

RWANDA REVENUE AUTHORITY
TAXES FOR GROWTH AND DEVELOPMENT

TAX COMPLIANCE FOR CONSTRUCTION SECTOR

HERE FOR YOU TO SERVE

The construction sector represents a significant share of the tax base. The key considerable tax compliance risks are registration, filing, payment and reporting.

1. Registration risk:

Any person who sets up a business or other activities that may be taxable is obliged to register with Rwanda Development Board (RDB) within a period of seven (7) days from the beginning of the business or activity or the establishment of the company.

From the analysis, it was found out that;

- Some Taxpayers register in some tax heads but not register in other taxes for which they are eligible.

During business registration the owner must:

- Specify his/her business activity
- Specify address of the business (district, sector, cell, village, street number etc.)
- Indicate types of taxes to register to
- Specify whether he/she is doing business as individual or a company
- Indicate identification of the business owner/ shareholders (names, ID/passport, telephone numbers, email addresses)

2. Filing risk:

From the analysis, it was found out that the following are the most practices:

- Late filing of tax returns
- Missing tax returns

To avoid this, Taxpayers should regularly file their tax returns on time

3. Payment risk:

From the analysis it was found out that there are huge tax arrears associated with the sector.

In order to avoid this, Taxpayers should:

- Make all payments on time
- Make a follow up of their business transactions to record all payments

4. Underreporting risk:

From RRA analysis, it was found out that the following are the most practices:

- Understatement of sales;
- Non-declaration of 3% withholding tax on public supplies;
- Understatement of 5% WHT;
- Not withholding 15% on payments made to unregistered suppliers;
- Non declaration of withholding tax of 30% on sitting allowance;
- Understatement of gross salary;
- Non declaration of PAYE for some staff;
- Charging withholding tax of 15% instead of charging PAYE;
- Permanent staff charged PAYE as causal labourers;
- Benefits in kind not charged PAYE;
- Differences between staff costs declared in PAYE and staff costs in books of accounts;
- VAT taxable sales declared as exempted;
- Input VAT claimed on final consumption;
- Input VAT claimed from fictitious invoices;
- Non apportionment of input VAT;
- Input VAT claimed not related to the business;
- Input VAT claimed on imports not related to the business;
- Not charging VAT reverse charge on services available locally
- Expensing VAT (total invoice VAT inclusive);
- Expenses without supporting documents;
- Non supported expenses recorded twice;
- Expenses not related to the business;
- Declaration of non-deductible expenses:
  - Expenses for personal use;
  - Expensing fines, interest and penalties;
  - Interest for loans between related parties excess of four times of the equity paid.
- Application of wrong exchange rates on payments made in foreign currencies;
- Overstatement of depreciation;
- Purchases without supporting documents;
- Overstatement of purchases cost;
- Inappropriate usage of EBM:
  - Non issuance of EBM invoices;
  - Understatement of EBM invoice;
  - Cancellation of EBM sales without original invoices.

What must be reported?

- All incomes/revenues/sales
- Employees' remuneration and corresponding tax (PAYE)
- Real expenses incurred on goods and services

Conclusion

Taxpayers in this sector are requested to comply with tax laws and regulations to address issues mentioned above. Taxpayers are requested to acquire EBM and always issue EBM invoices with the correct amount, description of the product and the buyer's TIN or telephone number. Taxpayers are requested to trade with suppliers with EBM to be able to declare expenses. RRA is extremely willing and prepared to assist taxpayers comply with tax laws and regulations.

