 23.8% in 2014/15.

In addition, payments from the transportation and storage sector were Rwf 2.7 billion in 2015/16, down Rwf 5.4 billion from the Rwf 8.1 billion paid in 2014/15. Payments from the transportation and storage sector accounted for 4.6% of all profit tax payments in 2015/16, down from 13.6% in 2014/15.

On the other hand, there were large increases in payments from the 'Financial and Insurance Activities', 'Information and Communication' and 'Manufacturing' sectors. Most importantly, payments from the financial and insurance sector were Rwf 15.3 billion in 2015/16, up Rwf 10.3 billion from the Rwf 5.0 billion paid in 2014/15. Payments from the financial and insurance sector accounted for 25.6% of all profit tax payments in 2015/16, up from 8.4% in 2014/15.

Moreover, payments from the information and communication were Rwf 6.7 billion in 2015/16, up Rwf 6.5 billion from the Rwf 0.1 billion paid in 2014/15. Payments from the information and communication sector accounted for 11.1% of all profit tax payments in 2015/16, up from 0.2% in 2014/15.

Lastly, payments from the manufacturing sector were Rwf 7.4 billion in 2015/16, up Rwf 5.2 billion from the Rwf 2.1 billion paid in 2014/15. Payments from the manufacturing sector accounted for 12.3% of all profit tax payments in 2015/16, up from 3.6% in 2014/15.

Listing in descending order of total CIT and PIT payments (including prepayments), the top 100 highest-paying taxpayers accounted for 71.7% of total CIT and PIT payments in 2015/16. This is diversified slightly from 73.3% for the similar statistic in the 2014/15 fiscal year.

1.7.2.2. Withholding 15% (WHT 15%)

Withholding 15% collections totaled Rwf 61.5 billion in the 2015/16 fiscal year. This achieved 90.8% of the Rwf 67.7 billion target, a shortfall of Rwf 6.2 billion. This represents a year-on-year growth of 4.4%, down from 28.2% in 2014/15. In nominal terms, WHT 15% collections increased by Rwf 2.6 billion year-on-year.

This poor performance was mainly caused by low government spending. Disaggregating by ISIC section, payments from the 'Public Administration and Defense; Compulsory Social Security' section and including National Bank of Rwanda (BNR) were Rwf 26.1 billion in 2015/16. This is down Rwf 0.7 billion from the Rwf 26.7 billion paid in 2014/15. Payments from the 'Public Administration and Defense; Compulsory Social Security' section accounted for 42.3% of all WHT 15% payments in 2015/16, down from 44.0% in 2014/15.

The other ISIC section that underperformed was 'Wholesale and Retail Trade'. Payments from the wholesale and retail trade sector were Rwf 1.3 billion in 2015/16. This is down Rwf 1.1 billion from the Rwf 2.4 billion paid in 2014/15. Payments from the wholesale and retail trade sector accounted for 2.1% of all WHT 15% payments in 2015/16, down from 3.9% in 2014/15.

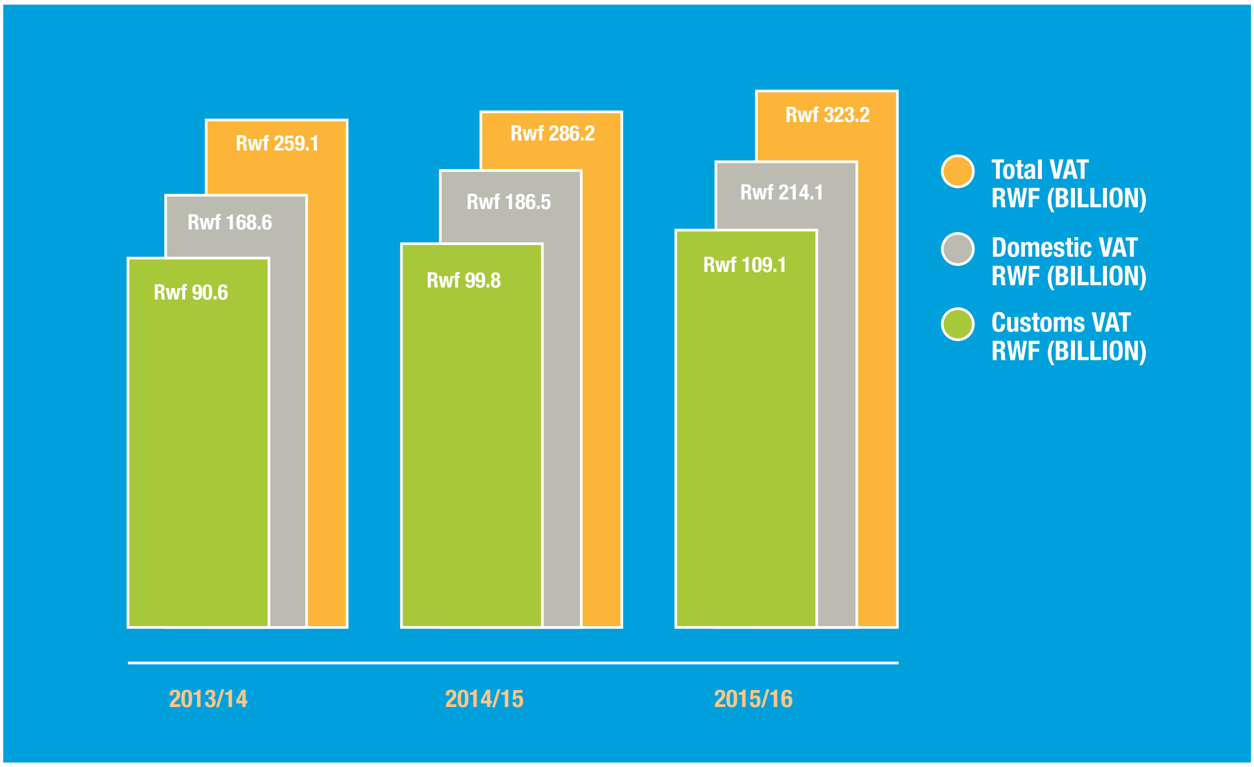
1.7.2.3. Withholding 3% (WHT 3%)

Withholding 3% collections totaled Rwf 18.1 billion in the 2015/16 fiscal year. This achieved 81.2% of the Rwf 22.3 billion target, a shortfall of Rwf 4.2 billion. This represents a year-on-year reduction of 11.0%, down from 17.5% increase in 2014/15. In nominal terms, WHT 3% collections decreased by Rwf 2.2 billion year-on-year.

As with Withholding 15%, this poor performance is largely caused by low government spending. Disaggregating by ISIC section, payments from the 'Public Administration and Defense; Compulsory Social Security' and including National Bank of Rwanda (BNR) were Rwf 11.0 billion in 2015/16. This is down Rwf 2.0 billion from the Rwf 13.0 billion paid in 2014/15. Payments from the 'Public Administration and Defense; Compulsory Social Security' section and BNR accounted for 60.7% of all WHT 3% payments in 2015/16, down from 63.7% in 2014/15.

Value Added Tax (VAT)

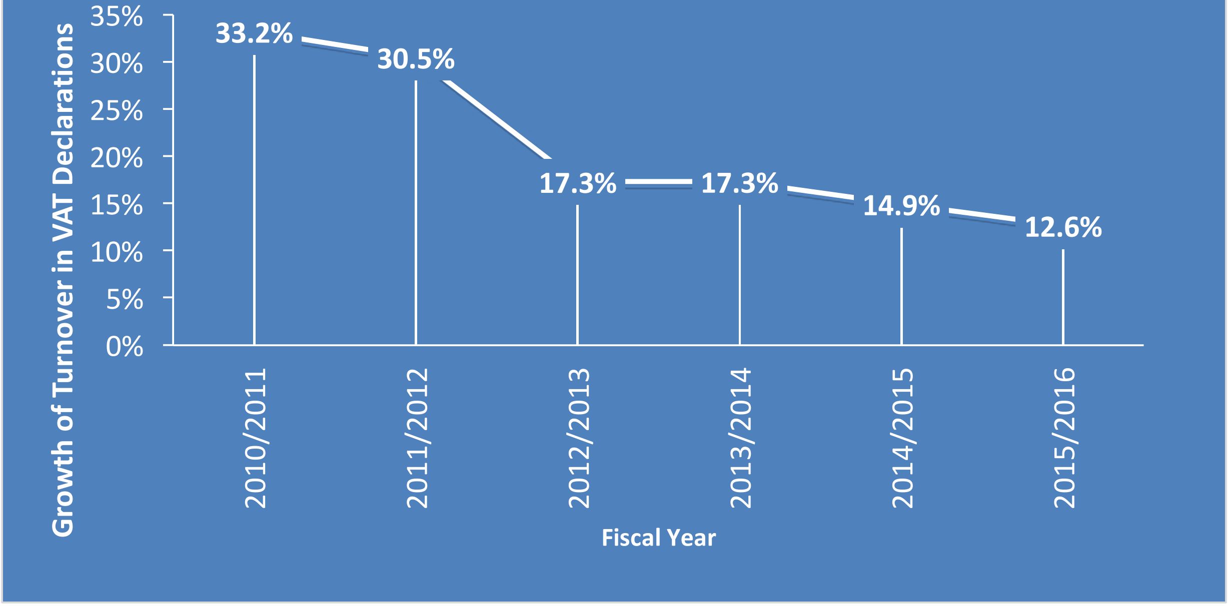
Note: All collection figures are net of refunds, i.e. 90% of actual gross collections



Domestic VAT 2015/16

NET DOMESTIC VAT RWF 214.1 BILLION		
Gross Regular VAT Rwf 154.3 billion	Gross Quarterly VAT Rwf 13.1 billion	Gross VAT Withheld Rwf 65.6 billion
Paid by 5,531 taxpayers	Paid by 7,765 taxpayers	Withheld by 1,501 Public institutions
From 6,113 declaring taxpayers	From 9,473 declaring taxpayers	Withheld from 2,307 declaring taxpayers

Figure 10: Declining trend of turnover growth in Domestic VAT declarations



37.0% of Turnover is Non-Taxable

Non-Taxable Sales Rwf 1,588.0 billion

Exempt Sales Rwf 1,283.4 billion	Zero-Rated Sales Rwf 75.3 billion	Exports Rwf 229.4 billion
29.9% of total turnover	5.3% of total turnover	1.8% of total turnover

13,238 Electronic Billing Machines (EBMs) → Owned by 11,436 taxpayers → IGC research found that taxpayers using EBMs raised VAT payments by an average of 5.4%

1.7.3. VALUE ADDED TAX (VAT)

Value Added Tax collections are all reported net of refunds. This means that only 90% of the total collections are reported, as the remaining 10% is retained for allocating as VAT refunds. Value Added Tax collections totaled Rwf 323.2 billion in the 2015/16 fiscal year. This achieved 106.0% of the Rwf 305.0 billion target, a surplus of Rwf 18.2 billion. This represents a year-on-year growth of 12.9%, up from 10.5% growth in 2014/15. In nominal terms, VAT collections increased by Rwf 37.0 billion year-on-year.

1.7.3.1. VAT Customs

VAT is collected on imports at customs, as well as domestically. Disaggregating at this level, VAT customs collections totaled Rwf 109.1 billion in the 2015/16 fiscal year. This achieved 109.2 % of the Rwf 99.9 billion target, a surplus of Rwf 9.2 billion. This represents a year-on-year growth of 9.3%, down from the 10.2% growth in 2014/15. In nominal terms, VAT customs collections increased by Rwf 9.3 billion year-on-year. As the 'International Trade Taxes' analysis explains, VAT customs benefited from the significant exchange rate depreciation in 2015/16. This is estimated to have contributed Rwf 7.2 billion to the Rwf 9.3 billion nominal increase year-on-year.

1.7.3.2. Domestic VAT (VAT DTD)

In terms of the Domestic Taxes Department (DTD), VAT DTD collections totaled Rwf 214.1 billion in the 2015/16 fiscal year. This achieved 104.4% of the Rwf 205.1 billion target, a surplus of Rwf 9.0 billion. This represents a year-on-year growth of 14.8%, up from the 10.6% growth in 2014/15. In nominal terms, VAT DTD collections increased by Rwf 27.6 billion year-on-year.

Firstly, analysis will focus on the VAT collected by the Domestic Taxes Department (DTD), which is made up of the Small and Medium Taxpayers Office (SMTO) and the Large Taxpayers Office (LTO). At the DTD level, in terms of declarations, 15,139 taxpayers made VAT declarations during the 2015/16 fiscal year. This is a year-on-year growth of 15.3% from the 13,135 taxpayers who declared in 2014/15. Of the 15,139 taxpayers who made VAT declarations during the 2015/16 fiscal year, 2,729 taxpayers had not declared VAT in 2014/15. In contrast, 725 taxpayers did not declare VAT in 2015/16, who previously had in 2014/15.

At an aggregate level, the VAT declarations show year-on-year growth in turnover of 12.6%. Figure 10 displays the declining trend in turnover growth over recent years, largely in line with declining nominal revenue growth, as previously displayed in Figure 6. The total turnover declared in 2015/16 was Rwf 4,291.2 billion. Of this turnover, 37.0% was declared as non-taxable for VAT purposes, against 63.0% that was taxable. Of the non-taxable turnover, Rwf 1,283.4 billion was declared as exempt, 29.9% of turnover; Rwf 75.3 billion was declared as zero-rated, 1.8% of turnover; and Rwf 229.4 billion was declared as exports, 5.3% of turnover. The total output VAT, VAT on taxable sales, was Rwf 486.6 billion in 2015/16. This represents year-on-year growth of output VAT of 16.0% from the Rwf 419.5 billion declared in 2014/15. Against this, the input VAT, VAT paid on inputs, was Rwf 306.0 billion. This represents year-on-year growth of input VAT of 14.3% from the Rwf 267.8 billion declared in 2014/15. The input VAT in 2015/16 is made up of 30.2% imports, whilst 69.8% is from domestic purchases. The total of VAT refunds claimed was Rwf 30.2 billion in 2015/16. This represents year-on-year growth of 6.3% from the Rwf 28.4 billion that was claimed in 2014/15.

Finally, the declarations calculate total VAT = VAT Due + VAT Withheld by Public Institutions (VAT WHT). Aggregating across all declarations, total VAT declared was Rwf 220.7 billion in 2015/16. This represents year-on-year growth of 17.4% from the Rwf 188.0 billion declared in 2014/15. The total VAT in 2015/16 is made up of 74.6% VAT Due, whilst Rwf 25.4% is from VAT Withheld by Public Institutions.

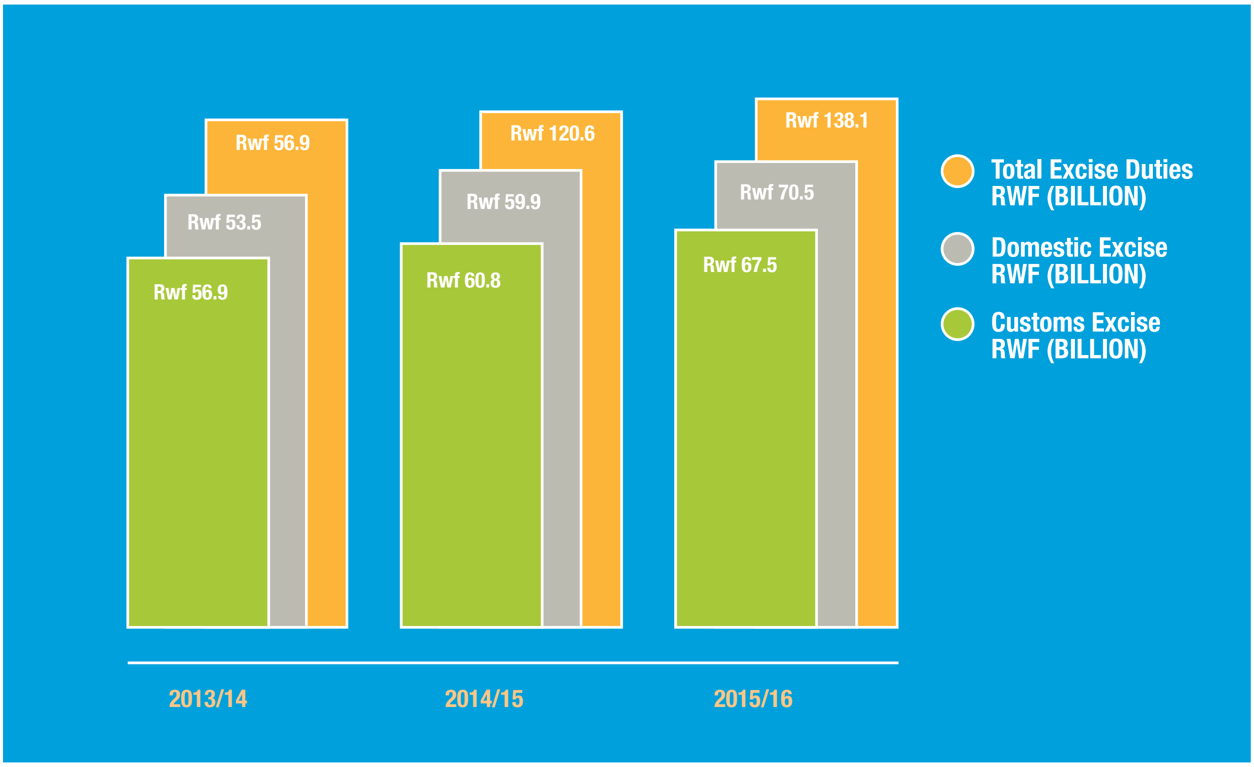
Disaggregating by ISIC sections, there are many notable aspects of performance. Firstly, the 'Construction' sector declared total VAT of Rwf 36.7 billion in the 2015/16 fiscal year, up Rwf 10.9 billion from the Rwf 25.8 billion declared in 2014/15. Total VAT declared from the construction sector accounted for 16.6% of total VAT declared in 2015/16, up from 13.7% in 2014/15.

In addition, the 'Wholesale and Retail Trade' sector declared total VAT of Rwf 35.8 billion in 2015/16, up Rwf 5.2 billion from the Rwf 30.6 billion declared in 2014/15. Total VAT declared from the wholesale and retail trade sector accounted for 16.2% of the total VAT declared in 2015/16, slightly down from 16.3% in 2014/15.

In contrast, the ‘Mining and Quarrying’ sector declared total VAT of Rwf 0.4 billion in 2015/16, down Rwf 1.7 billion from the Rwf 2.1 billion declared in 2014/15. Total VAT declared from the mining and quarrying sector accounted for 0.2% of the total VAT declared in 2015/16, down from 1.1% in 2014/15. As will be discussed further in the mining royalties analysis, the global fall in mineral prices has harmed the mining and quarrying sector. However, the policy change of zero-rating minerals for VAT purposes would have affected VAT collections regardless.

Also underperforming was the ‘Accomodation and Food Service Activities’ sector, which declared total VAT of Rwf 7.3 billion in 2015/16, very slightly down from the Rwf 7.3 billion that was also collected in 2014/15. This lack of growth meant that the total VAT declared from the accommodation and food service activities sector accounted for 3.3% of the total VAT declared in 2015/16, down from 3.9% in 2014/15.

Excise Duties



2015/16

Domestic Excise
achieved 102.9% of the target
a surplus of Rwf 2.0 billion

Domestic Excise
received Rwf 3.5 billion in
one-off arrears from Bralirwa

Total Excise Duties
101.9% Achievement

Customs Excise
achieved 100.9% of the target
a surplus of Rwf 0.6 billion

Total Excise Duties
Policy change on tobacco raised
additional Rwf 1.4 billion, against Rwf
5.0 billion targeted by MINECOFIN

DOMESTIC EXCISE

Beer	Lemonades	Airtime	Cigarettes	Wines and Spirits
Rwf 45.9 billion	Rwf 11.0 billion	Rwf 10.8 billion	Rwf 1.8 billion	Rwf 1.1 billion
24.4% growth	1.8% growth	3.6% growth	83.5% growth	39.8% growth

2013/14
Petroleum Excise Growth
9.1% Growth

2014/15
Petroleum Excise Growth
11.0% Growth

2014/16
Petroleum Excise Growth
22.1% Growth

CUSTOMS EXCISE

Petroleum Products	Cigarettes	Wines and Spirits	Vehicles	Beers	Lemonades
Rwf 50.1 billion	Rwf 5.9 billion	Rwf 4.1 billion	Rwf 3.7 billion	Rwf 2.3 billion	Rwf 0.9 billion
22.1% growth	36.1% growth	39.5% growth	36.1% growth	27.5% growth	-42.6% growth

1.7.4. EXCISE DUTIES

In total, excise duty collections were Rwf 138.1 billion in the 2015/16 fiscal year. This achieved 101.9% of the Rwf 135.5 billion target, a surplus of Rwf 2.6 billion. This represents year-on-year growth of 14.4%, up from 9.2% growth in 2014/15. In nominal terms, excise duties collections increased by Rwf 17.4 billion year-on-year.

1.7.4.1. Excise Customs

Customs excise collections were Rwf 67.5 billion in the 2015/16 fiscal year. This achieved 100.9% of the Rwf 66.9 billion target, a surplus of Rwf 0.6 billion. This represents a year-on-year growth of 11.1%, up from 6.8% growth in 2014/15. As the 'International Trade Taxes' analysis explains, customs excise benefited from the significant exchange rate depreciation. This is estimated to have contributed Rwf 3.3 billion to the Rwf 6.8 billion nominal increase year-on-year.

The largest contributing product to customs excise collections is petroleum. Customs excise on petroleum product collections totaled Rwf 50.1 billion in 2015/16. This is up Rwf 9.0 billion from the Rwf 41.1 billion collected in 2014/15. This represents year-on-year growth of 22.1% in 2015/16, up from 11.0% in 2014/15. Customs excise on petroleum products accounts for 74.7 % of excise collections in 2015/16, up from 67.5% in 2014/15. The decreasing global oil price has increased demand for petroleum products in Rwanda. As the excise duty is applied at a specific rate per liter, rather than ad valorem, this has benefited excise customs collections. Figure 11 below displays the increased volume of fuel imports in 2015/16.

Figure 11: Volume of fuel imports, by fiscal year

Fiscal year	Million Liters of Fuel Imported	Year-on-Year Growth	Nominal Increase
2011/12	218.6	17.5%	32.6
2012/13	233.5	6.8%	14.9
2013/14	254.1	8.8%	20.5
2014/15	264.5	4.1%	10.4
2015/16	326.2	23.3%	61.7

1.7.4.2. Excise Domestic

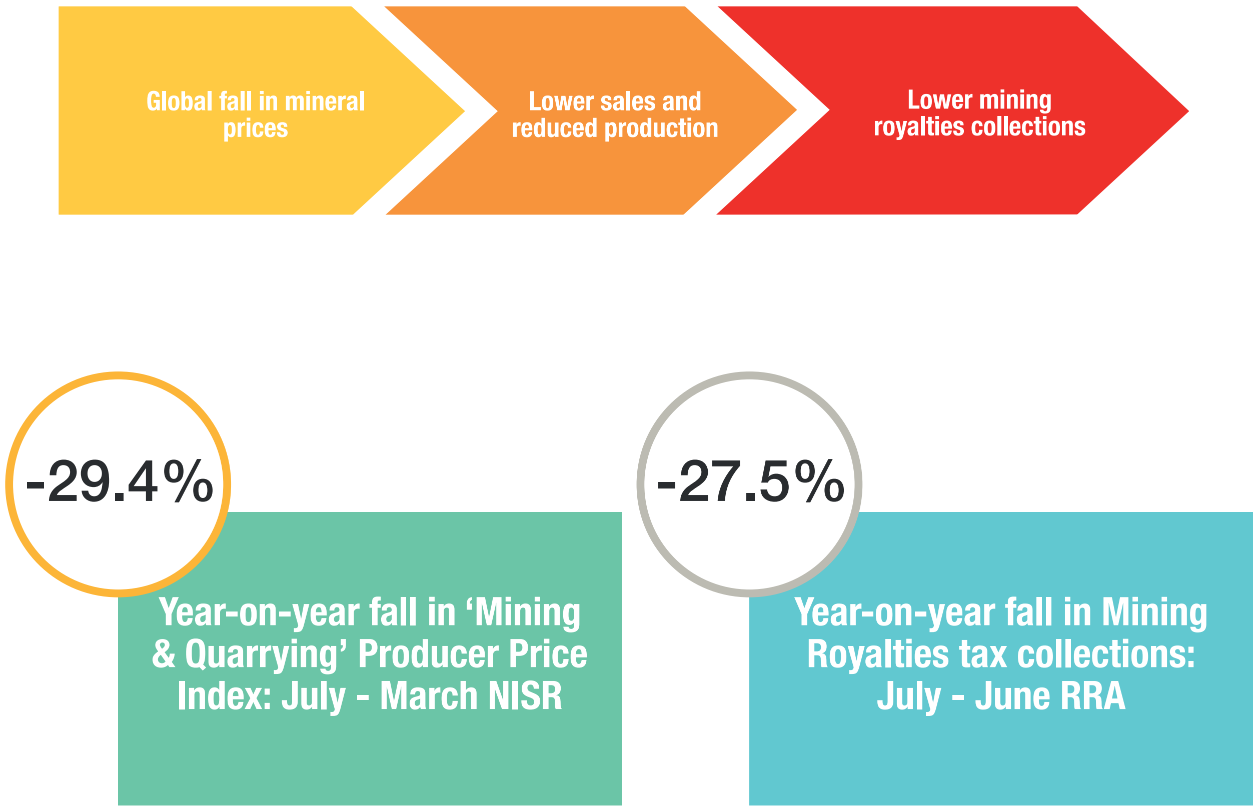
As with VAT, excise duties are collected at customs as well as domestically. Domestic excise collections were Rwf 70.5 billion in the 2015/16 fiscal year. This achieved Rwf 102.9% of the Rwf 68.6 billion target, a surplus of Rwf 2.0 billion. This represents year-on-year growth of 17.8%, up from 11.8% growth in 2014/15. In nominal terms, domestic excise collections increased by Rwf 10.7 billion year-on-year. Domestic excise collections benefited from an amicable agreement with Bralirwa who paid Rwf 3.5 billion in arrears over September, October and November 2015.

The largest contributing product to domestic excise collections is beer. Domestic excise on beer collections totaled Rwf 45.9 billion in 2015/16. This is up Rwf 9.0 billion from the Rwf 36.9 billion collected in 2014/15. This includes the Rwf 3.5 billion paid by Bralirwa in arrears. Excluding the arrears, this represents year-on-year growth of 14.9% in 2015/16, up from 7.0% in 2014/15. Domestic excise on beer accounts for 65.0% of domestic excise collections in 2015/16, up from 61.7% in 2014/15.

1.7.4.3. Excise Tobacco

The only policy change affecting excise collections in 2015/16 was for excise on tobacco. This affects both domestic and customs collections. This policy change approximately doubled the price of cigarettes in Rwanda. In total, excise tobacco collections totalled Rwf 7.7 billion in 2015/16. This represents a year-on-year growth of 44.8% from the Rwf 5.3 billion collected in 2014/15. The policy change accounted for Rwf 1.4 billion of this increase, but far less than the Rwf 5.0 billion addition targeted. The projections did not fully take into account the behavioral implications of doubling the price of cigarettes.

Mining Royalties



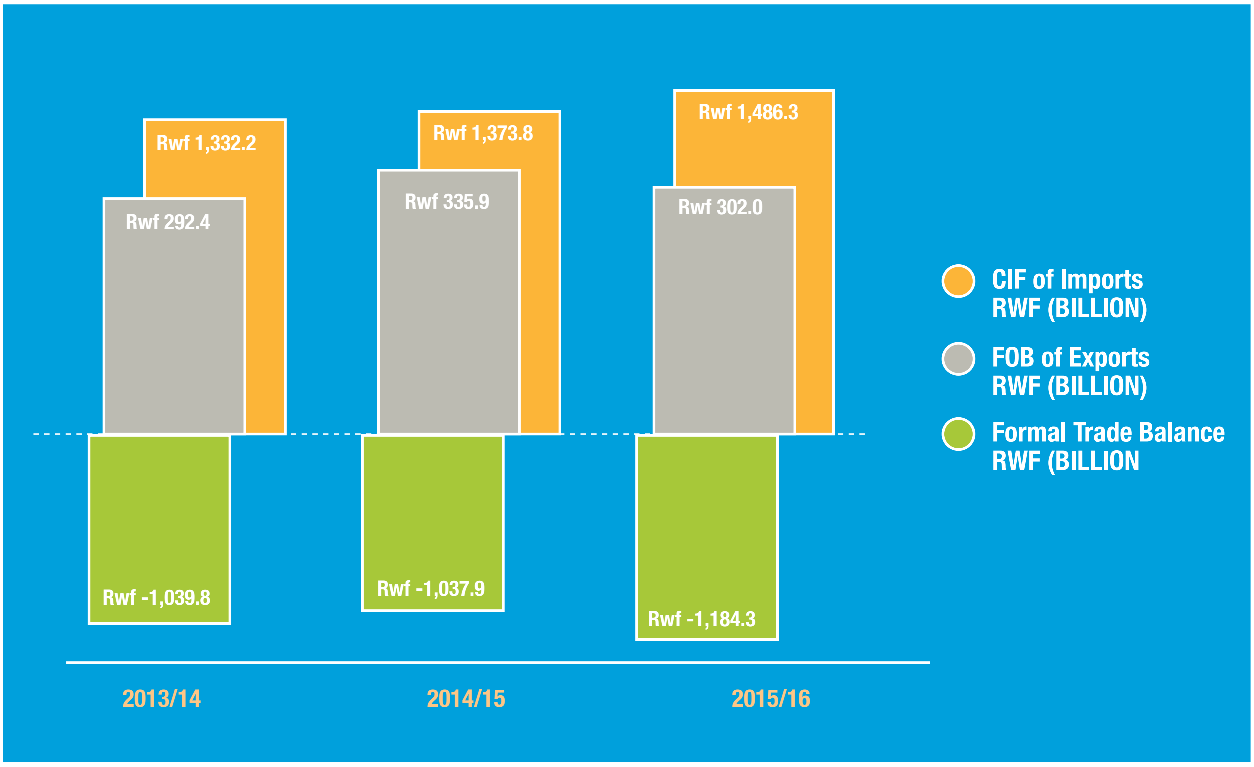
1.7.5. MINING ROYALTIES

Mining Royalties collected Rwf 3.0 billion in the 2015/16 fiscal year. This achieved 58.2% of the Rwf 5.2 billion target, a shortfall of Rwf 2.2 billion. This also represents a year-on-year growth of negative -27.5%. In nominal terms, mining royalties decreased by Rwf 1.1 billion year-on-year.

This poor performance was caused by the global fall in mineral prices. Globally mineral prices have fallen significantly from a peak in mid-2014. This fall continued throughout 2015, and has now stabilized in 2016 at a much lower level than previous years. The National Institute of Statistics Rwanda (NISR) maintains a Producer Price Index (PPI) survey which includes 'mining and quarrying'. This measures the prices producers receive for their products against a benchmark of Q4 2010 (i.e. prices at Q4 2010 = 100).

This index peaked at 125.6 in Q1 2014, fell steadily to a low of 80.3 in Q4 2015, and recovered slightly to 82.1 in Q1 2016 (the latest quarter available). The average of this index fell 29.4% over the three-available quarters of 2015/16, against the same period of 2014/15. This mirrors the 27.5% fall year-on-year in mining royalties' collections over the 2015/16 fiscal year.

Imports and Exports



2015/16

TOTAL CIF OF IMPORTS
Rwf 1,486.3 billion 8.2% growth

CIF of imports from non-EAC
Rwf 1,092.0 billion 11.5% growth

CIF of imports from EAC
Rwf 394.3 billion 0.1% growth

Figure 12: Imports and exports data by product type 2015/16, in Rwf billions

HS Code Groupings	HS Codes	CIF of Imports	Total Declared Duties & Taxes	FOB of Exports
Animals and Animal Products	01 - 05	19.9	1.6	7.4
Vegetable Products (Including Tea and Coffee)	06 - 15	160.2	11.8	1.1
Foodstuffs (Including Beer and Lemonade)	16 - 24	74.9	42.5	8.9
Mineral Products (Including Oil)	25 - 27	244.8	68.4	74.4
Chemicals	28 - 38	134.3	24.9	128.8
Plastics and Rubbers	39 - 40	28.8	7.6	34.0
Raw Hides, Skins, Leather and Furs	41 - 43	2.8	0.8	6.6
Wood and Wood Products	44 - 49	55.5	10.6	0.7
Textiles	50 - 63	63.4	25.2	3.0
Footwear and Headgear	64 - 67	19.6	4.4	0.3
Stone and Glass	68 - 71	43.2	7.2	0.9
Metals	72 - 83	118.9	22.1	4.3
Machinery and Electricals	84 - 85	345.2	38.6	7.6
Transportation	86 - 89	98.8	43.7	6.8
Miscellaneous	90 - 99	75.9	10.6	17.1
Total		**1,486.3**	**320.0**	**302.0**

8.2% year-on-year growth in CIF of Imports

19.5% year-on-year growth in Total Declared Import Duties

10.1% year-on-year reduction in FOB of Exports

Exchange Rate Depreciation

6.1% **2013/14**

4.3% **2014/15**

7.1% **2015/16**

Over 2015/16, there has been significant exchange rate depreciation in the Rwandan franc relative to the US Dollar. This depreciation has been larger than previous years, and was not anticipated. This has had a significant effect on revenue collections.

Depreciation of the exchange rate makes imports more expensive. However, demand for imports in Rwanda is so price-inelastic that this has a limited effect on the quantity of imports. Instead, this has the effect of raising the values of imports, and consequently, the collections of ad valorem taxes which make up the vast majority of customs taxes. The significant exchange rate depreciation is estimated to account for Rwf 17.6 billion of the Rwf 31.7 billion nominal increase in VAT customs, import duty, customs excise and WHT 5%.

7.1% depreciation of Rwf against USD

Accounts for Rwf 17.6 billion of the Rwf 31.7 billion nominal increase in VAT Customs, Import Duty, Customs Excise and WHT 5%

Figure 13: Contribution of the exchange rate depreciation, and other factors (including economic growth and RRA efforts) to the nominal year-on-year increase in customs collections

	VAT Customs	Import Duty	Customs Excise	WHT 5%	Total
Exchange Rate	Rwf 7.2 billion	Rwf 4.8 billion	Rwf 4.5 billion	Rwf 1.1 billion	Rwf 17.6 billion
Other Factors	Rwf 2.1 billion	Rwf 7.3 billion	Rwf 2.3 billion	Rwf 2.4 billion	Rwf 14.1 billion
Total	Rwf 9.3 billion	Rwf 12.1 billion	Rwf 6.8 bilion	Rwf 3.5 billion	Rwf 31.7 billion

1.7.6. IMPORT DUTY

Import duty collections totaled Rwf 72.9 billion in the 2015/16 fiscal year. This achieved 121.7% of the Rwf 59.9 billion target, a surplus of Rwf 13.0 billion. This also represents a year-on-year growth of 19.9%, up from 15.0% growth in 2014/15. As explained, import duties benefited from the significant exchange rate depreciation in 2015/16. This is estimated to have contributed Rwf 4.8 billion to the Rwf 12.1 billion nominal increase year-on-year.

However, the most important cause of the over performance of import duty collections is the increase in demand for non-EAC imports. Imports from within the EAC are not subject to import duty, whereas the majority of imports from non-EAC countries are subject to import duties. Imports from non-EAC countries grew by 11.5% in 2015/16, up from 2.6% in 2014/15. This is estimated to have contributed Rwf 7.3 billion of the Rwf 12.1 billion nominal increase year-on-year.

1.7.7. WITHHOLDING 5% (WHT 5%)

Withholding 5% collections totaled Rwf 16.6 billion in the 2015/16 fiscal year. This achieved 130.4% of the Rwf 12.7 billion target, a surplus of Rwf 3.9 billion. This represents year-on-year growth of 27.1%, up from 16.8% growth in 2014/15.

As explained, WHT 5% benefited from the significant exchange rate depreciation in 2015/16. This is estimated to have contributed Rwf 1.1 billion to the Rwf 3.5 billion nominal increase year-on-year.

1.7.8. ROAD FUND

Road Fund collections were Rwf 37.3 billion in the 2015/16 fiscal year. This achieved 118.3% of the Rwf 31.5 billion target, a surplus of Rwf 5.8 billion. This represents year-on-year growth of 44.1%, up from 6.1% growth in 2014/15. In nominal terms, road fund collections increased by Rwf 11.4 billion year-on-year. Road fund collections benefited from a policy change in 2015/16.
In order to increase the money available for road maintenance, the road fund fuel levy was increased from Rwf 62.37 per litre to Rwf 82.37 per litre in July 2015 and further increase to Rwf 115 per litre in March 2016. This policy change is estimated to have increased road fund collections by Rwf 9.1 billion, above the targeted addition of Rwf 5.3 billion.

1.7.9. INFRASTRUCTURE DEVELOPMENT (ID) LEVY

Infrastructure development levy collections were Rwf 8.8 billion in the 2015/16 fiscal year. This achieved 82.6% of the Rwf 10.6 billion target, a shortfall of Rwf 1.8 billion. The infrastructure development levy is a new tax type introduced in the 2015/16 fiscal year aimed at increasing revenue available for northern corridor infrastructure projects in conjunction with Uganda and Kenya. The tax is 1.5% of the CIF of most goods imported from outside of the EAC. Exemptions include medical, pharmaceutical and veterinary products as well as infrastructure for the energy and water sectors.

There are two main causes of the underperformance of the infrastructure development levy. The first is that collections began later than expected, missing the first couple of weeks of July. The infrastructure development levy collected just Rwf 0.2 billion in July 2015, against a target of Rwf 0.8 billion, an immediate Rwf 0.6 billion shortfall.
Secondly, excluding the first quarter of 2015/16 when the tax was first introduced, collections have been approximately Rwf 100 million below the target on average each month. Over the remaining three quarters of 2015/16, this leads to a further Rwf 0.9 billion shortfall and suggests the target was slightly too ambitious.

1.7.10. STRATEGIC RESERVES (SR) LEVY

Strategic reserves levy collections were Rwf 8.7 billion in the 2015/16 fiscal year. This achieved 100.3% of the Rwf 8.7 billion target, a surplus of less than Rwf 0.1 billion. The strategic reserves levy is a new tax type introduced in the 2015/16 fiscal year aimed at funding the purchase and safe maintenance of greater reserves of fuel. The tax is Rwf 32.73 per applicable litre of fuel.

In contrast to the other new tax, the infrastructure development levy, collections started earlier than expected. The strategic reserves levy collected Rwf 0.3 billion in July 2015, whilst collections were only targeted to begin in August 2015.

On the other hand, , excluding the first quarter of 2015/16 when the tax was first introduced, collections have been approximately Rwf 50 million below the target on average each month. Over the remaining three quarters of 2015/16, this leads to a further Rwf 0.5 billion shortfall and suggests the target was, again, slightly too ambitious.

1.7.11. CUSTOMS EXEMPTIONS

In 2015/16, approximately Rwf 145.5 billion of taxes on imports was foregone. This is due to the range of exemptions granted on imports, for various reasons. It is important to evaluate each of the exemptions offered, to ensure that the benefits exceed the revenue foregone.

Figure 14: Revenue foregone due to exemptions granted on imports, in Rwf billions

Revenue Foregone	2015/16	2014/15	Year-on-Year Growth
Industrial Inputs	0.1	0.4	-79.6%
Investment Codes	84.6	67.5	25.4%
Other Customs Laws	60.8	51.1	18.9%
Total	145.5	119.0	22.3%

2. ADMINISTRATIVE MEASURES

During the 2015/16 fiscal year, RRA continued the implementation of various administrative measures in order to enhance revenue collection and achieve the target. Key administrative measures included:

2.1 WIDEN THE TAX BASE THROUGH INCREASED TAXPAYER REGISTRATION

Activities aimed at widening the tax base through increased taxpayer registration focused on specific sectors including commercial houses (for VAT on rental income), garages, car washing bays, private schools, driving schools, and retailers.

During the 2015/16 fiscal year, newly registered taxpayers for different tax types contributed a total of Rwf 2.2 billion as indicated in Figure 15 below.

Figure 15: The contribution of new taxpayers who paid tax in 2015/16, in Rwf billions

Tax Type	Number of New Registered Taxpayers who Paid Domestic Tax in 2015/16	Domestic Tax Paid by New Registered Taxpayers in 2015/16	Domestic Tax Paid by all Domestic Registered Taxpayers in 2015/16	% contribution of Domestic Tax Paid by New Registered Taxpayers in 2015/16
PAYE	436	1.3	229.7	0.56%
Profit Tax	942	0.2	63.2	0.27%
Excise	1	0.0	70.5	0.01%
VAT	691	0.6	214.1	0.31%
Withholding of VAT on Public Tenders	57	0.0		
Withholding Tax (other than VAT) on Public Supplies	3	0.0	18.1	0.20%
Other Withholding Taxes	62	0.1	61.5	0.08%
Total	**1,743**	**2.2**	**660.9**	**0.33%**

The total number of taxpayers in the RRA tax register increased to 152,791 at the end of the 2015/16 fiscal year. This represents a year-on-year growth of 15.9% from the 131,819 registered taxpayers at the end of the 2014/15 fiscal year. Of the current registered taxpayer, 442 are categorized as Large taxpayers, 0.3% of the total; 1,711 are Medium taxpayers, 1.1% of the total; and 150,605 are Small or Micro taxpayers, 98.6% of the total.

In addition, 18,300 vehicles were newly registered during the 2015/16 fiscal year. This represents a year-on-year growth of 15.8% from the 15,800 that were newly registered in 2014/15. The total number of vehicles registered in Rwanda by RRA by the end of the 2015/16 fiscal year was 165,418.

2.2. TAX AUDITS AND POST-CLEARANCE AUDITS

2.2.1. Small and Medium Taxpayers Office and RRA Provinces

During the 2015/16 fiscal year, the Small and Medium Taxpayer Office (SMTO) in Kigali completed 108 audit cases, of which 64 were comprehensive audits and 44 were issue audits. The initial tax declared by these audited taxpayers totaled Rwf 2.5 billion. However, the assessed tax (principals only, before appeals) totaled Rwf 5.8 billion, an additional assessment of Rwf 3.3 billion. The average tax declared by audited SMTO taxpayers amounted to just 43.1% of the total assessed tax (principals only, before appeals). RRA province offices completed 184 audit cases, of which 83 were comprehensive audits and 101 were issue audits.

2.2.2. Large Taxpayers Office

During the 2015/16 fiscal year, the Large Taxpayers Office (LTO) completed 97 audit cases, of which 90 were comprehensive audits and 7 were issue audits. The initial tax declared by these audited taxpayers totaled Rwf 93.7 billion. However, the assessed tax (principals only, before appeals) totaled Rwf 104.3 billion, an additional assessment of Rwf 10.6 billion. The average tax declared by audited SMTO taxpayers amounted to just 89.8% of the total assessed tax (principals only, before appeals).

2.2.3. Customs Services Department

During the 2015/16 fiscal year, Customs Services Department (CSD) completed 142 post-clearance audit cases. Of these, 93 cases resulted in additional revenue assessed equivalent to Rwf 0.7 billion.

2.3. COMBATING TAX EVASION

During the 2015/16 fiscal year, Revenue Investigation and Enforcement Department (RIED) completed 28 tax investigation cases, of which 21 were comprehensive-related cases and 7 were issue-related cases. The additional tax assessed (principals only) amounted to Rwf 3.5 billion. In addition, a total of 40 fraud cases were forwarded to prosecution in 2015/16, up from 25 cases in 2014/15.

Through surveillance operations, a range of unaccustomed goods were impounded. These included loincloths, beer, rice, juice, soda, liquors, spare parts, used clothes and palm cooking oil. Tax amounting to Rwf 0.9 billion was assessed through statement of offences and 8 public auctions were conducted that recovered a further Rwf 0.1 billion.

2.4. RECOVERING TAX ARREARS

During the 2015/16 fiscal year, enforcement of domestic tax arrears recovered Rwf 33.4 billion. This represents a year-on-year growth of 25.1% from the Rwf 26.8 billion collected in 2014/15. Of the total domestic tax arrears collected in 2015/16, Rwf 20.5 billion came from the LTO, 61.4% of the total; and Rwf 12.9 billion from the SMTO, 38.6% of the total. Revenue collections from domestic tax arrears accounted for 5.1% of the total domestic tax collections in the 2015/16 fiscal year compared to 4.5% in 2014/15. The arrears collections by tax type are displayed in Figure 16 below.

Figure 16: Domestic tax arrears collections by tax type, in Rwf billions

	2015/16	2014/15	Variance	Growth
VAT	14.2	13.6	0.6	4.3%
Profit Tax	7.3	5.8	1.5	25.7%
PAYE	3.9	3.4	0.6	17.6%
Withholding	3.9	2.7	1.2	43.2%
Excise Duties	3.8	0.0	3.8	
Mining Royalties	0.3	1.2	-0.9	76.5%
Total	**33.4**	**26.7**	**6.7**	**25.0%**
LTO Sub-Total	20.5	17.2	3.3	18.9%
SMTO Sub-Total	12.9	9.5	3.4	35.9%

This improved performance of tax arrears collection was mainly due to the new strategies implemented, especially in SMTO. The following measures were enacted:

- The enforcement group to recover tax arrears was reinforced
- Submission of complicated cases to CID for prosecution
- Closing of business premises for taxpayers who do not settle their liabilities
- Issuing warning letters
- Reminder notifications through e-tax for non-filers and non-payers immediately after the filing due dates have elapsed
- Garnishment notices
- Signing installment contracts
- Publication of tax defaulters names in newspapers

The registered results from these measures include:

- SMTO arrears collections totaled Rwf 12.9 billion in the 2015/16 fiscal year, up from Rwf 8.0 billion in 2014/15.
- 189 current installment contracts amount to Rwf 3.7 billion, whilst 122 installment cases totaling Rwf 1.3 billion were fully paid and closed.
- 297 cases were removed from the debtors books
- 238 cases totaling Rwf 24.1 billion were submitted to the Office of Commissioner of Police for Criminal Investigation Department (CID).
- Publication of 278 tax defaulters owing Rwf 25.5 billion.

In addition, the enforcement team analysed requests for waivers and submitted them to the tax policy at RRA and MINECOFIN levels for official decisions. This resulted in 35 cases amounting to Rwf 3.7 billion of penalties and interests being waived. An additional 16 cases amounting to Rwf 1.1 billion of total tax liabilities are awaiting MINECOFIN's official decision.

However, despite efforts made in recovering tax arrears, there still exists a large amount of tax arrears not yet recovered. Total domestic tax arrears at the end of the 2015/16 fiscal year amounted to Rwf 128.7 billion. This represents a year-on-year growth of 4.7% from the Rwf 122.9 billion stock of arrears at the end of 2014/15. This increase in the debt portfolio was mainly due to new cases from tax audits as well as actions undertaken by the compliance unit. The compliance unit has put in place greater monitoring of non-paid tax declarations, to follow up on a more regular basis and take appropriate measures. This is displayed in Figure 17 below.

Figure 17: Domestic tax arrears by tax office and age, in Rwf billions

Age of tax arrears	LTO domestic tax arrears at end of 2015/16	SMTO domestic tax arrears at end of 2015/16	Total domestic tax arrears at end of 2015/16	Total domestic tax arrears at end of 2014/15	Year-on-year growth
Less than 3 months overdue	19.9	7.2	27.2	8.1	235.8%
Between 3 and 6 months overdue	6.1	3.3	9.4	13.7	-31.3%
Between 6 and 12 months overdue	4.1	3.9	8.0	19.6	-59.2%
More than 12 months overdue	24.4	59.7	84.1	81.4	3.3%
Total	**54.6**	**74.1**	**128.7**	**122.9**	**4.7%**

Total Stock of Arrears Rwf 128.7 billion			
SMTO Rwf 74.1 billion		LTO Rwf 54.6 billion	
Grown by 18.5% in 2015/16	57.6% of total arrears	Reduced by 9.6% in 2015/16	42.4% of total arrears

At the end of the 2015/16 fiscal year, there were domestic tax arrears of Rwf 27.2 billion related to debts less than 3 months overdue, this is 21.1% of the total stock of arrears. On the other hand, Rwf 84.1 billion related to debts of more than 12 months, 65.4% of the total.

In terms of tax arrears by category, Rwf 47.9 billion of the stock of arrears are categorized under potentially recoverable cases (including installments), this represents 37.3% of total domestic tax arrears. In contrast, Rwf 66.7 billion are categorized as difficult cases (including cases in courts, amicable settlement and appeal cases) accounting for 51.9% of total arrears. Finally, Rwf 14.0 billion is believed to be irrecoverable, 10.9% of the total. Figure 18 below displays domestic tax arrears by different recovery categories.

Figure 18: Categories of domestic tax arrears at the end of 2015/16, in Rwf billions.

Category	Number of cases	Amount of tax arrears	Percentage share of total domestic tax arrears
Installments	780	16.8	13.1%
Potential cases	629	31.1	24.2%
Amicable cases	6	8.7	6.8%
Difficult cases	254	49.7	38.7%
Cases in courts	46	4.9	3.8%
Irrecoverable cases	91	14.0	10.9%
Appeals to the Commissioner General	9	3.4	2.6%
Total	**1,815**	**128.7**	

2.5. TAXPAYERS' EDUCATION AND SENSITISATION

In the 2015/16 fiscal year, RRA enacted many focused taxpayer education and outreach campaigns. RRA conducted Tax Advisory Council (TAC) meetings in all districts, provinces and within Kigali City. In addition, targeted groups who received sensitisation on a range of tax issues included:

- Newly recruited taxpayers
- District hospital chief accountants
- Procurement officers
- Accountants of districts and sectors
- Administrators of health centers
- Directors of public schools
- CEO of insurance companies
- Presidents and accountants of cooperatives
- EBM users
- Managers of garages and spare parts
- Journalists from different media houses
- Rice companies
- Timber suppliers
- Tourism operators
- Managers of driving schools
- Musician artists
- Motor vehicles cooperatives members
- Women entrepreneurs
- Bricks manufacturers
- Ngali Holdings staff
- Managers and accountants of SACCOs
- Tax advisors
- Students of secondary schools and universities.

RRA also held consultative meetings with opinion leaders in all provinces, where various queries were identified and possible solutions were recommended. All of these were aimed at inculcating a positive attitude into the taxpaying community towards taxation, thus promoting voluntary compliance and leading to optimization of revenues collection.

Furthermore, RRA continued to publicize relevant information to its stakeholders through different media. TV and radio talk shows were held on TVR, TV One, Goodrich TV, Radio One, Radio Rwanda, Community Radios, Flash FM, Radio 10, KFM and Isango Star. Newspapers were also used to inform taxpayers and the general public on different RRA programs and services. Moreover, RRA regularly updated its website with a view to 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.

2.6. STRENGTHENING PARTNERSHIP WITH TAXPAYERS

Rwanda Revenue Authority and the Private Sector Federation signed a memorandum of understanding (MoU) with the aim of strengthening patnership with the business community and improving tax compliance. This partnership is contributing to increase the tax base, strengthen existing cooperation and facilitate the taxpayer's education, increasing tax compliance.

2.7. 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 2015/16 fiscal year, 1,294 appeal cases were received by RRA. This is a year-on-year growth of 234.4% from the 387 appeals received in 2014/15. Of the 1,294 appeals in 2015/16, 972 were completed (of which 69 were from 2014/15 and 903 from 2015/16), 156 were rejected and 166 were carried forward into 2016/17. The finalized appeals cases had the reassessed tax liability reduced by the appeal committee from Rwf 17.6 billion to Rwf 14.4 billion, representing an 18.2% reduction.

During the 2015/16 fiscal year, there were 143 requests for amicable settlement. This is a year-on-year growth 3.6% from the 138 requests received in 2014/15. Of the 143 requests in 2015/16, 63 were completed, 72 were rejected and 8 were carried forward into 2016/17. The amicable settlements had the tax liability reduced from Rwf 9.0 billion to Rwf 6.5 billion, representing 28.3% reduction.

Additionally, 136 cases were heard in the Courts of Law. This is a year-on-year decrease of 15.5% from the 161 cases in 2014/15. Among cases heard in the Courts, 75 were ruled in favour of RRA, 55.1% of the total number of cases; 50 cases were ruled in favour of the plaintiffs, 36.8% of the total; and 11 cases were partially won by both parties, 8.1% of the total.

2.8. REVIEWING AND DRAFTING OF LEGAL INSTRUMENTS AND PROVIDING LEGAL ADVICE

During the 2015/16 fiscal year, RRA continued to provide advice on tax issues as mandated. RRA actively participated in:

- Reviewing Law No. 25/2005 of 04/12/2005 on tax procedures.
- Drafting the amendment of Law No. 37/2012 of 9/11/2012.
- Drafting the amendment proposal of Law No. 49/2013 of 28/06/2013 establishing road maintenance fund and determining its mission, organisation and functioning. The draft was sent to Road Maintenance Fund office.
- Drafting the ministerial order modifying and complementing ministerial order No. 001/2007 of 30/1/2007
- Drafting the amendment of ministerial order No. 002/13/10/TC of 31/07/2013 on modalities of the use of EBM.
- Drafting the ministerial orders implementing the reviewed income tax law.
- Drafting review of the Commissioner General Rule regarding the renewal fees for tax advisors.
- Drafting the Commissioner General Rule implementing Law No. 37/2015 of 30/06/2015 on consumption tax.

In addition, RRA actively participated in the negotiation and drafting of Double Taxation Agreements (DTAs) and Bilateral Investment Treaties (BITs). Progress made on DTA and BIT during the 2015/16 year includes:

- International DTA with Dubai and Turkey: negotiations were concluded.
- BIT with Singapore: negotiations completed waiting signing process.
- BIT with Morocco: first round of negotiations were completed.

At the end of the 2015/16 fiscal year, RRA had 7 DTAs in force with the following partners: The Kingdom of Belgium, The Republic of South Africa, The Republic of Mauritius, EAC Partner States, The Republic of Singapore, the Barbados, and Jersey.

Moreover, the following practice notes were prepared and published during the 2015/16 fiscal year:

- Practice notes on interpretation of Article 2, Law No. 37/2015 of 30/06/2015 on consumption tax related to the rate of excise duty on cigarettes.
- Practice notes on interpretation of Article 5, Law No. 37/2012 of 09/11/2012 on the code of Value Added Tax, related to the rate applied to tourism packages.

3. PROGRESS ON THE MAIN MODERNISATION PROJECTS

During the 2015/16 fiscal year, RRA continued to implement various projects aimed at improving service delivery and enhancing revenue mobilization. Key modernization projects being implemented include the following:

3.1. ELECTRONIC BILLING MACHINES (EBMs)

Rwanda Revenue Authority continued to strengthen the sensitization and use of Electronic Billing Machines among taxpayers. This is in line with the government's need to improve the collection and compliance of VAT through the use of EBMs that were introduced in March 2013 to all VAT registered taxpayers. Since then, a lot of efforts have been employed to ensure its usage by all targeted taxpayers.

At the end of the 2015/16 fiscal year, a total of 11,436 VAT registered taxpayers had EBMs. This represents a year-on-year growth of 41.3% from the 8,096 who had EBMs at the end of 2014/15. In addition, a total of 13,238 EBMs had been activated at the end of 2015/16. This represents a year-on-year growth of 30.8% from the 9,162 active machines at the end of 2014/15. This growth benefited from the following actions carried out by RRA;

- Informed 1,103 taxpayers, whose exemption of using EBMs had been granted, that their EBM exemption had been cancelled and urged them to buy machines. Among taxpayers whose exemption letters were cancelled, 330 complied and purchased the EBMs.

- Identified 1,222 VAT active registered taxpayers who did not have EBMs as required by law and established affidavits and fine notifications against them. Among the taxpayers who received affidavits and fines, 500 complied and purchased EBMs.

- Sent text messages (SMS) to VAT registered taxpayers who do not have and use EBMs. Among the taxpayers who received SMS, 180 taxpayers complied and purchased EBMs.

- Sent letters to all government institutions reminding them to only pay suppliers who have produced invoices with EBM receipts.

- Analysed 2015 calendar year imports and sent messages to all non-VAT registered taxpayers who imported goods of more than Rwf 20 million.

- Launched the EBM lottery scheme as another approach to encourage buyers to request for EBM receipts whenever they buy a product or service. The testing phase was held on 21st August 2015, while the scheme was officially launched on 9th October 2015 and has since been held every month. At the end of the 2015/16 fiscal year, 302 lucky winners had won a total of Rwf 15,000,000, one flat screen worth Rwf 300,000 and one smart phone worth Rwf 100,000.

- In order to enforce the usage of EBMs, RRA obtained 91 interns from the National Capacity Building Secretariat. They were deployed as field staff in different busy corners in Kigali City. They managed to check 242,136 EBM invoices, 14,294 manual invoices and 35,957 vehicles.

- 28 big importers were closely monitored on a daily basis for a period up to one month. Emphasis was placed on putting clients' TIN for easy identification of their entire sales channel, in addition to prices on invoices.

- Conducted special monitoring and enforcement in supermarkets, bars, restaurants and night clubs. The operation consisted of closely monitoring the issuance of EBM invoices on daily basis for a period of between one to three weeks and observed the behaviour before, during and after the monitoring.

- Conducted EBM invoices operations aimed at requesting invoices of goods in stock as well as in shops. During the operation, taxpayers were reminded also of the requirements for being VAT registered. The operations covered Muhanga Tax Center, Kabuga Tax Centre, Kigali City Market, Kimironko Market, Nyabugogo Market, Batsinda center and Kinyinya center.

- Deployed staff in rice factories located in Eastern Province and Rusizi District to monitor the purchase, production and distribution of rice. The deployment covered 9 rice factories. This helped determine the quantity of rice produced and sold and the correct VAT to be collected.

- Held tax education and meetings with taxpayers in different areas in Kigali City.

- Launched and implemented the campaign entitled “The Role of Electronic Billing Machines (EBM) in Promoting Tax Compliance” in public and private universities in Rwanda. Up to June 2016, presentations have been made in 10 out of 21 universities identified.

- TV and radio shows on the EBM have been conducted on TVR, TV One, Goodrich TV, Radio One, Radio Rwanda, Community Radios, Flash FM, Radio 10, KFM and Isango Star.

3.2. E-TAX SYSTEM TO REDUCE COMPLIANCE COSTS FOR TAXPAYERS AND RRA

During the 2015/16 fiscal year, 80,517 taxpayers submitted their tax returns electronically out of a total of 89,348 taxpayers who submitted returns; this is a ratio of 90.1%. This includes 38,692 M-declarations.

To facilitate taxpayers in the process of taxes declaration and payment, the e-tax payment system was integrated with MTN Mobile money to allow taxpayers to pay any taxes and fees using their own mobile phone. Mobi-cash was integrated as well. Integration with Tigo and Airtel’s mobile money platforms were tested and will be fully implemented after the establishment of contract agreement between RRA and the respective network operators.

During the 2015/16 fiscal year, the number of taxpayers using e-tax payment totaled 27,734. This is a nominal increase of 25,269 from the 2,465 in 2014/15. This large increase is mainly attributed to the use of mobile phone facilities through MTN mobile money and mobi-cash, taxpayer sensitisation and the requirement of e-payment as a condition for issuing Tax Clearance Certificate (Quitus Fiscal) for large taxpayers, medium taxpayers and top importers.

3.3. E-TAX ENHANCEMENT

During the 2015/16 fiscal year, the following improvements and additions have been made to the e-tax systems:

- Motor Vehicles module has been implemented and RRA is now able to: register new vehicles in the new system, generate number plates, and assign number plates to the owner using their TIN, receive payment of vehicles tax arrears from legacy systems, attach caveats to vehicles and other subsequent processes until a vehicle is scrapped and taken off the road.

- Taxpayer registration module has been implemented with a generation of a unique taxpayer Identification Number (TIN) which is used for all tax administration purposes and applies across all taxes. Taxpayers register on-line through RDB portal and get TINs through the interface between RDB and RRA. There is now a seamless flow of taxpayer registration information through the systems integration with the RDB business registration function. This is also linked to national ID system for validation to avoid issuance of duplicate TINs.

- Established communication channels with Rwanda Cooperative Agency (RCA) in order to facilitate “one-stop” registration for cooperatives and issuance of TINs without visiting both RRA and RCA for registration. This is being tested in order to have a real time exchange of cooperatives information between RRA and RCA. It will be deployed to production once completed and approved by both institutions.

- The registration data exchange on NGOs registered with Rwanda Governance Board (RGB) was established and RRA is now testing dummy data. This system requires further validations before deployment can be approved.

- Business requirements specifications for Audit, Enforcement, Appeals management refunds and tax account management ledgers were prepared and submitted to TCS for development.

- The integration with Electronic Single Window system (ESW) for customs data exchange with E-Tax was tested and approved for deployment to E-Tax Production database.

- Updated the International Standard for Industrial Classification codes (ISIC Rev 4) with the support of the National Institute of Statistics (NISR) in order to come up with an agreed sector classification for businesses operating in Rwanda for tax purposes. This common classification code benefits business registration as well as taxpayer registration.

- Integrating the E-Tax with SMART FMIS systems for government payments has been successfully implemented for the following withholding taxes; withholding VAT (18%) on public tenders, withholding 15% on foreign services to Government and withholding 3% on public tenders. The remaining data exchange on PAYE, pension and medical declarations from government institutions is in progress, as is the systems integration with BNR.

3.4. COLLECTION OF LOCAL GOVERNMENT REVENUE

RRA continued collecting rental income tax, trading licenses, fixed asset tax and fees on behalf of Districts during the 2015/16 fiscal year. The official handover of files and data between Districts and RRA was concluded.

Total local government revenue collection (both tax and fees) for the 2015/16 fiscal year amounted to Rwf 40.6 billion. This achieved 88.6% of the Rwf 45.8 billion target, a shortfall of Rwf 5.2 billion.

Local government taxpayers' registration for the three taxes continued across the country. At the end of the 2015/16 fiscal year, 238,310 registered taxpayers were captured in the system as compared to 40,013 at the end of 2014/15.

New software for local government revenue was developed and all three modules were completed. The completed main system modules already in use are registration, e-filing and payment for all taxes and fees. The completed modules not yet in use are audit & enforcement, and revenue accounting & reconciliation. Declarations have been submitted for various taxes, fees and services using the system since the end of August 2015.

Associated User Manuals were supplied to assist taxpayers and RRA staff with step by step procedures to follow for the modules delivered. Training has been carried out on the completed modules for end users.

A mobile declaration platform was put in place to help taxpayers to declare their land lease fee by dialing *800# on their mobile phones.

The recruitment process for RRA staff to perform local government revenue collection was completed. 175 staff were recruited, benefited from induction courses and deployed in 167 collection centres across the country to give efficient service to taxpayers.

Moreover, RRA signed a Memorandum of Understanding with a Private Company, Ngali Holdings LTD, for collecting local government fees across the country on behalf of RRA.

3.5. RWANDA ELECTRONIC SINGLE WINDOW AND CUSTOMS MANAGEMENT SYSTEMS

Rwanda electronic Single Window (ReSW) and customs management systems have been upgraded regularly since 2012. These developments were done progressively to make the systems provide more effective and efficient services to ultimately attain an objective of a paperless environment. During the 2015/16 fiscal year, the following processes were automated within ReSW.

3.5.1 Development of Certificate of origin

The electronic Certificate of Origin (e-CoO) system was developed during the 2015/2016 fiscal and implementation began on 13th June 2016. Previously, the certificate of origin process was done manually where exporters or their representatives had to visit Customs offices to acquire hard copies of the certificate of origin after payment of required fees. This process increased the time and cost of trade.

The current process of e-CoO provides the automated environment whereby exporters or their agents are able to submit the request online. Approval by different Customs offices is also done electronically. The following preferences have been considered: CoO EAC, CoO EAC Simplified, CoO COMESA, Rwanda GSP1 CoO, Mouvement des Marchandises (EUR.1), CoO Export to China and General Rwanda CoO.

The benefits for implementing the e-CoO include: reducing the costs of exporting, reducing movement to issuing authorities and hence time saving, reducing bureaucracy, enhancing transparency among stakeholders, eliminating forgery of signatures, encouraging and facilitating trade and increasing the ease of sharing among relevant authorities. In total, 84 electronic Certificates of Origin have been processed through ReSW and 47 exporters have been registered.

3.5.2. Online licensing of Trade Operators

i) Online licensing of clearing agencies

The automation of licensing module for clearing agencies was developed during the 2015/16 fiscal year and implemented began in October 2015, such that the licensing exercise for the calendar year 2016 was electronically done. Clearing agencies used the new developed module to request or renew their operational license to operate in the calendar year 2016. The process of receiving applications from clearing agencies, payment of the regulatory fee, analyzing records, approval and appeal management is now electronically done through ReSW. The clearing agencies accounts were automatically updated upon licensing.

The process has improved the licensing exercise while ensuring control to avoid any omission error for any agency to operate without a valid operational license. In total, 191 applications for Rwandan clearing agencies has been processed through this system.

ii) Licensing of Trucks

According to the Customs Management Act, trucks carrying goods under Customs control are licensed by Customs annually. To make the process simple and efficient, the process was automated in 2015/16. The module has been developed under ReSW system to allow transporters or their representatives to apply online for the license. The whole system is now completed online.
Training of system users was conducted in January 2016 and all borders are using this module to process all licenses for trucks. In total, 1,143 license applications have been received. 827 of these have been successfully issued through ReSW by the Customs Licensing unit and different borders as well.

3.5.3. Review of Customs Warehouse declaration under Single Customs Territory

To reduce the effort of having two declarations and a movement document, a new development has been made to allow the generation of T1 document from a warehouse declaration. As a result, this customs process is now done from one customs declaration and one movement document. During the 2014/15 fiscal year, implementation for this development was completed in the central corridor. This was extended to the northern corridor in 2015/16.

3.5.4 Enhancement of export control

The current control of exited exported cargo was previously done by a declaration which made partial removal of export declaration impossible. In the 2015/16 fiscal year, a new development was completed to enable partial exit of a consignment to be exited once an exit note has been produced so as to allow partial removal of export cargo from an inland office and subsequent confirmation of exit at the border. This process is aimed at increasing control.

3.5.5 Implementation of INTERPOL integration

Since October 2015, the ReSW has been interfaced with INTERPOL Database of black listed motor vehicles. The control is done at declaration level so that whenever a clearing agent tries to register an entry for the motor vehicle, the system cross-checks against the INTERPOL database for blacklisted vehicles. If the system detects that the vehicle in case is blacklisted, the system sends an error message and stops a clearing agent from proceeding with registration process until the issue is sorted out as stipulated in the INTERPOL procedures.

3.5.6 Implementation of electronic phytosanitary certificates and import permits (RALIS)

Since November 2015, the e-Portal for Rwanda Agriculture and Livestock Inspection and Certification Services (RALIS) has been active. The portal manages online applications and processing of phytosanitary certificates and import permits.

After a successful application process for either a phytosanitary certificate or an import permit, the RALIS e-portal transmits information of approved certificates to ReSW system that is then used while processing export and or import declarations. These declarations write the quantities on the certificate so that no one can exceed approved quantity without authorization from RALIS. By the end of the 2015/16 fiscal year, 639 export certificates and 339 import permits were successfully transmitted to the ReSW system.

3.5.7 Petroleum management module

The petroleum management module aims at solving the problem of discrepancies between information in ASYCUDA warehouse stock and actual quantity available in petroleum depots. Requirements for this module development were done and functional and technical documents prepared. Development of this module is still ongoing.

3.5.8 E-payment enhancement

One identified issue was that declarations could be amending after partially paying using e-payment. In overcome this problem, amending any assessed declaration that is not yet fully paid was restricted. Only staff with special property can now do this post-entry. The system is fully implemented and is being monitored regularly to provide amendment access as needed.

3.5.9 Regional interconnectivity

Since the implementation of the Single Customs Territory program, information has been exchanged amongst the revenue administrations of the EAC partner states. To enhance this, the EAC Secretariat is coordinating the extension to other areas such as valuation and rules of origin. The purpose is to enable member countries to share real time information.

3.6. ELECTRONIC CARGO MONITORING SYSTEM

The Cargo Monitoring System (CMS) is a portfolio of electronic tools for a comprehensive monitoring of what is happening on the ground against the information from the Customs Management System (ASYCUDA). The system interoperability of CMS components shall support compliance by matching remote physical surveillance of the cargo with the system based information in order to deter any attempt of illegal offloading of goods within Rwandan territory. The following are CMS components:

- Electronic Cargo tracking system (ECTS)
- IP Closed-circuit television (IPCCTV) cameras
- Automatic Number Plate Recognition (ANPR) System
- Customs Management System monitoring reports

RRA through open tender process selected a successful bidder BSMART Technologies Co. Ltd. The agreement between RRA and BSMART has been drafted, reviewed by Legal and Board Secretary Department and Ministry of Justice and thereafter signed, with a total value of USD 5,397,758.

The ECTS development was finalized. The system design document and the proof of concept were submitted by the contractor and approved by the appointed ECTS Steering Committee. Geo-fencing and geo-mapping of all routes from and to all Rwandan borders was also finalized.

The establishment of the ECTS monitoring centre has been completed. The Control Monitoring Centre (CMC) is being constructed at RRA Headquarters, while 8 RRA employees are planned to work in the Control Monitoring Center.

3.7 AUTHORIZED ECONOMIC OPERATORS (AEO)

The implementation of the Authorized Economic Operators (AEO) project is ongoing, funds amounting 150,000 USD have been disbursed by Trade Mark East Africa. The accreditation process was facilitated by advertising, hiring the venue and visiting applicants for audits. The AEO Standard Operating Procedures Manual has been reviewed and the final document approved. Training on risk management and post clearance audits was organized and provided to 10 and 12 officers respectively. The sensitization of the AEO Project was carried out to 215 staff from Clearing Agencies, 103 operators and 55 Cross Border Regulatory Agencies including the Migration Office, National Police and Rwanda Standards Bureau.

In the 2015/16 fiscal year, 91 applications from various international trade-related operators were received and examined by Customs. In October 2015, 24 AEO applicants were approved at national level to join the scheme at regional and their list was submitted to EAC secretariat. In March 2016, the AEO technical team at regional level discussed and approved the procedure and methodology used to select these candidates.

By the end of the 2015/16 fiscal year, out of 24 new AEO accredited at national level, one company was reported by Burundi Revenue Authority (OBR) to be not compliant. For the other operators, the process of signing MoUs will be accomplished after finalizing the MoU format and its approval at EAC level.

3.8. DATA WAREHOUSE, RISK MANAGEMENT AND BUSINESS INTELLIGENCE SYSTEM

The Data Warehouse team continued to conduct training of RRA staff on using the system. During the 2015/16 fiscal year, 61 RRA staff members were trained, including 35 tax auditors, 2 enforcement officers and 3 tax account officers from Domestic Tax Department, 5 from Corporate Risk Management Department and 16 from Revenue Investigation and Enforcement Department. Also, 5 project implementation team members got advanced training in India.

Three reports were updated in the Data Warehouse System in response to issues raised by users. These reports are selectivity matrix report, EBM daily sales report and motor vehicle report. In the process of improving the quality of reporting, a new subject area related to Key Performance Indicators was also added in the system.

During the fiscal year, 93 risk rules were tested and validated in the system and were used to produce management reports helping identify areas of high risk in DTD operations. DTD is taking the necessary actions accordingly.

4. ACHIEVEMENTS TOWARDS STRENGTHENING INTERNAL CAPACITY

During the 2015/16 fiscal year, there were a number of activities carried out by RRA aimed at enhancing the sustainability and security of IT systems, strengthening human resources management, internal control systems and skills capacity.

4.1. ENHANCE RRA OPERATIONS THROUGH ICT SYSTEMS

RRA continued to upgrade the IT infrastructure in order to suit employees’ needs and the entire business environment. Some of the key activities performed include:

4.1.1. Refurbish RRA data center

Today, RRA uses sophisticated IT infrastructure for all core operations where the necessity to ensure those systems are stable and secure for reliable service delivery. During the 2015/16 fiscal year, the data center was refurbished and today new equipments are operational. The planned activities included the establishment of a new disaster recovery site. The network establishment to this site is currently being done and contracts have been secured for the purpose. Once the connection will be established, a part of the newly installed equipment will be relocated to the disaster recovery site.

4.1.2. Develop revenue investigation and enforcement management system

The system development was split into two phases; the first phase included the development of the module to be used by the Customs Surveillance team which was finalized in the previous year. The second phase of the development involved a model to be used by Revenue Investigation and Enforcement Department officers for domestic tax surveillance was fully developed in the 2015/16 fiscal year.

4.1.3. IT governance establishment

During the 2015/16 fiscal year, the IT governance structure was established. An ICT steering Committee was formed and in a bid to effectively and efficiently align RRA IT priorities and investment to the RRA corporate strategic plan. The top three activities of the ICT steering committees are the IT Strategic planning, the IT project prioritization and the approval of the IT projects. The formed committee is currently operational.

4.1.4. Reviewing business continuity and disaster recovery plan

The IT business continuity and disaster recovery plan were reviewed and approved. An IT risk assessment and the Business Impact Analysis were conducted initially and have led to the formulation of new plans to cater for the IT Business Continuity and the IT disaster recovery plans. In addition, IT policies and the IT procedure manual were reviewed and approved.

4.2. STRENGTHEN HUMAN RESOURCES MANAGEMENT

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

4.2.1. Enhancing staff capacity

During the 2015/16 fiscal year, RRA conducted 52 training courses out of 58 that were planned. The attendance number for these 52 courses was 1,402 out of the 1,510 that was initially planned.
In addition, there were 12 training courses conducted but not planned. These unplanned courses were conducted in respect of the RRA urgent needs such as the newly created corporate risk management department, reviewing the image of the authority, launching of AEO, and performance management. For the unplanned courses, the attendance was 317 staff.
Out of the total attendance, 34% benefited the staff from regions and decentralized taxes department with special attention given to the 176 newly recruited for local government taxes and fees management.

4.2.2 Staff recruitment and promotions

During the 2015/16 fiscal year, 275 employees were recruited by RRA in order to fill vacant positions within different departments, of which 175 employees were appointed in the office in charge of local government revenue collection. This department accounted for 63.6% of all new employees.

At the end of the 2015/16 fiscal year, RRA had 1,178 permanent staff. This is a year-on-year growth of 23.3% from the 958 staff at the end of 2014/15. Permanent staff members were also supported by 104 police officers.

In addition, 29 RRA employees were promoted or confirmed to higher grades in order to fill vacant positions within different departments. All promotions were done in accordance with the Terms and Conditions of RRA's staff and internal processes and procedures.

4.2.3 Staff Integrity management

Disciplinary investigations on 53 cases involving 57 staff members were carried out. Of these, 43 employees were sanctioned including 7 dismissals, and the remaining 10 cases were still in progress. The 43 cases involved the following malpractices:

- 10 concerned facilitating tax evasion.
- 6 were accused of unjustified increases in wealth.
- 2 concerned failure to abide by procurement laws.
- 3 were accused of failing to abide by rules and regulations.
- 2 were accused of payroll mismanagement.
- 20 cases were accused of other forms of malpractices.

Out of the 43 staff summoned and investigated, 7 were dismissed, and 12 were acquitted. The remaining 24 officers received reprimands, last, first and/or oral warnings.

An integrity and anti-corruption strategy was also approved by the Board of Directors on 15th June 2016, having been developed after a consultative process involving both the business community and government stakeholders.

4.3 STRENGTHEN INTERNAL CONTROL SYSTEMS

During the 2015/16 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, 21 audit engagements were conducted, 124 audit recommendations were raised in addition to 12 recommendations related to the year 2014/15.

Out of 124 internal audit recommendations for the period 2014/15, 85 were fully implemented, representing 68.5% of the total; 29 partially implemented, 23.3% of the total; while 10 recommendations had not been implemented by the end of 2015/16, 8.1% of the total. In addition, 12 recommendations from the 2013/14 period were still open, which is long overdue from their intended implementation date.

The implementation of the Auditor General's recommendations was reviewed on a regular basis within concerned departments. Significant progress has been achieved in implementing the recommendations. At the end of the 2015/16 fiscal year, out of 154 recommendations, 107 were fully implemented, representing 69.5% of the total; 41 were partially implemented, 26.6% of the total; and 6 had not been implemented, 3.8% of the total.

The implementation of IT external (KPMG) audit recommendations was also reviewed. Out of 136 recommendations 63 were fully implemented, representing 46.3% of the total; 33 were partially implemented, 24.3% of the total; and 40 had not yet been implemented, 29.4% 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 audit were conducted. RRA certification audit for ISO 9001:2008 requirements was organized. The audit was successful and RRA ISO QMS certificate was renewed for 3 years from July 2016.

4.4. ASSESSMENT OF RWANDA'S TAX ADMINISTRATION SYSTEM

In August 2015, a pilot assessment of Rwanda's tax administration system was conducted by the staff of the IMF using the Tax Administration Diagnostic Assessment Tool (TADAT). The results of the TADAT assessment for the RRA system have identified the following main strengths and weaknesses.

The assessment team observed strengths in the promotion of voluntary compliance through the provision of extensive taxpayer services, in the dispute resolution process, and in external and Quality Assurance Department oversight.

However, the strong performance on promoting voluntary compliance is negatively impacted by low reliability of the taxpayer registration database and related taxpayer accounts. Key weaknesses, that have a pass-through effect on all outcome areas, include:

- Inaccuracies in the taxpayer registration database and related taxpayer accounts. Verification of the active taxpayer population is weak.
- Lack of uniformity in classifying business and sectorial activity between the RDB and RRA. RDB is using the ISIC3 Rev. 4 classification and RRA was still using a mix of ISIC and classifications predefined in SIGTAS. A new system has been designed to uniformly use the ISIC classifications.

To address the gaps identified through the assessment, RRA created a team that developed an action plan with solutions incorporated into the daily operations of the RRA.

4.5. ENTERPRISE RISK MANAGEMENT POLICY

RRA has adopted an institution-wide approach to risk management, which means that every key risk in each department should be included in a structured and systematic process of risk management. During the 2015/16 fiscal year, RRA established risk management committees at corporate and departmental levels and introduced a system of risk registration using online risk registers within every department.

5. RRA'S EXPENDITURE FOR FY 2015/16

RRA approved budget for the 2015/16 fiscal year was Rwf 24.97 billion. RRA's expenditure was Rwf 22.9 billion, this is a budget utilization of 91.7%. Based on the total expenditure, RRA registered a cost-collection ratio of 2.2%, slightly above 2.1% set target.

6. KEY CHALLENGES FACED BY RRA DURING FY 2015/16

Despite achieving the revenue target, RRA still faces various challenges in an effort to fulfill its vital revenue collection mandate on behalf of government. The challenges are partly responsible for failure to achieve targets in the two previous years. As explained below, these challenges must be addressed to ensure that RRA effectively fulfills its mandate. They include:

- Policy related challenges. Inaccurate interpretation of some tax laws caused revenue loss and unfavorable judicial outcomes on tax corruption cases.

- Low tax compliance culture. 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 the Electronic Billing Machines yet it is one of the most effective tools to collect accurate tax information in real time.

- Administrative inefficiency. RRA believes that it is not operating at its full potential and that it always runs a risk of poor performance due to the following main constraints:

    - High turnover of the most experienced and competent staff;
    - Inability to attract highly qualified and competent staff;
    - Lack of appropriate personnel policies to facilitate timely and responsive decision making in a highly risky, dynamic and complex taxation environment.

CONCLUSION

In the 2015/16 fiscal year, RRA registered a revenue performance of 104.3% resulting in a revenue growth of 14.8% compared to collections in the previous fiscal year. This strong performance confirms the potential that RRA has to effectively and optimally mobilize 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 2015/16 fiscal year have been noted and considered in the 2016/17 RRA action plan. Every effort is being made to ensure that we do not miss the revenue target and other major priorities of the organization. RRA is highly committed to keep up pace of revenue growth in the upcoming years.

RRA's YEAR IN PICTURES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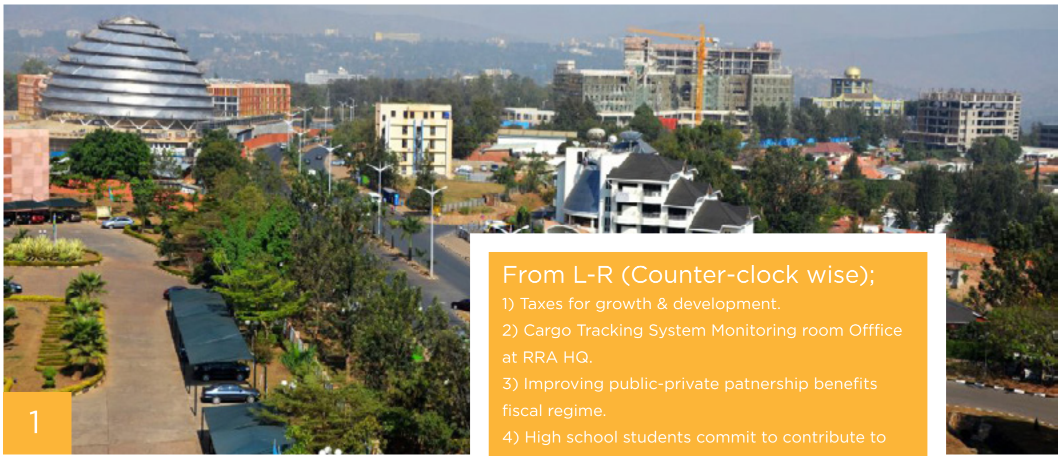
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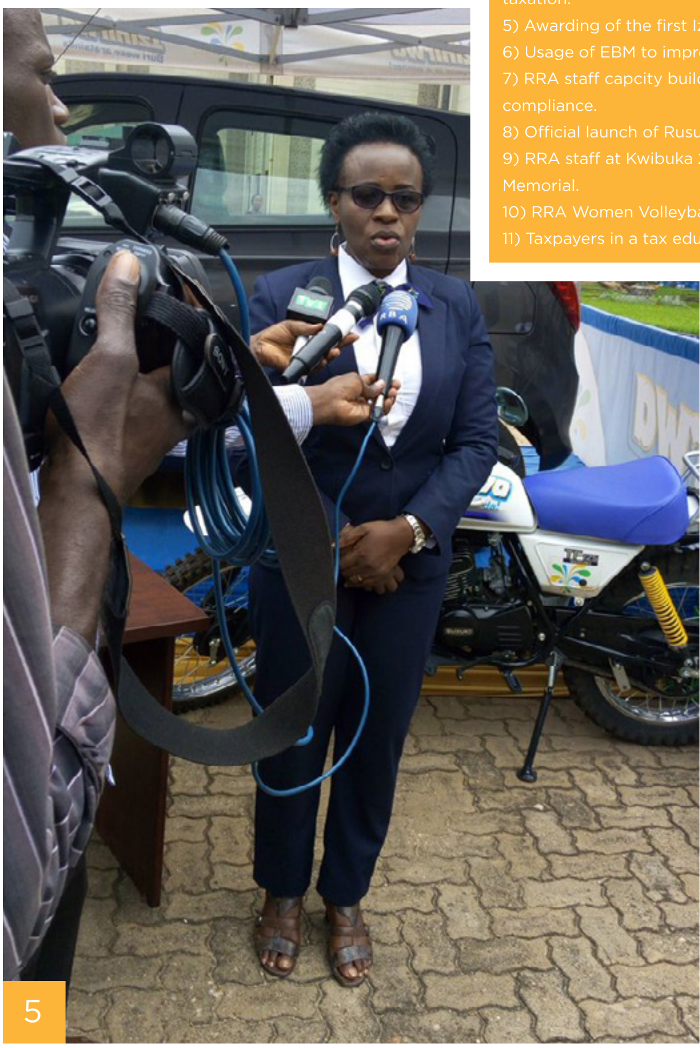
From L-R (Counter-clock wise);

1) Taxes for growth & development.
2) Cargo Tracking System Monitoring room Offfice at RRA HQ.
3) Improving public-private patnership benefits fiscal regime.
4) High school students commit to contribute to taxation.
5) Awarding of the first Izihirwa EBM campaign car.
6) Usage of EBM to improve VAT Collection.
7) RRA staff capcity building contributes to tax compliance.
8) Official launch of Rusumo OSBP & Bridge.
9) RRA staff at Kwibuka 2016, Kinazi Genocide Memorial.
10) RRA Women Volleyball Team Winners.
11) Taxpayers in a tax education session.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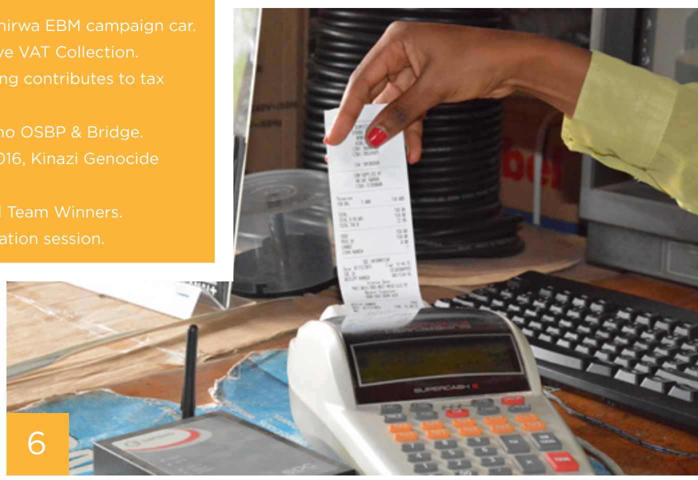
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12) RRA signed a (MOU) with Local Governments to collect taxes & fees on their behalf.

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HERE FOR YOU
TO SERVE

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