TAX COMPLIANCE IMPROVEMENT PLAN (2021-2022)

JUNE 2021

VISION

To become a **world-class efficient** and **modern revenue** agency, **fully financing** national needs.

MISSION

To **mobilise revenue** for **economic development** through **efficient** and equitable services that **promote business** growth.

HERE FOR YOU
TO SERVE

FOREWORD BY THE COMMISSIONER GENERAL

BIZIMANA RUGANINTWALI Pascal

Commissioner General

It is our pleasure to introduce the RRA Tax Compliance Improvement Plan for the fiscal year 2021/2022. This Compliance Improvement Plan is fundamental as it outlines at the highest level in line with our strategic direction, the compliance approaches we will use during this fiscal year in our efforts to improve compliance with tax legislation. It describes the major compliance risks to be addressed, Taxpayers they relate to and how the risks will be treated to elevate voluntary compliance in the core compliance areas of registration, filing, payment and accurate reporting.

This Tax Compliance Improvement Plan outlines specific strategies by focusing particular attention on areas which our research and risk analysis model and tools have shown pose a significantly higher risk of non-compliance.

Our tax system is based on the principles of self-assessment and voluntary compliance which relies on taxpayers' honesty in determining their tax obligations, submitting their tax returns, voluntary payment of due taxes and accurate reporting. We believe that if you are making your fair contribution and doing the right thing, you deserve to know that everyone else is doing so too! As we make it easier for all taxpayers to meet their obligations quickly, easily and cost-efficiently, we must make equally sure that those who don't pay their fair share and don't abide by the rules are brought into the fold. By focusing on these issues we believe we can make a significant impact on increasing the fairness of the tax system.

The ultimate goal is not to find non-compliance but to prevent non-compliance. We would like to help people recognize behaviors that pose a risk to them and take measures to avoid them, thereby encouraging voluntary compliance. By providing our customers visibility into our compliance activities, we hold ourselves accountable and hope to enlist support from the broader community to ensure fair administration of tax collection and the prosperous development of our country.

This is our sixth annual Compliance Improvement Plan. Our previous compliance improvement plans have made a significant contribution towards voluntary compliance. I cordially convey my gratitude to Taxpayers, Tax practitioners and other stakeholders for their cooperation throughout the implementation of the previous Compliance Improvement Plans.

To ensure our compliance program is broad and inclusive, our Compliance Improvement Plan will focus on two main aspects i.e. general compliance interventions and specific compliance interventions. Our general compliance interventions will focus on the four core areas of tax compliance obligations i.e. registration, filling, payment and accurate reporting. Our specific compliance interventions will focus on construction sector, information and communication sector, Importers and Customs brokers.

The areas earmarked for attention in this publication are of course not the only areas we will be working on. We will continue with our usual work in detecting and deterring non-compliance through the use of our risk engines, third party data and other sources of information which help us to identify non-compliance. We will also emphasize on improving our service delivery to the public so that we can meet taxpayers' expectations and provide the service they deserve.

We believe that the most effective way to gain and maintain voluntary compliance is through building a relationship of mutual trust and respect between the tax administration and the taxpayers of Rwanda. To this end, in externally publishing our compliance improvement plan we seek to inform taxpayers, tax practitioners and stakeholders the existing tax compliance challenges and RRA's approach at addressing these challenges. As RRA works towards realizing its vision, let us continue to work together to improve tax compliance in the interests of the nation's growth and development. I hope that you will join RRA in ensuring that our tax system works fairly and that everyone pays their fair share. In this way, the Government of Rwanda can trust to have sufficient revenues enabling it to meet citizens' expectations in terms of public goods and services supply, hence leading to self-reliance.

Sincerely,
BIZIMANA RUGANINTWALI Pascal
Commissioner General

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LIST OF ABBREVIATIONS AND ACRONYMS

CIF:	Cost Insurance and Freight
CIT:	Corporate Income Tax
COK:	City of Kigali
CPC:	Customs Procedure Code
CRMM:	Corporate Risk Management and Modernization
CSD:	Customs Services Department
DTD:	Domestic Taxes Department
EACCMA:	East African Community Customs Management Act
EBM:	Electronic Billing Machine
HS:	Harmonized System Code
ICTD:	International Center for Tax and Development
IMF:	International Monetary Fund
LGT:	Local Government Taxes
OECD:	Organization for Economic Co-operation and Development
PAYE:	Pay As You Earn
PIT:	Personal Income Tax
PSF:	Private Sector Federation
RDF:	Risk Differentiation Framework
RRA:	Rwanda Revenue Authority
RURA:	Rwanda Utilities Regulatory Authority
RWAFFA:	Rwanda Freight Forwarders Association
R&DT:	Regions and Decentralized Taxes
TADAT:	Tax Administration Diagnostic Assessment Tool
TPS:	Taxpayer Services
VAT:	Value Added Tax

1. INTRODUCTION

The fundamental function of a revenue body is to collect the tax that is due in accordance with the law. Revenue bodies undertake this function in a world where citizens have high expectations of revenue bodies in terms of both efficiency and service. Mobilizing more domestic revenue is the best way for governments to provide basic public goods/services, reduce foreign aid and reduce fiscal deficit. To this end, raising more domestic revenues is a priority for any revenue collection institution. In fulfilling this mandate, RRA's key objectives are aimed at improving compliance and optimizing revenue collection.

Taxpayers on the other hand, have the obligation to report and pay taxes, and thus contribute to the economic growth and development of their Countries. The actions of taxpayers – whether due to ignorance, carelessness, recklessness, or deliberate evasion, as well as weaknesses in the tax administration mean that instances of failure to comply with the tax law are inevitable. Therefore, tax administration should have in place strategies and structures to ensure that non-compliance with tax laws are kept to a minimum. The art of good tax administration is based on the creation of an environment which is strongly facilitating compliance. This Compliance Improvement Plan outlines how RRA is going to achieve this.

Different studies categorize Taxpayer's compliance in two perspective models (economic Deterrence model and fiscal and social psychology model). Economic Deterrence model is based on the concept that the risk of detection and punishment will improve compliance behavior. Whereas fiscal and social psychology models inductively examine the attitudes and beliefs of taxpayers in order to predict actual behavior.

The FY 2021-2022 tax compliance priorities will be focused on the utilisation of a robust compliance management framework which will be executed through a multi-faceted approach. RRA efforts will focus on improving Taxpayers compliance in identified mostly risky areas and sectors. This is going to be achieved through undertaking various initiatives targeting to influence taxpayers' compliance behavior through community interaction, education seminars, advisory visits, data analytics to identify instances of non compliance, tax audits and strong enforcement measures for intentional non compliance attitude.

BACKGROUND

Since the establishment of Rwanda Revenue Authority, numerous activities have been implemented to enhance Taxpayers' registration, filling of tax returns, payment of due taxes and accurate reporting. The TADAT assessment report of August 2015 identified unsystematic assessment of compliance management interventions across the RRA in the areas of registration, filing, payment and accurate reporting and highlighted that there is a need for RRA to understand the causes of non-compliant behavior of taxpayers and take adequate corrective measures. The international experience suggests that most types of noncompliance are best treated by: i) understanding underlying causes; ii) making groups of taxpayers aware that their noncompliant behavior is known; iii) adopting a cooperative approach to reconciling; and iv) demonstrating the seriousness of the administration through small numbers of high-profile enforcement activities. It is in this context that RRA with IMF technical assistance developed compliance risk analysis model and tool based on best practices from Australia Tax Office.

Since then RRA adopted developing and implementing the annual tax compliance improvement plan. Strategies in the compliance improvement plan document intends to enable RRA achieve its objective of taxpayers committing to their tax obligations and enhancing voluntary compliance. RRA has so far developed and implemented five (5) annual tax compliance improvement plans (2016-2017, 2017-2018, 2018-2019, 2019-2020 and 2020-2021). The plans have been developed and implemented focusing particular attention on areas and sectors which research and risk analysis model and tools show pose a significantly higher risk of non-compliance.

The TADAT assessment of 2019 pointed out some weak areas including not addressing all compliance risks that RRA has rated as high in the strategic planning process. It is in this context that the tax Compliance Improvement Plan 2021-2022 will focus into two main aspects i.e. general and specific compliance interventions. The general compliance interventions will focus on four areas of tax compliance obligations i.e. registration, filling, payment and accurate reporting, all taxpayer segments and all tax heads. The specific compliance interventions will focus on construction sector, information and communication sector, compliance actions on research findings, Importers and Customs brokers. The strategies in this document will definitely enable RRA to achieve its objective of taxpayers committing to their tax obligations and enhancing voluntary compliance.

3. OBJECTIVES OF THE COMPLIANCE IMPROVEMENT PLAN

The purpose of a taxpayer compliance program is to identify and respond to the most significant risks in the tax system through a range of measures aimed at the underlying causes of the noncompliant behavior. The main objective is to achieve the widest possible impact on voluntary compliance across the taxpayer population. Specifically, the RRA tax compliance improvement plan 2021-2022 intends to;

- Elevate voluntary tax compliance
- Improve Taxpayers' knowledge
- Improve Taxpayers' attitudes and perceptions towards paying taxes
- Improve the community confidence with the tax administration

4. UNDERSTANDING COMPLIANCE

Generally, compliance means conforming to a specification, standard or law that has been clearly defined. It is the practice of obeying a rule and law in accordance with established guidelines, try to fit specific standards set and meet the requirements of prescribed regulations. Compliance in the context of tax administration refers to the extent to which taxpayers and traders, along with intermediaries like practitioners fulfil their tax obligations. Compliance with tax laws in Rwanda typically means registering when required, filing returns on time, reporting complete and accurate information to determine tax liability and paying all amounts owing when due. Non-compliance occurs when any of these obligations are not met for whatever reason.

Tax obligations placed on a taxpayer varies from one tax type to another and from one jurisdiction to the next. However, the four major broad categories of taxpayer obligations remain the same for all taxpayers irrespective of jurisdiction, these are:

- **Registration** - Any person subject to any type of tax administered by RRA has to be registered in RRA and obtain a fiscal number before engaging in any economic activity of taxation relevance.
- **Filling and declaration** – Taxpayers have to file tax returns with RRA in accordance with the tax legislation. All importers and exporters have to declare their imports or exports in accordance with the East African Community Customs Management Act (EACCMA).
- **Complete and accurate reporting** – Each taxpayer is obliged to keep evidence of economic activities (books, records, invoices, etc.) as required in the tax legislation and submit/present the data and or documentation required by RRA accurately and timely in accordance with the tax legislation.
- **Payments** – Taxpayers have to pay taxes and duties at the specified time without RRA notice or request.

If a taxpayer fails to meet any of the above obligations then they may be considered to be non-compliant. The willingness and behavior of a customer to meet tax obligations has a major impact on compliance levels. In order to achieve the optimal level of compliance, it is necessary to pay attention to customer behavior and the methods of influencing behavior. This will assist the tax administration in choosing the most efficient (low costs) and effective (best outcome) way to treat such behaviors. This is better explained in the OECD Compliance pyramid and behavior model shown below:

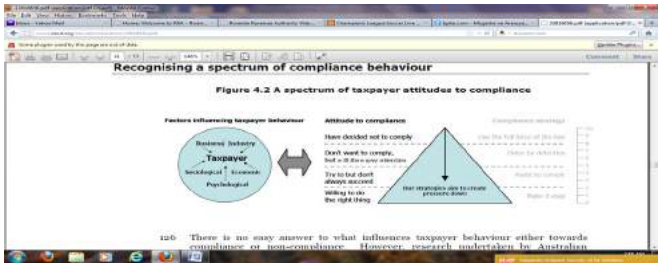


Figure 1: Compliance model

Source: OECD 2004, Compliance Risk Management Guidance Note

The compliance model above provides a structured way to better understand what motivates people to comply, or not comply, and it assists us to tailor our responses and interventions so that we can influence taxpayer behavior in a positive way. It recognizes that taxpayers are not a homogenous group and their circumstances can change over time.

The left side of the model identifies the wide variety of factors that can influence the extent to which a taxpayer chooses or is able to meet their obligations, including business, industry, sociological, economic and psychological factors. This mix of environmental factors is represented by the acronym BISEP: B = business profile, I = industry factors, S = sociological factors, E = economic factors and P = psychological factors.

The right side of the model reflects the different taxpayer attitudes to compliance, ranging from 'willing to do the right thing' to 'have decided not to comply', and the corresponding high level strategies that are most likely to effectively address those attitudes.

5. OUR APPROACH TO DETECT NON COMPLIANT SECTORS AND AREAS

To monitor the compliance levels of taxpayers in order to pin-point areas of high or low compliance, some analysis and researches were conducted and risk differentiation framework (RDF) was used to map taxpayers in the same sector/ area into different categories of risks so that we can devise appropriate strategies in line with our compliance approach to sustain or alter the behavior as required.

Studies:

- Economic sector performance and tax compliance analysis, 2020.
- Taxpayers' Behavior by ICTD, 2020.

Risk Differentiation Framework (RDF):

RRA adopted the Risk Differentiation Framework (RDF) made up of four different quadrants (groups) that contain taxpayers with common behaviors as per risk perspective.

Quadrant 1: Higher Risk Taxpayers

Quadrant 2: Key Taxpayers

Quadrant 3: Medium Risk Taxpayers

Quadrant 4: Lower Risk Taxpayers

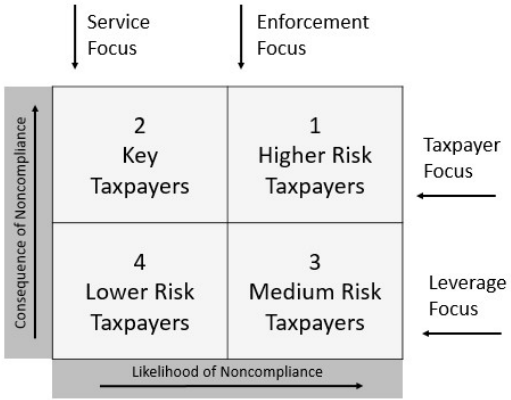


Figure 2: RRA Risk Differentiation Framework

The above RDF is based on the premise that our risk management approach to tax compliance should take account of our perception of both the:

i) Estimated likelihood of having a tax position that we disagree with, or taxpayer (through error or omission) have misreported tax obligations (as evidenced by behavior, approach to business activities, governance, and compliance with tax laws),

ii) Consequences of that potential non-compliance (financial impact, relative influence, impact on community confidence).

6. PRIORITY AREAS AT A GLANCE

The Compliance Improvement Plan 2021-2022 is divided into two aspects. On the first aspect the plan will focus on general compliance intervention on the basis of four core areas of tax compliance i.e. registration, filling, payment and accurate reporting, all taxpayer segments and all tax heads. The second aspect will focus on specific compliance interventions by targeting the areas our research and risk analysis models have identified as most non complaint. To this end, our specific compliance interventions will focus on construction sector, information and communication sector, Importers and Customs brokers.

7. COMPLIANCE STRATEGIES

In this compliance improvement plan we will focus on improving compliance in both domestic taxes and customs (international trade taxes). The compliance strategies will be categorized into general compliance interventions and specific compliance interventions.

7.1 GENERAL COMPLIANCE INTERVENTIONS

The TADAT assessment of April 2019 recommended RRA to always include all compliance activities in the annual compliance improvement plan. It is in this regard that in this fiscal year, the Compliance Improvement plan is including the general compliance interventions which will focus on the four core areas of tax compliance obligations, namely registration, filling, payment and accurate reporting all taxpayer segments and all tax heads. Data for the calendar year 2020 were analyzed to identify the instances of non-compliance and identify most non-compliant sectors in all core areas of tax compliance, all taxpayer segments and all tax heads i.e. VAT, CIT/PIT, PAYE and EXCISE.

Compliance strategy: General compliance intervention

1. Strategy Overview:

All core areas of tax obligations are concern for compliance interventions in all tax types and taxpayer segments. The strategies for improvement will be awareness SMSs on registration eligibility and obligations, follow up to register potential unregistered taxpayers, monitoring non fillers and non payers, education seminars to new registered taxpayers, data analysis to identify instances of non compliance, tax audits, enforcement of tax arrears and enforcement of EBM usage.

2. Segment Profile

2.1 Amount / type of tax revenue:

Tax Type	Revenue
CIT/PIT	128.2
VAT	486.0
PAYE	351.5

Total tax collection represents:
CIT/PIT – 8.5%
VAT – 32.1%
PAYE – 23.2%
*Calendar year 2020

2.2 Number / type of taxpayers:

Type	No
CIT/PIT	276,369
VAT	33,631
PAYE	22,997

3. Key Compliance Risks

3.1 Registration risk: **High**
Significant potential operating businesses not registered as Taxpayers
Taxpayers declaring CIT/PIT turnover eligible for VAT but not registered
Taxpayers registering in VAT but not in CIT/PIT
Taxpayers registering in CIT/PIT but not in PAYE
Local buyers that meet the VAT registration threshold but not registered
Taxpayers with trading license but not registered in neither income tax nor VAT
Importers importing Vatable goods with CIF eligible for VAT registration but not registered
Importers importing goods with CIF eligible for CIT/PIT registration but not registered

3.2 Filing risk: **High**
Many small Taxpayers lack of understanding of tax obligations
Late filing and missing returns

3.3 Payment risk: **High**
Late payment and nonpayment of due taxes

3.4 Underreporting risk: **High**
Significant number of taxpayers conducting off-books transactions
Large firms implementing aggressive tax planning
Purchases and expenses being redirected for personal use
Inflated expenses and continual losses
The cash-based economy enables informal transactions (off books)

4. Risk Treatments

4.1 Measures for facilitating compliance (service)
Awareness SMSs on registration eligibility and obligations
Follow up to register potential unregistered Taxpayers identified
Automated SMS to remind of filing and payment obligations
Education seminars to new registered taxpayers

4.2 Measures for dealing with non-compliance (enforcement)
Monitoring non fillers and non payers
Tax audits to risky taxpayers
Outsourcing some tax audit services
Data analysis to identify non-compliance cases
Enforcement of tax arrears
EBM enforcement operations in Kigali and provinces
Expansion of EBM usage to VAT and Non-VAT registered taxpayers
EBM enforcement activities informed by risk rules
EBM enforcement activities by category of EBM users (Compliance drivers, Hospitality industry and construction sector) Conduct mystery shopping to detect non-compliance
EMB communication activities set in the awareness and promotion plan

5. Compliance Indicators

No. of taxpayer registrants as a % of identifiable
% increase in on-time filing and decrease in missing returns
% increase in on-time payments and decrease in non-payments
% decrease in total arrears
% increase in total collections
% changes in tax revenue against GDP

6. Workflows

Type/Number of Actions	Taxpayer category			
	LTO	SMTO	R&DT	LGT
Registration Checks				
Comprehensive Audits	106	80	68	48
Issue Audits	106	150	272	
Desk audits	202	3000	6,534	7,744
Debt collection Actions	75% of recoverable arrears 12% of difficult cases	75% of recoverable arrears 12% of difficult cases	LGT : 50% of total arrears in COK 50% in Regions	

7. Capacity Development

Staff trainings:
Auditing specialized sector
Auditing excise tax
Big Data
Call center management
Customer Care and Public relations
Legal practice certification
Risk based audit
Supply Chain Management
Tax treaties
Taxation of e-commerce

Information Systems:
Develop capability to exploit bulk third party data
Capability to broadcast SMS messages

Administrative Tools:
Obtain MOUs with external stakeholders to acquire key bulk data

7.1.1 REGISTRATION

Any person subject to any type of tax administered by RRA has to be registered in RRA and obtain a fiscal number before engaging in any economic activity of taxation relevance. The registration risk is that Taxpayers fail to register with RRA when they are supposed to. Treatment strategies to improve registration compliance will involve activities aimed at taxpayers operated outside the tax net in the year 2020 being registered.

General compliance interventions: Registration

NO	OWNER	DUE BY	COMPLIANCE STRATEGIES	TAXPAYER SEGMENT	TAX HEAD	MOST NON COMPLIANT SECTORS
1	CRMM & DTD	30-SEPT-21	Send awareness SMSs on registration eligibility and obligations	Small & Medium	VAT	Wholesale and retail trade; repair of motor vehicles and motorcycles
						Manufacturing
						Other service activities
						Transportation and storage
						Professional, scientific and technical activities
2	DTD	30-JUNE-22	Follow up to register potential unregistered Taxpayers identified		CIT/PIT	Information and communication
						Professional, scientific and technical activities
						Construction
						Other areas (Importers who imported at least 3 times goods with CIF equal or greater than 20M but not registered in CIT/PIT)
						Other areas (Importers who imported at least 6 times goods with CIF between 2M and 20M but not registered in CIT/PIT)
						Other areas (Taxpayers that declared trading license equal or greater than 40,000 in 2018, but not registered in PIT/CIT)
					PAYE	Wholesale and retail trade; repair of motor vehicles and motorcycles
						Construction
						Professional, scientific and technical activities

7.1.2 Filling and declaration

Taxpayers have to file tax returns with RRA in accordance with the tax legislation. All importers and exporters have to declare their imports or exports in accordance with the East African Community Customs Management Act (EACCMA). The compliance risk is that Taxpayers don't file returns or other information required on time.

General compliance interventions: Filling

NO	OWNER	DUE BY	COMPLIANCE STRATEGIES	TAX HEAD	MOST NON COMPLIANT SECTORS	TAXPAYER SEGMENT
1	DTD	Quarterly	Monitoring non fillers	CIT/PIT	Wholesale and retail trade; repair of motor vehicles and motorcycles	Large, Medium and Small
					Transportation and storage	Large and Small
					Financial and insurance activities	Medium and Small
					Manufacturing	Large, Medium and Small
					Other service activities	Small
				VAT	Wholesale and retail trade; repair of motor vehicles and motorcycles	Medium and Small
					Manufacturing	Large, Medium and Small
					Construction	Small
					Accommodation and food service activities	Medium and Small
					Professional, scientific and technical activities	
					Information and communication	Large, Medium and Small
				PAYE	Public administration and defence; compulsory social security	Medium and Small
					Wholesale and retail trade; repair of motor vehicles and motorcycles	Large, Medium and Small
					Transportation and storage	Medium and Small
					Education	Large, Medium and Small
					Human health and social work activities	
2	TPS	30-MAR-22	Education seminars to new registered Taxpayers in all districts	All tax heads	All sectors	Small Taxpayers

7.1.3 Payment

Taxpayers have to pay taxes and duties at the specified time without RRA notice or request. The compliance risk is that Taxpayers do not pay the correct amount of tax on time.

General compliance interventions: Payment

NO	OWNER	DUE BY	COMPLIANCE STRATEGIES	TAX HEAD	MOST NON COMPLIANT SECTORS	TAXPAYER SEGMENT
1	DTD	Quarterly	Monitoring non payers	CIT/PIT	Transportation and storage	Medium and Small
					Wholesale and retail trade; repair of motor vehicles and motorcycles	Large, Medium and Small
					Manufacturing	
					Financial and insurance activities	
					Professional, scientific and technical activities	Medium and Small
				VAT	Wholesale and retail trade; repair of motor vehicles and motorcycles	Large, Medium and Small
					Manufacturing	
					Construction	
					Professional, scientific and technical activities	
					Accommodation and food service activities	
				PAYE	Human health and social work activities	Large, Medium and Small
					Wholesale and retail trade; repair of motor vehicles and motorcycles	
					Education	
					Public administration and defence; compulsory social security	
					Other service activities	
2	TPS	30-MAR-22	Education seminars to new registered Taxpayers in all districts	All tax heads	All sectors	Small Taxpayers

7.1.4 Complete and accurate reporting

Each taxpayer is obliged to keep evidence of economic activities (books, records, invoices, etc.) as required in the tax legislation and submit/present the data and or documentation required by RRA accurately and timely in accordance with the tax legislation. The compliance risk is that Taxpayers file false or incorrect returns.

General compliance interventions: Complete and accurate reporting

NO	OWNER	DUE BY	TAXPAYER SEGMENT	COMPLIANCE STRATEGIES	
1	CRMM	31-DEC-21	Large, Medium & Small	Analysis of public tenders to identify noncompliance cases for audit	
2	CRMM	Monthly		Compliance analysis of VAT input & output declared	
3	CRMM	30-APRIL-22		Comparative analysis of EBM sales, VAT turnover and CIT/PIT turnover	
4	CRMM and EBM	30-JUN-22	Large, Medium & Small	Supply chain analysis	
5	DTD	30-JUN-22	Large	Tax audits	106 Comprehensive audit cases 106 Issue oriented audit cases 202 Desk audit cases
			Medium & Small		80 Comprehensives audit cases 150 Issue-Oriented audits 3000 Desk audits
			R&DT		68 Comprehensive audit cases 272 Issue-Oriented audit cases 594 non fillers and 5,940 non payers Desk Audits 28,224 Desk audits cases for Local Taxes and Fees
			LGT/COK		48 Comprehensive audits cases for Local Taxes and Fees 7,744 Desk audits cases for local taxes and fees

NO	OWNER	DUE BY	TAXPAYER SEGMENT	COMPLIANCE STRATEGIES	
6	DTD	30-JUNE-22	Large	Enforcement measures to collect new assessed taxes	75% of recoverable arrears to be enforced 12% of difficult cases to be enforced
			Medium & Small		75% of recoverable arrears to be enforced 12% of difficult cases to be enforced
			R&DT		LGT : 50% of total arrears in COK
					50% in Regions
7	EBM	30-JUNE-22	Large, Medium & Small	EBM enforcement operations in Kigali and provinces	
8	EBM	30-JUNE-22		Expansion of EBM usage to VAT and Non-VAT registered taxpayers	
9	EBM	30-JUNE-22		EBM enforcement activities informed by risk rules	
10	EBM	30-JUNE-22		EBM enforcement activities by category of EBM users (Compliance drivers, Hospitality industry and Construction sector)	
11	EBM	30-JUNE-22		Conduct mystery shopping to detect non-compliance	
12	EBM	30-JUNE-22		EMB communication activities set in the awareness and promotion plan	

Source: The number of audit cases and percentage of arrears recovery from DTD action plan 2021-2022

7.2 SPECIFIC COMPLIANCE INTERVENTIONS

The specific compliance interventions will focus on construction sector, information and communication sector, Importers and Customs brokers. The compliance actions will be categorized into literature, community interaction, media, online education seminars and advisory visits.

7.2.1 DOMESTIC TAXES

The compliance actions for risky sectors in Domestic taxes will be categorized into literature, community interaction, media, online education seminars and advisory visits. To be able to map taxpayers into risk quadrants we used the following risk metrics:

DTD Risk metrics

FINANCIAL IMPORTANCE METRICS	RISK ASSESSMENT METRICS
Income – 30%	Effective Tax Rate – 7%
Total Supplies – 35%	Ratio: Purchases to Supplies – 5%
Arrears – 10%	Ratio Payments Liabilities(All) – 5%
Payments (All Accounts) – 15%	Ratio VAT Input Output – 8%
Losses for Year – 5%	Ratio Payments Liabilities VAT – 5%
Imports Value (CIF) – 5%	Ratio refund Not Yet Approved – 5%
	Ratio: Change of expense YOY – 3%
	Ratio Payments Liabilities CIT – 5%
	Net Profit Margin – 7%
	Net Profit Margin YoY – 7%
	Ratio: Current Losses To Carried – 7%
	Ratio: Net Income over Gross Income – 5%

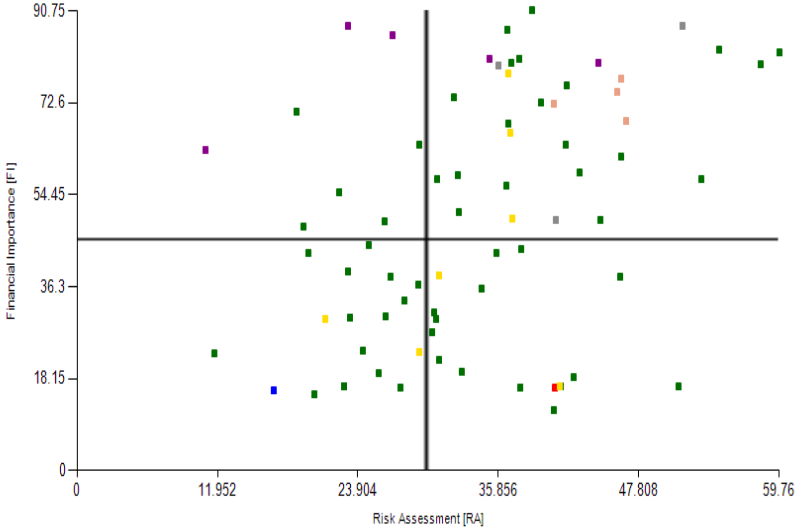
FINANCIAL IMPORTANCE METRICS	RISK ASSESSMENT METRICS
	Sales Variance VAT and CIT – 5%
	% of Late Returns – 3%
	% of Missing Returns – 3%
	% of Late Payment – 3%
	% of Revised Assessments by RRA – 5%
	% of Revised Assessments by Taxpayer – 3%
	% on Audit Result–7%
	% Offenses – 2%

Compliance actions for Domestic taxes will focus on construction sector and information and communication sector. This part shows the Risk Differentiation frameworks (RDFs) and compliance actions for the risky sectors targeted.

7.2.1.1 Construction Sector

The construction sector represents a significant share of the tax base. The sector contributes 3.5% of total CIT/PIT, 5.8% of total VAT and 30.4% of total PAYE (Calendar year 2020). Our study on the responsiveness of income tax and value added tax to sectoral economic growth indicates that the sector had the low actual income tax growth of -14.5% compared to the expected tax growth of 4%.

Figure 3: RDF Results for Construction sector (Large and Medium Enterprises)



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Tax\Arrears	
\Tax\CIT	
\Tax\Filing	
\Tax\MULTITAX	
\Tax\Payment	
\Tax\Reference	
\Tax\Revision	
\Tax\VAT	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	8
Total Supplies	RF29,939,031,952
Total Income	RF10,205,687,314
Total Arrears	RF17,747,629
Total Losses	RF0
Total Payments	RF5,188,134,906
% Share of Collections	22%

Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	32
Total Supplies	RF203,983,359,115
Total Income	RF264,675,571,750
Total Arrears	RF2,888,167,967
Total Losses	(RF21,097,580,000)
Total Payments	RF16,633,030,106
% Share of Collections	72%

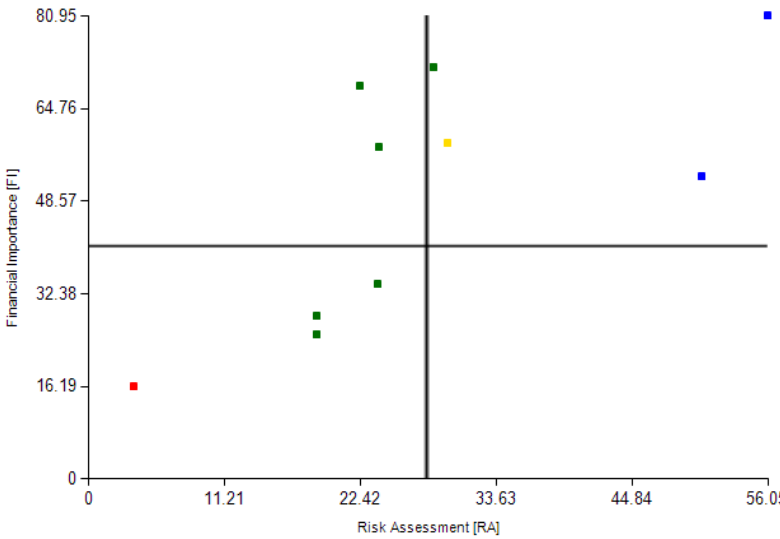
Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	18
Total Supplies	RF5,043,253,102
Total Income	RF5,524,513,881
Total Arrears	RF17,912,545
Total Losses	(RF66,204,000)
Total Payments	RF828,952,498
% Share of Collections	4%

Quadrant 3: Medium Risk Taxpayers	
Number of Taxpayers	17
Total Supplies	RF4,396,060,039
Total Income	RF4,748,832,400
Total Arrears	RF82,498,390
Total Losses	(RF1,196,977,000)
Total Payments	RF577,380,771
% Share of Collections	2%

Distribution of Profiles by Risk Category

Risk Assessment Category	#	%
\Customs	3	4
\Tax\CIT	54	72
\Tax\Filing	1	1.33
\Tax\MULTITAX	5	6.67
\Tax\Payment	7	9.33
\Tax\Revision	4	5.33
\Tax\VAT	1	1.33

Figure 4: RDF Results for Construction sector (Large and Medium Individuals)



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Tax\Arrears	
\Tax\Filing	
\Tax\MULTITAX	
\Tax\Payment	
\Tax\PIT	
\Tax\Reference	
\Tax\Revision	
\Tax\VAT	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	2
Total Supplies	RF771,233,975
Total Income	RF771,233,975
Total Arrears	RF0
Total Losses	RF0
Total Payments	RF49,857,548
% Share of Collections	23%

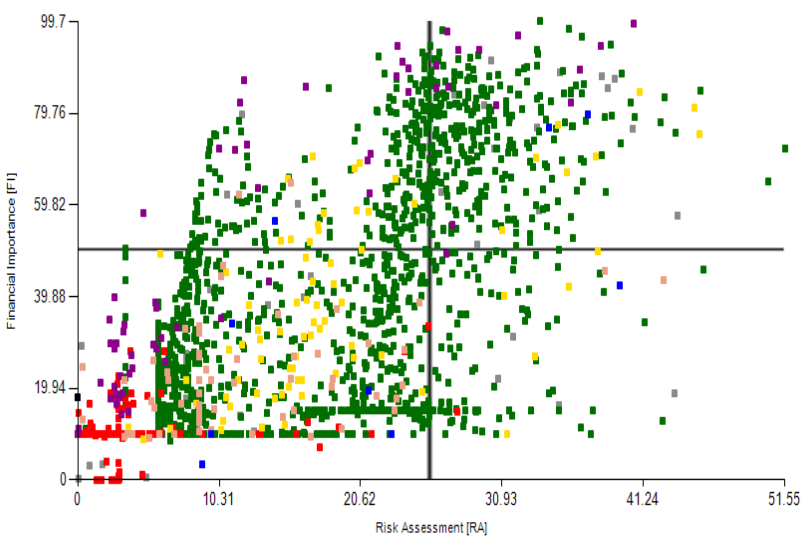
Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	4
Total Supplies	RF3,311,874,529
Total Income	RF2,466,191,011
Total Arrears	RF0
Total Losses	RF0
Total Payments	RF163,039,857
% Share of Collections	76%

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	4
Total Supplies	RF91,630,478
Total Income	RF91,630,478
Total Arrears	RF0
Total Losses	(RF275,100,000)
Total Payments	RF2,223,130
% Share of Collections	1%

Quadrant 3: Medium Risk Taxpayers	
Number of Taxpayers	
Total Supplies	
Total Income	
Total Arrears	
Total Losses	
Total Payments	
% Share of Collections	

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
\Tax\Filing	1	10
\Tax\Payment	1	10
\Tax\PIT	6	60
\Tax\VAT	2	20

Figure 5: RDF Results for Construction sector (Small and Micro Enterprises)



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Tax\Arrears	
\Tax\CIT	
\Tax\Filing	
\Tax\MULTITAX	
\Tax\Payment	
\Tax\Reference	
\Tax\Revision	
\Tax\VAT	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	263
Total Supplies	RF49,767,513,608
Total Income	RF52,828,932,091
Total Arrears	RF519,103,035
Total Losses	(RF7,255,789,000)
Total Payments	RF6,505,850,192
% Share of Collections	30%

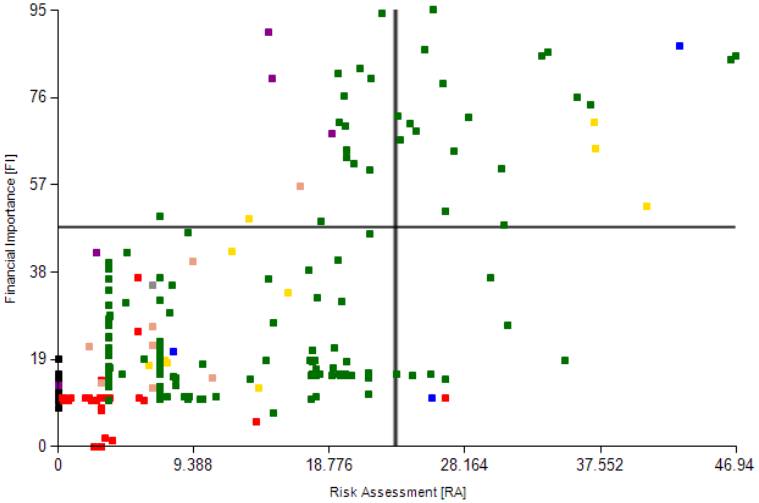
Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	301
Total Supplies	RF148,675,477,814
Total Income	RF148,467,667,862
Total Arrears	RF1,015,184,157
Total Losses	(RF28,002,183,000)
Total Payments	RF14,639,135,524
% Share of Collections	67%

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	6,485
Total Supplies	RF6,992,828,870
Total Income	RF10,649,806,037
Total Arrears	RF659,024,623
Total Losses	(RF2,901,594,000)
Total Payments	RF647,338,441
% Share of Collections	3%

Quadrant 3: Medium Risk Taxpayers	
Number of Taxpayers	102
Total Supplies	RF8,962,251,078
Total Income	RF6,422,503,021
Total Arrears	RF95,370,822
Total Losses	(RF638,488,000)
Total Payments	RF38,875,413
% Share of Collections	0%

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
\Customs	46	0.64
\Tax\CIT	4766	66.67
\Tax\Filing	2091	29.25
\Tax\MULTITAX	77	1.08
\Tax\Payment	77	1.08
\Tax\Revision	83	1.16
\Tax\VAT	9	0.13

Figure 6: RDF Results for Construction sector (Small and Micro Individuals)



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Tax\Arrears	
\Tax\Filing	
\Tax\MULTITAX	
\Tax\Payment	
\Tax\PIT	
\Tax\Reference	
\Tax\Revision	
\Tax\VAT	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	18
Total Supplies	RF2,211,625,128
Total Income	RF2,228,664,316
Total Arrears	RF4,269,459
Total Losses	RF0
Total Payments	RF59,359,229
% Share of Collections	35%

Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	22
Total Supplies	RF4,652,672,716
Total Income	RF4,785,842,366
Total Arrears	RF124,097,955
Total Losses	(RF638,734,000)
Total Payments	RF95,365,048
% Share of Collections	55%

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	758
Total Supplies	RF89,369,108
Total Income	RF304,058,428
Total Arrears	RF3,266,634
Total Losses	(RF29,443,000)
Total Payments	RF15,880,716
% Share of Collections	9%

Quadrant 3: Medium Risk Taxpayers	
Number of Taxpayers	8
Total Supplies	RF5,053,500
Total Income	RF5,184,347
Total Arrears	RF322,784
Total Losses	(RF1,193,000)
Total Payments	RF1,344,750
% Share of Collections	1%

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
\Customs	1	0.13
\Tax\Filing	364	46.43
\Tax\MULTITAX	5	0.64
\Tax\Payment	10	1.28
\Tax\PIT	392	50
\Tax\Revision	9	1.15
\Tax\VAT	3	0.38

MEDIA

Compliance Strategy: Construction sector

1. Strategy Overview:

The construction sector represent a significant share of the tax base. It is a high risk sector for all core compliance categories of registration, filling, payment and reporting. The behavior observed suggests a widespread culture of noncompliance. To break the culture, a well-coordinated media campaign will be initiated, online compliance education seminar will be organized, advisory visits/telephone calls/emails and tax audits will be conducted.

2. Segment Profile

2.1 Amount / type of tax revenue:

Tax Type	Revenue	Tot. Rev. Billion
CIT/PIT	3.5	128.2
VAT	5.8	486.0
PAYE	30.4	351.5

Total tax collection represents:
CIT/PIT 2.7%
VAT – 1.2%
PAYE – 8.6%
*Calendar year 2020

2.2 Number / type of taxpayers:

Type	No
Large & Medium Enterprises	75
Large & Medium Individuals	10
Small & Micro Enterprises	7,151
Small & Micro Individuals	806

3. Key Compliance Risks

3.1 Registration risk: **High**
Significant operating construction businesses not registered as Taxpayers
Taxpayers registered in some tax heads but not registered in other taxes which they are eligible
Significant number of inaccurate registrations

3.2 Filing risk **High**
- Missing tax returns
- Late filling of tax returns

3.3 Payment risk: **High**
- The majority of arrears are associated with;
- High risk large and medium enterprises with RWF 2,888,167,967.
- High risk small and micro enterprises with RWF 1,015,184,157.
- Total Arrears: RWF 5,426,966,000 (tax year 2020)

3.4 Underreporting risk: **High**
- Non separation of company expenses from private expenses
- Non apportionment of VAT on airtime
- Wrong amount of losses carried forward
- Non payment of PAYE on employees' benefits
- Discrepancies between VAT declared on public tender and VAT on proof of retentions
- Not withholding 15% on payments made to unregistered suppliers
- Declaration of non-deductible expenses
- Understatement of sales declared
- Overstatement of VAT inputs
- Overstatement of withholding tax of 3% and 5%
- Undeclared withholding tax of 15%

4. Risk Treatments

4.1 Measures for facilitating compliance (service)
Develop literature and distribute education materials explaining tax requirements
Conduct online education seminars for construction enterprises and individuals on tax requirements
Develop media to communicate noncompliance of construction sector
Conduct advisory visits
Coordinate with the Rwanda Institute of Engineers to:
- Better understand noncompliance
- Communicate with enterprises and individuals in the sector

4.2 Measures for dealing with non-compliance (enforcement)
Carryout tax audits to risky taxpayers
Enforcement of tax arrears

5. Compliance Indicators

No. of taxpayer registrants as a % of identifiable
% increase in on-time filing and decrease in missing returns
% changes in sector tax revenue against GDP
% increase in CIT/PIT
% decrease in total arrears
% decrease in income losses

6. Workflows

Type/Number of Actions High Risk		Taxpayer Risk category: Medium Risk	Key Tax-payers	Lower Risk	
Large Taxpayers	Advisory Visits/telephone Calls/emails	8			
	Comprehensive Audits				
	Debt collection Actions				
Medium Taxpayers	Advisory Visits/telephone Calls/emails	15			
	Comprehensive Audits				
	Debt collection Actions				
Small Taxpayers	Advisory Visits/telephone Calls/emails	30			
	Debt collection Actions				

7. Capacity Development

Administrative Tools

Staff Development

No	Owner	Due By	Media spots	Description
1	CG	01-JUL-21	Launching of compliance improvement plan	Providing information to the public on tax compliance improvement plan. Communicate compliance issues found in the four core compliance areas on general compliance intervention and targeted sectors/areas
	TPS	01-JUL-21	Encouraging the tax fraud and evasion reporting	Communicate tax fraud and evasion reporting hotline
2	TPS, CRMM & DTD	02-NOV-21	Tax compliance for construction sector (Small taxpayers) at Kigali	Live talk show on radios to communicate the current tax compliance improvement plan, tax obligations, compliance risks and their treatments. Focus on; - Non separation of company expenses from private expenses - Non apportionment of VAT on airtime - Wrong amount of losses carried forward - Non payment of PAYE on employees' benefits - Discrepancies between VAT declared on public tender (Public institutions) and VAT on proof of retentions. - Not withholding 15% on payments made to unregistered suppliers - Declaration of non-deductible expenses - Understatement of sales declared - Overstatement of VAT inputs - Overstatement of withholding tax of 3% and 5% - Undeclared withholding tax of 15%
3		08-FEB-22	Tax compliance for construction sector (Small taxpayers) in the Eastern Province	
4		15-FEB-22	Tax compliance for construction sector (Small taxpayers) in the Northern Province	
5		22-FEB-22	Tax compliance for construction sector (Small taxpayers) in the Western Province	
6		01-MAR-22	Tax compliance for construction sector (Small taxpayers) in the Southern Province	

Literature

No	Owner	Due By	Literature	Description
7	TPS& CRMM	30-SEPT-21	Tax Compliance for construction sector	Describe basic tax obligations and specific issues relating to construction sector

Community interaction

No	Owner	Due By	Interaction	Description
8	TPS, CRMM & DTD	05-OCT-21	The Private Sector Federation (PSF)	Introduce the tax compliance improvement plan concepts and agree terms for mutual support
9	TPS, CRMM & DTD	12-OCT-21	Tax Advisors	Introduce the tax compliance improvement plan concepts, agree terms for mutual support and encourage authority to coordinate industry meetings and workshops
10	TPS & CRM	21-OCT-21	The Rwanda Institute of Engineers	Introduce the tax compliance improvement plan concepts, agree terms for mutual support and encourage association to coordinate industry meetings and workshops

Online education seminar

No	Owner	Due By	Seminar	Description
11	TPS, CRMM & DTD	26-OCT-21	Tax compliance for construction sector (Large and Medium taxpayers) at Kigali	Communicate the tax current tax compliance improvement plan, tax obligations and discuss compliance risks and their treatments. Focus on; - Non separation of company expenses from private expenses - Non apportionment of VAT on airtime - Wrong amount of losses carried forward - Non payment of PAYE on employees' benefits - Discrepancies between VAT declared on public tender (Public institutions) and VAT on proof of retentions. - Not withholding 15% on payments made to unregistered suppliers - Declaration of non-deductible expenses - Understatement of sales declared - Overstatement of VAT inputs - Overstatement of withholding tax of 3% and 5% - Undeclared withholding tax of 15%

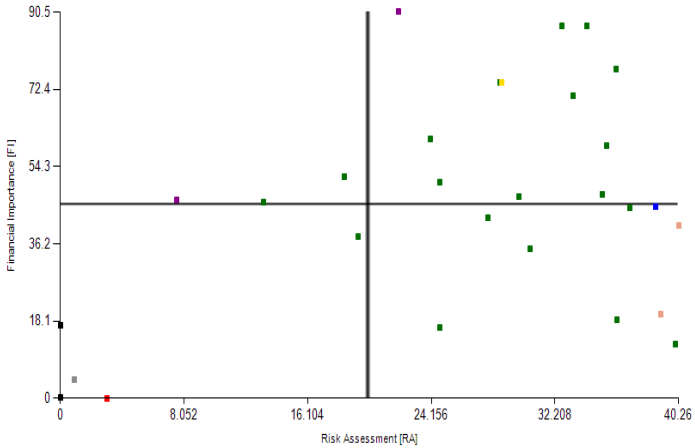
Advisory visits/telephone calls/emails

No	Owner	Due By	Taxpayer segment	High risk	Medium risk	Key Taxpayers	Low risk
12	DTD	31-DEC-21	Large Taxpayers	8			
			Medium Taxpayers	15			
			Small Taxpayers	30			

7.2.1.2 Information and Communication sector

The Information and Communication sector represents a significant share of the tax base. The sector contributes 0.8% of total CIT/PIT, 0.8% of total VAT and 10.3% of total PAYE (Calendar year 2020). The study on the responsiveness of income tax and value added tax to sectoral economic growth indicates that the actual tax growth of VAT was -38.2% % which is low compared to the expected tax growth of -9.1.

Figure 7: RDF Results for Information and Communication sector (Large and Medium Enterprises)



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For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Tax\Arrears	
\Tax\CIT	
\Tax\Filing	
\Tax\MULTITAX	
\Tax\Payment	
\Tax\Reference	
\Tax\Revision	
\Tax\VAT	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	3
Total Supplies	RF13,783,199,181
Total Income	RF4,322,955,008
Total Arrears	RF28,927,553
Total Losses	RF0
Total Payments	RF2,611,471,998
% Share of Collections	6%

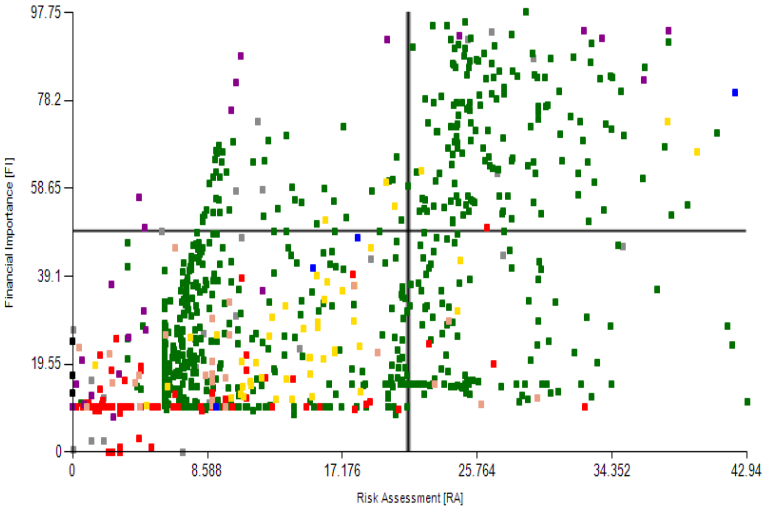
Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	12
Total Supplies	RF275,669,265,292
Total Income	RF250,340,613,083
Total Arrears	RF6,369,711,117
Total Losses	(RF82,254,947,000)
Total Payments	RF37,836,518,310
% Share of Collections	91%

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	6
Total Supplies	RF0
Total Income	RF10,273,485,609
Total Arrears	RF0
Total Losses	RF0
Total Payments	RF318,310,971
% Share of Collections	1%

Quadrant 3: Medium Risk Taxpayers	
Number of Taxpayers	9
Total Supplies	RF5,981,514,449
Total Income	RF6,439,879,383
Total Arrears	RF439,052,953
Total Losses	(RF3,667,279,000)
Total Payments	RF595,167,350
% Share of Collections	1%

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
\Customs	1	3.57
\Tax\CIT	19	67.86
\Tax\Filing	2	7.14
\Tax\MULTITAX	2	7.14
\Tax\Payment	1	3.57
\Tax\Revision	2	7.14
\Tax\VAT	1	3.57

Figure 8: RDF Results for Information and Communication sector (Small and Micro Enterprises)



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Tax\Arrears	
\Tax\CIT	
\Tax\Filing	
\Tax\MULTITAX	
\Tax\Payment	
\Tax\Reference	
\Tax\Revision	
\Tax\VAT	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	58
Total Supplies	RF4,276,555,943
Total Income	RF6,199,774,520
Total Arrears	RF37,690,587
Total Losses	(RF20,420,000)
Total Payments	RF951,030,512
% Share of Collections	11%

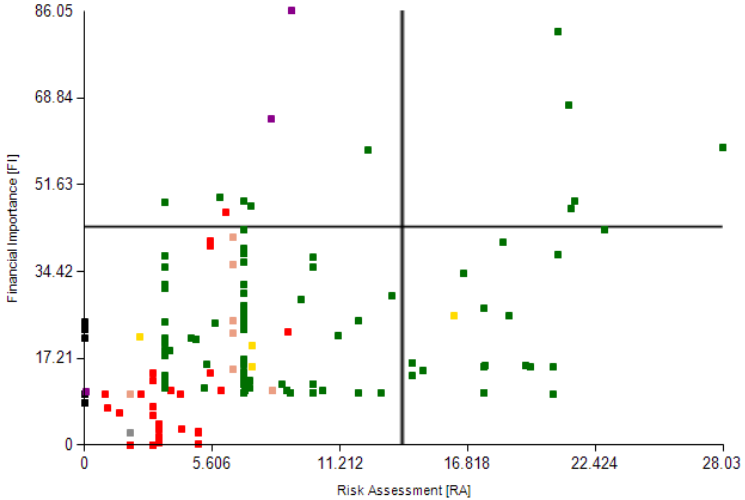
Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	161
Total Supplies	RF38,309,575,854
Total Income	RF42,372,738,713
Total Arrears	RF208,425,183
Total Losses	(RF20,361,949,000)
Total Payments	RF6,764,405,989
% Share of Collections	81%

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	3,902
Total Supplies	RF1,950,458,235
Total Income	RF2,660,381,164
Total Arrears	RF185,905,843
Total Losses	(RF7,787,000)
Total Payments	RF494,368,274
% Share of Collections	6%

Quadrant 3: Medium Risk Taxpayers	
Number of Taxpayers	119
Total Supplies	RF327,107,487
Total Income	RF881,200,499
Total Arrears	RF17,215,660
Total Losses	(RF1,295,641,000)
Total Payments	RF136,771,172
% Share of Collections	2%

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
\Customs	25	0.59
\Tax\CIT	2318	54.71
\Tax\Filing	1778	41.96
\Tax\MULTITAX	31	0.73
\Tax\Payment	47	1.11
\Tax\Revision	34	0.8
\Tax\VAT	4	0.09

Figure 9: RDF Results for Information and Communication sector (Small and Micro Individuals)



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Tax\Arrears	
\Tax\Filing	
\Tax\MULTITAX	
\Tax\Payment	
\Tax\PIT	
\Tax\Reference	
\Tax\Revision	
\Tax\VAT	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	8
Total Supplies	RF272,674,082
Total Income	RF357,545,888
Total Arrears	RF0
Total Losses	RF0
Total Payments	RF24,316,749
% Share of Collections	31%

Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	5
Total Supplies	RF223,806,389
Total Income	RF226,861,916
Total Arrears	RF881,619
Total Losses	(RF1,185,000)
Total Payments	RF19,292,038
% Share of Collections	25%

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	596
Total Supplies	RF4,458,627
Total Income	RF184,849,622
Total Arrears	RF454,429
Total Losses	RF0
Total Payments	RF33,102,878
% Share of Collections	42%

Quadrant 3: Medium Risk Taxpayers	
Number of Taxpayers	53
Total Supplies	RF17,942,170
Total Income	RF25,924,970
Total Arrears	RF1,118,746
Total Losses	(RF700,000)
Total Payments	RF1,627,876
% Share of Collections	2%

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
\Customs	1	0.15
\Tax\Filing	343	52.93
\Tax\MULTITAX	3	0.46
\Tax\Payment	4	0.62
\Tax\PIT	290	44.75
\Tax\Revision	7	1.08

Compliance Strategy: Information and Communication sector

1. Strategy Overview:

The Information and Communication sector represents a considerable share of the tax base. The key considerable compliance risk are – filling and reporting. They will be treated through significant number of advisory visits/telephone calls/emails, coordination with industry regulatory authority, online education seminar, coordinated radio talk show and tax audits.

2. Segment Profile

2.1 Amount / type of tax revenue:

Tax Type	Revenue	Tot. Rev. Billion
CIT/PIT	1.0	128.2
VAT	4.1	486.0
PAYE	36.1	351.5

Total tax collection represents:
CIT/PIT – 0.8%
VAT – 0.8%
PAYE – 10.3%
*Calendar year 2020

2.2 Number / type of taxpayers:

Type	No
Large & Medium Enterprises	30
Small and Micro Enterprises	4,240
Small and Micro Individuals	662

3. Key Compliance Risks

3.1 Registration risk: **Medium**
Taxpayers registered in some tax heads but not registered in other taxes which they are eligible
Significant number of inaccurate registrations

3.2 Filing risk: **High**
Late filling and missing returns

3.3 Payment risk: High
- The majority of arears are associated with high risk enterprises with RWF 6,369,711,117 which is equivalent to 93.8% of all areas for the sector.
- Total Arrears: RWF 7,289,383,690 (tax year 2020)

3.4 Underreporting risk: **High**
- EBM refund not reflected in RRA reports
- Wrong description on invoices
- Wrong amounts on invoices
- Discrepancies between EBM sales and sales declared
- Expenses without supporting documents
- Expensed VAT (Declaration of whole invoice including VAT)
- Declaration of expenses not related to the period incurred
- Declaration of personal expenses related to the company consultant from affiliates or subsidiary company
- Not withholding 15% on payments made to unregistered suppliers
- Undeclared sales
- Interest income on deposits not declared

4. Risk Treatments

4.1 Measures for facilitating compliance (service)
Develop literature and distribute education materials explaining tax requirements
Conduct online and radio education seminars for Information and Communication enterprises and individuals on tax requirements
Conduct advisory visits
Coordinate with the Rwanda Utilities Regulatory Authority (RURA) to:
- Better understand noncompliance
- Communicate with enterprises and individuals in the sector

Communicate tax fraud and evasion reporting hotline

4.2 Measures for dealing with non-compliance (enforcement)
Carryout tax audits to risky taxpayers
Enforcement of tax arrears

5. Compliance Indicators

% increase in on-time filing and decrease in missing returns
% changes in sector tax revenue against GDP
% increase in total collections
% increase in CIT/PIT
% decrease in total arrears
% decrease in income losses

6. Workflows

Type/Number of Actions		Taxpayer Risk category		
High Risk		Medium Risk	Key Taxpayers	Lower Risk
Large Taxpayers	Advisory Visits/telephone Calls/emails	4		
	Comprehensive Audits			
	Debt collection Actions			
Medium Taxpayers	Advisory Visits/telephone Calls/emails	1	2	
	Comprehensive Audits			
	Debt collection Actions			
Small Taxpayers	Advisory Visits/telephone Calls/emails	27		
	Debt collection Actions			

7. Capacity Development

Literature

No	Owner	Due By	Literature	Description
1	TPS& CRMM	30-SEPT-21	Tax Compliance for Information and Communication sector	Describe basic tax obligations and specific issues relating to Information and Communication sector

Community interaction

No	Owner	Due By	Interaction	Description
2	TPS, CRMM & DTD	19-OCT-21	Rwanda Utilities Regulatory Authority (RURA)	Introduce the compliance improvement plan concepts, agree terms for mutual support and encourage authority to coordinate industry meetings and workshops

Media

No	Owner	Due By	Seminar	Description
3	TPS, CRMM & DTD	16-NOV-21	Tax compliance for Information and Communication sector (Small taxpayers) at Kigali	Live talk show on radios to communicate the current compliance improvement plan, tax obligations, compliance risks and their treatments. Focus on; - EBM refund not reflected in RRA reports - Wrong description on invoices - Wrong amounts on invoices - Discrepancies between EBM sales and sales declared - Expenses without supporting documents - Expensed VAT (Declaration of whole invoice including VAT) - Declaration of expenses not related to the period incurred. - Declaration of personal expenses related to the company consultant from affiliates or subsidiary company - Not withholding 15% on payments made to unregistered suppliers - Undeclared sales - Interest income on deposits not declared
4		08-FEB-22	Tax compliance for Information and Communication sector (Small taxpayers) in the Eastern Province	
5		15-FEB-22	Tax compliance for Information and Communication sector (Small taxpayers) in the Northern Province	
6		22-FEB-22	Tax compliance for Information and Communication sector (Small taxpayers) in the Western Province	
7		01-MAR-22	Tax compliance for Information and Communication sector (Small taxpayers) in the Southern Province	

Online education seminar

No	Owner	Due By	Seminar	Description
8	TPS, CRMM & DTD	09-NOV-21	Tax compliance for Information and Communication sector (Large and Medium taxpayers) at Kigali	Communicate the current tax compliance improvement plan, tax obligations and discuss compliance risks and their treatments. Focus on; - EBM refund not reflected in RRA reports - Wrong description on invoices - Wrong amounts on invoices - Discrepancies between EBM sales and sales declared - Expenses without supporting documents - Expensed VAT (Declaration of whole invoice including VAT) - Declaration of expenses not related to the period incurred. - Declaration of personal expenses related to the company consultant from affiliates or subsidiary company - Not withholding 15% on payments made to unregistered suppliers - Undeclared sales - Interest income on deposits not declared

Advisory visits/telephone calls/emails

No	Owner	Due By	Taxpayer segment	High risk	Medium risk	Key Taxpayers	Low risk
9	DTD	31-MAR-21	Large Taxpayers	4			
		31-MAR-21	Medium Taxpayers	1	2		
		31-MAR-21	Small Taxpayers	27			

7.2.2 CUSTOMS (INTERNATIONAL TRADE TAXES)

The compliance actions for Customs (international trade taxes) will focus on importers (both companies and individuals) and Customs brokers (Clearing Agencies). To be able to map Importers and Customs brokers into risk quadrants we used the following risk metrics:

a) Risk metrics for Importers: Both Companies and individuals

FINANCIAL IMPORTANCE METRICS	RISK ASSESSMENT METRICS
CIF – 15%	Percentage of amendment (Declarations) – 25%
Tax paid – 50%	Percentage of uplift (Amount) – 75%
Number of transactions – 5%	
Number of transactions modified – 10%	
Initial amount – 10%	
Amount modified – 10%	

b) Risk metrics for Customs Brokers (Clearing Agencies)

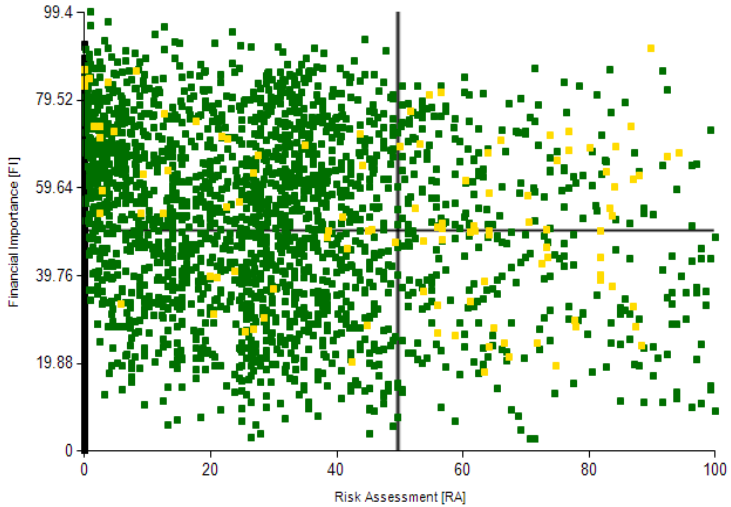
FINANCIAL IMPORTANCE INDICATORS	RISK ASSESSMENT INDICATORS
CIF – 25%	Percentage of amendment (Declarations) – 75%
Number of transactions – 25%	Percentage of uplift (Amount) – 25%
Number of transactions modified – 40%	
Initial amount – 5%	
Amount modified – 5%	

The Compliance actions for Customs (international trade taxes) will focus on importers (both companies and individuals) and Customs brokers (Clearing Agencies). The compliance actions will be categorized into community interaction, media, online education seminars, advisory visits and tax audits. This part shows the Risk Differentiation Frameworks (RDFs) and compliance actions for Customs services.

7.2.2.1 Importers

7.2.2.1.1 Importing companies

Figure 10: RDF Results for Importing Companies



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Customs\Dec	
\Customs\Tax	
\Customs\Tax Paid	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	1,592
Total CIF	RF1,148,368,511,274
Total TAXPAID	RF316,338,737,147
Total Number of Declaration	80,639
Total Number of Modified declaration	5,528
Total Additional amount	10,371,439,185
Total Initial amount	305,967,297,962

Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	198
Total CIF	RF50,396,675,794
Total TAXPAID	RF8,167,980,141
Total Number of Declaration	2,864
Total Number of Modified declaration	1,084
Total Additional amount	4,191,970,940
Total Initial amount	3,976,009,201

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	2,597
Total CIF	RF121,124,139,713
Total TAXPAID	RF8,174,487,917
Total Number of Declaration	11,016
Total Number of Modified declaration	1,124
Total Additional amount	515,300,845
Total Initial amount	7,659,187,072

Quadrant 3: Medium Risk Taxpayers	
Number of Traders	200
Total CIF	RF1,575,778,459
Total TAXPAID	RF529,060,413
Total Number of Declaration	358
Total Number of Modified declaration	280
Total Additional amount	342,504,921
Total Initial amount	186,555,492

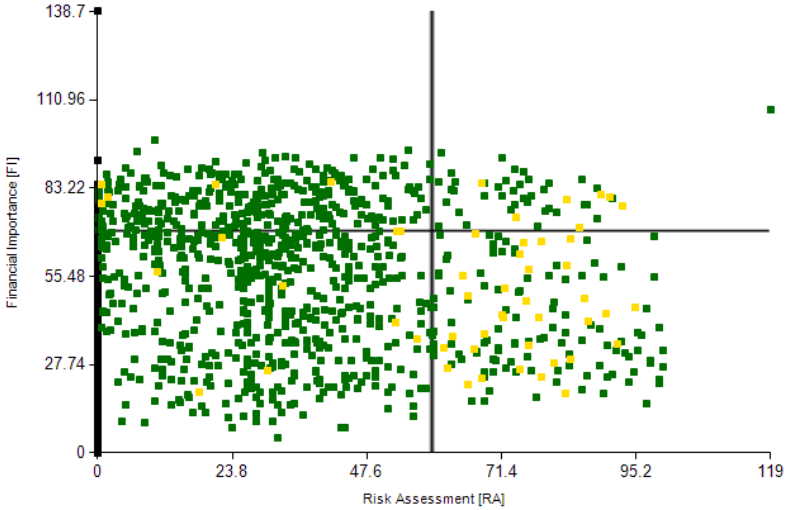
Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
\Customs\Dec	2175	95.19
\Customs\Tax	110	4.81

Overview of importing companies per quadrant

Metric	Total Amount	Quadrants							
		Q1		Q2		Q3		Q4	
		Amount	%	Amount	%	Amount	%	Amount	%
CIF	1,321,465,105,240	50,396,675,794	3.8%	1,148,368,511,274	86.9%	1,575,778,459	0.1%	121,124,139,713	9.2%
Tax paid	333,210,265,618	8,167,980,141	2.5%	316,338,737,147	94.9%	529,060,413	0.2%	8,174,487,917	2.5%
Initial tax amount	317,789,049,727	3,976,009,201	1.3%	305,967,297,962	96.3%	186,555,492	0.1%	7,659,187,072	2.4%
Additional tax amount	15,421,215,891	4,191,970,940	27.2%	10,371,439,185	67.3%	342,504,921	2.2%	515,300,845	3.3%
No. of declarations	94,877	2,864	3.0%	80,639	85.0%	358	0.4%	11,016	11.6%
No. of modified declarations	8,016	1,084	13.5%	5,528	69.0%	280	3.5%	1,124	14.0%
No. of Importers	4,587	198	4.3%	1,592	34.7%	200	4.4%	2,597	56.6%

7.2.2.1.2 Individual Importers

Figure 11: RDF Results for individual importers



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Customs\Dec	
\Customs\Tax	
\Customs\TaxPaid	

Quadrant 2: Key Taxpayers	
Number of Taxpayers	358
Total CIF	RF65,090,499,554
Total TAXPAID	RF26,482,735,957
Total Number of Declaration	8,030
Total Number of Modified declaration	1,272
Total Additional amount	1,736,956,040
Total Initial amount	24,745,779,917

Quadrant 1: High Risk Taxpayers	
Number of Taxpayers	46
Total CIF	RF1,798,977,409
Total TAXPAID	RF836,312,913
Total Number of Declaration	306
Total Number of Modified declaration	246
Total Additional amount	573,859,617
Total Initial amount	262,453,296

Quadrant 4: Lower Risk Taxpayers	
Number of Taxpayers	1,949
Total CIF	RF21,061,939,586
Total TAXPAID	RF5,900,157,769
Total Number of Declaration	8,229
Total Number of Modified declaration	696
Total Additional amount	382,490,938
Total Initial amount	5,517,666,831

Quadrant 3: Medium Risk Taxpayers	
Number of Traders	142
Total CIF	RF1,262,420,619
Total TAXPAID	RF404,500,629
Total Number of Declaration	343
Total Number of Modified declaration	218
Total Additional amount	242,365,702
Total Initial amount	162,134,927

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
	0	0
\Customs\Dec	944	94.68
\Customs\Tax	53	5.32

Table 2: Overview of individual importers per quadrant

Metric	Total Amount	Quadrants							
		Q1		Q2		Q3		Q4	
		Amount	%	Amount	%	Amount	%	Amount	%
CIF	89,213,837,168	1,798,977,409	2.0%	65,090,499,554	73.0%	1,262,420,619	1.4%	21,061,939,586	23.6%
Tax paid	33,623,707,268	836,312,913	2.5%	26,482,735,957	78.8%	404,500,629	1.2%	5,900,157,769	17.5%
Initial tax amount	30,688,034,971	262,453,296	0.9%	24,745,779,917	80.6%	162,134,927	0.5%	5,517,666,831	18.0%
Additional tax amount	2,935,672,297	573,859,617	19.5%	1,736,956,040	59.2%	242,365,702	8.3%	382,490,938	13.0%
No. of declarations	16,908	306	1.8%	8,030	47.5%	343	2.0%	8,229	48.7%
No. of modified declarations	2,432	246	10.1%	1,272	52.3%	218	9.0%	696	28.6%
No. of Importers	2,495	46	1.8%	358	14.3%	142	5.7%	1,949	78.1%

Compliance strategy: Importers and Customs Brokers

Community interaction

1. Strategy Overview:

All categories of compliance risk are a concern. A significant culture of non-compliance exists throughout the trading community. Classification, description and valuation are problematic. The plan for improvement will focus first on clearing agents – online education seminars, publishing lane statistics of clearance time (time release) and warning letters to clearing agents appeared in high risk quadrant in two consecutive years. In addition, RRA will conduct advisory visits/telephone calls/emails to review and advice on taxpayer operations.

2. Segment Profile

2.0 Criteria for inclusion:
All active traders
2.1 Number / Type of Entries:

Type	#	CIF/FOB Amount
EX 1	19,109	1,099.3b
EX 2	150	7.4b
EX 3	24,669	358.2b
EX 8	2	0.05b
EXS 1	2,323	0.7b
IM 4	128,282	2,177.1b
IM 5	685	724.1b
IM 6	44	0.3b
IM 7	363	13.4b
IM 8	15,431	423.6b
IMS 4	21,601	4.3b
WH 7	23,176	1,143.2b
TOTAL	**235,835**	**5,951.5b**

2.2Type / Amount of Revenue:

Type	Amount
IMPORTS DUTY	105.1b
EXCISE DUTY	87.8b
VAT	187.3b
WHT	24.5b
IDL	13.9b
TOTAL	**418.6b**

*Statistics from calendar year 2020. All values in RWF.

3. Key Compliance Risks

3.0 General risk: High
- Pervasive culture of noncompliance among brokers
- Significant culture of noncompliance among traders
- Significant fraudulent activity with new importers
- Use of unauthorized borders
- Inadequate feedback captured from examination:
- Offense codes are optional on Inspection Act form

3.1 Classification Risk: High
Intentional misclassification on advice of clearing agents
Significant lack of classification knowledge in the business community

3.2 Valuation Risk: High
Pervasive, intentional use of false supporting documents
Incomplete and inaccurate valuation data
Significant abuse of investment certificates and exemption

3.3 Other Reporting Risk: High
Intentional falsification of country of origin
Intentional falsification of customs procedure codes (CPC)
Pervasive "misdescription" of goods on declarations

4. Risk Treatments

4.1 Measures for facilitating compliance (service)
Conduct advisory visits to review and advise on taxpayer operations
Publicly recognize Customs brokers for good compliance on an annual basis
Publish lane statistics of clearance time (time release) for all clearing agencies on quarterly basis
Coordinate with the Private Sector Federation to facilitate compliance awareness
Online and radio education seminars to Importers and Clearing agents

4.2 Measures for dealing with non-compliance (enforcement)
Writing a warning letter to every clearing agent appeared in high risk quadrant in two consecutive years
Carryout tax audits to risky importers
Enforcement of tax arrears

5. Compliance Indicators

% increase in overall ASYCUDA World hit rates
% increase in overall lane performance
% decrease of brokers from Q1 to Q2
% increase in issuance of advanced rulings

6. Workflows

Type/Number of Actions	Trader Risk Category			
	High Risk	Medium Risk	Key Tax-payers	Lower Risk
Compliance Audits				
Advisory Visits/telephone Calls/emails	23			
Desk Audits	150			
Comprehensive Audits	70			

7. Capacity Development

Staff trainings:
Customs Management Act
Import & Export procedures
Petroleum management
Rules of origin
Trade facilitation

No	Owner	Due By	Interaction	Description
1	TPS, CRMM, DTD & CSD	05-OCT-21	The Private Sector Federation (PSF)	Introduce the compliance improvement plan concepts, agree terms for mutual support and encourage the federation to coordinate meetings and workshops with high risk importers.

Media

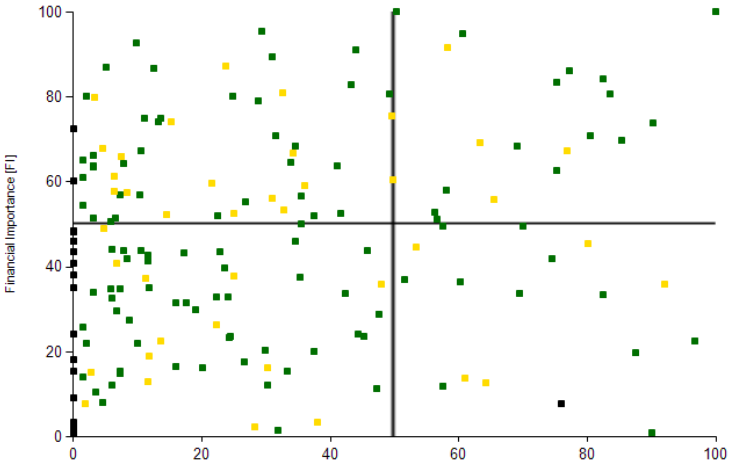
No	Owner	Due By	Media spots	Description
2	TPS, CRMM & CSD	23-NOV-21	Tax compliance for high risk Importing companies	Live talk show on radios to communicate the current tax compliance improvement plan, tax obligations, specific issues related to declaration of imports and high risk commodities and their treatments. Focus specifically on; • Undervaluation or Overvaluation of goods • Tariff misclassification of goods • Miss description of goods or wrong commercial description of goods • False declaration of origin • False supporting documents • Ten most risky commodities; - Petroleum products/ Lubricants (HS Code: 2710) - Hand bags (HS Code:4202) - Cables (HS Code: 8714) - Vehicle's spare parts (HS Code: 8708) - Padlocks and locks (HS Code: 8301) - Liquors and Wines (HS Codes 2204; 2205; 2206 for Wine, 2208 for liquors) - Men's or boys' suits (HS Code: 6103) - Shoes (HS Codes: 6402; 6403 & 6405) - Woven Fabrics (HS Code: 5514) - Tiles (HS Codes: 6901)
3		30-NOV-21	Tax compliance for high risk Individual Importers	

Advisory visits/telephone calls/emails

No	Owner	Category	Due By	High risk	Medium risk	Key Taxpayers	Low risk
4	CSD	Importers	31 - DEC-21	23			

7.2.2.2 Customs brokers

Figure 12: RDF Results for Customs Brokers



Profiles are highlighted in the color of the category associated with their most prominent risk metric.

For example, if the most prominent risk metric in a profile is in the VAT category, the profile will be highlighted in the VAT category color.

The purpose of this approach is to, at a glance, visualize the key issues associated with the selected taxpayers.

Legend	
\Customs	
\Customs\Dec	
\Customs\NbrofDeclaration	
\Customs\Tax	

Quadrant 2: Key Taxpayers	
Number of Brokers	57
Total CIF	RF943,170,116,136
Total Number of Declaration	61,213
Total Number of Modified Declaration	5,205

Quadrant 1: High Risk Taxpayers	
Number of Brokers	19
Total CIF	RF304,858,769,040
Total Number of Declaration	16,880
Total Number of Modified Declaration	4,901

Quadrant 4: Lower Risk Taxpayers	
Number of Brokers	77
Total CIF	RF323,371,217,270
Total Number of Declaration	20,095
Total Number of Modified declaration	1,235

Quadrant 3: Medium Risk Taxpayers	
Number of Brokers	17
Total CIF	RF28,583,922,029
Total Number of Declaration	1,857
Total Number of Modified declaration	805

Distribution of Profiles by Risk Category		
Risk Assessment Category	#	%
	0	0
\Customs\Dec	111	73.03
\Customs\Tax	41	26.97

Overview of Customs brokers per quadrant

Metric	Total Amount	Quadrants							
		Q1		Q2		Q3		Q4	
		Amount	%	Amount	%	Amount	%	Amount	%
CIF	1,599,984,024,475	304,858,769,040	19.1%	943,170,116,136	58.9%	28,583,922,029	1.8%	323,371,217,270	20.2%
No. of declarations	100,045	16,880	16.9%	61,213	61.2%	1,857	1.9%	20,095	20.1%
No. of modified declarations	12,146	4,901	40.4%	5,205	42.9%	805	6.6%	1,235	10.2%
No. of Brokers	170	19	11.2%	57	33.5%	17	10.0%	77	45.3%

Community interaction

No	Owner	Due By	Interaction	Description
1	TPS, CRMM & CSD	07-DEC-21	Rwanda Freight Forwarders Association (RWAFFA)	Introduce the tax compliance improvement plan concepts, agree terms for mutual support and encourage the association to coordinate meetings and workshops of Customs brokers.
2	CSD	26-JAN-22	Recognize compliant clearing agents on World Customs day	Publicly recognize Customs brokers for good compliance on an annual basis
3	CRMM & CSD	31-JAN-22	Clearing agents appeared in high risk quadrant in two consecutive years	Writing a warning letter to every clearing agent appeared in high risk quadrant in two consecutive years

Media

No	Owner	Due By	Media spots	Description
4	CRMM, TPS & CSD	Quarterly basis	Focus on time spent in clearance for all clearing agencies	Publish lane statistics of time spent in clearance (time release) for all clearing agencies on quarterly basis

Online education seminar

No	Owner	Due By	Seminar	Description
5	TPS, CRMM & CSD	14-DEC-21	Tax Compliance for clearing agencies	Communicate the current tax compliance improvement plan, tax obligations, specific issues related to declaration of imports and high risk commodities and their treatments. Focus specifically on; • Undervaluation or Overvaluation of goods • Tariff misclassification of goods • Miss description of goods or wrong commercial description of goods • False declaration of origin • False supporting documents • Ten most risky commodities; - Petroleum products/ Lubricants (HS Code: 2710) - Hand bags (HS Code:4202) - Cables (HS Code: 8714) - Vehicle's spare parts (HS Code: 8708) - Padlocks and locks (HS Code: 8301) - Liquors and Wines (HS Codes 2204; 2205; 2206 for Wine, 2208 for liquors) - Men's or boys' suits (HS Code: 6103) - Shoes (HS Codes: 6402; 6403 & 6405) - Woven Fabrics (HS Code: 5514) - Tiles (HS Code: 6901)

8. CONCLUSION

Revenue authorities have a central role and vested interest in ensuring that taxpayers and other parties meet their obligations under the tax laws. With an ever changing environment, it has therefore become more critical for revenue bodies to allocate available resources in a targeted and effective manner. The RRA Tax Compliance Improvement Plan 2021-2022 is critical to RRA's mission. It's ultimate goal is not to find non-compliance but to prevent non-compliance. RRA will continue to place its customers at the forefront and further ensure the provision of quality service which will stimulate voluntary compliance.

RRA will continue to streamline its operations, create new and innovative ideas and channel its communication methods to improve the overall tax administration. Change is constant and should be embraced, therefore it is imperative that RRA will continue to plan ahead, think 'outside the box' and adapt to the ever-changing environment.

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