

CONFERENCE
26 – 27 FEBRUARY 2007

“TAX & INVESTMENT CLIMATE IN AFRICA”

VAT in Rwanda: Why the private sector complains

RRA Presentation

RWANDA

A COUNTRY OF HOPE

INTRODUCTION

- Introduced in January 2001 at 15% to replace sales tax;
- It is based on the principle of self-assessment;
- Turnover: 15 million and 20 million (36,000 USD) in 2006;
- Preparation took around 16 months
 - Building the systems
 - Sensitisation campaign;
- The implementation went ahead smoothly;
- The input tax refund principle boosted taxpayer confidence.

RESULTS

- Collection exceeded both target and previous sales tax from the start
- Revenue kept on rising consistently
- Rate was raised to 18% in July 2002 – boosted revenue further
- Easy to collect

Table : VAT Performance (2001-2006)

Fiscal year	Target (in million USD)	Actual (in million USD)	Achievement (%)
2001	52.646	52.766	100.23
2002	62.333	58.642	94.08
2003	66.744	66.048	98.96
2004	74.596	82.535	110.6
2005	101.064	104.293	103.19
2006	114.591	122.254	106.69

PRIVATE SECTOR COMPLAINTS

- ❖ Tax auditors pose additional burden
 - ❖ Although it is self assessment, errors were noticed especially at the beginning and frequent audit was necessary;
 - ❖ As both taxpayer and administration experience developed, audit is becoming more risk based.

PRIVATE SECTOR COMPLAINTS

❖ Penalties are high

- Always a compliant – but is necessary to ensure compliance
- Lax penalties may result in encouraging taxpayers to use VAT for cash flow purposes.

❖ Refunds are slow

- Used to be a valid complaint
- Improved drastically with the new law on tax procedures
- Refund has to be made **within one month** or else it bears **interest.**

PRIVATE SECTOR COMPLAINTS

- ❖ **Payment is due on amount not received**
 - True in the case of a Government client payment delays;
 - In other situations tax payment should not be linked to debt collection by taxpayer – or else tax will remain unpaid.

- ❖ **Informal sector & those not registered pose unfair competition**
 - Those that are not registered get the edge;
 - Effort underway to register all legible ones;
 - Requires effort to narrow the informal sector.

PRIVATE SECTOR COMPLAINTS

- ❖ Records and invoicing are a burden
 - Come from those that do not want to be transparent;
 - The VAT requirements are not complicated;
 - The new tax law simplified the accounting;
 - To be addressed through taxpayer education.

PRIVATE SECTOR COMPLAINTS

- ❖ My supplier is not registered & hence can not claim input tax
 - If he is not registered he can not charge VAT – hence there is no expense for the buyer – meaning no claim
 - The choice is the taxpayers – whether to buy from a VAT registered supplier or a non-registered one
 - Requires further taxpayer education

PRIVATE SECTOR COMPLAINTS

❖ Increases cost of goods and services

- VAT is addition to final sales price to consumer
- Should not be cascading – taxpayers should not put the VAT on inputs as cost
 - Will result in addition to the final price by more than the VAT
 - Further taxpayer education required

❖ De-registration decision is tardy

- Complaint is legitimate
- Needs to be looked at and improved

PRIVATE SECTOR COMPLAINTS

❖ **VAT Reverse charge**

- Charged on imported services, which can be found in Rwanda;
- Taxpayers argue that this should be treated as input tax instead of output tax.
- Paid by the supplier of service instead of the final consumer.

SPECIFIC COMPLAINTS BY LARGE ENTERPRISES

❖ Tax Administration squeezes large enterprises

- True at the beginning as the focus was on a few large ones;
- Gradually balanced out as the smaller ones came in;
- Complaining faded as administration improved.

SPECIFIC COMPLAINTS BY NGOs

- ❖ Have to pay VAT upfront on domestic supply and then claim refund;
- ❖ Does not seem reasonable;
- ❖ But, procedure is necessary to prevent abuse of exempt supply;
- ❖ RRA has introduced simplified procedures for claims and refund.

CONCLUSION

- VAT contributes a very significant portion of revenue;
- Proved superior to the old sales tax both in built in controls and revenue generation;
- Administration improved significantly since its introduction in 2001;
- Further improvement anticipated with the recent introduction of an integrated Tax Administration Software and strong partnership with the private sector.

END

Thank you for your kind attention