REPUBLIC OF RWANDA

RWANDA REVENUE AUTHORITY

P.O. BOX 3987 KIGALI

TAXES FOR GROWTH AND DEVELOPMENT

ANNUAL ACTIVITY REPORT

2017/18

OCTOBER 2018

Table of Contents

LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AEO	Authorized Economic Operators
AIMS	Africa Institute for Mathematical Sciences
ANPR	Automatic Number Plate Recognition
ASYCUDA	Automated System for Customs Data
ATAF	African Tax Administration Forum
BK	Bank of Kigali
BOD	Board of Directors
CEO	Chief Executive Officer
CIF	Cost Insurance and Freight
CIS	Certified Invoice System
CIT	Corporate Income Tax
CMU	Carnegie Mellon University
CPA	Certified Public Accountants
CSD	Customs Services Department
DFID	Department for International Development
DTD	Domestic Tax Department
EAC	East African Community
EARA	East Africa Revenue Authorities
EBM	Electronic Billing Machine
EBM V.2	Electronic Billing Machine Version Two
ECTS	Electronic Cargo Tracking System
EU	European Union
FMIS	Financial Management Information System
FOM	Future Operating Model
Frw	Currency symbol for the Rwandan franc
GDP	Gross Domestic Product
GIS	Geographic Information System
GIZ	German Development Agency
HMRC	Her Majesty Revenue & Customs
ICDL	International Computer Driving License
ICT	Information Communication Technology
ICTD	International Centre for Tax and Development
IGC	International Growth Center
IMF	International Monetary Fund
IPCCTV	Internet Protocol Closed Circuit Television
ISIC	International Standard Industrial Classification
ISO	International Standard Organisation
IT	Information Technology
JICA	Japan International Cooperation Agency
KFW	German Development Cooperation
KOICA	Korea International Cooperation Agency
LG	Local Government
LGT	Local Government Tax

LTO	Large Taxpayers Office
NEC	The National Electoral Commission
NISR	National Institute of Statistics of Rwanda
OAG	Office of Auditor General of Rwanda
ODI	Overseas Development Institute
OTA	United States Treasury - Office of Technical Assistance
PAYE	Pay as you Earn
PIT	Personal Income Tax
PSF	Private Sector Federation
PSI	Policy Support Instrument
QMS	Quality Management System
R&DT	Regions and Decentralized Taxes
RAB	Rwanda Agriculture Board
RDB	Rwanda Development Board
RECTS	Regional Electronic Cargo Tracking System
ReSW	Rwanda electronic Single Window
RI&ED	Revenue Investigation and Enforcement Department
RLMUA	Rwanda Land Management and Use Authority
RRA	Rwanda Revenue Authority
RSB	Rwanda Standard Board
RSSB	Rwanda Social Security Board
RTV	Rwanda Television
SARS	South African Revenue Service
SDC	Sales Data Controller
SIGTAS	Standard Integrated Government Tax Administration System
SMS	Short Message Service
SMTO	Small and Medium Taxpayers Office
TAC	Tax Advisory Council
TADAT	Tax Administration Diagnostic Assessment Tool
TCC	Treasury Credit Cheques
TMEA	Trade Mark East Africa
UPI	Unique Parcel Identifier
URA	Uganda Revenue Authority
USA	United States of America
VAT	Value Added Tax
V-SDC	Virtual Sales Data Controller
WCO	World Customs Organization
WCO-ESA ROCB	World Customs Organization East and Southern Africa Regional Office for Capacity Building
WHT	Withholding Tax

FOREWORD BY THE CHAIRPERSON OF THE BOARD OF DIRECTORS

As Chairman of the Board of Directors of Rwanda Revenue Authority, it gives me immense pleasure to present the RRA's annual activity report for fiscal year 2017/18. It is an important output for disseminating the RRA's performance to external and internal customers.

The fiscal year under review marks the end of RRA's strategic plan for 2015/16-2017/18. The RRA has once again taken a big stride in out-performing the Government's revenue target by 3.1%, and exceeding the previous year's revenue performance by 13.6%. The attainment of this significant milestone is attributed to the unwavering commitment and dedication by the staff of the Authority.

Under the governance of the Board of Directors, the RRA has been continuously reforming and modernising revenue collection through improvement in its processes and procedures, and by leveraging on information technology. This annual activity report highlights the numerous improvements made by RRA over the 2017/18 fiscal year. Today, the taxpaying community can feel the palpable difference of a modern tax administration when they fulfil their tax obligations.

The focus upon improving service delivery and reducing the costs of compliance within the activities completed in 2017/18 shows the commitment of RRA to work fairly with all Rwandan citizens, for our mutual benefit.

On behalf of the Board of Directors, I thank the Government for the support extended to the RRA, including guidance and direction provided during the year under review and beyond. I would also like to thank the RRA management and all dedicated employees for the positive performance of the RRA as we celebrate a watershed of its twentieth anniversary.

I remain fully confident that through the commitment of all RRA staff and the innovative and inspired decisions of the Management Team and the Board Members, we shall make the RRA a world-class, efficient and modern revenue agency that is fully financing national needs.

MURANGWA Yusuf
Chairperson of RRA Board of Directors

FOREWORD BY THE COMMISSIONER GENERAL

It is with great pleasure that I share with you the Rwanda Revenue Authority (RRA) annual activity report for fiscal year 2017/18. During this period, RRA managed to achieve the set revenue targets. Emphasis remained focused on the key priorities as reflected in the action plan 2017/18.

The total revenue collection (tax and non-tax, excluding local government collections) amounted to Frw 1,252.3 billion against the target of Frw 1,215.2 billion which is an achievement of 103.1%, and an excess of Frw 37.1 billion above the target. Local Government taxes and fees collections totalled Frw 53.9 billion, which is an achievement of 104.2% of the Frw 51.7 billion target and a surplus of Frw 2.2 billion.

We remained strongly focused on partnership with private sector in taxpayer sensitization campaigns aimed at encouraging voluntary compliance. We also implemented numerous actions aimed at facilitating all of our highly appreciated taxpayers. EBM V.2 was introduced, an internet-based EBM client software that serves as an internal control tool to the taxpayers by offering options like capturing the stock.

We continued to strengthen our staff capacity through targeted short and long term courses that had a positive impact on overall performance and taxpayers' compliance. In addition, RRA continued to cultivate partnerships with different institutions at the national, regional and international levels. This resulted in profitable staff capacity building, information exchange and promotion of our image at different forums.

All these efforts were made to ensure that the business environment is conducive. We strongly believe that the achievements realised in 2017/18 will build a foundation for future gains. In 2018/19, efforts will be geared towards achieving the set revenue targets, enhancing tax compliance, improving VAT administration, widening tax base, improving provision of taxpayer services and strengthening internal capacity and coordination.

I would like to conclude by commending the invariable support received from the Government, the Board of Directors, all our stakeholders and the full commitment of RRA staff, into making the 2017/18 fiscal year another success story.

RRA remains fully committed to its vision of fully financing the national needs and enabling Rwanda to become a self-sustaining economy.

BIZIMANA RUGANINTWALI Pascal
Commissioner General

EXECUTIVE SUMMARY

In 2017/18 fiscal year, the Rwandan economy recorded a good performance, as indicated by moderate inflation and a high real GDP growth of 8.9%, which was higher than the projected GDP growth of 6.5%. This economic performance, combined with other internal administrative measures positively contributed to the good performance of revenue collection.

The total revenue collection (tax and non-tax, excluding local government collections) amounted to Frw 1,252.3 billion against the target of Frw 1,215.2 billion which is an achievement of 103.1%, and an excess of Frw 37.1 billion above the target.

Local Government taxes and fees collections totalled Frw 53.9 billion, which is an achievement of 104.2% of the Frw 51.7 billion target and a surplus of Frw 2.2 billion. This represents year-on-year growth of 12.5% and a nominal increase of Frw 6.0 billion.

With regard to administrative measures, a total of 20,450 new taxpayers were registered and newly registered taxpayers contributed Frw 9.6 billion. Tax audit cases concluded by domestic tax department were 5,020 including desk audits, raising additional assessment (principals only) before appeals of Rwf 69.8 billion. The customs services department completed 110 post-clearance audit cases with additional assessment of Frw 0.5 billion. Forty tax investigation cases were finalised, with a total assessment of Frw 2.4 billion. Total recovery of tax arrears amounted to Frw 94.2 billion (Frw 61.1 billion from DTD and Frw 33.1 billion from CSD).

The Electronic Billing Machine project continued to make great progress. As of end June 2018, 17,665 registered taxpayers had EBMs, annual growth of 21.8%. In addition, EBM V.2 was introduced, an internet-based EBM client software that offers better options. As of end June 2018, the total number of taxpayers who had EBM V.2 was 2,960.

Great efforts have been made to improve service delivery and enhance revenue mobilisation. These include improvement and additions made to e-tax system, taxpayer registry clean up, further progress towards full implementation of the Electronic Cargo Tracking System and of the accounting and reporting system SAGE X3.

A number of activities were performed by RRA in order to enhance the sustainability and security of IT systems, strengthen human resources management, internal control systems and skills capacity.

Based on the total expenditure, RRA registered a cost collection ratio of 2.7% while the cost of collection based only on recurrent expenditure was 2.5%.

RRA continues to face the challenges of low compliance culture within some taxpayers and resignations of its most experienced and competent staff. The approved staff retention and welfare scheme implemented from July 2018 may contribute to a reduction of staff turnover.

The recorded revenue performance confirms the potential that RRA has to effectively and optimally mobilise the revenue needed to finance Rwanda's development goals.

I. REVENUE PERFORMANCE FOR 2017/18 FISCAL YEAR

The **total revenue collection** (tax and non-tax, excluding local government collections) for 2017/18 fiscal year amounted to **Frw 1,252.3 billion** against the target of **Frw 1,215.2 billion** which is an achievement of **103.1%**, and an excess of **Frw 37.1 billion** above the target.

Tax revenue collection for 2017/18 fiscal year was **Frw 1,234.1 billion** while the target was **Frw 1,200.3 billion**; this is an achievement of **102.8%**, and **Frw 33.8 billion** above the target. Tax revenue posted a growth of **13.6%** during 2017/18 fiscal year, a nominal increase of **Frw 147.6 billion** compared to 2016/17 fiscal year.

Non-tax revenue collected by RRA amounted to **Frw 18.2 billion** compared to the target of **Frw 14.8 billion**, performing at **123.0%.** Compared to 2016/17 fiscal year, the non-tax revenue collected was **Frw 1.9 billion** higher, representing 11.7% growth.

Local Government (LG) taxes and fees collections totalled **Frw 53.9 billion**, which is an achievement of **104.2%** of the **Frw 51.7 billion** target and a surplus of **Frw 2.2 billion**. This represents year-on-year growth of **12.5%** and a nominal increase of **Frw 6.0 billion**. Details are shown in **Table 1**.

Table 1: RRA revenue performance against targets for 2017/18 fiscal year (billion Frw)

Categories of tax	Target 2017/18	Actual 2017/18	Variance	Performance rate	Actual 2016/17	Growth in 2017/18	Nominal increase
Total revenue	**1,215.2**	**1,252.3**	**37.1**	**103.1%**	**1,102.8**	**13.6%**	**149.5**
Non-tax revenue	14.8	18.2	3.4	123.0%	16.3	11.7%	1.9
Total tax revenue	**1,200.3**	**1,234.1**	**33.8**	**102.8%**	**1,086.5**	**13.6%**	**147.6**
* Direct taxes	489.2	519.9	30.7	106.3%	450.9	15.3%	69.0
* Taxes on G & S	609.4	616.1	6.7	101.1%	544.4	13.2%	71.7
* Taxes on Int'l Trade	101.8	98.1	-3.7	96.4%	91.2	7.6%	6.9
LGT	**51.7**	**53.9**	**2.2**	**104.2%**	**47.9**	**12.5%**	**6.0**

Source: RRA, 2018

In terms of the trend for July to June of the last five years, the net revenue collections have consistently grown. This is shown in **Figure 1** below.

Figure 1: Trend analysis of net revenue collection from 2013/14 to 2017/18

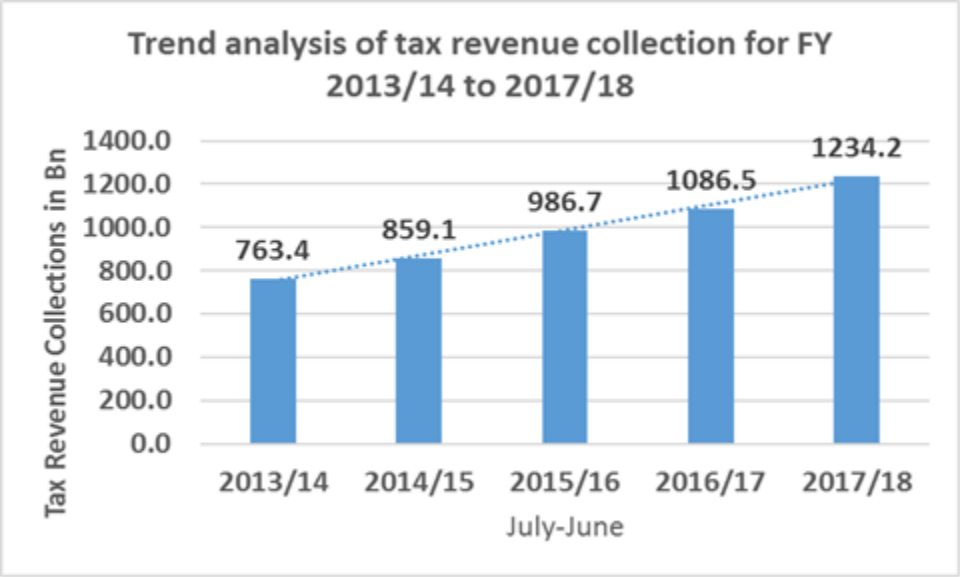
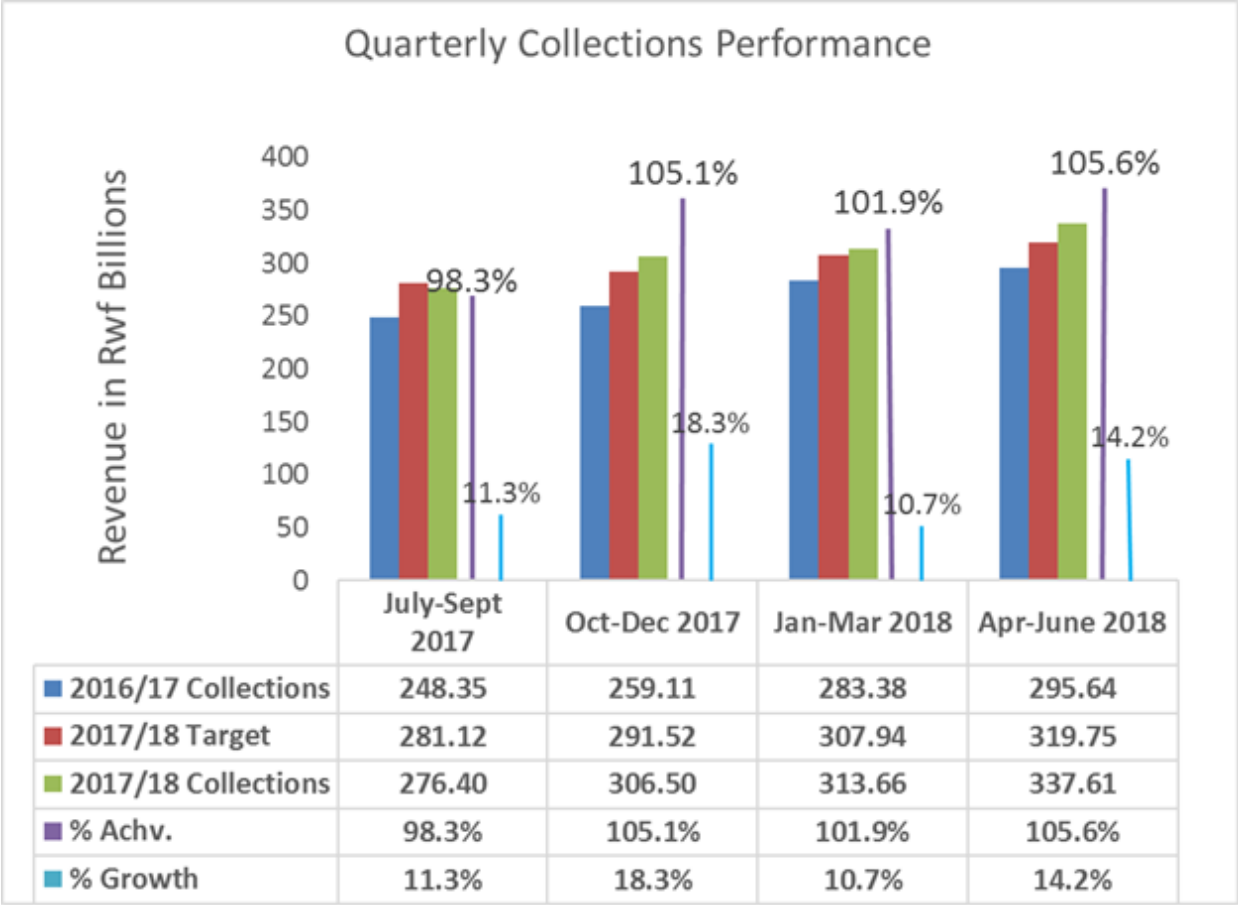


Figure 2: Quarterly tax revenue performance



	July-Sept 2017	Oct-Dec 2017	Jan-Mar 2018	Apr-June 2018
2016/17 Collections	248.35	259.11	283.38	295.64
2017/18 Target	281.12	291.52	307.94	319.75
2017/18 Collections	276.40	306.50	313.66	337.61
% Achv.	98.3%	105.1%	101.9%	105.6%
% Growth	11.3%	18.3%	10.7%	14.2%

I.1 MAIN FACTORS THAT AFFECTED REVENUE PERFORMANCE

Nominal tax revenue grew by **13.6%** in FY 2017/18, greater than the **10.1%** recorded in FY 2016/17 and the **11.7%** average growth realised in the last three fiscal years. This growth was affected by the following factors:

a) **Economic environment for 2017/18 fiscal year**

The tax revenue target for 2017/18 fiscal year was predicated on a macro-economic framework outlined in the Policy Support Instrument (PSI). However, the macroeconomic environment varied from projections:

i) The economy was projected to grow by 6.5% during 2017/18 fiscal year but the data released by the National Institute of Statistics of Rwanda (NISR) shows a growth of 8.9%.

ii) Inflation was forecast at 6.6% for 2017/18 fiscal year; however, it averaged 2.3% over 2017/18 fiscal year.

iii) The value of imports declared for home consumption was forecast to grow by 12.1% in Rwandan Franc terms for 2017/18 fiscal year, but it only grew by 7.3% (RRA system data).

b) Good agriculture season: Rwanda is predominantly an agricultural economy, so a good agricultural season (real growth of 8.2%) resulted in good performance in revenue collections.

c) Total tax arrears collection (LTO, SMTO, DT Regions and CSD) has increased significantly from Frw 57.9 billion in 2016/17 fiscal year to to Frw 94.2 billion in 2017/18, of which Frw 10.1 billion was collected following specific comprehensive tax audits on two companies. These can be considered as one-off events where the impacts could not be forecasted, rather than something related to the economic climate.

d) VAT declarations turnover growth increased to 15.6%, from 13.1% in 2016/17 fiscal year, making it one of the main contributors to the performance of domestic VAT in this period. It is important to note that this does not represent the growth of the economy as a whole, but only of companies that are VAT registered.

e) Petroleum imports for local consumption have increased at a low growth rate of 7%. This resulted in the underperformance of many taxes on petroleum products – specifically excise on petroleum, fuel levy and strategic reserves levy.

f) High public spending in 2017/18 fiscal year compared to 2016/17 affected the performance of withholding taxes (WHT 15% on service fees and WHT 3% on public tenders).

Sources of change in tax revenue for 2017/18 fiscal year compared to 2016/17

The **Table 2** disaggregates the increase in tax revenue by tax type and shows how much of that increase is due to the change in real economic growth, the change in inflation and the change in tax policy and administrative measures.

From the bottom row of the table, we can infer that real economic growth drivers are more important for explaining the change in tax revenue in 2017/18 fiscal year.

Table 2: Sources of change in tax revenue in 2017/18 fiscal year compared to 2016/17

Summary: Change in tax revenue due to	Real economic base	Prices	Administrative/ Legislative/Other	Total change
PAYE	18.72	6.73	-1.51	23.94
PROFIT TAX	23.42	5.54	16.60	45.56
VAT	34.88	10.16	8.66	53.71
EXCISE	13.21	3.69	-3.19	13.71
CUSTOMS	13.13	2.03	-10.79	4.37
OTHER	7.56	2.20	-3.36	6.40
Total	**110.92**	**30.36**	**6.40**	**147.68**
As % of total impact	**75%**	**21%**	**4%**	**100%**

Source: RRA, 2018

Figure 3: Sources of change in tax revenue for 2017/18 fiscal year compared to 2016/17

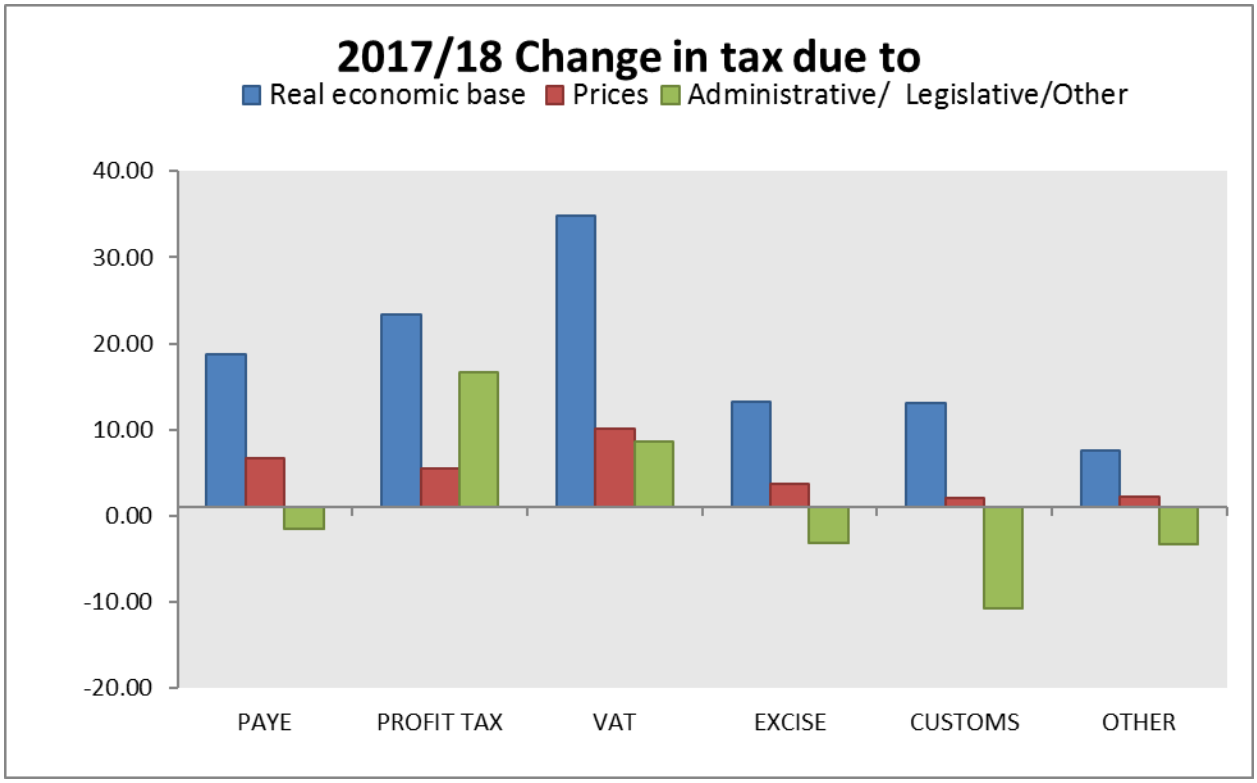


Table 3 below shows inflation, tax revenue growth in nominal terms and tax revenue growth in real terms for July-June over the last five years.

Table 3: Inflation and Tax Revenue Growth for July-June 2013/14-2017/18

July to June	Tax Revenue in Billion Frw	Nominal Tax Revenue Growth	Inflation Rate	Real Tax Revenue Growth
2017/18	**1,234.1**	**13.6%**	**2.3%**	**11.3%**
2016/17	1,086.5	10.1%	6.8%	3.3%
2015/16	986.7	14.8%	4.1%	10.7%
2014/15	859.1	12.5%	1.3%	11.3%
2013/14	763.4	17.1%	3.4%	13.7%
2012/13	651.9			

Source: RRA and NISR

I.2 TAX REVENUE PERFORMANCE BY TAX HEADS

Analysis on tax revenue performance for 2017/18 fiscal year by tax head is shown in **Table 4**.

Table 4: Tax revenue performance by tax heads (value in billions of Frw)

Tax heads	Target 2017/18	Actual 2017/18	Variance	% Achievement	Actual 2016/17	% Change	Nominal increase
PAYE	280.6	281.7	1.1	100.4%	257.7	9.3%	23.9
PROFIT TAX (CIT,PIT & WHT)	206.1	235.9	29.8	114.4%	190.5	23.9%	45.4
VAT	393.5	405.7	12.2	103.1%	352.0	15.3%	53.7
Imports	132.4	130.8	-1.6	98.8%	123.6	5.8%	7.2
Local	261.0	274.9	13.8	105.3%	228.4	20.4%	46.5
EXCISE	152.5	147.8	-4.7	96.9%	134.2	10.1%	13.6
Imports	77.7	74.1	-3.6	95.3%	68.7	7.8%	5.3
Local	74.8	73.8	-1.0	98.7%	65.5	12.8%	8.4
MINING ROYALTIES	3.6	4.9	1.3	136.8%	3.3	46.2%	1.5
IMPORT DUTY	84.5	80.9	-3.6	95.7%	76.5	5.7%	4.4
ROAD FUND	48.6	47.5	-1.1	97.8%	44.6	6.4%	2.9
STRATEGIC RESERVES LEVY	11.2	10.2	-1.0	91.1%	10.2	-0.5%	-0.1
INFRASTR. DEV. LEVY	11.3	11.4	0.1	101.2%	10.6	7.5%	0.8
OTHER TAXES	8.5	8.2	-0.3	96.5%	6.8	20.1%	1.4
TOTAL TAX	**1,200.3**	**1,234.1**	**33.8**	**102.8%**	**1,086.5**	**13.6%**	**147.6**

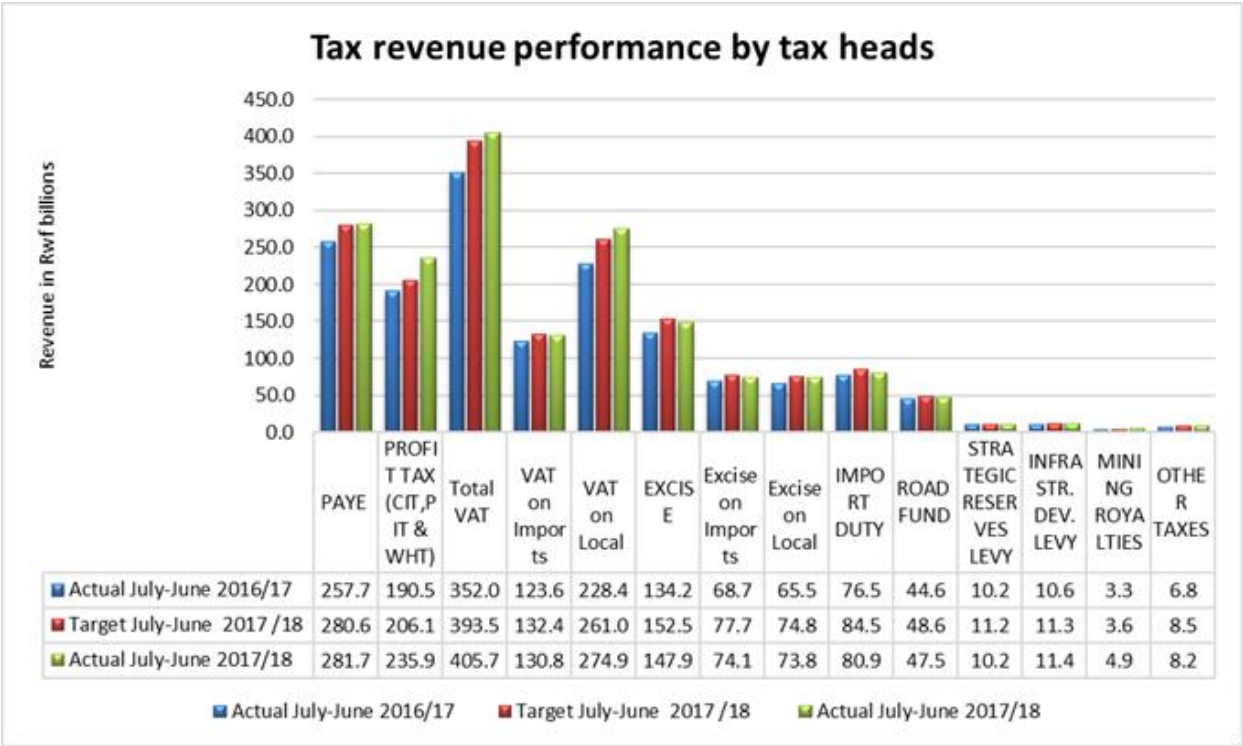
Source: RRA, 2018

Table 4 above shows that the major revenue heads that surpassed their targets were VAT (achievement of 103.1% and a growth rate of 15.3%); profit tax (achievement of 114.4% and a growth rate of 23.9%); and mining royalties (achievement of 136.8% and a growth rate of 46.2%).

On the other hand, there was underperformance for excise duty (achievement of 96.9.0% and growth of 10.2%); import duty (achievement of 95.7% and a growth rate of 5.7%) and strategic reserves levy (achievement of 91.1% and a decrease of 0.5%).

The following bar graph shows collections for 2017/18 and 2016/17 fiscal years, and the 2017/18 fiscal year targets for each tax head.

Figure 4: Tax revenue performance by tax heads



	PAYE	PROFIT TAX (CIT,PIT & WHT)	Total VAT	VAT on Imports	VAT on Local	EXCISE	Excise on Imports	Excise on Local	IMPORT DUTY	ROAD FUND	STRATEGIC RESERVES LEVY	INFRASTR. DEV. LEVY	MINING ROYALTIES	OTHER TAXES
Actual July-June 2016/17	257.7	190.5	352.0	123.6	228.4	134.2	68.7	65.5	76.5	44.6	10.2	10.6	3.3	6.8
Target July-June 2017/18	280.6	206.1	393.5	132.4	261.0	152.5	77.7	74.8	84.5	48.6	11.2	11.3	3.6	8.5
Actual July-June 2017/18	281.7	235.9	405.7	130.8	274.9	147.9	74.1	73.8	80.9	47.5	10.2	11.4	4.9	8.2

In the following sections, revenue performance for each of the broad categories of taxes and for each of tax heads is explained in more details.

I.2.1 DIRECT TAXES

In summary, direct taxes for the 2017/18 fiscal year performed at **106.3%** which represented a surplus of **Frw 30.7 billion**, a nominal increase of **Frw 69.0 billion** and growth rate of **15.3%** when compared with 2016/17 fiscal year. A further breakdown of this performance is shown in **Table 5** below:

Table 5: Direct taxes performance for 2017/18 fiscal year

Year on Year Growth per Tax Type					Performance per Tax Type (vs Target)				
Tax Type (Rwf billions)	2016/17 Actual	2017/18 Actual	Nominal Growth	% Growth	Tax Type (Rwf billions)	2017/18 Tagert	2017/18 Actual	YTD Surplus / deficit	% Achievement
Direct Taxes	**450.9**	**519.9**	**69.0**	**15.3%**	**Direct Taxes**	**489.2**	**519.9**	**30.7**	**106.3%**
PAYE	257.7	281.7	23.9	9.3%	*PAYE*	280.6	281.7	1.1	100.4%
Profit Taxes	**190.5**	**235.9**	**45.4**	**23.9%**	*Profit Taxes*	**206.1**	**235.9**	29.8	114.4%
CIT & PIT	**75.2**	**93.5**	**18.2**	**24.2%**	*CIT & PIT*	**80.9**	**93.5**	12.6	115.6%
Withholding taxes	115.2	142.4	27.2	23.6%	*Withholding taxes*	125.3	142.4	17.2	113.7%
Tax on Property	**2.7**	**2.3**	**-0.4**	**-13.9%**	*Tax on Property*	**2.4**	**2.3**	**-0.1**	**95.9%**

Source: RRA, 2018

I.2.1.1 Profit taxes (CIT, PIT and WHT)

The total profit tax collection for CIT, PIT & WHT in FY 2017/18 was **Frw 235.9 billion** while we targeted **Frw 206.1 billion**, resulting in a surplus of **Frw 29.8 billion** against the target and an achievement rate of **114.4%.** Overall profit tax collections grew by **23.9%** with a nominal increase of **Frw 45.4 billion** when compared with FY 2016/17.

i) Corporate Income Tax (CIT) and Personal Income Tax (PIT)

Corporate Income Tax (CIT) and Personal Income Tax (PIT) recorded a combined performance of **115.6%** with a surplus of **Frw 12.6 billion** when compared with the target of **Frw 80.9 billion** for 2017/18 fiscal year. Furthermore, CIT-PIT collections grew by **24.2%**, which is higher than the average growth for the previous three fiscal years of 15.5%.

The surplus in CIT collections was driven by the following factors:

- Some large taxpayers were loss-making in 2016 but have declared profits in 2017.
- Other large companies have declared abnormally higher reintegration of non-deductible expenses in 2017.
- Reductions in expenses for the financial services sector resulted in higher CIT due.

ii) Withholding tax 15%

Withholding tax 15% collected in 2017/18 fiscal year was **Frw 83.5 billion** against a target of **Frw 85.0 billion**, implying a deficit of **Frw 1.5 billion** and achievement rate of **98.2%.** This represents a year-on-year growth of **13.2%** with a nominal increase of **Frw 9.8 billion**.

iii) Withholding tax 3%

Collection from withholding tax 3% for the 2017/18 fiscal year amounted to **Frw 38.2 billion** against a target of **Frw 21.3 billion**; this is a surplus of **Frw 17.0 billion**, an achievement of **179.9%** and a year-on-year growth of **54.3%** with a nominal increase of **Frw 13.5 billion**.

The over performance of withholding tax 3% was mainly driven by higher payments from major public institutions who paid higher amounts in 2017/18 fiscal year compared to 2016/17 fiscal year. This was in line with the commitment of the Government that was made in the beginning of 2017/18 fiscal year to increase its disbursement of funds to clear its tax arrears.

iv) Withholding tax 5%

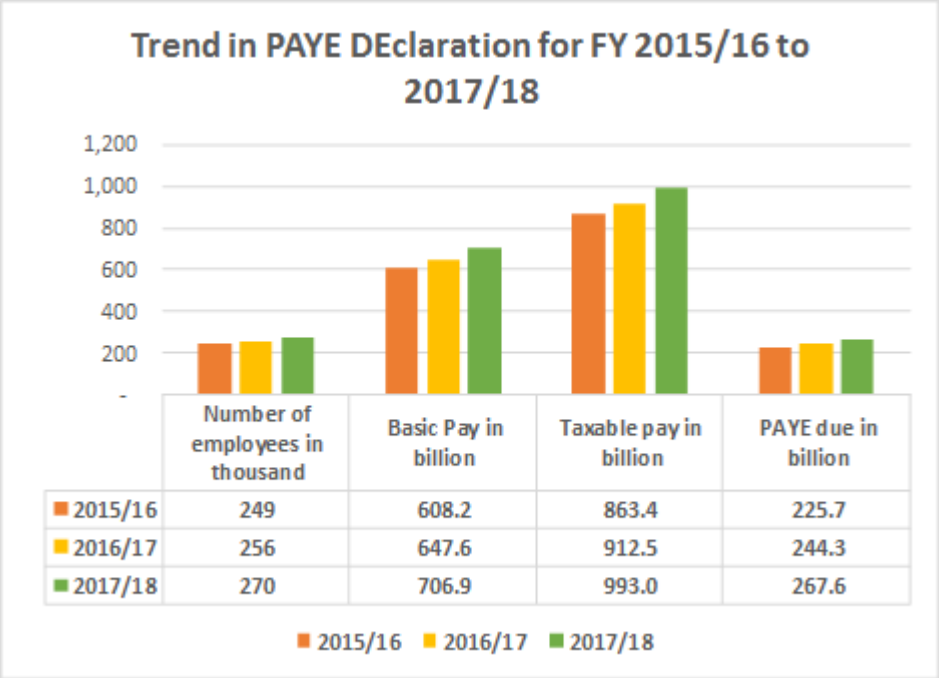
The total amount collected for withholding tax 5% in 2017/18 fiscal year was **Frw 20.7 billion** with an excess of **Frw 1.7 billion** and achievement of **109.0%** against the target of **Frw 19.0 billion**. WHT 5% recorded a growth of **23.9%** and a nominal increase of **Frw 4.0 billion** when compared with 2016/17 fiscal year.

I.2.1.2 Pay As You Earn (PAYE)

PAYE for 2017/18 fiscal year amounted to **Frw 281.7 billion** against a target of **Frw 280.6 billion**, an excess of **Frw 1.1 billion** on the target and achievement of **100.4%.** Compared with 2016/17 fiscal year, PAYE tax collections grew by **9.3%** while the average growth realized in the last **three** fiscal years was **12.1%.**

In terms of the trend for last three fiscal years, there is consistent but slow growth in the number of employees, basic pay, taxable pay and PAYE due. This is shown in **Figure 5** below.

Figure 5: PAYE declaration performance for 2015/16-2017/18



	Number of employees in thousand	Basic Pay in billion	Taxable pay in billion	PAYE due in billion
2015/16	249	608.2	863.4	225.7
2016/17	256	647.6	912.5	244.3
2017/18	270	706.9	993.0	267.6

I.2.1.3 Tax on property

Collections for tax on property for 2017/18 reached **Frw 2.3 billion** against a target of **Frw 2.4 billion**, meaning a deficit of **Frw 0.1 billion** on the target and achievement of **95.9%.** Compared to 2016/17, tax on property collections has a nominal decrease of **Frw 0.4 billion** and a negative growth of **13.9%**.

I.2.2 TAXES ON GOODS AND SERVICES

Taxes on goods and services in 2017/18 fiscal year performed at **101.1%**, registering an excess of **Frw 6.7 billion**, and realising a growth rate of **13.2%** compared with the projected growth of **11.9%**. Details of the performance of taxes on goods and services are explained in **Table 6** below:

Table 6: Performance of Taxes on Goods and Services

Year on Year Growth per Tax Type					Performance per Tax Type (vs Target)				
Tax Type (Rwf billions)	2016/17 Actual	2017/18 Actual	Nominal Growth	% Growth	Tax Type (Rwf billions)	2017/18 Tagert	2017/18 Actual	YTD Surplus / deficit	% Achievement
Taxes on Goods & service	**544.4**	**616.2**	**71.8**	**13.2%**	**Taxes on Goods & service**	**609.4**	**616.2**	**6.8**	**101.1%**
VAT	**352.0**	**405.7**	**53.7**	**15.3%**	**VAT**	**393.5**	**405.7**	**12.2**	**103.1%**
Customs	*123.6*	*130.8*	*7.2*	*5.8%*	*Customs*	*132.4*	*130.8*	*-1.6*	*98.8%*
Domestic	*228.4*	*274.9*	*46.5*	*20.4%*	*Domestic*	*261.0*	*274.9*	*13.8*	*105.3%*
Excise Duty	**134.2**	**147.9**	**13.7**	**10.2%**	**Excise Duty**	**152.5**	**147.9**	**-4.6**	**97.0%**
Customs	68.7	74.1	5.3	7.8%	*Customs*	77.7	74.1	-3.6	95.3%
Domestic	65.5	73.8	8.4	12.8%	*Domestic*	74.8	73.8	-1.0	98.7%
Road Fund	**44.6**	**47.5**	**2.9**	**6.4%**	**Road Fund**	**48.6**	**47.5**	**-1.1**	**97.8%**
Mining Royalties	**3.3**	**4.9**	**1.5**	**46.2%**	**Mining Royalties**	**3.6**	**4.9**	**1.3**	**136.8%**
Strategic reserve Petrole	**10.2**	**10.2**	**-0.1**	**-0.5%**	**Strategic reserve Petrole**	**11.2**	**10.2**	**-1.0**	**91.1%**

Source: RRA, 2018

I.2.2.1 Excise taxes

Revenue from excise duty amounted to **Frw 147.9 billion** against a target of **Frw 152.5 billion**. Collections fell **3%** short of the target (achievement of **97.0%**) and grew **10.2%** from the **Frw 134.2 billion** collected in 2016/17 fiscal year. Excise duty on fuel was the major contributor to this tax head, with a contribution of 36%. Excise duty on beer was the second largest contributor with a contribution of 35%. Excise on soft drinks and airtime were 8% and 7% respectively. The rest of the revenue was from excise duty on tobacco, wines and spirits, vehicles and powdered milk.

Table 7 and **Figure 7** illustrate the performance by product and the relative contributions of each product.

Table 7: Excise duty collections by product (Billions of Frw)

	FY 2015/16	FY 2016/17	FY 2017/18	% change 2016/17	% change 2017/18
Total Excise duty (Domestic and Customs)	**138.06**	**134.18**	**147.8**	**-2.8%**	**10.1%**
Excise duty on beer	46.97	44.74	51.13	-4.8%	14.3%
Excise duty on soft drinks	12.54	11.07	12.35	-11.7%	11.5%
Excise duty on wines and liquors	5.25	5.59	7.07	6.3%	26.6%
Excise duty on petroleum products	50.13	49.16	52.60	-1.9%	7.0%
Excise duty on cigarettes	7.79	8.14	9.68	4.6%	18.9%
Excise duty on vehicles	3.48	4.72	4.13	35.6%	-12.5%
Excise duty on milk	0.10	0.10	0.07	2.1%	-31.9%
Excise duty on airtime	11.80	10.66	10.85	-9.7%	1.9%

Source: RRA, 2018

Figure 6: Excise performance by product

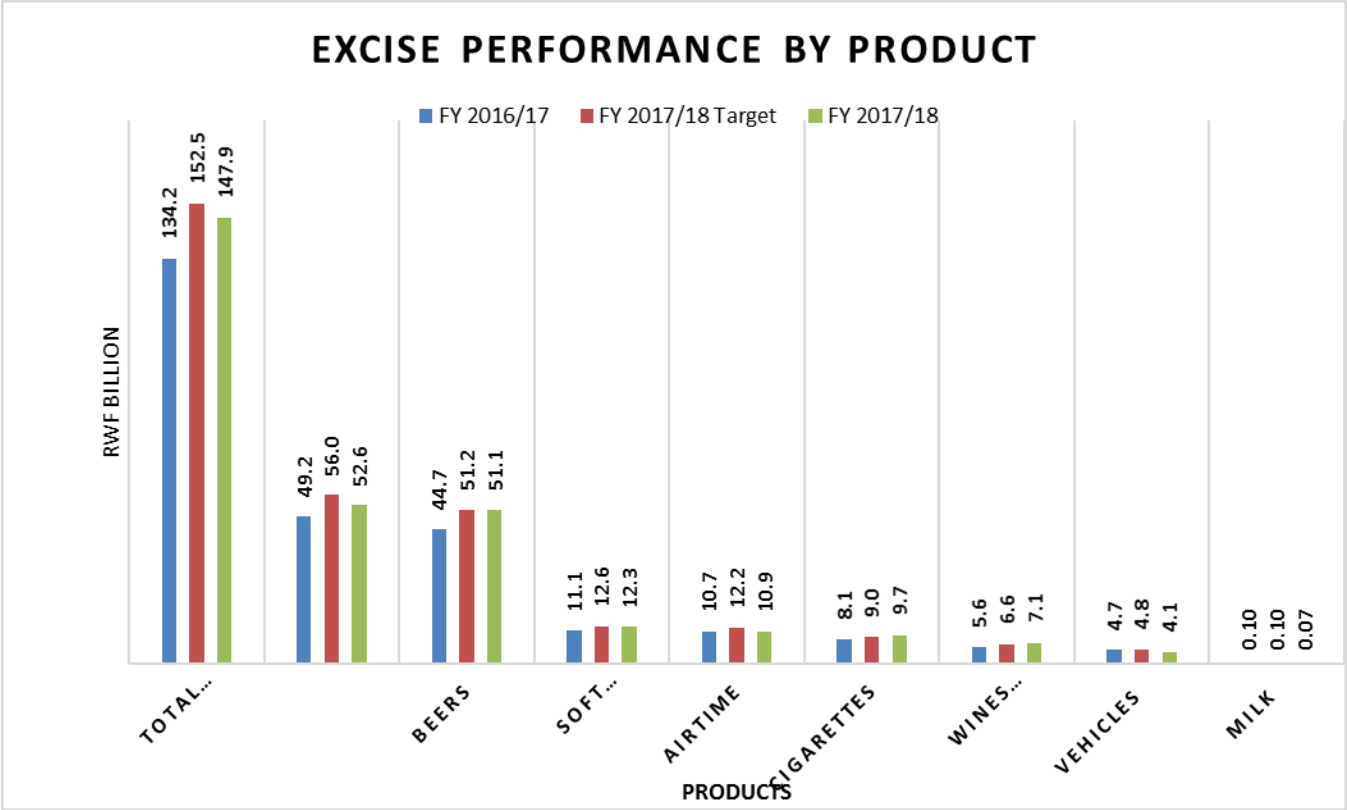
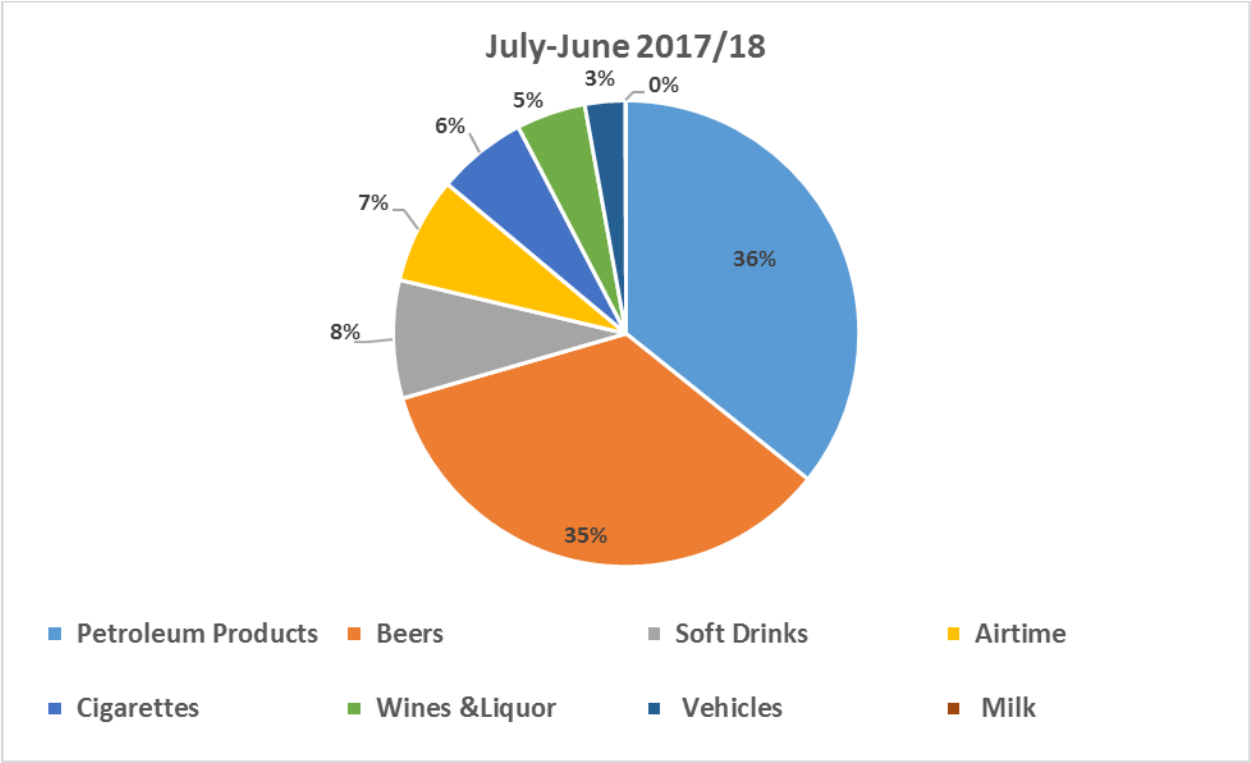


Figure 7: Percentage share of excise by products



A. Domestic excise taxes

Domestic excise taxes for 2017/18 fiscal year totalled **Frw 73.8 billion**, recording a shortfall of **Frw 1.0 billion** over the set target of **Frw 74.8 billion**. This is an achievement of **98.7%** and a growth of **12.8%**, which is below the projected growth of **14.3%.**

B. Excise taxes on imports

Excise taxes on imports totalled **Frw 74.1 billion**, recording a shortfall of **Frw 3.6 billion** on the target (**Frw 77.7 billion**) and registering an achievement of **95.3%** and growth of **7.8%.** The main reason is a low increase of 7.0% in excise revenue from petroleum products.

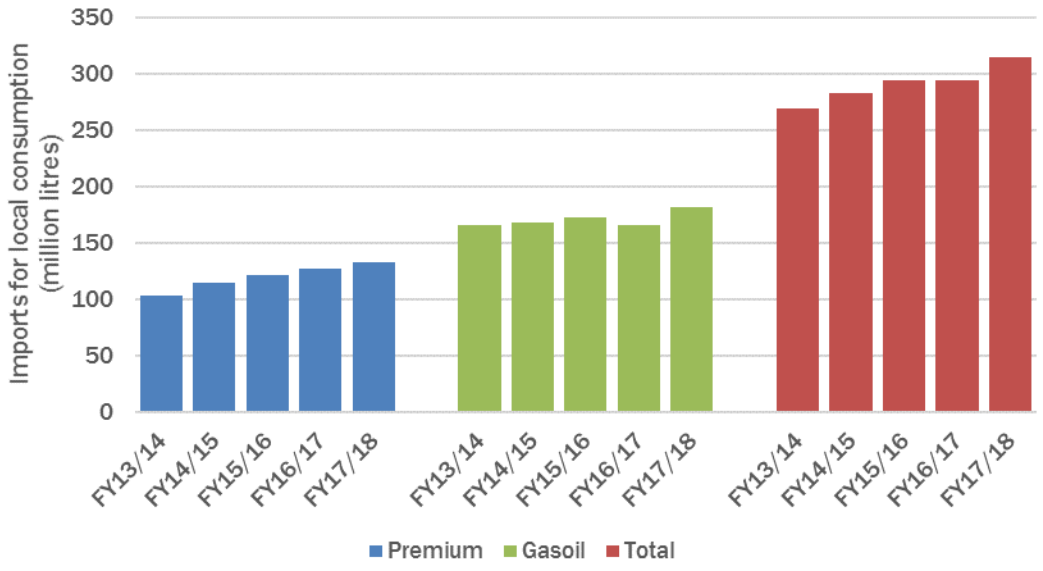
The other main factor affecting its performance is that an increasing proportion of petroleum imports are a petroleum variant called fuel oil, for which excise tax has not been applied.

B.1 Excise taxes on petroleum products

Excise taxes on petroleum products collections for 2017/18 fiscal year totalled **Frw 52.6 billion** against a target of **Frw 56.0 billion;** this is an achievement of **93.9%** (a shortfall of **Frw 3.4 billion**). A growth of **7.0%** (nominal increase of **Frw 3.4 billion)** was realised, compared to **14.0%** growth that was projected.

Petroleum imports for local consumption have increased 7% compared to 2016/17 fiscal year. As shown **Figure 8**, the overall increase is caused by 9.4% higher Gasoil imports. Premium petroleum imports have continued to grow but at a slower rate of 4%, compared to 6.2% and 5.3% in July-June 2015/16 and 2016/17 respectively.

Figure 8: Petroleum imports for local consumption (July-June)



B.2 Excise taxes on beers

Excise taxes on beer collections for 2017/18 fiscal year totalled **Frw 51.1 billion** against a target of **Frw 51.1 billion;** this is an achievement of **100%** and a growth of **14.3%** (nominal increase of **Frw 6.4 billion)** compared to **7.0%** average growth that was realised for two previous years.

B.3 Excise taxes on soft drinks

Excise taxes on soft drinks collections for 2017/18 fiscal year totalled **Frw 12.3 billion** against a target of **Frw 12.6 billion;** this is an achievement of **97.8%** (a shortfall of **Frw 0.3 billion**)**.** A growth of **11.5%** (nominal increase of **Frw 1.3 billion)** was realised, compared to **14.1%** growth that was projected.

B.4 Excise taxes on airtime

Excise taxes on airtime collections for 2017/18 fiscal year totalled **Frw 10.9 billion** against a target of **Frw 12.2 billion;** this is an achievement of **89.1%** (a shortfall of **Frw 1.3 billion**)**.** A growth rate of **1.9%** (nominal increase of **Frw 0.2 billion)** was realised, compared to **14.4%** growth that was projected. This underperformance of **Frw 1.33 billion** was because of increased usage of data rather than airtime for voice calls.

B.5 Excise taxes on cigarettes

Excise taxes on cigarettes collections for 2017/18 fiscal year totalled **Frw 9.7 billion** against a target of **Frw 9.0 billion;** this is an achievement of **107.8%** (an excess of **Frw 0.7 billion**)**.** A growth of **18.9%** (nominal increase of **Frw 1.7billion)** was realised, compared to **10.3%** growth that was projected. This good performance was due to the unusual arrears of Frw 0.8 billion paid in June 2018.

There was an increase in cigarette imports by Frw 1.7 billion (94%), in contrast to the trend of decreasing imports in the previous three years. This increase has meant that total import taxes rose by Frw 5.6billion.

B.6 Excise taxes on wines and liquors

Excise taxes on wines and liquors collections for July-June 2017/18 totalled **Frw 7.0 billion** against a target of **Frw 6.6 billion;** this is an achievement of **106.9%** (an excess of **Frw 0.4 billion**)**.** A growth of **26.6%** (nominal increase of **Frw 1.5 billion)** was realised, compared to **18.4%** growth that was projected.

B.7 Excise taxes on vehicles

Excise taxes on vehicles collections for 2017/18 fiscal year totalled **Frw 4.1 billion** against a target of **Frw 4.8 billion;** this is an achievement of **86.0%** (a shortfall of **Frw 0.7 billion**)**.** A decrease of **12.5%** (nominal decrease of **Frw 0.6 billion)** was realised, compared to **1.8%** growth

that was projected. This underperformance was due to reduced passenger and goods motor vehicle imports by 15% and 31% respectively.

I.2.2.2 Net VAT collections

Net VAT collections for 2017/18 fiscal year totalled **Frw 405.7 billion** against a target of **Frw 393.5 billion;** this is an achievement of **103.1%** (an excess of **Frw 12.2 billion**)**.** A growth of **15.3%** (nominal increase of **Frw 53.7billion)** was realised, compared to a projected growth of **11.8%**.

A. Domestic VAT collection

Domestic VAT collection for 2017/18 fiscal year totalled **Frw 274.9 billion** against a target of **Frw 261.0 billion,** registering an achievement of **105.3%**, exceeding the target by **Frw 13.8 billion.** There was a growth of **20.4%** when compared with 2016/17 fiscal year, which is above the projected growth of **14.3%**; while the average growth realised in the last three fiscal years was **9.4%.**

The main reasons for the strong performance of VAT are the receipt of arrears following audit assessments; the strong performance of VAT Withholding collections; and the greater VAT turnover growth than previous years, although the high growth of exempted sales would have offset it to some extent.

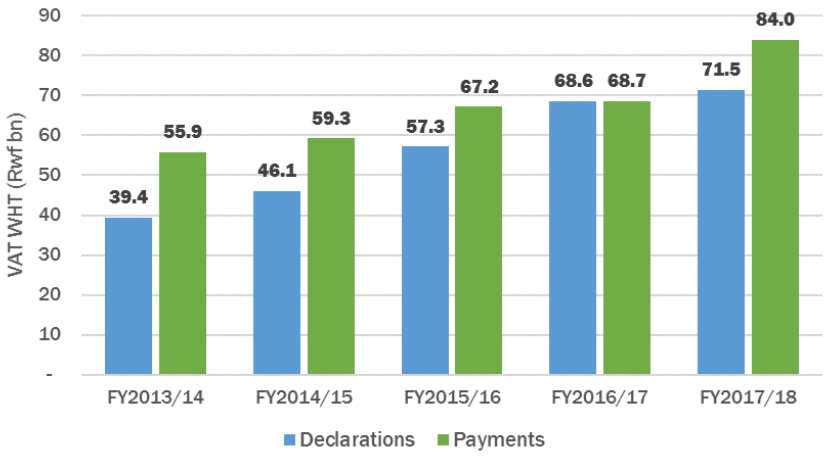
A.1 Arrears from audits

As a result of two audits, RRA collected Frw 10.1 billion in arrears. These therefore boosted VAT performance and can be considered as one-off events where the impacts could not be forecasted.

A.2 Strong performance of VAT **withholding** *collections*

Figure 9 shows that the normal trend is for VAT withholding collections to exceed declarations but in 2016/17 fiscal year, the opposite was true. FY 2017/18 has seen a 22% increase in VAT withholding payments, meaning that payments were Frw 12.6 billion above declarations and Frw 15.4 billion higher than in the previous year. This can be accredited to the payment of a backlog of withholding declarations where the OP was cleared during 2017/18 fiscal year.

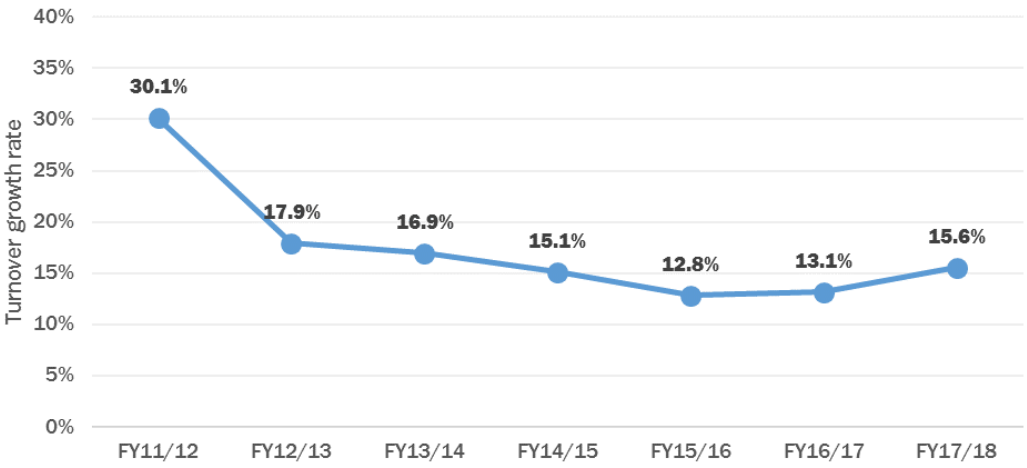
Figure 9: VAT Withholding declarations and payments (2013/14-2017/18)



A.3 Higher VAT turnover growth

VAT turnover growth has increased, reaching 15.6% in 2017/18 fiscal year compared to 13.1% in 2016/17 fiscal year, as shown in **Figure 10**. This is one of the main contributors to the performance of domestic VAT in this period. It is important to note that this does not represent the growth of the economy as a whole, but only of companies that are VAT registered.

Figure 10: VAT turnover growth (2011/12-2017/18)

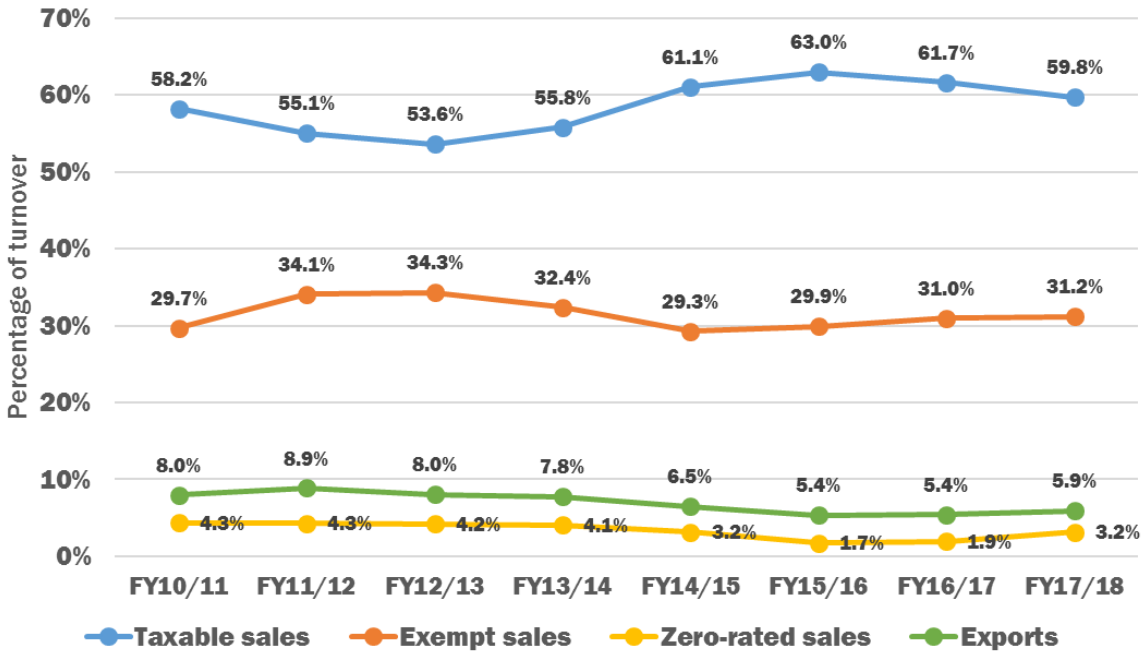


The VAT turnover growth is driven by the manufacturing (increase in turnover of Frw 135.8 billion) and wholesale and retail trade (increase in turnover of Frw 79.0 billion) sectors.

A.4 Counteracting growth of non-taxable sales

The impact of a higher turnover growth was dampened by the growth of non-taxable sales by 22% compared to 17% in 2016/17 fiscal year. This has driven a reduction in taxable sales as a percentage of turnover, as seen in **Figure 11**, from 61.7% in 2016/17 fiscal year to 59.8% in 2017/18 fiscal year. This has been caused by increases in all elements of non-taxable sales - exemptions, zero-rated sales and exports.

Figure 11: Taxable and non-taxable sales as a percentage of turnover

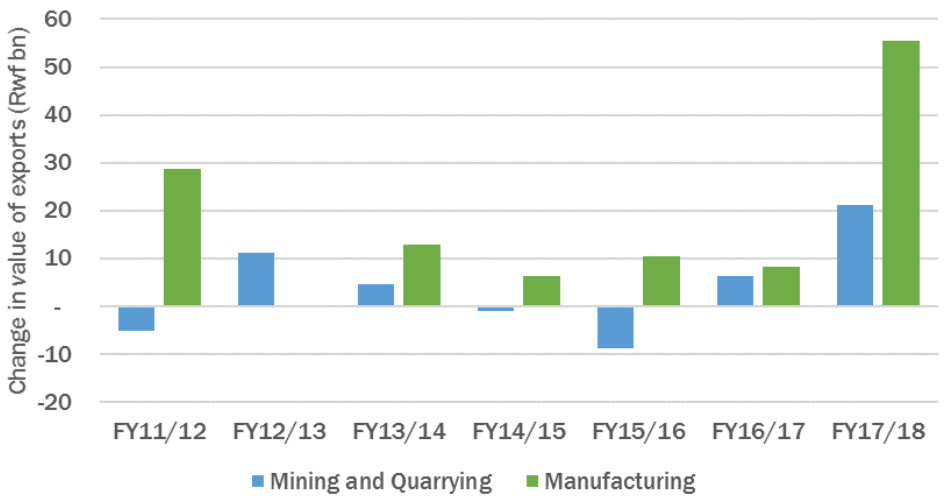


Exempted sales are predominantly made by large companies; the top 100 companies by VAT turnover in Rwanda are responsible for 65% of exempted sales, which totalled Frw 1,762 billion in 2017/18 fiscal year.

We see growth in zero-rated sales by Frw 84.7 bilion (89%) compared to 2016/17 fiscal year, which also appears to be driven by a handful of companies. In addition, tourism has driven 75% growth (increase of Frw 7.7 billion) in zero-rated sales of Administrative and Support Service Activities.

There have been sharp increases in exports for the Mining and Manufacturing sectors of Frw 21.1 billion and Frw 55.5 billion respectively, illustrated in **Figure 12**.

Figure 12: Change in export value for mining and manufacturing



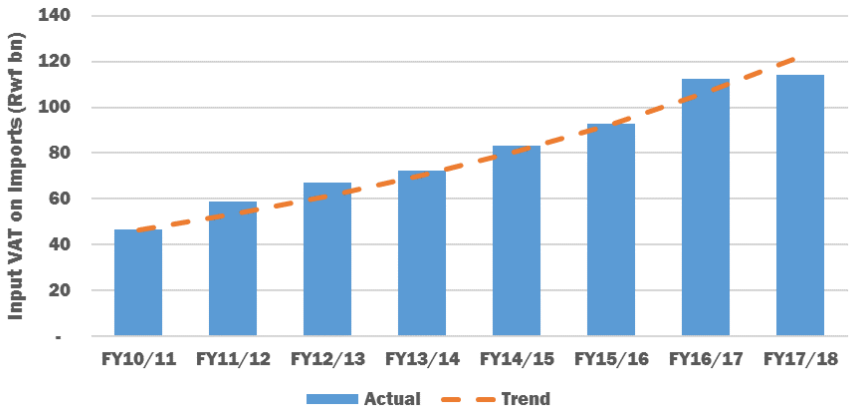
A.5 Slowdown in input VAT claims growth

Input VAT on imports has reduced compared to 2016/17 fiscal year and to the general trend, as shown in **Figure 13**.

The high level in 2016/17 fiscal year was caused by the removal of the customs VAT exemption for investors, which has since been reintroduced. This is reflected in the change in input VAT on imports for Manufacturing, which increased by Frw 10.8 billion in 2016/17 fiscal year but decreased by Frw 6.9 billion in 2017/18 fiscal year.

There is a general trend of 15% annual growth and input VAT on imports is Frw 7.8 billion below this trend in 2017/18 fiscal year. One of the other main contributors to this is a slowdown in the growth of claims from the Construction, Wholesale and Retail Trade, and Information and Communication sectors. This is partly caused by the input validation controls.

Figure 13: Input VAT claims on imports



Input VAT on local purchases has increased by 14.9% (Frw 34.9 billion) compared to 2016/17 fiscal year, as seen in **Figure 14**. This is significantly influenced by increased spending related to the construction of the airport. If we exclude this, input VAT on local purchases has grown by

11.3% in 2017/18. Growth rates in the previous two years were 15.7% and 9.5% in 2015/16 and 2016/17 fiscal years respectively.

While the general trend is of growth, we see reductions in input VAT claims on local purchases for some sectors. **Figure 15** shows changes in input VAT claims on local purchases from certain sectors, illustrating that their growth has slowed down since 2016/17. The input validation controls may have contributed to these changes.

Figure 14: Input VAT claims on local purchases

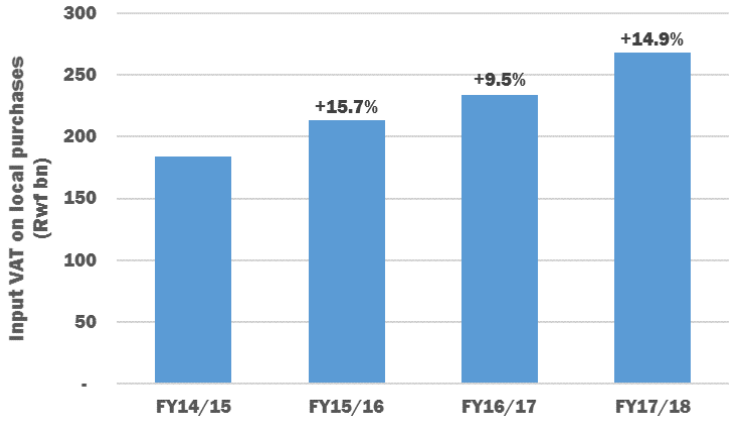
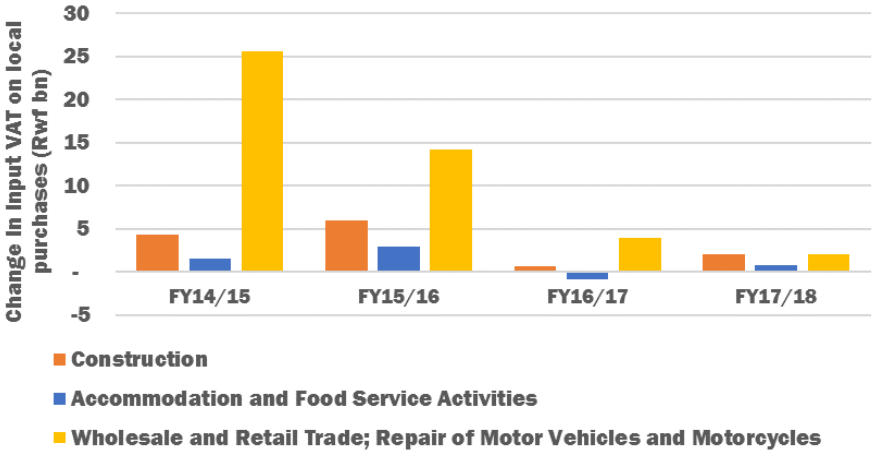


Figure 15: Change in input VAT claims on local purchases for construction and ICT



A.6 VAT due

A noteworthy finding is that VAT due (including VAT withholding) increased most for the manufacturing sector (Frw 16.8 billion) compared to 2016/17. At an aggregated level, it is caused by an increase in turnover (by Frw 135.8 billion), of which taxable sales formed 67%; and a decrease in input VAT claims (by Frw 5.6 billion), driven by reductions in input VAT on imports as a result of the reintroduction of the customs VAT exemption on investors.

B. VAT collections on imports

VAT collections on imports totalled **Frw 130.8 billion** in 2017/18, compared to a target of **Frw 132.4 billion**. This meant a **shortfall of 1.2% (Frw 1.6 billion)** i.e. an achievement rate of 98.8%**.** There was an increase of **5.8%** (equivalent to Frw 7.1 billion) when compared with 2016/17 fiscal year; while the average growth realised in the last three fiscal years was **12.0%.**

The removal of the customs VAT exemptions for investors between 28th May 2016 and 2nd December 2016 meant that customs VAT growth was unusually high in 2016/17 fiscal year, as seen in **Figure 18**, making the relative growth in 2017/18 lower.

I. 2.2.3 Road Maintenance Fund

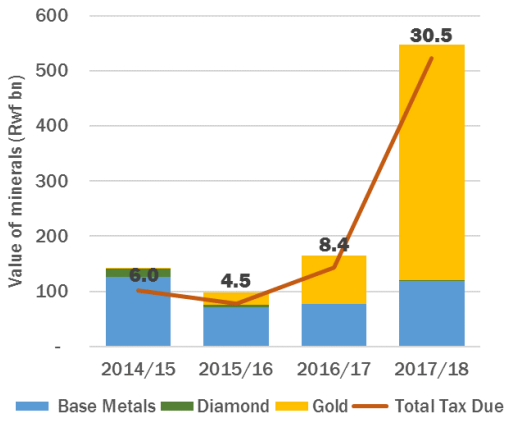
Road maintenance fund (composed of fuel levy and road toll) collections totalled **Frw 47.2 billion** against a target of **Frw 48.6 billion,** registering an achievement of **97.1%** and recorded growth of **5.7%**, which is below the projected growth of 8.8%**.** The fuel levy is taxed based on the number of the litres delivered, and the rate is Frw 115 per litre. The main reason for this underperformance of the road maintenance fund is that petroleum imports for local consumption have increased at a low rate of 7% compared to 2016/17 fiscal year.

I. 2.2.4 Mining Royalties

Mining royalties collections reached **Frw 4.9 billion** in 2017/18 fiscal year, a surplus of **Frw 1.3 billion** above its target which meant an achievement rate of **136.8%.** Collections grew by **46.2%,** which is significantly higher than the average growth of 7.0% over the previous three years. The collections from mining royalties were significantly boosted by the gradual recovery of mineral prices on the international market since June 2015 and the new extraction method of minerals (from manual extraction to technological extraction).

Mining royalty declarations have increased sharply in 2017/18 fiscal year compared to the previous fiscal years. **Figure 16** shows it is driven by an increase in mining of gold, reaching Frw 429 billion worth of gold in the 2017/18 fiscal year declarations.

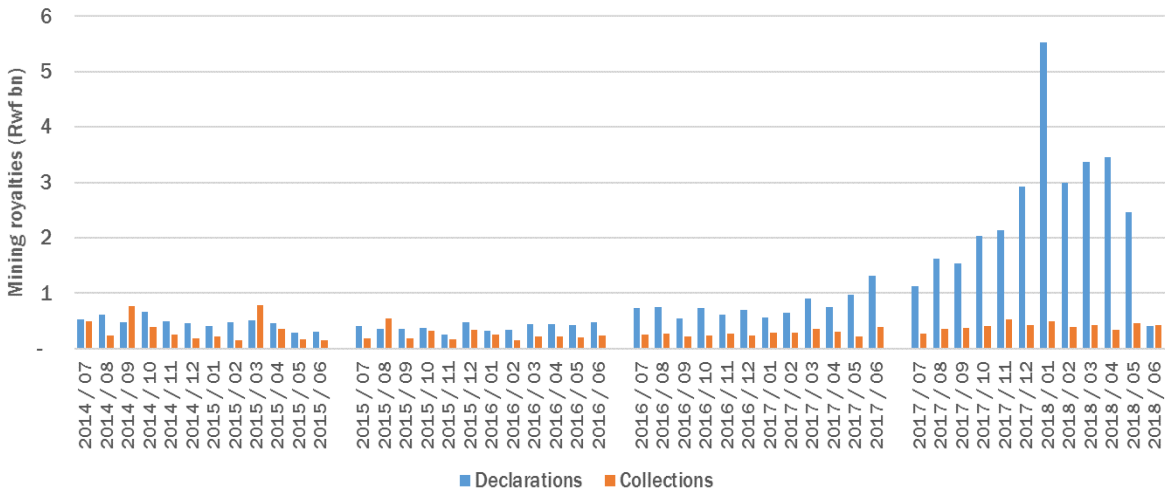
Figure 16: Mining royalties (left)



Due to recent RRA assessments, previous mining declarations have been revised upwards. As a result, collections are typically lower than the tax due in revised declarations (see **Figure 17**). This is most evident for 2017/18, where payments are Frw 24.7 billion lower than declarations.

Following these revisions, we expect future arrears collections to increase (subject to the appeals made by the mining companies). Future collections may also increase if there is more voluntary compliance as a result of these assessments. For 2017/18 fiscal year, mining arrears collections remained low at Frw 0.19 billion despite increasing 79% from 2017/18 fiscal year.

Figure 17: Comparison of mining royalty declarations and payments (July –June)



I. 2.2.5 Strategic Reserves Levy

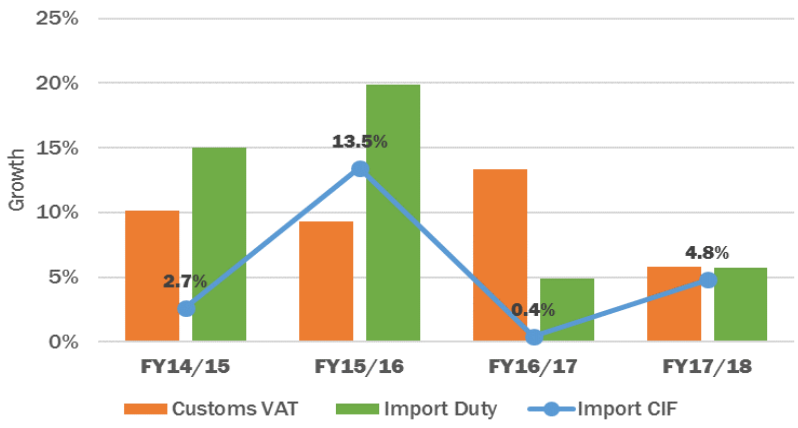
Revenue collection from Strategic Reserves Levy totalled **Frw 10.2 billion,** recording a shortfall of **Frw 1.0 billion** over the target of **Frw 11.2 billion**, with an achievement of **91.1%** and a decrease of **0.5%**. The Strategic Reserves Levy is taxed based on the number of the litres delivered, and the rate is Frw 32 per litre. The main reason for the underperformance of the Strategic Reserves Levy is that petroleum imports for local consumption have increased at a low rate than expected of 7%.

I.2.3 TAXES ON INTERNATIONAL TRADE

International trade taxes (composed of import duty, infrastructure development levy, African Union levy and other customs fees) totalled **Frw 98.1 billion** in 2017/18, achieving **96.4%** of the **Frw 101.8 billion** target and representing growth of **7.6%** compared to 2016/17.

The underperformance of international trade taxes was driven by the low growth of import CIF (excluding petroleum products) to 4.8%, which represents a recovery when compared to its growth of 0.4% in 2016/17 (see **Figure 18**). This is driven by greater imports from outside the EAC – primarily China (increase of Frw 28.5 billion), Russia (Frw 25 billion), India (Frw 12.8 billion) and Sweden (Frw 12.1 billion). Fewer imports from Kenya meant that EAC imports decreased by 0.6%; this occurred despite increased imports from all other EAC partners.

Figure 18: Growth in import taxes and CIF (2014/15-2017/18)



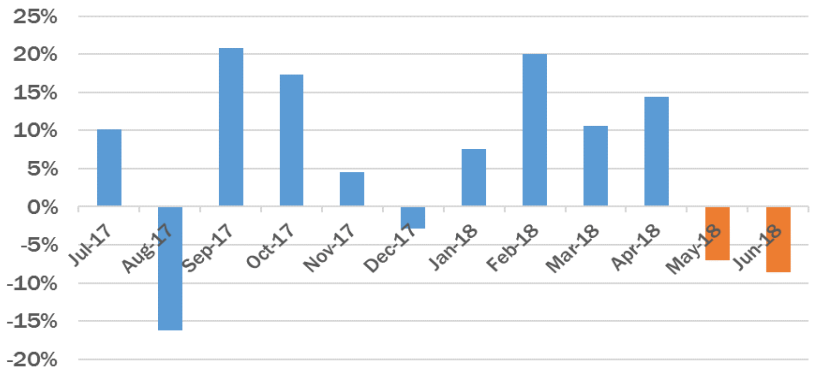
I.2.3.1 Import duty collections

a) Import duty collections have increased by **5.7% (Frw 4.4 billion)** to reach **Frw 80.9 billion** in 2017/18 fiscal year. This is **Frw 3.6 billion** below the target, resulting in an achievement rate of **95.7%.** The growth observed is driven by a **6.6%** rise in CIF for non-EAC imports (excluding petroleum products) whereas EAC imports have reduced by **0.6%.**

b) Import duty collections have been unbalanced over the fiscal year, with the final quarter seeing lower growth than expected. They decreased by 6.7% in April-June 2018 compared to growth of 5.7%, 17.9% and 8.3% in the previous three quarters. As illustrated in **Figure 19**, this is due to fewer imports in May and June 2018, where import CIF (exc. petroleum products) decreased by 7% and 9% respectively.

c) Sugar (from multiple non-EAC countries) and maize (from USA) are two of the main products driving this reduction in CIF and import duty for May and June (compared to the rest of the year).

Figure 19: Import CIF growth rate by month (July 2017-June 2018)



d) An important factor providing a positive boost to customs tax revenue was arrears collections. Through greater RRA efforts, arrears increased customs VAT by Frw 8.8 billion and import duty by Frw 4.4 billion. As a result, the aggregate levels are higher than in any of the previous four fiscal years.

e) Aside from arrears, the main products driving the increase in import duty are:

- Insulated wire and cable (CIF increase of Frw 9.3 billion compared to 2016/17 fiscal year and import duty increase of **Frw 2.1 billion**).

- Ceramic bricks, blocks and tiles (CIF increase of Frw 9.0 billion and import duty increase of **Frw 1.1 billion**) due to higher imports by Frw 3.6 billion from China. There is also Frw 3.5 billion more imported from Tanzania, but this would not affect import duty.

- Sugar (CIF decrease of Frw 0.9 billion and import duty increase of **Frw 0.7 billion**), mainly due to greater imports from non-EAC countries such as Brazil, Mozambique and Thailand.

f) Combined, these three products contribute a Frw 3.8 billion increase in import duty collections. However, we also see a decrease in import duty for:

- Rice (CIF decrease of Frw 4 billion and import duty decrease of **Frw 3.6 billion**). While there were more imports from Tanzania, there were fewer imports from Pakistan and Thailand which meant reduced import duty collections.

- Concentrated or sweetened milk (CIF increase of Frw 5.9 billion and import duty decrease of **Frw 1.6 billion**). This is due to incentives provided to registered investors operating in the Export Processing Zones.

- Glazed ceramic tiles (CIF decrease of Frw 5.9 billion and import duty decrease of **Frw 1.4 billion**). This is driven by Frw 3.8 billion fewer imports from China by several companies.

These three products decreased import duty collections by Frw 6.5 billion in total. This means that from the products where import duty changed the most, there are more negative pressures than positive ones.

g) Other noteworthy observations include:

- Increase in cigarette imports by Frw 1.7 billion (94%), in contrast to the trend of decreasing imports in the previous three years. This increase has meant that total import taxes rose by Frw 5.6 billion.

- Fall in passenger and goods motor vehicle imports by 15% and 31% respectively. Combined, this was a decrease in imports by Frw 14.1 billion and in total import taxes by Frw 5.4 billion.

- Continued decrease in cement imports by Frw 3.8 billion, resulting in a Frw 0.9 billion reduction in total import taxes.

I.2.3.2 Infrastructure Development Levy

Collections for infrastructure development levy totalled **Frw 11.4 billion,** recording a surplus of **Frw 0.13 billion** above the target of **Frw 11.3 billion**, with an achievement of **101.2%** and growth of **7.5%.** There are various exempted products for this levy but which have been in place since the levy's launch and therefore not affected performance compared to last fiscal year.

These exemptions are for fertilisers and seeds, live animals, medicine and pharmaceutical products, medical equipment, mosquito nets, industrial machinery and equipment for energy and water sectors, and goods for investment projects with investment certificates.

I.2.3.3 African Union Import Levy

This levy was first collected in June 2017, amounting to Frw 36 million. For 2017/18 fiscal year, collections totalled **Frw 1.45 billion** against a target of **Frw 1.50 billion**; recording a shortfall of Frw 50 million, with an achievement of **96.6%**. The levy is applied at a rate of 0.2% of import CIF for financing African Union activities and it does not apply to goods exempted under relevant laws.

I.2.3.4 Exports analysis

Exports grew significantly in 2017/18 fiscal year, increasing by 117% to reach Frw 868.7 billion from Frw 399.8 billion in 2016/17 fiscal year. This is markedly higher than the compound annual growth rate between 2013/14 and 2016/17 fiscal years of 11%. The drivers of this growth in terms of the products, the destinations and the taxpayers are identified below.

The top five products exported in 2017/18 fiscal year are shown in **Table 8**, and they consist of traditional Rwandan exports of minerals, precious metals, tea and coffee. Gold exports are the highest in value, having grown over 400% compared to 2016/17 fiscal year. They account for almost half of the total increase in exports. The next two largest exports are also from mining activities.

Table 8: Top five most exported products (figures are in billions of Frw)

Rank	HS Code	Description	FY14/15	FY15/16	FY16/17	FY17/18	Difference	% change
1	7108	Gold	14.0	31.3	49.9	268.5	218.6	438%
2	2615	Niobium, Tantalum, Vanadium & Zirconium	65.5	39.0	37.1	124.1	87.0	234%
3	2609	Tin ores	36.7	21.7	57.6	101.0	43.4	75%
4	902	Tea	42.1	57.6	62.0	80.7	18.7	30%
5	901	Coffee	44.4	46.7	48.8	60.8	12.0	25%

Source: RRA, 2018

Table 9 shows that the UAE stands out as the country where 46.2% of all Rwandan exports go to. This is due to a big increase in 2017/18 fiscal year of Frw 296.7 billion, which is caused by exports of predominantly gold and metal ores (e.g. niobium and tin). Rwanda exported Frw 80.5 billion of tea to Kenya for a tea auction which is yet to take place, and for which the final destinations of the products is not typically recorded. Exports to DRC are driven by wheat flour, cereal flours and cement. Exports to Switzerland are mainly coffee (34%); tin ores (32%); and niobium, tantalum, vanadium and zirconium ores (29%).

Table 9: Top five export destinations (figures are in billions of Frw)

Rank	Country	FY14/15	FY15/16	FY16/17	FY17/18	Difference	% change
1	United Arab Emirates	16.9	35.4	105.0	401.7	296.7	283%
2	Kenya	59.9	69.9	82.5	96.4	13.9	17%
3	Congo, The Democratic Republic Of	43.8	38.9	39.1	62.8	23.7	61%
4	Switzerland	40.6	41.9	48.4	59.5	11.1	23%
5	Belgium	15.3	11.5	13.0	37.6	24.6	189%

Source: RRA, 2018

II. ADMINISTRATIVE MEASURES THAT SUPPORTED REVENUE TARGET ACHIEVEMENT

During the 2017/18 fiscal year, RRA continued the implementation of various administrative measures in order to enhance revenue collection and achieve target. Key administrative measures included:

II.1 WIDEN THE TAX BASE THROUGH TAXPAYER REGISTRATION

Activities aimed at widening the tax base through taxpayer registration were carried out. The following strategies were used to identify new taxpayers to be registered during 2017/18:

a) Carried out field visits and sector registration: sensitisation of taxpayers for registration focused on the following categories of business – providers of event management activities, bars, beverages and restaurants, hair salons, lawyers, professional bailiffs and clearing agencies.

b) Use of third party information: RRA worked with some associations e.g. PSF, RWAREB (for real estate sector), garages association, insurance companies, spare parts association (Icyerekezo); to get a list of their members and identify those who are eligible but not registered on domestic taxes. Also RRA worked with REB and some districts to create a list of private schools and identify those eligible to be registered for domestic taxes.

c) RRA's Business Intelligence system has been used to identify potential taxpayers registered in local taxes and importers and exporters without tax accounts. Also, a review of CIT/ PIT turnovers was done and taxpayers achieving the required thresholds were registered for VAT.

As a result of the above strategies, sensitization on taxpayer registration as well as voluntary registration, the number of new registered taxpayers during 2017/18 fiscal year was **20,450**. Newly registered taxpayers for different tax types contributed **Frw 9.6 billion** in 2017/18 fiscal year as indicated in **Table 10** below.

Table 10: The contribution of new registered taxpayers who paid tax in 2017/18

Tax Type	Number of new registered taxpayers who paid domestic tax in 2017/18	Domestic tax paid by new registered taxpayers in 2017/18 (Bn Frw)	Total domestic tax paid by all domestic registered taxpayers in 2017/18 (Bn Frw)	% contribution of tax paid by new registered taxpayers to total domestic tax paid in 2017/18
PAYE	776	3.5	281.7	1.2%
Profit Tax	817	0.2	93.5	0.2%
Excise	1	0.0003	73.8	0.0%
VAT	628	5.1	274.9	1.9%
WHT on Public Supplies (other than VAT)	100	0.3	38.2	0.8%
Other WHT	134	0.5	83.5	0.6%
Total		**9.6**	**845.5**	**1.1%**

Source: RRA, 2018

However, there was a decrease in total number of taxpayers in tax registry from 179,665 as of end June 2017 to 172,988 [1]as of end June 2018 due to the following reasons: 22,141 taxpayers were deregistered in August 2017 through the taxpayer registry cleanup project, to complete the deregistration process which was incomplete due to system errors. In addition, 4,986 more taxpayers were approved for deregistration subsequent to their request.

Of the current taxpayers in the tax registry, 375 are categorised as large taxpayers (0.2% of the total); 850 are medium taxpayers (0.5% of the total) and 171,763 are small or micro taxpayers (99.3% of the total).

Regarding the percentage contribution of each category of taxpayers to total tax collection, large taxpayers contributed 62.6%, medium taxpayers' contribution was 12.2%, while small taxpayers contributed 25.3%.

In addition, 14,381 vehicles were newly registered during the 2017/18 fiscal year. This represents a year-on-year decrease of 21.4% from the 18,300 that were newly registered in 2016/17 fiscal year. The cumulative number of vehicles registered in the RRA system by the end of the 2017/18 fiscal year was 179,799[2] from 165,418 by end of the 2016/17 fiscal year.

[1] This excludes employees whose PAYE is filed and paid by their employees.
[2] This may include vehicles that are no longer on road and have not yet returned their number plates to the RRA.

II.2 TAX AUDITS AND POST-CLEARANCE AUDITS

II.2.1 Small and Medium Taxpayers Office and RRA Provinces

During the 2017/18 fiscal year, total tax audits concluded by Small and Medium Taxpayer Office (SMTO) in Kigali were 140 (50 comprehensive and 90 issue audits) against 180 planned. In addition, 3,794 desk audit cases were conducted by SMTO.

The initial tax declared by all these cases totalled Frw 1.9 billion. However, the re-assessed tax (principals only, before appeals) totalled Frw 43.5 billion, an additional assessment of Frw 41.6 billion. The average tax declared by all audited SMTO taxpayers including desk audit cases amounted to **4.4%** of the total re-assessed tax (principals only, before appeals).

RRA domestic tax offices in Provinces completed 174 tax audit cases (59 comprehensive and 115 issue audits) against 300 that were planned. In addition, 645 desk audit cases were conducted by tax offices in Provinces.

The initial tax declared by all these cases concluded by domestic tax offices in Provinces totalled Frw 0.8 billion. However, the re-assessed tax (principals only, before appeals) totalled Frw 2.77 billion, an additional assessment of Frw 1.97 billion. The average tax declared by all audited taxpayers in Provinces including desk audit cases amounted to **28.9%** of the total re-assessed tax (principals only, before appeals).

II.2.2 Large Taxpayers Office

Out of 130 tax audit cases that were planned by large taxpayers office in 2017/18 fiscal year, 106 were completed (100 comprehensive and 6 issue audits). In addition, 161 desk audit cases were conducted by LTO.

The initial tax declared by all audited large taxpayers totalled Frw 227.1 billion. However, the re-assessed tax (principals only, before appeals) totalled Frw 253.3 billion, an additional assessment of Frw 26.2 billion. The average tax declared by audited LTO taxpayers amounted to **89.7%** of the total re-assessed tax (principals only, before appeals).

II.2.3 Customs Services Department

Customs Services Department (CSD) completed 110 post-clearance audit cases against 111 planned. Also, 30 desk audit cases were conducted by CSD. The initial tax declared by all audited importers totalled Frw 1.4 billion. However, the re-assessed tax (principals only, after appeals) totalled Frw 1.9 billion, an additional assessment of Frw 0.5 billion. The average tax declared by audited importers amounted to **73.7%** of the total re-assessed tax (principals only, after appeals).

II.3 COMBATING TAX EVASION

Revenue Investigation and Enforcement Department (RI&ED) completed 40 tax investigation cases (19 comprehensive-related cases, 13 immediate assessment cases, 1 issue-related case and 7 customs investigation cases) against 28 planned.

The initial tax paid by the investigated taxpayers totalled Frw 1.4 billion. However, the re-assessed tax (principals only, before appeals) totalled Frw 3.8 billion, an additional assessment of Frw 2.4 billion. The average tax declared by investigated taxpayers amounted to 36.8% of the total re-assessed tax (principals only, before appeals).

Through intelligence operations, 210 risk based operations were conducted against fraud both in Kigali and provinces and a range of unaccustomed goods were impounded. The top smuggled goods included used clothes and shoes, gin (Chief Waragi, African Gin, Zebra Waragi, etc...), loin cloths, juices, palm oil and cooking oil.

Twenty (20) fraud cases were forwarded to prosecution in 2017/18 compared to 81 cases forwarded in 2016/17. The reason for this decrease is that in 2016/17 fictitious VAT input claims were identified due to the introduction of the input VAT validation controls system in January 2017, so 41 related cases were forwarded to prosecution.

Tax amounting to Frw 1.2 billion was recovered through establishment of 7,769 statement of offences and public auctions were conducted that recovered a further Frw 0.35 billion.

Moreover, the Revenue Investigation and Enforcement Department carried out verifications and enforcement of EBM usage in Kigali and provinces through surprise check points long the major routes.

II.4 RECOVERING TAX ARREARS

II.4.1 Domestic tax arrears

Enforcement of domestic tax arrears by LTO, SMTO Kigali and Regions recovered Frw 61.1 billion. This represents a year-on-year growth of 59.5% from the Frw 38.3 billion collected in 2016/17.

Of this amount of tax arrears collected in 2017/18, Frw 35.2 billion came from the LTO; 57.6% of the total, Frw 23.5 billion from the SMTO Kigali, 38.5% of the total, and Frw 2.4 billion from Regions, 3.9% of the total. Domestic tax arrears collected accounted for 7.2% of the total domestic tax revenue collections in the 2017/18 fiscal year compared to 5.5% in 2016/17. The arrears collections by tax type are displayed in **Table 11** below.

Table 11: Domestic tax arrears collections by tax type, in billion of Frw

Tax Type	2017/18	2016/17	Variance	% change
VAT	27.8	18.9	9.0	47.4%
INCOME TAX	14.3	9.0	5.3	58.3%
PAYE	7.0	5.2	1.8	35.2%
WHT	9.7	5.0	4.7	93.5%
EXCISE TAX	1.0	0.1	0.9	1003.6%
MINERAL TAX	1.3	0.1	1.2	1141.0%
TOTAL	**61.1**	**38.3**	**22.8**	**59.5%**
of which LTO	*35.2*	*17.1*	*18.1*	*105.7%*
of which SMTO Kigali	*23.5*	*19.7*	*3.8*	*19.3%*
of which Regions	*2.4*	*1.5*	*0.9*	*62.4%*

Source: RRA, 2018

However, despite efforts made in recovering tax arrears, there still exists a large amount of unrecovered tax arrears. Total stock of tax arrears (in LTO, SMTO Kigali and Regions) at the end of the 2017/18 fiscal year amounted to Frw 255.3 billion. This represents a year-on-year growth of 69.5% from the Frw 150.7 billion stock of arrears at the end of 2016/17. This is displayed in **Table 12** below. RRA is intensifying more efforts in reducing the stock of domestic tax arrears.

Table 12: Stock of domestic tax arrears by tax office and age, in Frw billion

Age of domestic tax arrears	LTO domestic tax arrears at end of 2017/18	SMTO domestic tax arrears at end of 2017/18	Regions domestic tax arrears at end of 2017/18	Total DTD tax arrears at end of 2017/18	Total DTD tax arrears at end of 2016/17	Year-on-year growth
Less than 3 months overdue	1.06	22.2	1.7	25.0	31.5	-20.6%
Between 3 and 6 months overdue	2.30	29.4	3.3	35.0	15.0	132.5%
Between 6 and 12 months overdue	9.89	33.2	2.8	45.9	26.1	75.8%
More than 12 months overdue	27.21	115.4	6.8	149.5	78.0	91.6%
Total	**40.5**	**200.2**	**14.7**	**255.3**	**150.7**	**69.5%**

Source: RRA, 2018

At the end of 2017/18, there were domestic tax arrears of Frw 25.0 billion related to debts less than 3 months overdue, this is 9.8% of the total stock of arrears. On the other hand, Frw 149.5 billion related to debts of more than 12 months, 58.5% of the total.

In terms of categories for the stock of tax arrears, Frw 67.1 billion are categorised under potentially recoverable cases (including instalments), this represents 26.3% of total domestic tax arrears. In contrast, Frw 167.8 billion are categorised as difficult cases (including cases in courts, amicable settlement and appeal cases) accounting for 65.7% of total arrears. Finally, Frw 20.4 billion is believed to be irrecoverable, 8% of the total. **Table 13** below displays domestic tax arrears by different categories.

Table 13: Categories of domestic tax arrears at the end of 2017/18 fiscal year

Category	Number of cases	Amount of domestic tax arrears (Bn Frw)	Percentage share to total domestic tax arrears
Paying in instalments	173	7.9	3.1%
Potential recoverable cases	4,698	59.2	23.2%
Amicable cases	10	7.4	2.9%
Difficult cases	2,254	148.8	58.3%
Cases in courts	154	9.6	3.8%
Irrecoverable cases	408	20.4	8.0%
Appeals to the Commissioner General	62	2.0	0.8%
Total	**7,759**	**255.3**	

Source: RRA, 2018

II.4.2 Customs tax arrears

The arrears collected by Customs Services Department amounted to Frw 33.1 billion, of which public institutions paid 88.5% (Frw 29.3 billion) while 11.5 % (Frw 3.8 billion) were collected from other arrears and fines. This represents a year-on-year growth of 68.9% from the Frw 19.6 billion collected in 2016/17.

The stock of customs arrears as of end June 2018 amounted to Frw 35.5 billion, of which 92.1% (Frw 32.7 billion) was from public institutions and 7.9% (Frw 2.8 billion) from other arrears and fines. This represents a decrease of 9.2% from the Frw 39.1 billion stock of CSD arrears at the end of 2016/17. **Table 14** below displays customs tax arrears collection and stock of arrears as of end June 2018.

Table 14: Customs tax arrears collection in 2017/18 fiscal year and stock of arrears as of end June 2018 (Bn Frw)

Category	Arrears as of 30th June, 2017	New arrears during 2017/18	Total arrears recorded in 2017/18	Arrears collected during 2017/18	Stock of arrears as of 30th June, 2018
Government institutions	30.7	31.3	62.0	29.3	32.7
Other arrears	3.6	2.3	5.9	3.3	2.6
Fines	0.5	0.2	0.7	0.5	0.2
TOTAL	**34.8**	**33.8**	**68.6**	**33.1**	**35.5**

Source: RRA, 2018

II.5 MONITORING OF NON-FILERS AND NON-PAYERS

The compliance monitoring team played a big role in enforcing compliance among taxpayers especially on monitoring non-payment and non-filing of tax returns and enforcing VAT compliance through desk audit for VAT invoices not declared. This was done through monthly checks on filers, sending SMS before and after due date, identifying non-filers, non-payers and inactive taxpayers in order to take relevant actions, inviting stop filers and meeting with them to know the reason for stop filling, etc.

In 2017/18 fiscal year, the total of notice of assessment established by the compliance monitoring team after desk audit and before appeals amounted to Frw 77.6 billion.

II.6. TAX EDUCATION AND SENSITISATION

1. In 2017/18 fiscal year, RRA continued to intensify tax education and sensitization programs across the country. Key activities carried out include the following:

a) **Tax education sessions for 3,294 newly registered taxpayers** were conducted in 8 districts as follows: Gasabo (670 taxpayers), Kicukiro (890 taxpayers), Musanze (437 taxpayers), Rubavu (512 taxpayers), Muhanga (286 taxpayers), Huye (121 taxpayers), Rusizi (125 taxpayers), Nyarugenge (253 taxpayers).

b) **Training of 333 taxpayers** recruited on VAT during the EBM usage monitoring campaigns conducted from February to May 2017 in Nyarugenge, Gasabo and Kicukiro districts.

c) **Tax education/training sessions on different tax types** were conducted, targeting different groups as follows: 80 RSSB brokers, 30 Access Bank women clients, 16 selected best taxpayers from the 14th taxpayer appreciation day event, 25 staff members from Ngali Holdings, 137 accountants of private nursery, primary and secondary schools, 25 accountants from AVEGA association, 45 women in peace through business association members, 49 headmasters and accountants of private schools operating in Kamonyi, Ruhango, Muhanga and Nyanza districts, 58 students from White Dove Girl School, 155 representatives of public institutions, 50 lawyers and 277 international and local NGOs, 43 ICPAR practitioners, 190 large taxpayers, 380 motorcycle owners from Kigali City, 10 members of FERWACOTAMO association, 60 distributors of Bralirwa, 30 distributors of Skol, 64 members of Rwanda Garages Association and 60 large taxpayers on the usage of EBM version two.

d) **Awareness campaigns on local taxes** were conducted in the following trading centers: Rubavu (1,203 taxpayers), Muhanga (983 taxpayers), Huye (525 taxpayers), Ruhuha (346 taxpayers), Kayonza and Kabarondo (230 taxpayers), Nyagatare and Rukomo (310 taxpayers), Base (103 taxpayers) and Kinyinya (292 taxpayers).

e) **Tax education sessions with tax friend club members and students from three secondary schools** were held at Doctrina Vitae Secondary School (80 students attended), College Saint Aloys Rwamagana (400 students attended), Elena Guerra Secondary School Cyeza (20 students attended). In total, 500 students attended these sessions.

f) **Public lectures on EBM** were conducted at University of Kigali/ Musanze Campus, University of Kibungo, University of Technology and Arts of Byumba and Institute Catholic of Kabgayi.

g) **Workshops on RRA tax compliance improvement plan for 2017/18** were conducted with the following taxpayers: 118 owners of clearing agencies, 8 members of association of engineers, 125 importers, 47 large and medium taxpayers owners of hotels, bars and restaurants in Kigali City, 13 members of Rwanda Hospitality Association, 13 members of BAR association, 467 representatives of hotels, bars and restaurants operating in Muhanga, Kamonyi, Ruhango, Nyanza, Rusizi, Nyamasheke, Huye, Rubavu, Musanze and Nyagatare districts, 44 representatives of private medical clinics, 250 representatives of construction companies, 17 representatives of real estate companies, 170 small taxpayers operating in hotels, bars and restaurants sector. In total, 1,272 taxpayers attended these workshops.

h) **New tax friend clubs were created** in three secondary schools as follows: Inyange Girls Secondary School at Rulindo District (25 students joined the club), College Saint Albert de RILIMA in Bugesera District (361 students joined the club), Ecole des Sciences Byimana in Southern Province (180 students joined the club).

i) **Tax dialogues with different categories of taxpayers and other stakeholders** were conducted as follows: tax dialogue with 150 top women in business operating in Kigali City and Provinces; four tax dialogues with experienced taxpayers in business were held in Kigali and three Provinces (South, North and West), consultative dialogue with security organs and local leaders of Gicumbi and Burera districts was held and issues related to combating smugglers and drug traffickers were discussed, tax dialogue with PSF members of Eastern Province was held during Itorero.

j) **Forty (40) Tax Advisory Council (TAC) meetings** were conducted in Districts and Kigali City across the country.

k) **A tax business dialogue technical meeting between PSF and RRA** was held and chaired by the PSF Deputy CEO at PSF Boardroom Hotel and Co-Chaired by the Deputy Commissioner of Large Taxpayer Office. In addition, **a high-level tax business dialogue** was held and chaired by the RRA Deputy Commissioner General and the PSF Director of Advocacy.

2. Additionally, during September-October 2017, RRA celebrated the 15th taxpayers' appreciation day. The event was celebrated in all provinces countrywide, which was later crowned with celebrations at the national level at Kigali Convention Center in Kigali City on October 13th 2017. The Guest of Honour was the Prime Minister Eduard Ngirente.

The theme for 2017 taxpayers' appreciation day was "***My Tax, My Development, My Dignity",*** whereby RRA emphasized the role of taxes in our national development and nation's dignity. During the event celebrations, RRA unveiled and launched a "**RRA IWACU**" campaign with the aim of bringing RRA services closer to taxpayers. In this regard, taxpayers shared their tax challenges and received assistance on tax matters in selected trading centres.

3. Furthermore, RRA publicised relevant information to its stakeholders through different communication channels. TV and radio talk shows were conducted on TVR, Radio Rwanda, KISS FM, Flash FM, ISANGO Star FM, Community Radios and Umucyo Radio FM. Also online media like igihe.com, new times.co.rw, umuseke.com, makuruki.rw and isange.com were used to publicize RRA's information.

4. Print newspapers like Imvaho Nshya, The Newtimes, The East-African, Hope Magasine as well as social media platforms like Twitter, Facebook and YouTube were also used to inform taxpayers and the general public on different RRA programs and services.

5. Moreover, RRA updated its website with the aim of making its operations widely accessible and continued to operate the call centre on the 3004 toll-free number to help adequately handle taxpayers' queries.

II.7 DISPUTE RESOLUTION

Taxpayer disputes were resolved in a timely manner through the RRA's appeal and amicable settlement committees. Alternative court litigation was required when taxpayers were not content with the results.

During the 2017/18 fiscal year, RRA had **1,535** pending appeal cases; this is a year-on-year increase of 30.4% from the 1,177 pending appeal cases in 2016/17. Of the **1,535** pending appeals in 2017/18, **974** were completed (of which 211 were received in 2016/17 fiscal year and 763 in 2017/18 fiscal year), **185** were rejected (of which 29 were from 2016/17 and 155 from 2017/18) and **377** were carried forward into 2018/19 fiscal year.

The finalised appeals cases had the reassessed tax liability reduced by the appeal committee from Frw 64.9 billion to Frw 58.7 billion, representing an 9.6% reduction. The number of appeal cases whose tax liability did not change was 547 and their corresponding value amounted to Frw 42.8 billion.

During the 2017/18 fiscal year, there were 160 requests received for amicable settlement. This is a year-on-year increase of 46.9% from the 109 requests received in 2016/17. There were also 8 requests for amicable settlement cases brought forward from 2016/17 fiscal year, and in total

there were 168 pending cases in 2017/18, out of which 25 were completed, 83 (with a tax liability value of Frw 7.1 billion) were rejected after analysis and 60 were carried forward into 2018/19. The amicable settlements had the tax liability reduced from Frw 11.9 billion to Frw 8.8 billion, representing 26% reduction.

Additionally, 195 cases were heard in the Courts of Law. This is a year-on-year increase of 68.1% from the 116 cases heard in 2016/17. Among cases heard in the Courts in 2017/18 fiscal year, 167 were ruled in favour of RRA, **85.6%** of the total number of cases, compared to **80.2%** recorded in 2016/17. Also, 28 cases were ruled in favour of the taxpayers in 2017/18, **14.4%** of the total, compared to **19.8%** in 2016/17.

II.8 REVIEWING AND DRAFTING OF LEGAL INSTRUMENTS AND PROVIDING LEGAL ADVICE

During the 2017/18 fiscal year, RRA continued to provide advice on tax issues as mandated. In this regards, RRA actively participated in:

a) Reviewing the draft Law modifying and complementing the Law n° 25/2005 of 04/12/2005 on Tax Procedures;

b) Drafting and publishing the Commissioner General instruction determining fees on services provided by Rwanda Revenue Authority;

c) Reviewing the draft of Statute governing the members of staff of RRA;

d) Drafting the Ministerial Orders governing Law no 016/2018 of 13/4/2018 establishing Taxes on income;

e) Drafting the Law determining and establishing consumption tax on some imported and locally manufactured products;

f) Drafting the Ministerial Orders implementing the revised Law establishing the source of revenues for Decentralized Entities.

Moreover, the following public rulings were prepared and published during the 2017/18 fiscal year:

a) Public ruling issued by the Commissioner General on article 39 (3°) of the Law n°16/2005 of 18/08/2005 on direct taxes on income as modified and complemented to date;

b) Public ruling issued by the Commissioner General on Article 48 of the Law n°16/2005 of 18/08/2005 on direct taxes on income as modified and complemented to date;

c) Public ruling issued by the Commissioner General on articles 50 paragraph 1, and 51 paragraph 1 (4°) of the Law n°16/2005 of 18/08/2005 on direct taxes on income as modified and complemented to date.

III. REPORT ON OTHER MAIN RRA KEY PERFORMANCE INDICATORS

In addition to the revenue performance report and administrative measures that contributed to the revenue target achievement, the following section presents a summary report on other RRA key performance indicators. These key performance indicators define the measurement of important and useful information about the RRA performance and enable the organization to identify areas requiring particular attention.

III.1 TAX TO GDP RATIO

Tax to GDP ratio is calculated by dividing the tax revenue collected by a country, by the gross domestic product (GDP) of that country, expressed as a percentage.

Changes in the tax-to-GDP ratio are driven by the relative changes in nominal tax revenues and in nominal GDP. From one year to the next, if tax revenues rise more than GDP (or fall less than GDP) the tax-to-GDP ratio will increase. Conversely, if tax revenues rise less than GDP, or fall further, the tax-to-GDP ratio will go down. **Table 15** below shows a five-year trend of Tax to GDP ratio in Rwanda.

Table 15: Trend of tax to GDP ratio in Rwanda in billions of Frw (2013/14 – 2017/18)

Fiscal Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Tax Revenue (Bn Frw)[3]	763.4	859.1	986.7	1,086.5	1,234.1
Nominal GDP (Bn Frw)	5,194	5,670	6,321	7,125	7,898
Tax to GDP ratio	**14.7%**	**15.2%**	**15.6%**	**15.2%**	**15.6%**

Source: NISR and RRA, 2018

Tax to GDP ratio increased from **14.7%** in 2013/14 to **15.2%** and **15.6%** in 2014/15 and 2015/16 respectively mainly due to new tax policy measures effected in those years. The ratio decreased to **15.2%** in 2016/17 due to the policy decision on worn clothing, which negatively affected tax collections. Tax to GDP ratio for 2017/18 fiscal year increased to **15.6%**.

RRA has undertaken reforms geared towards broadening the tax base and increasing revenue mobilization. However, despite the recorded growth in revenue collections, Rwanda's tax to GDP ratio is still below the 18% Sub-Saharan average. Since it is often not advisable to increase tax rates, additional revenue can only originate from two sources: either broadening the tax base or improving the efficiency of tax collection.

III.2 PERCENTAGE CONTRIBUTION OF TAX REVENUE COLLECTION TO NATIONAL BUDGET

This is the amount of annual tax revenue collection transferred to the national treasury as percentage of the total national budget.

The percentage contribution of tax revenue to national budget has increased progressively during the past fiscal years. It increased to **58.3%** in 2017/18 fiscal year from **45.5%** in 2013/14 fiscal year as presented in the **Table 16** below.

[3] This excludes local government tax revenue collection

Table 16: Percentage contribution of tax revenue to national budget in billions of Frw (2013/14-2017/18)

Fiscal year	2013/14	2014/15	2015/16	2016/17	2017/18
Tax revenue (Bn Frw)	763.4	859.1	986.7	1,086.5	1,234.1
Budget (Bn Frw)	1,677.7	1,762.4	1,808.8	1,954.2	2,115.4
Tax as % of Budget	**45.5%**	**48.7%**	**54.5%**	**55.6%**	**58.3%**

Source: MINECOFIN and RRA, 2018

Although there has been good progress in contribution of tax revenue to national budget, the pace of tax revenue growth as well as the country's increased appetite for infrastructure investment calls for increased tax revenue mobilization to reduce the public debt. Tax revenue collection is key to the financial independence, stability and sustainability of a nation. This is in accordance to the RRA's vision.

III.3 ON-TIME RETURNS FILING RATIO

This is the number of tax returns filed by the statutory due date (on-time returns filing) as percentage of the number of tax returns from all registered taxpayers required by law to file returns (expected tax returns). In this report, three major tax types were considered which are: VAT, PAYE and Income Tax (CIT & PIT).

III.3.1 On time returns filing ratios for VAT and PAYE

The average on time returns filing ratios for **large taxpayers** during 2017/18 fiscal year were 89.5% for VAT and 96.1% for PAYE, while **medium taxpayers** registered an average on-time returns filing ratios of 86.2% for VAT and 94.5% for PAYE. This indicates that in respective taxpayer segments, PAYE showed better aggregate compliance ratio (in terms of on-time returns filing) as compared to VAT. On the other hand, VAT and PAYE average on-time returns filing ratios for **small taxpayers** in 2017/18 fiscal year were 77.4% for VAT and 70.6% for PAYE. The **Table 17** below indicates the on time returns filing ratios for VAT and PAYE during 2017/18 fiscal year.

Table 17: On time returns filing rates for VAT and PAYE in FY 2017/18

Taxpayer segment	Large taxpayers		Medium taxpayers		Small taxpayers	
Tax Head	VAT	PAYE	VAT	PAYE	VAT	PAYE
Jul-17	87.3%	92.9%	84.8%	94.0%	76.6%	69.3%
Aug-17	85.3%	94.2%	80.7%	93.8%	75.9%	71.1%
Sep-17	89.9%	96.2%	80.8%	96.5%	77.0%	69.0%
Oct-17	87.7%	95.0%	86.2%	98.2%	77.0%	69.6%
Nov-17	77.4%	96.2%	75.8%	97.6%	76.3%	71.8%
Dec-17	86.3%	95.1%	82.7%	97.6%	73.9%	70.9%
Jan-18	92.8%	95.9%	89.1%	95.8%	79.3%	71.1%
Feb-18	93.2%	98.1%	88.7%	95.7%	77.2%	71.4%
Mar-18	91.8%	96.7%	90.9%	88.2%	79.1%	70.8%
Apr-18	94.6%	97.6%	93.3%	96.9%	80.1%	70.1%
May-18	92.3%	98.1%	93.2%	89.2%	76.6%	71.3%
Jun-18	95.3%	97.8%	88.1%	90.3%	79.4%	70.7%
Average	**89.5%**	**96.1%**	**86.2%**	**94.5%**	**77.4%**	**70.6%**

Source: RRA, 2018

III.3.2 On time returns filing ratios for income tax (CIT and PIT)

On-time income tax filing ratios for 2017 financial year were 99.0% for **large taxpayers**, 94.8% for **medium taxpayers** and 62.9% for **small taxpayers** as illustrated in **Table 18** below.

Table 18: On time returns filing ratios for income tax (CIT & PIT) for 2017 tax period

Taxpayer segment	Number of expected declarations	Number of on time declarations	On-time filing ratio
LARGE	372	368	**99.0%**
MEDIUM	1,009	976	**94.8%**
SMALL	162,710	104,680	**62.9%**

Source: RRA, 2018

III.4 ON TIME TAX PAYMENT RATIO

This is the amount of tax paid by due date as percentage of amount of tax declared by due date.

In 2017/18 fiscal year, the on-time tax payment ratios for **large taxpayers** were 99.5% for income tax (CIT & PIT), 97.7% for VAT and 92.1% for PAYE.

Medium taxpayers registered on-time tax payment ratios of 96.0% for income tax, 97.6% for VAT and 94.1% for PAYE.

Income tax, VAT and PAYE on-time tax payment ratios for **small taxpayers** were 97.1%, 90.9% and 81.9% respectively.

The average on-time tax payment ratios for all taxpayer segments were 98.6% for i**ncome tax**, 96.1% for **VAT** and 89.3% for **PAYE**.

On-time tax payment ratios by tax heads and taxpayer segments are shown in **Table 19**.

Table 19: On-time tax payment ratios by tax heads and taxpayer segments

Tax head	CIT &PIT				VAT				PAYE			
Taxpayer segment	Large	Medium	Small	Total	Large	Medium	Small	Total	Large	Medium	Small	Total
Tax declared on-time (Billion Frw)	55.7	10.1	17.1	82.9	183.1	29.4	64.8	277.3	159.4	35.6	84.1	279.1
Tax paid on-time (Billion Frw)	55.4	9.7	16.6	81.7	178.8	28.7	58.9	266.4	146.8	33.5	68.9	249.2
On-time payment ratios	**99.5%**	**96.0%**	**97.1%**	**98.6%**	**97.7%**	**97.6%**	**90.9%**	**96.1%**	**92.1%**	**94.1%**	**81.9%**	**89.3%**

Source: RRA, 2018

The improved performance in "on-time tax returns filing and payments" is a result of different efforts made by RRA including the establishment of compliance monitoring unit in domestic tax department. This plays an important role in enforcing compliance among taxpayers, especially on tax filing and payment monitoring.

III.5 AMOUNT OF TAX ARREARS COLLECTED AS PERCENTAGE OF AVAILABLE DEBTS TO COLLECT

To calculate the amount of tax arrears collected as a percentage of available debts to collect, we took the amount of payments received during 2017/18 fiscal year through enforcement measures, divided by the amount of debts subject to enforcement measures as of 1st July 2017 plus the additional amounts subject to enforcement measures received from July 2017 to June 2018, expressed as a percentage.

The numerator includes all tax arrears collection including penalties and interest. The denominator includes all existing and new tax arrears including penalties and interest, both recoverable and difficult **but not those which are irrecoverable**.

As of end June 2018, the overall percentage of tax arrears collected to available arrears to collect was **26.5%** as indicated in **Table 20** below.

Table 20: Amount of tax arrears collected as percentage of available debts to collect

Department	Stock of tax arrears as of 1st July 2017- opening balance (Bn Frw)	New tax arrears recorded in 2017/18 (Bn Frw)	Total opening balance, plus new arrears recorded in 2017/18 (Bn Frw)	Total tax arrears collected during 2017/18 (Bn Frw)	% of tax arrears collection to total opening balance, plus new arrears as of end June 2018
LTO	42.0	30.9	72.9	35.2	48.3%
SMTO	75.3	130.4	205.7	23.5	11.4%
Regions	11.3	4.5	15.8	2.4	15.2%
CSD	34.8	33.8	68.6	33.1	48.3%
TOTAL	**163.4**	**199.6**	**363.0**	**94.2**	**26.0%**

Source: RRA, 2018

In general, the arrears collection ratio of **26.0%** as of end June 2018 is low and this indicates ineffectiveness in collecting tax debts. More efforts in collecting tax arrears are needed.

SMTO has a high amount of tax arrears but the ratio of collection is too low. The increase in the debt portfolio was mainly due to the actions and measures undertaken by RRA to detect and punish taxpayers who claimed fictitious VAT inputs, actions undertaken by the compliance unit and new cases from tax audits.

III.6 EBM ACQUISITION RATIO (as of end June 2018)

This is obtained by dividing the number of VAT registered taxpayers having EBMs at a given period by the number of VAT registered taxpayers expected to have EBM at the same period. **Table 21** below shows the status as of end June 2018.

Table 21: EBM acquisition ratio as of end June 2018

Total # of VAT registered taxpayers	# of non-filers for VAT within the past 12 months	# of VAT registered taxpayers exempted from having EBM	# of VAT registered taxpayers that should have EBM (Expected)	# of taxpayers having EBM	EBM acquisition ratio
24,046	2,467	58	21,521	17,665	**82.1%**

Source: RRA, 2018

As indicated in **Table 21** above, RRA had a total of **24,046** VAT registered taxpayers as of end June 2018, of which **21,521** were expected to have EBM, out of which **17,665** taxpayers had acquired EBM, making an acquisition ratio of **82.1%**.

Average growth rate in VAT registered taxpayers is not proportional to average growth rate of taxpayers having EBM. This means that some VAT registered taxpayers (17.9%) operate without having EBMs while they are supposed to have them.

IV. IMPLEMENTATION PROGRESS REPORT ON THE RRA MAIN PROJECTS

During the 2017/18 fiscal year, RRA continued to implement various projects aimed at improving service delivery and enhancing revenue mobilisation. Key projects being implemented include the following:

IV.1 ELECTRONIC BILLING MACHINES (EBM)

RRA continued to undertake initiatives aimed at improving VAT compliance through Electronic Billing Machine usage. The following main activities were carried out:

4.1.1 **Developed the EBM compliance strategy 2017-2020**. This document highlights the existing and new initiatives in promoting VAT compliance through Electronic Billing Machine usage. Specifically, it describes and explains the EBM compliance initiatives ahead, defines roadmap as well as budget needs for their implementation. It informs policy-makers, development partners and implementers of EBM activities.

4.1.2 **Initiated the EBM for non-VAT registered taxpayers.** The following activities were performed:

a) Developed and published technical specifications of V-SDC (Virtual Sales Data Controller) and CIS (Certified Invoice System); their testing started in December 2017 and successfully ended in February 2018. This will contribute to enabling the online EBM functionalities as well as mobile phone EBM application.

b) Developed and published the certification criteria of VSDC and CIS providers.

c) Defined the administrative requirements for EBM devices/software, suppliers and service providers.

d) Certification of V-SDC is under progress and it is planned that in Q2, 2018/19, at least one V-SDC provider will be certified.

e) Advertised the tender for the supply of 3,000 EBM devices for non-VAT registered taxpayers. However, there was no successful bidder for the tender because of high prices proposed by all bidders. The tender shall be re-advertised.

4.1.3 **Introduction of EBM Version 2.** In a bid to reduce the cost of doing business and ease compliance, RRA has introduced EBM Version 2, an internet-based electronic billing machine client software (EBM V.2) which is offered for free to all VAT-registered taxpayers in Rwanda. The improved version offers better options like capturing the stock which serves as an internal control tool to the taxpayers since they are able to balance stock and sales to check stock movement. This version also enables easy declaration as users have instant access to their sales data. As of end June 2018 the total number of taxpayers who had EBM V.2 was 2,960.

4.1.4 Furthermore, there were a number of **actions undertaken to encourage taxpayers to use electronic billing machines**; these include:

a) **EBM monitoring and sensitization:** RRA continued to strengthen sensitisation and monitoring of taxpayers through day to day activities and different campaigns conducted in various areas of Kigali City and provinces to monitor compliance on EBM, encourage taxpayers to register their businesses in VAT and assist them on EBM usage. In this regard **11,362** taxpayers were visited and **175** were registered for VAT during this exercise. In addition, **1,451** affidavits were established and **1,427** fines notifications were given to non-compliant taxpayers.

b) As a result of the above action, a total of **17,665** VAT registered taxpayers had Electronic Billing Machines as of end June 2018. This means there was an increase of **21.8%** (3,161 taxpayers) over 12 months compared to **14,504** as of end June 2017. The total number of activated EBMs as of end June 2018 was **22,921**; an **35.6%** increase when compared to the end June 2017 status (16,907 EBMs). Furthermore, in 2017/18 fiscal year, **29,190,350** EBM invoices were issued compared to **28,771,491** recorded in 2016/17 fiscal year, representing a year-on-year growth of **1.5%**.

c) Closely monitored some hotels, bars, restaurants and supermarkets and continuously checked and reported on the under-reporting of goods and services prices on EBM invoices.

d) Checked and monitored vehicles transporting timber from different areas of the country for selling them to Gisozi and Bishenyi markets and took appropriate actions for failure to use electronic billing machines.

e) Monitored EBMs whose Sales Data Controllers were not reporting to the RRA server in order to identify reasons for not reporting and take appropriate actions. These reasons include, but are not limited to, Airtime, technical and nature of work issues.

IV.2 E-TAX ENHANCEMENT SYSTEM

During 2017/18 fiscal year, the following improvements and additions have been made to the e-tax system:

4.2.1 Other validation controls on VAT input tax claims through EBM and e-tax were developed and implemented, e.g. e-tax controls on blacklisted SDCs have been added to prevent taxpayers from claiming any invoice issued by the same blacklisted SDC. This will help reduce the fictitious VAT input claims and thus increase VAT collections.

4.2.2 The system controls on income tax cost of goods sold were completed and implemented. This will prevent taxpayers from claiming the wrong cost of goods sold, hence more collections from the annual income tax.

4.2.3 The International Standard Industry Classification coding revision 4 to 6 has been harmonised with RDB for business/taxpayer registration, and systems updates are running through interfaces. It is expected to be completed by end September 2018.

4.2.4 Update of taxpayer/business information on company management structure details from RDB was implemented through RDB-RRA systems interfaces.

4.2.5 Upgrade of interface between e-tax and RESW for customs was carried out and implemented in order to have seamless flow of motor vehicles information from ReSW to e-tax.

4.2.6 Rollout interfaces between e-tax and FMIS for Government tax payments: systems interfaces were developed and tested for all government institutions. Rollout was completed in May 2018.

4.2.7 The tax audit module development and test were completed, and the module is being implemented. This module helps RRA to monitor and track domestic tax audit cases.

4.2.8 The development of appeals and objections module was completed and tested. The module is ready for use. This will help RRA to monitor and track tax appeal cases.

4.2.9 The development of debt management module was completed and tested. The module is ready for use. This will help RRA to monitor and track domestic tax arrears and easily access the debt with ease.

4.2.10 Refund module was developed, tested and implemented to ease the refund process within RRA.

4.2.11 RRA initiated a single unified declaration form for PAYE, pension & occupational hazards, and medical and maternity leave contributions:

a) This is the online-based declaration for PAYE, pension and occupational hazards, medical and maternity leave benefits dubbed "PAYE-Unified or Unified Declaration" which was developed from the RRA's already existing e-tax system. The digital system will ensure that employers effectively remit their workers' PAYE and contributions to RSSB.

b) The new system is envisaged to reduce the workload of filling out three or four separate annexures since one single annexure is filled out and uploaded instantly. Having all the tax and RSSB contributions unified in one system will just facilitate the contributors by making one action other than going forth and back. This has proved to be very successful.

c) However, it doesn't fully replace the already existing system, but rather, they will work concurrently, given that there are contributors who are not PAYE registered.

d) In the pilot phase, 804 contributors and taxpayers have used it and filed returns. The number of the current users of the system represent only about 6.9% of over 11, 800 taxpayers or contributors who should use it.

4.2.12 Preparation for data migration:

a) RRA prepared business requirements and technical specifications for data migration and submitted them to Tata Consultancy Services.

b) Data extraction and identification as per the technical specifications are ongoing.

c) Data migration testing on the data moved from SIGTAS is being done by RRA technical team.

IV.3 INTEGRATION OF GEOGRAPHIC INFORMATION SYSTEM (GIS)

Because of the limited number of audits the RRA is able to conduct for local government taxes and fees and the difficulties in locating taxpayers, the RRA aims to integrate Geographic Information System (GIS) to track taxpayers, to collect and display taxpayer information, to optimize its audit and enforcement efforts, and to improve compliance for land-related taxes and fees.

The project started in July 2017 and the following activities were performed as of end June 2018:

4.3.1 After finalising the procurement process and signing the contract with the supplier (ESRI), the inception report was delivered by the supplier and approved by RRA.

4.3.2 Rwanda Land Management and Use Authority (RLMUA) provided their current geographical parcels data and RRA was able to access them.

4.3.3 ArcGIS software has been installed on RRA's machines and the secured SSL certificate was installed on the ArcGIS application server (192.168.3.142). RRA officers will be using tablets or smartphones to connect to the online link: appgis.rra.gov.rw.

4.3.4 Web maps and applications showing the declaration and payment status for land-lease fees, fixed asset tax, and rental income tax have been produced. The Web Application includes navigation tools that can be used to zoom in/out at the map, and to zoom to the map default extent.

4.3.5 Filters have been created for the maps to increase readability of maps as well as loading time. The filter widget allows filtering parcel and LGT information based on sector, cell, village, and tax type.

4.3.6 Pre-defined queries have been included for end users (e.g. showing the status of a specific tax type). The results can be visualized on the maps or exported as csv files to Excel.

4.3.7 Features such as graphs to allow spatial analysis of revenues showing the total amounts paid and to be paid for rental income tax and fixed asset tax/land leases fees in specified geographical areas have been implemented. Spatial features to select user-defined areas on the maps have been added (e.g. to show the number of unpaid plots in a certain neighbourhood).

4.3.8 Bookmarks for sectors are created to allow user-friendly and quick loading of maps. End users can select among different basemaps as the maps underlying the displayed declaration and payment status. These background maps can provide street names and landmarks, satellite imagery, or topography. Tools are implemented to measure the size and length of user-selected areas on the map (e.g. to measures the size of the plot or to measure the size of a building on a plot).

4.3.9 Features to display the payment and declaration status using bar graphs and pie charts have been introduced.

4.3.10 Attribute tables with detailed taxpayer information are exportable from the web application. This allows the export of easy-to-use, self-defined data to Excel and other formats (for example, showing all non-filers and other characteristics of taxpayers in a selected neighbourhood).

4.3.11 The search of plots through UPI (Unique Parcel Identifier) and the search of parcels related to a given taxpayer through the usage of NID and passport number is available.

4.3.12 Tablets have been delivered to RRA, and the collectors app has been successfully tested on some tablets. Some additional features such as displaying the declaration and payment status for previous tax years (as already implements for the Web Maps and Web Applications accessible through internet browsers) have been included.

IV.4 ENHANCEMENT OF LOCAL GOVERNMENT REVENUE MANAGEMENT SYSTEM

4.4.1 Since the 2015/16 fiscal year, RRA implemented the web-based Rwanda Automated Local Government Management System for efficient management of local government revenues supporting local revenue administration and collection.

4.4.2 However, some taxpayers and stakeholders such as the districts have had difficulties with how to use RRA's online filing systems efficiently and effectively. In addition, law N° 59/2011 of 31/12/2011 establishing the sources of revenue of decentralized entities has been revised, aiming to establish a property tax based on market values with a building and land component. These are the main reasons for initiating the LGT enhancement project.

4.4.3 As a result of the LGT enhancement project, RRA, districts and other stakeholders will operate more efficiently and effectively. Different gaps of the LGT system have been highlighted and will be addressed.

4.4.4 As of end June 2018, the following activities were carried in order to implement the LGT enhancement project:

a) Business use cases were developed for the registration module, declaration module, including the specifications for the new property tax and rectifications of declarations, the reporting module, credit note management, data integration, and e-support for users.

b) The successful bidder has been determined, the draft contract was signed and the inception report is yet to be finalized by the developer.

c) Hardware (server, network blades and storage) has been acquired.

IV.5 ELECTRONIC CARGO TRACKING SYSTEM (ECTS)

4.5.1 The ECTS aims at enhancing cargo security and curbing diversions that ultimately reduce transit time, cost of cargo transportation and enhance transparency so that stakeholders can have access to the system.

4.5.2 In addition to the project's activities completed in 2016/17 fiscal year, the following activities were performed during 2017/18 fiscal year:

a) Internet Protocol Closed Circuit Television (IPCCTV) and Automatic Number Plate Recognition (ANPR) devices have been delivered, approved and installed at 22 sites out of 24 planned. The sites of Gatuna and Bollore ICD (former SDV) are still pending. For Gatuna, it is due to the ongoing construction activities of One Stop Border Post, while for Bollore ICD, the owners changed location to free economic zone.

b) Trainings to system administrators, users and stakeholders were delivered: 194 clearing agents were trained on Electronic Cargo Tracking System modules and functionalities.

c) System interoperability; this refers to how the ECTS works with other customs systems. The ECTS has been integrated with the ASYCUDA World/Electronic Single Window and the Regional Electronic Cargo Tracking System (RECTS).

IV.6 AUTHORISED ECONOMIC OPERATOR (AEO)

The Authorised Economic Operators project is still ongoing. The following main activities were performed during 2017/18 fiscal year:

4.6.1 The new 22 operators who have been accredited at regional level signed the MoU with Customs Services and the signing was witnessed on 28th September 2017 by the Honourable Minister of Trade and Industry and officials from Cross Border Regulatory Agencies who are involved in operations and regulation of the supply chain of goods in Rwanda. This MoU serves as a binding agreement between the two parties and it will help them to fulfil their obligations.

4.6.2 For the awareness campaign purpose, RRA published the online web banners that promote the AEO programme in the “Igihe” and “New Times” websites. Also, a live talk show on Radio Rwanda has been done to sensitise the public on benefits of the AEO program and encourage operators to join the scheme.

4.6.3 RRA conducted the quarterly AEO National Technical Working Group meeting. The objective of the meeting was to discuss the progress of the project and approve the list of the successful operators.

4.6.4 AEO team members (two female and three male) attended a workshop on trade facilitation in Korea. They discussed the safety and security criteria in AEO accreditation, supply chain management and Mutual Recognition Agreement (MRA).

4.6.5 Accreditation of additional operators: 59 trade operators submitted their applications to join the AEO programme. Among them, nine applicants were successful. The vetting exercise was jointly conducted by RRA's AEO vetting team and the National Technical Working Group and the latter is composed of Members from Government Agencies involved in Clearance process (RSB, RAB, Migration, National Police...). All of the nine AEOs were fully accredited at EAC regional level.

4.6.6 Operationalisation of the AEO Unique Identifier. This is the identification number of the accredited operators that facilitate their recognition in different customs system within the EAC Partner States. The unique identifier has been developed and enabled in all EAC states customs management systems.

IV.7 TAXPAYER REGISTRY AND DATA CLEAN UP

RRA continued to implement the second phase of taxpayer registry and data clean-up which covered all small and micro taxpayers. The following tasks were carried out during 2017/18:

4.7.1 The project team made a back office analysis and data matching using different information systems (e-tax, EBM, LG Management System and RDB system) to update taxpayers' information.

4.7.2 The team conducted field validation on the top taxpayers contributing to 97% of the total revenue collection (large, medium and top small) by providing pre-populated data to be confirmed by the taxpayers. This validation exercise focussed on the accuracy of the contact number, physical address and names of managing directors and shareholders.

4.7.3 The Agency of Cooperatives, the Mining Authority, National Bank of Rwanda and the Private Sector Federation were identified as key to validate the list, number and classification of taxpayers operating in identified key sectors.

4.7.4 Another validation was conducted with the National Institute of Statistics of Rwanda on survey data and registry database. Gaps were identified in 400 taxpayer's profiles on business classification but at the fourth level. This was mainly due to miss-interpretation by both parties where technical workshops were convened to validate on 400 taxpayers after the review was made by both parties.

4.7.5 After the above last step of validation, the taxpayer's records were uploaded in the system and checked afterwards.

4.7.6 In addition to the above activities, registration policy was prepared and approved by the RRA Board of Directors.

4.7.7 The main pending project issues to be addressed during 2018/19 include the following:

a) Establishment of the Headquarters function (recruitment of key staff and logistics).
b) Pending identified IT data quality issues to be fixed during August 2018–February 2019.
c) RDB has not yet implemented the use of ISIC level 6.
d) Harmonisation of policies between RRA and RDB.
e) System harmonisation and integration between RRA and RDB. Agreed action plan was developed and discussed by the management of two institutions.

IV. 8 ACCOUNTING AND REPORTING SYSTEM SAGE X3

During 2017/18 fiscal year, RRA continued to implement the accounting and reporting system SAGE X3 and addressed some identified issues. The following tasks were performed:

4.8.1 Technical support to the system was provided as required and the following areas were addressed: correction of transaction dimensions; upload manual payments and transfers; development of new reports requested by users; following up compliance of banks including MTN and MobiCash; resolve new issues from users; create new journal types; create LGT invoices and cover letters; perform period and year end procedure; upgrade of SAGE X3; installation of SAGE enterprise intelligence reporting tool; integration of BNR (this will eliminate manual payments from BNR); and reduce the size of the suspense account for the period ended 30th December 2017 from Frw 524.4 million to Frw 11.2 million.

4.8.2 National Bank of Rwanda is now integrated and sending payment notification to RRA. After finalisation of negotiations between BK and MTN, BK will provide MTN collections on BK statements. This will resolve the issue of non-compliance of MTN since all its collections will be reported on BK statement.

V. ACHIEVEMENTS TOWARDS STRENGTHENING INTERNAL CAPACITY

During 2017/18, a number of activities were performed by RRA in order to enhance the sustainability and security of IT systems, strengthen human resources management, internal control systems and skills capacity. Below are some of them:

V.1 ENHANCE RRA OPERATIONS THROUGH ICT SYSTEMS

In addition to the IT developments mentioned in section IV.2 of this report, there were other key activities carried out by RRA aimed at enhancing the sustainability and security of IT systems. These include:

V.1.1 Stabilisation of RRA systems

Following the wave of digitisation of services given to taxpayers, today RRA operates online systems where taxpayers perform their tax obligations at their convenience at any time of the day. This requirement translates into having an infrastructure that never sleeps.

High Availability solution has been introduced into RRA operational IT systems. The solution stabilised the mentioned systems and resolved the issue of periodic congestion in IT systems caused by bottlenecks. The same solutions were implemented with a real-time monitoring of operational systems and their respective hardware.

V.1.2 Upgrade of Information Technology infrastructure

Mission critical systems of RRA have to be hosted in a state of the art infrastructure. In 2017/18, the computing power and the storage capacity have been increased following increases in demand. The data centre has been equipped with the appropriate industrial cooling system. Also structured cabling for data and electrical power has been done.

V.1.3 System integration with stakeholders

In a bid to collect fiscal information in real time from transactions performed through the Ministry of Finance and the Central Bank (BNR), their respective information systems were integrated with RRA systems. To date, tax dues are automatically reported to RRA systems from payments made through the IFMIS.

V.1.4 Digitisation of litigation process

RRA legal department handles a big number of litigation cases every year. Manually tracking and reporting on those cases was burdensome. In a bid to solve this issue, IS/IT and Legal departments developed the e-litigation system which is a one-stop shop for litigation cases files, scheduling of court proceedings, reports among others features. The system has started operations.

V.2 STRENGTHEN HUMAN RESOURCES MANAGEMENT

RRA performed a number of activities that contributed to the development of staff capacity and achievement of efficiency in its service delivery and other set targets. These include:

V.2.1 ENHANCING STAFF CAPACITY

V.2.1.1 Training courses delivered

During the 2017/18 fiscal year, RRA conducted 71 planned major training courses out of 91 that were planned; this makes a performance of 78%. The attendance number for these 71 courses was 1,849 out of the 1,590 that was initially targeted.

The main reasons for not covering the planned courses are:

a) Trainings for specialised sectors were carried forward to next fiscal year (2018/19) due to failure to find appropriate trainers.

b) Training on ISO 31000-Risk Management was not delivered due to lack of local qualified trainers to provide this training to 19 planned staff. However, the training was delivered in Johannesburg, South Africa for two staff members at the beginning of July 2018.

c) Most of the IT courses were not delivered as bidders were not found as planned. This has been carried forward to the next financial year 2018/19.

d) Other training like Chartered Institute of Personnel and Development, effective social media management and training for data science through PYTHON were also carried forward to 2018/19.

On the other hand, there were four unplanned training courses conducted and attended by 25 staff members. These unplanned courses were conducted in respect of the RRA's urgent needs by incorporating some new courses proposed by different departments.

In total, during the 2017/18 fiscal year, 75 training courses were conducted (planned and unplanned) and attended by **1,874** RRA staff members. The number of attendees decreased by **36.6%** compared to 2016/17. The main reason for this decrease is the training on processes and procedures that was delivered in 2016/17 through RRA's e-learning platform and was attended by **1,017** staff members.

V.2.1.2 Professional courses

RRA employees continued to benefit from studying professional courses sponsored by the Government of Rwanda through the Ministry of Finance and Economic Planning.

In 2017/18 fiscal year, 33 RRA employees completed professional courses as follows: 8 staff members were qualified for the Association of Chartered Certified Accountants (ACCA), 17 qualified for Certified Public Accountants (CPA), 5 staff members qualified in project management and 3 staff members were accredited as World Customs Organisation (WCO) trainers.

V.2.2 STAFF RETENTION AND WELFARE SCHEME

Rwanda Revenue Authority is committed to have a healthy workforce by creating a culture of employee wellbeing and positive working environment.

It is in this regard that in 2017/18, RRA has developed a staff retention and welfare scheme that was approved by the BOD and this has started to be implemented from 1st July 2018.

The retention scheme is from the 12% of retained bonus on surpassed revenue target and this will serve as one of the retention tools since it will require serving at RRA for at least 3 years for a staff to benefit the fund.

A welfare scheme has also been developed and approved by the RRA Senior Management Team. This consists of staff contribution of 1% of basic salary which is used for mutual support in social activities. Cases to be supported by the welfare scheme include illness of staff, death of staff, death of staff relatives, wedding, child birth, retirement and resignation under normal circumstances.

V.2.3 STAFF RECRUITMENT AND PROMOTIONS

During 2017/18, 68 new permanent employees were recruited by RRA in order to fill vacant positions within different departments, of which 40 employees (58.8% of all new employees) were appointed in Domestic Tax and Customs Services Departments.

At the end of the 2017/18 fiscal year, RRA had 1,254 permanent staff members compared to 1,277 at the end of 2016/17. Permanent staff members were supported by 96 police officers as well as 62 temporary staff working on the EBM project as of end June 2018.

In addition, 59 RRA employees were promoted or confirmed to higher grades in order to fill in vacant positions. Of these employees, 33 (equivalent to 55.9% of all promoted staff) were working in the Domestic Tax Department. All promotions were done in accordance with the terms and conditions of RRA's internal processes and procedures for staff.

V.2.4 SENIOR MANAGERS APPOINTMENTS

In 2017/18, the Board of Directors appointed three new RRA senior managers as follows:

- Mr. Emery BATAYIKA, Deputy Commissioner for Human Resources Department, was appointed by the Board of Directors in its ordinary meeting convened on 10th November 2017.

- Mr. Ernest KARASIRA, Deputy Commissioner for Regions and Decentralised Taxes Office, was appointed by the Board of Directors in its ordinary meeting convened on 10th November 2017.

- Mrs. Rosine UWAMARIYA, Commissioner for Customs Services Department, was appointed by the Board of Directors in its ordinary meeting convened on 19th June 2018.

V.2.5 STAFF INTEGRITY MANAGEMENT

Disciplinary investigations on 34 cases involving 57 staff members were carried out. Of these, 44 employees were sanctioned including 20 dismissals (representing 45.5% of total sanctioned), while 13 were acquitted. The 57 staff members' cases involved the following malpractices:

a) 9 were accused of facilitating tax evasion.
b) 7 were accused of embezzlement of government collected revenue.
c) 12 were accused of failing to abide by rules and regulations.
d) 10 were accused of mismanagement of RRA budget.
e) 8 were accused of tarnishing RRA image.
f) 11 were accused of other forms of malpractices.

Out of the 57 staff summoned and investigated, 20 were dismissed compared to 12 dismissed in 2016/17, and 13 were acquitted. The remaining 24 officers received reprimands (7), suspension without pay (3), last, first and oral warnings (14).

V.3 STRENGTHEN INTERNAL CONTROL SYSTEMS

During the 2017/18 fiscal year, all 18 planned audit assignments were finalised and 2 ad hoc audit assignments were also completed. In total, 148 audit recommendations were raised from the finalised audit assignments, of which 103 (70%) were rated as high risk and 43 (29%) rated as medium risk.

The implementation of the internal, external and Quality Management System audit recommendations was reviewed on a regular basis.

Out of **284 internal audit recommendations** issued in 2013/14, 2014/15, 2015/16 and 2016/17 fiscal years that were still open at the beginning of 2017/18 fiscal year: 138 were fully implemented, representing **48.6%** of the total; 53 partially implemented, **18.7%** of the total; while 93 recommendations had not been implemented by the end of 2017/18, **32.7%** of the total.

The implementation of the Auditor General's recommendations was reviewed on a regular basis within concerned departments. However, there was a low rate of implementing them. At the end of 2017/18 fiscal year, out of **202 Auditor General's recommendations** for 2013/14, 2014/15 and 2016/17 audit periods that were still open at the beginning of 2017/18 fiscal year: 60 were fully implemented, representing **29.7%** of the total; 58 were partially implemented, **28.7%** of the total; and 84 had not been implemented, **41.6%** of the total.

In order to continue the improvement of Quality Management System (QMS) to comply with ISO 9001:2008 requirements, the implementation of QMS audit recommendations for the previous periods was reviewed. Out of 189 corrective actions raised in 2013/14, 2014/15, 2015/16 and 2016/17 fiscal years, 108 (**57.1%**) were fully implemented, 32 (**16.9%**) were partially implemented, while 49 (**25.9%**) had not been implemented as of 30th June 2018.

V.4 ENHANCEMENT OF RISK MANAGEMENT AND IMPLEMENTATION OF COMPLIANCE IMPROVEMENT PLAN

During 2017/18, the following activities were carried out in order to enhance risk management and implement the compliance improvement plan:

a) Corporate Risk Management Department identified risks for each operational department, analysed and prepared risk assessment reports. These reports help in planning of tax audits in both DTD and CSD and ensuring that tax auditors focus on the areas of greater risk. The overall risk rule and other different risk rules have been used to identify risk cases in Domestic Tax and Customs Services Departments based on the different criteria.

b) The compliance improvement plan for 2017/18 approved in June 2017 was implemented and implementation progress reports were produced on quarterly basis. Compliance actions planned for the construction sector, service sector (which includes real estate activities, hotels, bars and restaurants) and professionals' activities were implemented at **90%** as of end June 2018. As taxpayers are classified in risk levels for better targeted

interventions, the overall objective of compliance interventions included in the compliance improvement plan is to influence the compliance behaviour of targeted group as opposed to tax audit aiming at influencing individual compliance behaviour.

c) In addition, the compliance improvement plan for 2018/19 fiscal year was developed, approved by the Senior Management Team meeting held on 25th June 2018 and launched on 1st July 2018. The plan is targeting construction, hotels, bars, restaurants and information and telecommunication sectors. The compliance interventions include literature, seminars, media and advisory visits. The main risks responses are enforcement and service-oriented actions.

d) The implementation of risk mitigation strategies was monitored and evaluated and reports were produced on quarterly basis. The final evaluation showed that implementation level of overall risk mitigation strategies was **70%** as of end June 2018.

V.5 PARTNERSHIP WITH REGIONAL AND INTERNATIONAL BODIES

RRA continued to cultivate partnerships with different institutions at the regional and international levels. This resulted in building internal capacity, mutual assistance, information exchange and promoting RRA's image at different forums. In 2017/18, RRA had the following partners:

Department for International Development (DFID), European Union (EU), International Monetary Fund (IMF), Her Majesty's Revenue and Customs (HMRC), German Development Cooperation (KFW), Trade Mark East Africa (TMEA), Japanese Agency for International Cooperation (JICA), Korea International Cooperation Agency (KOICA), German Development Agency (GIZ), African Tax Administration Forum (ATAF), International Growth Center (IGC), International Centre for Tax and Development (ICTD), United States Treasury - Office of Technical Assistance (OTA), East Africa Revenue Authorities (EARA), South African Revenue Service (SARS), Uganda Revenue Authority (URA), Carnegie Mellon University (CMU), Africa Institute for Mathematical Sciences (AIMS), International Computer Driving Licence-Africa (ICDL), World Customs Organization East and Southern Africa Regional Office for Capacity Building (WCO-ESA ROCB) and Overseas Development Institute (ODI).

Key areas of intervention of the above partners include the following:

Strengthening of IT systems through direct support to RRA Public Financial Management Sub fund, taxpayer registry and data clean up, human resource performance management, trade facilitation projects, EBM Version 2, enhancing local government revenue collection, international taxation, research in taxation, tax revenue analysis and forecasting, tax audit and debt management, risk management, tax investigation, data science and customs valuation.

VI. RRA'S EXPENDITURE FOR 2017/18 FISCAL YEAR

The total RRA revised budget for the 2017/18 fiscal year was Frw 38.0 billion and RRA's expenditure was Frw 35.73 billion, which is 94.0% of the annual budget, resulting in an under spending of Frw 2.27 billion. The main reasons for this under spending include the re-advertised tender for the RRA's Future Operating Model project that was still under process by end June 2018.

Based on the total expenditure (including capital expenditure), RRA registered a cost of collection of **2.7%**; when considering only operating expenditure, the cost of collection was **2.5%.** A summary of the RRA's budget and expenditure in 2017/18 fiscal year is shown in **Table 22** below:

Table 22: Total RRA budget and expenditure in 2017/18

Expenses	Revised budget FY 2017/18 (Frw)	Actual FY 2017/18 (Frw)	Variance (Frw)	Performance (%)
Compensation of Employees	19,113,937,224	18,799,778,802	314,158,422	98.4%
Use of Goods and Services	15,280,486,982	13,638,125,918	1,642,361,064	89.3%
Social Assistance	24,112,001	23,306,239	805,762	96.7%
Other Expenses	501,159,238	494,896,276	6,262,962	98.8%
Total Operating Expenses	***34,919,695,445***	***32,956,107,235***	***1,963,588,210***	***94.4%***
Capital Expenditure	***3,079,449,404***	***2,769,477,527***	***309,971,877***	***89.9%***
Total Expenses	**37,999,144,849**	**35,725,584,762**	**2,273,560,087**	**94.0%**

Source: RRA, 2018

VII. KEY CHALLENGES FACED BY RRA DURING 2017/18 FISCAL YEAR

Despite its good performance registered, Rwanda Revenue Authority still faces various challenges that hinder its performance. The main ones are highlighted below:

VII.1 Low tax compliance culture by some taxpayers: although the tax compliance kept increasing over time, some taxpayers do not declare and pay their due taxes or intentionally lower the taxable base to evade taxes. In addition, some VAT registered taxpayers are still reluctant to use the Electronic Billing Machines despite it being one of the most effective tools to collect accurate tax liability information in real time.

VII.2 Prosecution of tax evaders: Despite significant efforts made by the judiciary system in handling tax offence cases submitted to courts, there are areas that need further improvements:

a) Public prosecutors are preoccupied with a heavy backlog of criminal cases and tax fraud cases are not given priority.

b) Public prosecutors have limited expertise in tax matters, which leads to some complex tax fraud cases not being prosecuted successfully before the Courts of law.

VII.3 Continued staff turnover due to RRA's inability to attract and retain highly qualified and competent staff. From July 2017 to June 2018, RRA recorded 25 employees who left voluntarily, composed of 16 resignations and 9 leave of absence cases. This is a decrease of 16.7% from 30 who left voluntarily in 2016/17. Of the 25 employees who left voluntarily, 4 were managers while 21 were technical staff.

Although in general the number is not alarming, we lost a number of skilled and experienced staff and this adversely affected RRA performance and service delivery. We hope the staff retention and welfare scheme implemented from July 2018 as well as salary increase implemented from August 2018 will contribute to the reduction of staff turnover.

VIII. WAY FORWARD / FUTURE FOCUS

During 2018/19, RRA will focus on five key strategic priorities that include enhancing tax compliance, improving VAT administration, widening the tax base, improving provision of taxpayers' services and strengthening internal capacity and coordination. All these are aligned to the RRA strategic goal of optimising revenue collection.

The overall revised revenue target for 2018/19 has been set at **Frw 1,452.2 billion (Frw 1,373.1 billion** for RRA tax, **Frw 60.1 billion** for Local Government Tax and Fees and **Frw 19.0 billion** for RRA non-tax revenue collection). Within the context of registered achievements to date and the current challenges, RRA will continue its ongoing ambitious reforms and will implement various administrative measures to improve revenue mobilisation and achieve revenue targets.

Our major focus will be on, but not limited to, the following key activities:

1. Roll-out of EBM version 2 software to more taxpayers.
2. Intensify sensitization, monitoring and enforcement of the EBM usage.
3. Conduct a consumer incentives pilot to test out its effectiveness on EBM compliance.
4. Use risk management systems through data matching to raise revenue and administrative efficiency.
5. Acquire data analysis capability to enhance big data management and analysis.
6. Carry out data migration for all taxpayers.
7. Enhance tax audit efficiency by outsourcing tax auditors to carry out complex tax audits.
8. Intensify efforts in recovering tax arrears and fighting against tax evasion to reduce smuggling and forgeries.
9. Carry out quick identification of non-filers, non-payers and importers that are not registered for VAT and CIT and take appropriate actions.
10. Establish the Headquarter function for quality review and maintenance of tax registry.
11. Strengthen taxpayer education and awareness programs as a key ingredient in boosting voluntary compliance.
12. Upgrade the operating system and enhance Data Warehouse and Business Intelligence System.
13. Complete integration of the Geographic Information System (GIS) into the Local Government Management System.

14. Enhance Local Government Management System.
15. Design the RRA's Future Operating Model.
16. Renovate the RRA/OAG/NEC Complex.
17. Strengthen staff capacity through targeted short and long-term courses and partnership with key institutions.
18. Implement the approved RRA staff retention and welfare scheme.
19. Prepare the RRA Strategic Plan 2019/20-2023/24.
20. Expedite the implementation of recommendations from the Auditor General and internal audits.
21. Implement corrective measures to address gaps identified during the previous Rwanda TADAT assessment.

IX. CONCLUSION

In 2017/18, RRA registered a revenue performance of 103.1% resulting in growth of 13.6% compared to collections in 2016/17.

Several factors have contributed to this performance. Macroeconomic conditions were better than expected, with real GDP growth above the forecasted rate and inflation below what was predicted. This is further reflected in high VAT turnover growth and high government spending. Importantly, the agriculture sector has performed well and ensured that consumption has remained robust, despite the underperformance of excise duty for some products. Finally, the RRA's own efforts to conclude tax arrears cases have provided a boost to revenue collection.

Every effort is being made to ensure that we do not miss the revenue target for next fiscal year and other key priorities of the organisation. The next move for RRA will be to focus on areas where we can realise quick gains in terms of service delivery, trade facilitation and revenue collection while enhancing other internal systems.