



RWANDA REVENUE AUTHORITY  
TAXES FOR GROWTH AND DEVELOPMENT

# TAX COMPLIANCE FOR MANUFACTURING SECTOR

HERE FOR YOU TO SERVE

The manufacturing sector represents a significant share of the tax base. The key considerable tax compliance risks are prevalent in the key Taxpayer obligations; 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 registered in some tax heads but not registered in other taxes 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 for;
- 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:

- Expensing VAT (total invoice VAT inclusive);
- Charging withholding tax of 15% on sitting allowance instead of 30%;
- Expenses without supporting documents;
- Benefit in kind not charged PAYE;
- Differences between staff costs declared in profit and loss account as per RRA returns and staff costs in trial balance;
- Non declaration of PAYE of 15% for casual labourers;
- Non declaration of rental income;
- Not withholding 15% on payments made to unregistered suppliers;
- Wrong amount of losses carried forward;
- Destructed, damaged and expired goods without confirmation report from competent authorities;
- Declaration of non-deductible expenses:
  - Expenses for personal use;
  - Expenses not related to the business;
  - Expensing fines, interest and penalties.
- Non declaration of gains from disposal (sale) of assets;
- Cost of goods sold without supporting documents;
- Not charging VAT reverse charge on services available locally;
- Input VAT claimed not related to the business;
- Taxable sales declared as exempted;
- Charging withholding tax of 15% on net amount instead of gross amount;
- Non application of excise tax on promotional products;
- Non apportionment of input VAT (in case of taxable and exempted sales);
- Wrong application of depreciation rates on assets;
- Overstated cost of sales;
- Overstatement of stock;
- Commissions expensed and included in the purchase price (duplication);
- Shareholders equity injected into the company considered as loans but not fulfilling the characteristics of loans;
- Not withholding tax from interest on loan;

- Application of wrong exchange rates on payments made in foreign currencies;
- Underreporting of profits by manipulation of the input/output;
- Difference between withholding tax of 5% declared and withholding tax paid in customs;
- Understatement of sales;
- Input VAT claimed on non-deductible expenses;
- Input VAT claimed not related to taxable goods and services;
- Taxable sales declared as zero-rated;
- Overstatement of input VAT paid on local purchases;
- Inappropriate usage of EBM:
  - Non issuance of EBM;
  - Understatement of EBM invoice;
  - Cancellation of EBM sales without original invoices.
- Understatement of PAYE;
- Undeclared Capital Gain Tax;
- Non declaration of disposable income from export;
- Difference between turnover declared for VAT and turnover declared for CIT;
- Understatement of withholding tax (15%) paid;
- Overstatement of rental expenses;
- Overstatement of expenses;
- Expenses not recorded in incurred period.

## 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.