

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 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;
- Taxable sales declared as exempted;
- Taxable sales declared as zero-rated;
- Non declaration of disposable income from exports;
- Cost of goods sold without supporting documents;
- Overstated cost of sales;
- Overstatement of stock;
- Understatement of gross salary;
- Benefits in kind not charged PAYE;
- Non declaration of PAYE of 15% for casual labourers;
- Permanent staff charged PAYE as causal labourers;
- Charging withholding tax of 15% on net amount instead of gross amount;
- Differences between staff costs declared in PAYE and staff costs in books of accounts;
- Understatement of WHT (15%);
- Difference between WHT tax of 5% declared and withholding paid in customs;
- Not withholding 15% on payments made to unregistered suppliers;
- Charging withholding tax of 15% on sitting allowance instead of 30%;
- Not charging VAT reverse charge on services available locally;
- Input VAT claimed on non-deductible expenses;
- Input VAT claimed not related to the business;
- Overstatement of input VAT paid on local purchases;
- Non application of VAT on promotional products;
- Non application of excise tax on promotional products;
- Non apportionment of input VAT;
- Expensing VAT (total invoice VAT inclusive);
- Overstatement of depreciation;
- Expenses without supporting documents;
- Expenses not related to the business;
- Commissions expensed and included in the purchase price (duplication);
- Overstatement of rental expenses;
- Expenses not recorded in incurred period.
- Declaration of non-deductible expenses:
  - Expensing fines, interest and penalties;
  - Expenses for personal use;
- Inappropriate usage of EBM:
  - Non issuance of EBM invoices;
  - Understatement of EBM invoice;
  - Cancellation of EBM invoices without supporting documents;
- Non declaration of rental income;
- Destructed, damaged and expired goods without confirmation report from competent authorities;
- Non declaration of Capital gain tax;
- 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;
- Manipulation of input/output VAT.

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.