

TAX COMPLIANCE FOR MANUFACTURING SECTOR

The manufacturing sector represents a significant share of the tax base. The key considerable tax compliance risks are filling, 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 are 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 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:

- ❏ Expensing VAT (total invoice VAT inclusive)



RWANDA REVENUE AUTHORITY
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- ⚠ Charging withholding tax of 15% on sitting allowance instead of 30%
- ⚠ 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
- ⚠ No declaration of PAYE of 15% for casual labourers
- ⚠ No declaration of rental income
- ⚠ Not withholding 15% on payments made to unregistered suppliers
- ⚠ Wrong amount of losses carried forward
- ⚠ Destroyed, damaged and expired goods without confirmation report from competent authorities
- ⚠ Declaration of non-deductible expenses
 - Expensing fines, interest and penalties
 - Expenses without supporting documents
 - Expenses not related to the business
 - Input VAT claimed not related to the business
- ⚠ Non declaration of gains from disposal (sale) of assets
- ⚠ Cancellation of EBM sales without supporting documents

- ⚠ Not charging VAT reverse charge on services available locally
- ⚠ Taxable sales declared as exempted
- ⚠ Charging withholding tax of 15% on net amount instead of gross amount
- ⚠ None application of excise tax on promotional products
- ⚠ None apportionment of input VAT (in case of taxable and exempted sales)
- ⚠ Wrong application of depreciation rates on assets
- ⚠ Understatement of EBM invoice
- ⚠ 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

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. Taxpayers are requested to trade with suppliers with EBM to be able to declare expenses because expenses without EBM invoices will not be deducted. RRA is extremely willing and prepared to assist taxpayers comply with tax laws and regulations.

