

Scheme. Individuals may also voluntarily apply to join the Pension Scheme if they are not currently paying into the Pension Scheme.

#### When must a taxpayer register?

An employer is required to register with RSSB within seven (7) working days of starting a business. All businesses are initially registered with RSSB when they register their business with RDB. This account is initially inactive, until the taxpayer hires any employees.

An employer is required to activate their RSSB account and register any employees within seven (7) working days of employing any new employee.

Employers can activate this account and register employees by visiting any RSSB offices. There is an RSSB office in each of the 30 districts in Rwanda. For the addresses of RSSB offices, see the RSSB website at: <http://www.rssb.rw/>.

#### What are the rates of the Pension Scheme?

The Pension Scheme for employees totals a rate of 8%, of which 3% is withheld from the employee and 5% is paid by the employer, including payments to the Occupational Hazards Scheme. This is charged on all employment income except for transport allowances or benefits in kind. Therefore, the Pension Base is equal to:

Pension Base = Basic Salary + Benefit in Kind House + Benefit in Kind Others + Cash Allowance House + Cash Allowance Others.

#### What are the rates of the Maternity Leave Scheme?

The Maternity Leave scheme for employees totals a rate of 0.6%, of which 0.3% is withheld from the employee and 0.3% is paid by the employer. This is charged on all employment income except for transport allowances or benefits in kind. Therefore, the Pension Base is equal to:

Pension Base = Basic Salary + Benefit in Kind House + Benefit in Kind Others + Cash Allowance House + Cash Allowance Others

#### Example Box:

Amahoro employs Innocent and pays him a basic salary of Frw57,000 and a cash allowance of Frw2,000 for transport and Frw3,000 for airtime related to calls on behalf of the business.

#### Excluding the transport allowance, the pension base is:

- $\text{Frw}57,000 + \text{Frw}3,000 = \text{Frw}60,000$

#### The compulsory pension contributions include:

- $\text{Frw}60,000 * 3\% = \text{Frw}1,800$  withheld on behalf of Innocent by Amahoro
- $\text{Frw}60,000 * 5\% = \text{Frw}3,000$  paid by Amahoro

#### The maternity leave contributions include:

- $\text{Frw}60,000 * 0.3\% = \text{Frw}180$  withheld on behalf of Innocent by Amahoro
- $\text{Frw}60,000 * 0.3\% = \text{Frw}180$  paid by Amahoro

In total, Amahoro pays RSSB contributions of Frw5,160 on behalf of Innocent. Of this, Frw1,980 is withheld from Innocent's gross salary, whilst Frw3,180 is directly paid by Amahoro.

#### What are the rates of the Medical Scheme?

The Maternity Leave scheme for employees totals a rate of 15%, of which 0.3% is withheld from the employee and 0.3% is paid by the employer. This is charged on the 'Basic Salary'.

#### What are the rates of the voluntary Pension Scheme?

The rate of the voluntary Pension Scheme is 6% of the fixed salary. For self-employed people, the salary can be fixed at any level. For people who have previously paid into the Pension Scheme, the salary can be fixed not more than 130% of the previous Pension base. The fixed salary cannot increase by more than 30% every three years.

#### Example Box:

Rukundo was previously employed and had been paying into the pension scheme. Rukundo was previously earning a total Pension Base of Frw85,000 per month.

When his contract finished, Rukundo chooses to keep paying into his pension scheme. Rukundo can choose at what rate to set a fixed salary. The upper bound is 130% of the previous pension base ( $\text{Frw}85,000 * 130\%$ ) = Frw110,500. Therefore, the fixed salary must be set below Frw110,500. Rukundo chooses to set the fixed salary at Frw70,000 and from then on is required to pay a monthly pension of:

$\text{Frw}70,000 * 6\% = \text{Frw}4,200$

#### When is the deadline for declaring and paying RSSB Contributions?

RSSB contributions must always be declared and paid on a monthly basis. The RSSB contributions relating to a 'tax period' must be declared and paid within fifteen (15) days of the end of the month.

This means that declarations concerning the employment income earned between March 1<sup>st</sup> and March 31<sup>st</sup> must be declared and paid by April 15<sup>th</sup>. Then declarations concerning the tax period between April 1<sup>st</sup> and April 30<sup>th</sup> must be declared and paid by May 15<sup>th</sup> and so on throughout the year.

#### Declaring PAYE and RSSB Contributions

To facilitate taxpayers, RRA and Rwanda Social Security Board (RSSB) have introduced a unified declaration, where PAYE and all RSSB contributions (except for voluntary Pension Scheme) can be declared together.

The original method of declaring PAYE and each of the RSSB contributions separately is still available. However, RRA is encouraging the use of the unified declaration, and recommends that any newly declaring taxpayers should use the unified declaration.

#### PAYE and RSSB Contributions Penalties and Fines

The penalties and fines for PAYE are similar as for other domestic taxes. This includes penalties and fines for:

- Late declaration
- Late payment
- Declaring less than the correct tax due
- Paying less than the tax due declared the rules concerning interest, administrative fines and repeat offenders.

#### What are the penalties for not declaring or paying RSSB contributions?

An RSSB registered taxpayer who pays RSSB contributions after the deadline

is charged 3% interest on a monthly basis. This penalty is the same whether the taxpayer has submitted the RSSB declaration or not.

As RSSB Contributions are required to be paid on behalf of employees, employers that do not pay the contributions on time may be subject to a procedure of forced recovery in conformity with the law.

#### PAYE Permanent Employees declaration

Basic Salary –Enter the basic salary of the employee in Rwandan francs during the tax period.

- Benefit in Kind Transport –If the employee benefits from access to and use of a motor vehicle provided by the employer during the tax period, enter 10% of the taxable income in Frw, excluding other benefits in kind.
- Benefit in Kind House –If the employee benefits from accommodation provided by the employer during the tax period, enter 20% of the taxable income in Frw, excluding other benefits in kind.
- Benefit in Kind others –If the employee benefits from any benefits in kind from the employer other than transport or accommodation during the tax period, these are entered at market value in Frw.
- Cash Allowance Transport –If the employee benefited from a cash allowance for transport from the employer during the tax period, enter the allowance amount.
- Cash Allowance House –If the employee benefited from a cash allowance for accommodation from the employer during the tax period, enter the allowance amount.
- Cash Allowance Others –If the employee benefited from a cash allowance for purposes other than transport or accommodation from the employer during the tax period, enter allowance amount.

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**PAY AS YOU EARN (PAYE)**



June, 2018

## What is PAYE?

PAYE is a tax on employment income that is withheld by employers on behalf of their employees. This is to save employees having to each declare their own income. Instead, the employers are required to declare and pay PAYE on behalf of their employees.

## Who must register for PAYE?

Any taxpayer who pays its employees in cash, benefits-in-kind or allowances is required to declare and pay PAYE on their employees' behalf.

### Example Box:

Amahoro owns a small shop. She has one employee, Ubumwe. Amahoro must withhold, declare and pay PAYE on Ubumwe's employment income. This is done by Amahoro on behalf of Ubumwe so Ubumwe does not need to declare or pay any further taxes on this income.

## What are the additional obligations of PAYE registered taxpayers?

Employers are required to provide each employee with a statement showing the employee's name, the amount and type of income they received in that tax period and the amount of PAYE and all RSSB contributions that have been withheld and paid on their behalf.

## Which types of employment income are taxable?

Payments in cash refer to monetary payments in notes or electronically in any currency. Payments in kind refer to non-monetary payments of goods or services.

Taxable employment income includes all payments to an employee in cash or in kind such as:

- Wages, salary, leave pay, sick pay and medical allowance, payment in lieu of leave, fees, commissions, bonuses including gratuity and incentives.
- Allowances including any cost of living, subsistence, entertainment, accommodation, rent, or travel allowance;
- Payments to the employee for their acceptance to work in any conditions of employment;
- Payments for redundancy, loss or termination of employment;
- Other payments made in respect of current, previous or future employment.

## Which types of employment income are exempted?

Employment income that is exempt from taxation includes:

- Reimbursement of expenses incurred by the employee if wholly and exclusively for business activities of the employer.
- Retirement contributions or pension payments made by the employer on behalf of the employee to Rwanda Social Security Board (RSSB).
- Retirement contributions made by the employer on behalf of the employee and/or contributions made by the employee to a qualified pension fund to a maximum of 10% of the employee's employment income or Frw1,200,000 per year, whichever is the lowest.
- Employment income received by an employee who is not a citizen of Rwanda from a foreign government or NGO under an agreement signed by the government of Rwanda and when the income is received in performance of aid services in Rwanda.

## What is the valuation method for benefits in kind?

Benefits in kind can be more difficult to value than regular employment income. As a result, the valuation of benefits in kind includes:

- Providing an employee with access to and use of a motor vehicle during a tax period shall be valued at 10% of the employment income, excluding benefits in kind,
- Providing an employee with accommodation during a tax period shall be valued at 20% of the employment income, excluding benefits in kind.

### Example Box:

Innocent employs one employee called Ubumwe. In one month, Innocent pays Ubumwe Frw35, 000 in salary, a transport allowance of Frw5,000 and provides Ubumwe with accommodation to live in.

The Frw 35,000 salary and the Frw 5,000 transport allowance are fully taxable. The accommodation benefit in kind that Ubumwe is provided with is valued at 20% of the taxable employment income. This is calculated as (Frw35, 000 + Frw5, 000) \* 20% = Frw8, 000.

Therefore, the total taxable income that Innocent must declare PAYE for on behalf of Ubumwe is: Frw35, 000 + Frw5, 000 + Frw8, 000 = Frw48, 000

## What are the different types of employees?

There are three types of employees for the purposes of declaring PAYE. These are:

- Permanent employees
- Casual labourers
- Employees with more than one employer

All employees are regarded as permanent employees unless they fulfil the criteria for casual labourers or employees with more than one employer.

A casual labourer is an employee who performs unskilled labour activities, who does not use machinery or equipment requiring special skills, and who is engaged by an employer for not longer than thirty (30) days during a tax period.

If an employee is employed by more than one employer, the employer who pays them the highest taxable income is referred to as the 'first employer'.

## What are the tax rates for 'permanent' employees?

There are different marginal tax rates for permanent employees depending upon their taxable employment income.

The groupings of income are called tax brackets. The tax rates for each tax bracket are:

Monthly Taxable Income (in Frw)	Marginal Tax rates
Frw 0 to Frw 30,000	0%
Frw 30,001 to Frw 100,000	20%
Above Frw100,001	30%

It is important to note that these tax rates are marginal. This means that for each person each month, the first Frw30,000 that they earn is taxed at 0%, the next Frw70,000 they earn is taxed at 20% and any remaining income is taxed at 30%. This means that nobody is made worse off by receiving income in a higher tax bracket.

### Example :

Amahoro employs two full-time employees, Rukundo and Lucie. Rukundo's monthly taxable income is Frw40,000. Lucie's monthly taxable income is Frw160,000. Amahoro declares PAYE on their behalf.

Rukundo's Frw40,000 taxable income is in the second tax bracket. The first Frw30,000 is taxed at 0%, the remaining Frw10,000 is

taxed at 20%. The monthly PAYE tax due on behalf of Rukundo is:

$$(\text{Frw}30,000 \times 0) + (\text{Frw}10,000 \times 20\%) = \text{Frw}0 + \text{Frw}2,000 = \text{Frw}2,000.$$

Lucie's Frw60, 000 taxable income is in the third tax bracket. The first Frw30,000 is taxed at 0%, the next Frw70,000 is taxed at 20%, the remaining Frw60,000 is taxed at 30%. The monthly PAYE tax due on behalf of Lucie is:

$$(\text{Frw}30,000 \times 0) + (\text{Frw}70,000 \times 20\%) + (\text{Frw}60,000 \times 30\%) = \text{Frw}0 + \text{Frw}14,000 + \text{Frw}18,000 = \text{Frw}32,000.$$

## What are the tax rates for 'casual labourers'?

Similarly, there are different marginal tax rates for casual employees depending upon their taxable employment income. The groupings of income are called tax brackets. The tax rates for each tax bracket are:

Monthly Taxable Income (in Frw)	Marginal Tax rate
Frw0 to Frw30,000	0%
Above Frw30,001	15%

## What are the tax rates for 'employees with more than one employer'?

The first employer declares the employee as a 'permanent employee' as normal. Any additional employers must withhold PAYE at the rate of 30% on all taxable income.

This may mean that the employee pays a higher amount of tax than would normally be expected if the income had come from just one employer. Resident individuals in Rwanda are able to claim a refund for excess income tax paid if the tax refund payable exceeds Frw5, 000.

### Example :

Lucie employs Jean-Baptiste in an unskilled role on a temporary basis. Jean-Baptiste works for less than thirty days and Lucie pays him taxable income of Frw36, 000. As Jean-Baptiste is a casual labourer, the first Frw30,000 is taxed at a rate of 0%, and the remaining Frw6,000 is taxed at a rate of 15%.

The PAYE due on behalf of Jean-Baptiste is:

$$(\text{Frw}30,000 \times 0) + (\text{Frw}6,000 \times 15\%) = \text{Frw}0 + \text{Frw}900 = \text{Frw}900$$

Lucie also employs Charles part-time as a cleaner. Charles also works for another employer called Fred. Lucie pays Charles monthly taxable income of Frw45, 000. Florence pays Charles monthly taxable income of Frw50,000. As she pays Charles the higher monthly taxable income, Fred is the first employer who declares PAYE as normal on behalf of Charles. The PAYE due declared by Fred on behalf of Charles is:

$$(\text{Frw}30,000 \times 0) + (\text{Frw}20,000 \times 20\%) = \text{Frw}0 + \text{Frw}4,000 = \text{Frw}4,000.$$

As Lucie is not the first employer of Charles, she must withhold PAYE of 30% on Charles' monthly taxable income. Lucie withholds Frw 45,000 \* 30% = Frw 13,500.

This is a higher marginal rate than would normally be expected if the income had come from just one employer. Charles is entitled to declare an annual Personal Income Tax (PIT) declaration to claim a tax refund if the tax refund payable is more than Frw 5,000.

## When is the deadline to declare and pay PAYE?

VAT is declared and paid on a monthly basis. Alternatively, taxpayers with annual turnover below Frw 200,000,000 may choose to declare on a quarterly basis.

Whether monthly or quarterly, the PAYE declaration must be submitted and any tax paid by the 15th of the month following the end of the tax period.

For monthly, this means that PAYE monthly declarations concerning the tax period between March 1<sup>st</sup> and March 31<sup>st</sup> must be declared and paid by April 15<sup>th</sup>. Then declarations concerning the tax period between April 1<sup>st</sup> and April 30<sup>th</sup> must be declared and paid by May 15<sup>th</sup> and so on throughout the year.

The quarters for taxpayers declaring PAYE on a quarterly basis concern the tax period between:

- March 1<sup>st</sup> to May 31<sup>st</sup> must be declared and paid by 15<sup>th</sup> June
- June 1<sup>st</sup> to August 31<sup>st</sup> must be declared and paid by 15<sup>th</sup> September
- September 1<sup>st</sup> to November 30<sup>th</sup> must be declared and paid by 15<sup>th</sup> December
- December 1<sup>st</sup> to February 28<sup>th</sup> (or 29<sup>th</sup> if a leap year), must be declared and paid by 15<sup>th</sup> March.

However, it is important to note that even if PAYE is declared quarterly, RSSB contributions must still be declared on a monthly basis.

## Are PAYE and RSSB contributions declared together?

PAYE and RSSB contributions can be declared together in a 'Unified PAYE declaration', or declared separately.

## EXPLANATION OF RSSB CONTRIBUTIONS

### What are RSSB contributions?

RSSB contributions are paid by all employees and employers and go towards providing social security schemes such as pensions, coverage for work related accidents, diseases, medical services or disease compensation, or to provide maternity leave benefits.

### Who collects RSSB contributions?

RRA is mandated to collect social security contributions on behalf of Rwanda Social Security Board (RSSB). This is because social security contributions are also paid on the basis of employment income. Therefore, it makes it easier for taxpayers to declare PAYE and social security contributions on one portal at the same time. RRA then transfers all social security contributions directly to RSSB.

### Who must register for RSSB Contributions?

All employers must register for the Pension Scheme, Occupational Hazards and Maternity Leave. Public institutions must also register for the Medical Scheme. In addition, private enterprises may also voluntarily apply to register for the Medical