

Introduction

Taxation is the process through which a government imposes financial charges or levies on individuals, businesses and other legal entities to generate revenue for public services and national development. This course offers a thorough examination of the principles and practices of taxation, with particular attention to Rwanda's tax framework and the concept of tax expenditures.

The course begins by introducing the fundamental concepts of taxation, including the definition of tax, its purposes and key principles or canons, notably those proposed by Adam Smith. It also covers related topics such as tax avoidance and evasion, tax delinquency and the various types of taxes applied worldwide. Subsequently, the focus shifts to the specific context of taxation in Rwanda, covering the structure of its tax system, tax computation methods, the different categories of taxes collected, taxpayer obligations and the primary challenges faced by the Rwanda Revenue Authority. Finally, the course explores the concept of tax expenditures, analyzing their rationale and economic impact, both in general and within the Rwandan context.

Notes for Students

Prepared by Giraneza Mugaragu Gilbert (Master's in Economics)

Lecturer of Introduction to Taxation

Institut Catholique de Kabgayi (ICK)

Academic year: 2025/2026

Class: 1st Year/ Accounting, Economics and Finance options

CHAPTER ONE: INTRODUCTION TO TAX CONCEPTS

1. Definition

A tax is a compulsory financial charge or levy imposed by a government on individuals, businesses, or other entities to fund public expenditures and government activities.

2. Characteristics of tax

- Compulsory: Payment is legally required.
- No direct quid pro quo: Taxpayers do not receive a specific benefit in return.
- Levied by the state: Only government (central or local) has the authority.
- Used for public purposes: Revenue funds national development and public services

3. Components/Elements of tax

Generally, the tax to be called a tax, it should have two complementarily elements namely: tax base and tax rate.

Tax base: The tax base is the economic activity or property that is subject to taxation. It could be income, sales, property, imports or other measurable factors. The tax base determines what is being taxed.

Tax rate: The tax rate is the percentage or fixed amount applied to the tax base to calculate the actual tax liability. It indicates the portion of the tax base that taxpayers are required to pay as taxes. Example: 0%, 10% or 25% of CIF, 5usd/kg.

In summary, the tax base and tax rate are interdependent variables that government carefully considers when designing tax policies. The balance between the extensiveness of the tax base and the level of tax rates is crucial for achieving revenue goals, influencing economic behavior and maintaining fiscal stability.

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4. Principles /Canons of taxation

The "canons of taxation" refer to a set of principles or guidelines used to evaluate the efficiency and fairness of tax systems. The economist Adam Smith in his seminal work "The Wealth of Nations on 9th March 1776" first proposed them (principles of taxation) and enumerated the following four main principles/canons of taxation:

1. Equity or Equality: Taxes should be based on the taxpayer's ability to pay; meaning those who can afford to pay more should contribute more. The concept of tax equality is integral to the fundamental attributes of the law; specifically emphasizing that taxation should be impartially applied to all individuals, irrespective of their status or background.

2. Certainty: Taxpayers should know when, where and how much they are required to pay in taxes.

3. Convenience: The canon of convenience in taxation means that taxes should be collected at a time and in a way that is easy and suitable for the taxpayer. This implies that it is easy for the taxpayer to comply.

Example: It is convenient to pay income tax after receiving salary (for those who receive a salary), not before.

4. Economy: The cost of collecting taxes should be kept to a minimum.

However, with the time other economists completed Adam Smith and add further principles including the following:

i. Principle of legality

No taxation can be imposed, modified or removed except by law. In a similar way the second, no exemption from or reduction of tax may be granted unless authorized by law.

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ii. Principle of efficiency

An efficient tax system raises the revenue needed at the lowest possible cost to the taxpayer. Efficient taxes systems raise revenue without negative distortions such as reducing work-incentives for individuals and investment incentives for companies.

iii. Principle of neutrality

This principle states that taxes should not favour any one group or sector over another and should not be designed to unfairly affect with or influence individual decision-making.

iv. Principle of simplicity

The principle of simplicity in taxation advocates for a straightforward and uncomplicated tax system. This principle emphasizes the importance of minimizing complexity in tax laws, rules and procedures to create a system that is easily understandable and manageable for both taxpayers and tax administrator.

5. Types of tax

The tax is classified based on various criteria and some are the following:

5.1 Based on taxpayer

- ✓ *Individual/Personal taxes:* Taxes levied on individuals based on their income, wealth or consumption. Examples include income tax and property tax.
- ✓ *Corporate taxes:* Taxes imposed on businesses and corporations such as corporate income tax.

5.2 Based on activity or the taxable event

- ✓ *Income taxes:* Taxes imposed on individuals or entities based on their earnings, profits or gains. Examples include personal income tax, corporate income tax and capital gains tax.
- ✓ *Consumption taxes:* Taxes levied on the purchase of goods and services. Examples include value-added tax (VAT), excise duties and customs duties.
- ✓ *Wealth taxes:* Taxes based on the value of assets owned by individuals or entities. Examples include property tax.

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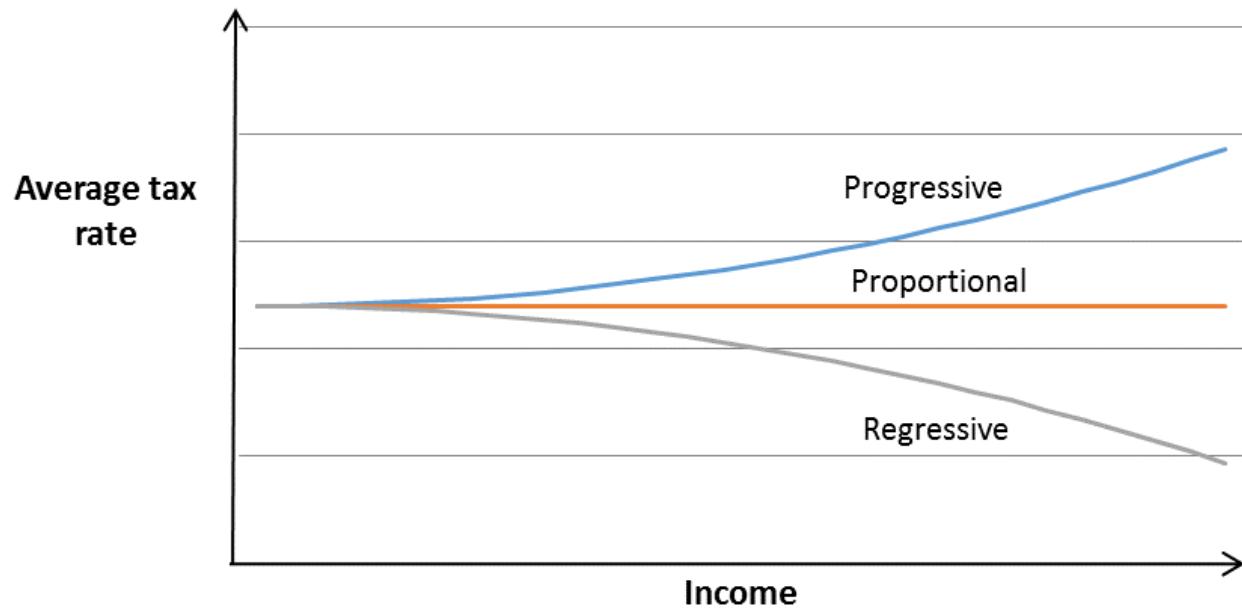
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5.3 Based on income (the taxpayer's income or wealth) or structure

- ✓ *Flat/Proportional taxes:* A single tax rate applied uniformly to all taxpayers, regardless of income or other factors. In other words, it is the same tax rate for all income levels
- ✓ *Progressive taxes:* Tax rates increase as the taxable amount (income or wealth) increases. In other word it is higher income, higher tax rate.
- ✓ *Regressive taxes:* Tax rates decrease as the taxable amount increases, resulting in a higher effective tax rate for lower-income individuals relative to their income. In other words, it is higher income, lower tax rate.

The following is a diagram illustrating three types of income tax based on the taxpayer's income or wealth.



5.4. Based on level of government:

- ✓ *National taxes:* Collected by central government (e.g. Customs and VAT).
- ✓ *Local taxes:* Collected by local governments (e.g., Property tax and trading license).

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5.5 Based on the nature

- ✓ *Direct taxes:* Taxes directly levied on individuals or entities and cannot be shifted to others. Examples include income tax and property tax.
- ✓ *Indirect taxes:* These are taxes imposed on goods and services, often passed on to consumers through higher prices. Ultimately, the burden is borne by the consumer or end-user who purchases the goods or services. Examples include VAT, sales tax and excise duties."

5.5.1. Advantages of direct tax

1. *Certainty:* Direct tax regime provides a sense of certainty to both the taxpayer and government. The amount of tax that must be paid and the amount of tax that must be collected is easy to calculate and known in advance by both the government and the taxpayer.
2. *Progressive regime:* Direct taxes are often designed to be progressive, meaning that individuals with higher incomes pay a higher percentage of their income in taxes. This aligns with the principle of ability to pay and helps address income inequality.
3. *Equity and fairness:* Direct taxes are perceived as fairer by some because they are based on the taxpayer's ability to pay. Higher-income individuals contribute a larger share of their income contributing to social equity.
4. *Higher productivity:* As there is a growth in the number of people who work, the return on direct taxes also increases. Therefore, direct taxes are considered very productive.
5. *Discouragement of undesirable behavior:* Direct taxes can be used to discourage certain behaviors, such as excessive consumption or the accumulation of wealth. For example, wealth taxes can discourage the concentration of wealth in a few hands.

5.5.2 Disadvantages of direct taxes

1. *Administrative complexity:* Direct taxes, especially income tax, can be administratively complex. Tax authorities may need to assess various sources of income, deductions and exemptions which can increase the cost of tax administration.

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2. *Potential for tax avoidance:* Higher-income individuals and corporations may engage in tax planning strategies to reduce their tax liability. This can lead to tax avoidance and loss of the effectiveness of direct taxes.
3. *Economic distortion:* Direct taxes can influence economic behavior, potentially leading to distortions in decision-making. For example, high personal income tax rates may discourage work effort or encourage tax evasion.
4. *Impact on savings and investment:* Some argue that high taxes on capital gains or investment income may discourage savings and investment, which can have implications for economic growth.
5. *Mobility of taxpayers:* Individuals and businesses may have the ability to relocate or shift income to authorities with more favorable tax conditions, reducing the effectiveness of direct taxes.
6. *Burden on small businesses:* Direct taxes, such as corporate income tax, may disproportionately affect small businesses, as they may have fewer resources to manage complex tax compliance requirements.
7. *Potential for double taxation:* Some forms of direct taxes like dividend taxes can result in double taxation when both the corporation and the shareholder are taxed on the same income.

5.5.3. Advantages of indirect tax

1. *Broad base of taxation:* Indirect taxes can be applied to a wide range of goods and services allowing governments to have a broad tax base. This helps in generating substantial revenue without excessively burdening specific segments of the population.
2. *Ease of Administration:* The collection process is integrated into the supply chain and businesses act as intermediaries in collecting and remitting the taxes to the government make it simpler to administer.
3. *Neutrality:* Indirect taxes can be designed to have minimal impact on economic decision-making. Unlike some direct taxes that may influence individuals' behavior, indirect taxes are usually surrounded in the price of goods and services and consumers may not significantly adjust their consumption patterns in response to changes in these taxes.

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4. **Flexibility:** Indirect taxes offer flexibility in terms of adjusting tax rates on specific goods or services. Governments can target certain sectors or products for higher taxation to achieve policy objectives such as discouraging the consumption of unhealthy goods or promoting environmental sustainability.
5. **Revenue stability:** Indirect taxes provide a relatively stable source of revenue for the government. Since these taxes are spread across a wide range of goods and services changes in consumer behavior or economic conditions may have a less immediate impact on overall revenue collection.
6. **Reduced tax evasion:** Indirect taxes are often collected at the point of sale making it harder for individuals or businesses to evade taxes compared to some forms of direct taxes. The visibility of these taxes in the prices paid by consumers also helps discourage evasion.
7. **Consumer awareness:** Indirect taxes are generally transparent to consumers, as they are included in the price of goods and services. This transparency can lead to increased awareness among consumers about the taxes they pay fostering a sense of accountability and potentially encouraging choices that are more informed.
8. **Foreign trade implications:** Indirect taxes, such as customs duties and value-added tax (VAT) on imports, can be used to protect domestic industries and ensure a level playing field for local businesses by imposing taxes on imported goods.

5.5.4. Disadvantages of indirect tax

Some of the disadvantages of Indirect tax are given below:

1. **Indirect tax charged sometimes are cumulative.** Cumulative taxation, also known as the "cascade effect," occurs when indirect taxes are levied at multiple stages of the production and distribution chain and the tax paid at each stage becomes part of the cost of the product at the next stage. This leads to a cumulative increase in the overall tax burden on the final consumer. The cumulative nature of indirect taxes can create inefficiencies and distortions in the market. It may lead to higher prices for goods and services potentially reducing consumer purchasing power and affecting overall economic efficiency.
2. **Indirect tax can be regressive in nature.** For example, salt tax remains the same for both poor and rich however if a rich person defaults the payment.

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3. *Indirect tax are not industry friendly.* Taxes are levied on raw materials and goods, which in turn increases the cost of production, thus not allowing industries to expand as their competitive capacity is limited.
4. *Indirect tax is unpredictable:* The amount of indirect taxes collected fluctuates. It is based on the buying of goods and services. As a result, it is impossible for the government to predict how much money will be raised through indirect taxes.

6. Taxable capacity

6.1. Definition

Taxable capacity refers to the potential or ability of a country or entity to generate tax revenue without causing significant economic distortions or negatively influencing its overall economic health. It is essentially a measure of the maximum amount of taxes that can be imposed without hindering economic growth, discouraging productive activities or leading to widespread tax evasion.

6.2. Determinants of taxable capacity

Determinants of taxable capacity of a country is determined by a number of factors. The main factors are:

1. *Stability and growth of income:* If the economy operates efficiently and progresses well and ensures a stable and growing income, the taxable capacity of the community will be higher. However, on the other hand if there are fluctuations with serious ups and downs and especially during a depression taxable capacity will obviously be lower.
2. *Size of income and wealth:* Generally, the larger wealth and income of the country greater is its taxable capacity. Hence, rich nations have a higher taxable capacity than poor nations.
3. *Standard of living of the people:* The standard of living of a population is closely linked to the taxable capacity of a country. Higher standards of living generally lead to greater taxable capacity by increasing income levels, expanding the tax base and enabling governments to invest in human capital and social welfare programs.

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4. *Price level*: If the price level is reasonably low and stable, a high income means greater taxable capacity. However, if prices are rising fast, a very high income may also pose a low capacity in real terms.

5. *Characteristics of the tax system*: The characteristics of a tax system play a significant role in determining taxable capacity as the ability of a country or entity to generate tax revenue without negatively affecting its economy

6. *Nature and purpose of public expenditure*: Public expenditure is largely for developmental schemes the productivity power of the country improves and order is very essential for improving taxable capacity enlarges. Further taxation intended for financing capital formation is therefore quite justified as it raises the taxable capacity in effect.

7. *Political condition*: Generally, when people appreciate the government, they will be willing to undergo many needs and bear heavier taxes to in order to enable the government to undertake welfare measures beneficial to the common people, hence the taxable potential automatically expands.

7. Tax avoidance and tax evasion

7.1 Tax avoidance

The term tax avoidance refers to the use of legal methods to minimize the amount of income tax payable by an individual or a business. Tax avoidance involves utilizing legitimate means to reduce one's tax burden within the boundaries of the law.

Example: All kinds of incentives offered by the government to taxpayers.

7.2 Tax evasion

The illegal non-payment or under-payment of taxes, usually by deliberately making a false declaration or no declaration to tax authorities such as by declaring less income, profits or gains than the amounts actually earned or by overstating deductions. This also includes false invoices and fraud.

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8. No Quid pro quo character of tax

"Quid pro quo" means "something for something" (a mutual exchange where one thing is given in return for another).

Therefore, the term "*No Quid Pro Quo of tax*" refers to the concept that taxation is not based on a direct exchange of benefits. In simpler terms, taxpayers do not receive a specific, direct return (or a quid pro quo) for the taxes they pay. Instead, taxes are collected to fund public goods and services that benefit society as a whole, such as infrastructure, defense, healthcare and education.

9. Tax calculation methods

9.1. Ad valorem method: "Ad valorem" is a Latin term that translates to "according to value." Under this method, the tax or duty is calculated as a percentage of the product's value (the value of a property or the value of a transaction).

Example: Case of Rwanda.

18% for VAT;

35% of CIF for sport or other shoes (CET 2022 version);

25% of CIF for padlocks (CET 2022 version).

9.2. Specific taxation method: Taxes are calculated based on a specific quantity or unit of measure, such as weight, volume, or number of items. Example in Rwanda, the tariff of used shoes is 5usd/kg and 2.5usd/kg on used clothes.

9.3. Hybrid method: The hybrid method in taxation refers to a system that combines two different methods of calculating tax or duty (typically the ad valorem method and the specific method).

Example, Cigarette in Rwanda. (According the excise duty Law).

10. Tax incidence

10.1. Definition

Tax incidence refers to the distribution of the economic burden of a tax among different groups in a society. In other words, it refers to the distribution of the economic burden of a tax between

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different parties (primarily consumers and producers). It answers the question: *Who really pays the tax?*²

10.2. Categories of tax incidence

There are two primary categories of tax incidence:

- a. Producer incidence:** This refers to the burden of the tax falling on producers or suppliers. When a tax is imposed on a specific good or service, producers may absorb some of the tax by reducing their profits or they may pass the burden onto consumers in the form of higher prices.
- b. Consumer incidence:** This refers to the burden of the tax falling on consumers. If producers are able to pass the tax burden onto consumers by increasing prices, then consumers bear a significant portion of the tax.

10.3. Tax incidence determination

To determine the tax incidence (who bears the burden of the tax), we compare the percentage change in price to the percentage change in quantity demanded. This is price elasticity of demand.

10.4. Tax incidence interpretation:

- When percentage change in quantity demanded is greater than percentage change in price (**Elastic demand**). The burden of the tax falls on the *producer*.
- When percentage change in quantity demanded is less than percentage change in price (**Inelastic demand**): The burden of the tax falls on the *consumer*.

Understanding tax incidence is essential for policymakers and economists to assess the overall impact of a tax on different segments of the population and the economy. It also plays a role in evaluating the efficiency and fairness of different tax policies.

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11. Tax delinquency

11.1 Definition

Tax delinquency refers to the failure to pay taxes owed to the government by the due date. It occurs when an individual or business does not fulfill their tax obligations whether by not filing a tax return, underreporting income or failing to pay the full amount of taxes due.

11.2 Causes

1. Failure to file tax returns.
2. Inaccurate or incomplete tax filings.
3. Underpayment or nonpayment of taxes owed.
4. Intentional tax evasion or fraud.

11.3 Consequences:

1. *Penalties:* The government imposes fines for late payment, late filing or underreporting income.
2. *Interest:* Interest accrues on the unpaid tax amount from the original due date until the full payment is made.
3. *Legal actions:* The government may take legal actions such as garnishment, caveatting the assets.
4. *Criminal prosecution:* In cases of intentional fraud or tax evasion, tax delinquents may face criminal charges resulting in imprisonment or heavy fines.

11.4 Resolution (on government side)

1. *Payment plans:* Tax authority offers installment agreements for delinquent taxpayers to pay their debt over time.
2. *Tax forgiveness programs:* Some governments provide official pardon programs that allow delinquents to pay reduced penalties or interest. Example of this case is voluntary disclosure announced by the ministry of finance in Rwanda (2024) ended on 23rd October 2024.

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3. *Offer in compromise (OIC):* In certain situations, the tax authority may accept a lesser (smaller) amount than what is owed if the taxpayer is financially unable to pay the full amount.

11.5 Prevention (used by taxpayers)

To avoid tax delinquency, taxpayers can implement various measures that ensure timely and accurate tax compliance. The following are five key prevention measures:

1. *Maintain accurate financial records:* Keeping detailed and organized financial records is essential for ensuring that income, expenses and deductions are correctly reported on tax returns. This includes maintaining receipts, invoices and bank statements for all financial transactions. Accurate records reduce the likelihood of errors in tax filings which can lead to underreporting income or incorrect deductions, both of which can cause tax delinquency.
2. *File taxes on time:* Taxpayers must be aware of tax deadlines and file their tax returns on time. Failing to file taxes by the due date can lead to penalties and interest charges, even if the taxpayer ultimately pays what they owe.
3. *Make estimated tax payments:* For self-employed individuals or those with irregular income (e.g. service provider, business owners), paying estimated taxes quarterly can prevent large tax liabilities at the end of the year. Estimated tax payments cover income tax, self-employment tax and other taxes that are not automatically withheld. The regular estimated tax payments reduce the risk of a large tax bill.
4. *Use tax planning and professional assistance:* Engaging a tax professional or using tax preparation software can help taxpayers accurately calculate their tax liability, identify applicable deductions and credits and stay up to date with changes in tax law. Professional guidance ensures that taxes are filed correctly, minimizing the risk of errors, underreporting or missing deductions that could lower the tax bill.
5. *Set up an installment agreement if necessary:* If a taxpayer cannot pay the full amount of taxes owed by the due date, they should contact the tax authority to set up an installment agreement.

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allows them to pay the debt in manageable monthly installments without facing severe penalties or legal actions. Setting up a payment plan prevents tax delinquency by ensuring the taxpayer stays compliant with the payment requirements, avoiding further penalties and interest.

By following these measures, taxpayers can stay compliant with tax obligations, reduce the risk of penalties and avoid the stress of tax delinquency.

12. Importance of tax

All over the world, for all government the tax is a primary source and pillar of government revenue. The following are among the importance of tax for the government:

1. *Revenue for public services:* Taxes fund essential public services such as healthcare, education, transportation and social welfare programs. Without taxes, governments would struggle to provide these services which are vital for the well-being and development of the population.
2. *Infrastructure development:* Taxes are used to build and maintain infrastructure, including roads, bridges, public transportation, and utilities. Well-developed infrastructure is essential for economic growth and improving the quality of life for citizens.
3. *Redistribution of wealth:* Through progressive taxation, wealth can be redistributed from the richer segments of society to the poorer ones. This helps to reduce income inequality and provide support to those in need fostering social stability and cohesion.
4. *Economic stability:* Taxes play a role in regulating the economy. Governments can use tax policy to influence economic activities, control inflation, and stabilize the economy during downturns by adjusting tax rates and incentives.
5. *Public goods and services:* Many goods and services, such as national defense, police, fire services, and environmental protection, are considered public goods. These are non-excludable and non-rivalries, meaning they are available to everyone and one person's use does not reduce availability to others.

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6. Encouraging or discouraging behavior: Tax policy can be used to encourage or discourage certain behaviors. For example, taxes on cigarettes and alcohol can discourage consumption while tax breaks for renewable energy investments can encourage environmental sustainability.

7. National security: Taxes are necessary to fund defense and security services that protect the nation from external and internal threats. This ensures the safety and stability of the country.

8. Supporting innovation and research: Government funding for research and development through tax revenues can lead to technological advancements and innovation, driving economic growth and improving the quality of life.

9. International obligations: Taxes help countries fulfill their international obligations, such as foreign aid, contributions to international organizations and global environmental commitments.

10. Administrative functioning: Efficient tax systems are necessary for the proper functioning of government administration, ensuring that policies are implemented effectively and that public resources are managed responsibly.

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CHAPTER TWO: TAXATION IN RWANDA

2.0 Definition

Taxation is the process through which governments collect money from individuals and businesses within their jurisdiction in order to fund public expenditures and services. This revenue is generated through various forms of taxes, such as personal income tax, corporate tax, sales tax, property tax, value-added tax, excise tax and customs taxes. These taxes contribute to financing essential services like infrastructure, education, healthcare, defense and social welfare programs.

Taxation serves as a means for governments to redistribute wealth, regulate economic activity and address societal needs, while also being a crucial tool for maintaining public services and promoting overall economic stability and development.

2.1 Historical background of taxation in Rwanda

Considering its history, taxation in Rwanda dates back to 1912 with the introduction of property tax and has remained highly dynamic ever since. This dynamism is reflected in the various changes and updates made to tax legislation over time. Following independence, taxes were formally established in Rwanda through the law of 2nd June 1964 on profit tax, while customs and excise duties were introduced later by the law of 17th July 1968.

The following are some laws introducing different taxes in different periods:

- In 2001, VAT law was introduced requiring taxpayers to start paying Value Added Tax;
- The East African Community Customs Management act 2004;
- Law n° 29/2012 of 27/07/2012 establishing tax on gaming activities;
- Law n° 55/2013 of 02/08/2013 on minerals tax;
- Law n° 34/2015 of 30/06/2015 establishing the infrastructure development levy (IDL) on imported goods;
- Law n° 19/2017 of 28th/04/2017 establishing the levy on imported goods financing African Union activities;
- Law n° 025/2019 of 13th/09/2019 establishing the Duty Excise;

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- Law n° 027/2022 of 20/10/2022 establishing taxes on income;
- Law n° 049/2023 of 05/09/2023 establishing value added tax;
- Law n° 050/2023 of 05/09/2023 establishing the Excise Duty;
- Law n° 056/2024 of 26/06/2024 establishing tax on minerals;
- Law n° 012/2025 of 27/05/2025 establishing a levy on petrol and gas oil for the establishment of strategic petroleum products reserves.

Before establishment of Rwanda Revenue Authority, the central government through the Ministry of Finance was responsible for tax collection. The Rwanda Revenue Authority was established under Law No 15/97 of 8 November 1997 as a quasi-autonomous body charged with the task of assessing, collecting and accounting for tax, customs and other specified revenues.

2.2 Classification of taxpayers in Rwanda Revenue Authority

Rwanda Revenue Authority classifies its taxpayers in the following categories/classes/scales according to their annual turnover:

1. Small taxpayers
2. Medium taxpayers
3. Large taxpayers

2.3 Obligations of taxpayers

Referring to the various versions of RRA document called *Tax Compliance Improvement Plan*, 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.

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Filing 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). In brief, the term *filing* is used for domestic taxes while *declaration* is used for international taxes (customs).

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.

Remark: If a taxpayer fails to meet any of the above obligations, then they may be considered non-compliant.

2.4 Taxes and duties collected by Rwanda Revenue Authority

Since its creation, Rwanda Revenue Authority (RRA) is collecting five major categories of taxes and duties in Rwanda:

1. Direct taxes
2. Indirect taxes
3. Customs duties (Taxes on international trade)
4. Decentralized taxes
5. Other types of taxes/fees for documents used.

2.4.1. Direct taxes

According to Law N° 027/2022 of 20/10/2022, establishing taxes on income in Rwanda, the following types of income taxes are classified as direct taxes:

1. Personal income tax;
2. Corporate income tax;
3. Withholding tax;

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4. Capital gain tax;
5. Tax on gaming activities.

2.4.1.1 Income tax

The income tax is divided in two categories: Personal income tax (PIT) and corporate income tax (CIT).

2.4.1.1.1 Personal income tax (PIT)

1. Definition

Personal income tax is levied on income received by individuals doing different business activities on their behalf and it is charged on an individual annual income. According to the income tax Law no 027/2022 of 20/10/2022, the tax on income levied on annual income received by an individual with the following taxable income:

- Employment;
- Business activities;
- Investment;
- Capital gain;
- Use, sale, lease or free transfer of an immovable property allocated to the business;
- Use, sale, lease or free transfer of movable property allocated to the business.

2. Payment classification

The personal income tax payment is classified in three regimes:

- a) Flat regime;
- b) lump-sum regime;
- c) Real regime.

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Prepared by Giraneza Mugaragu Gilbert (Master's in Economics)

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a. Flat regime

According to the income tax Law no 027/2022 of 20/10/2022, the flat regime deals with Micro enterprises where the assessment and payment is based on their annual turnover and they must pay the flat amount of tax as per the following table:

Annual turnover (RWF)	Annual flat amount of tax due (RWF)	Quarterly prepayment
Below 2,000,000	No tax	No tax
From 2,000,001 to 4,000,000	60,000	15,000
From 4,000,001 to 7,000,000	120,000	30,000
From 7,000,001 to 10,000,000	210,000	52,500
From 10,000,001 to 12,000,000	300,000	75,000

According to the income tax Law no 027/2022 of 20/10/2022, Micro enterprise has the following characteristics:

- Net capital investment < Frw 500,000
- Annual turnover < Frw 300,000
- Employees between 1 and 3.

Purpose and benefits of the flat regime

- ✓ **Simplicity:** Flat regime avoids needing full profit/loss accounting.
- ✓ **Predictability:** Entrepreneurs can anticipate tax liability (tax liabilities refer to the total amount of tax that a person or business is legally obligated to pay to the government within a given period) directly from their sales.
- ✓ **Encouragement for small and medium enterprises (SMEs):** Reduces costs and barriers for emerging small businesses.

b. Lump sum regime

The lump sum regime deals with small enterprises whose turnover (annual) is between Frw 12,000,001 and Frw 20,000,000 must pay a lump sum tax of 3% of turnover. However, they can also

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Lecturer of Introduction to Taxation

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choose for the real regime in carrying out accounting in compliance with relevant laws. When small enterprises choose for the real regime, they must inform the tax administration and this decision is irretrievable for a period of three (3) years starting from the date the tax administration was informed thereof.

According to the income, tax Law no 027/2022 of 20/10/2022 the following are the characteristics of small enterprise.

- Net capital investment from Frw 500,000 to Frw 15,000,000
- Annual turnover from Frw 300,000 to Frw 12,000,000
- Employees between 4 and 30.

c. Real regime

The real regime deals with taxpayers who perform the accounting recording on daily business life and it considers the annual profit. According to the income, tax Law no 027/2022 of 20/10/2022, the following is a table illustrating how the tax in real regime is calculated:

Annual taxable profit in Rwandan francs		Tax rate
From	To	
-	720,000	0%
720,001	1,200,000	10%
1,200,001	2,400,000	20%
2,400,001	More	30%

B. Income tax on vehicles transporting people and goods

- The rate of income tax for vehicles transporting people is determined based on the vehicle's places (the number of people conveying).

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According to the income tax Law no 027/2022 of 20/10/2022, the table below gives the details:

Type of vehicle		Annual Tax (Rwf)
Minibus 8 places:	RWF 12,000 x 8	96,000
Minibus 14 places:	RWF 12,000 x 14	168,000
Minibus 15 places:	RWF 12,000 x 15	180,000
Minibus 16 places:	RWF 12,000 x 16	192,000
Minibus 17 places:	RWF 12,000 x 17	204,000
Minibus 18 places:	RWF 12,000 x 18	216,000
Coaster 24 places:	RWF 12,000 x 24	288,000
Coaster 26 places:	RWF 12,000 x 26	312,000
Coaster 27 places:	Rwf 12,000 x 27	324,000
Coaster 28 places:	Rwf 12,000 x 28	336,000
Coaster 29 places:	Rwf 12,000 x 29	348,000
Bus/Coaster 30 places:	Rwf 12,000 x 30	360,000
Bus 40 places:	Rwf12, 000 x 40	480,000

ii. The rate of income tax for vehicles transporting goods is determined based on the loading capacity.

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Lecturer of Introduction to Taxation

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According to the income, tax Law no 027/2022 of 20/10/2022, the table below gives the details:

Type of vehicle		Annual Tax (Rwf)
Vehicle with loading capacity of	1 ton	60,000
Hilux	1.5 tons	90,000
Dyna/Isuzu/Toyota Stout (Four-wheel):	2 tons	120,000
Vehicle with loading capacity of	2.5 tons	150,000
Vehicle with loading capacity of	3 tons	180,000
Vehicle with loading capacity of	3.5 tons	210,000
Daihatsu/Dyna/Fuso/Isuzu (Six-wheel):	4 tons	240,000
Vehicle with loading capacity of	4.5 tons	270,000
Vehicle with loading capacity of	5 tons	300,000
Vehicle with loading capacity of	5.5 tons	330,000
Vehicle with loading capacity of	6 tons	360,000
Vehicle with loading capacity of	6.5 tons	390,000
Fuso Long chassis(Six-wheel) :	7 tons	546, 000
Vehicle with loading capacity	7.5 tons	585,000
Vehicle with loading capacity of	8 tons	624, 000
Vehicle with loading capacity of	8.5 tons	663,000
Vehicle with loading capacity of	9 tons	702, 000
Vehicle with loading capacity of	9.5 tons	741,000
Trucks: Fuso/Benz/Isuzu/Fiat. (Six-wheel):	10 tons	780, 000

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Vehicle with loading capacity of	11 tons	858, 000
Vehicle with loading capacity of	12 tons	936, 000
Vehicle with loading capacity of	13 tons	1,014,000
Vehicle with loading capacity of	14 tons	1,092,000
Trucks: Fuso/Benz/Isuzu/Fiat/... (Ten-wheel):	15 tons	1,170,000
Vehicle with loading capacity of	16 tons	1,248,000
Vehicle with loading capacity of	17 tons	1,326,000
Vehicle with loading capacity of	18 tons	1,404,000
Vehicle with loading capacity of	19 tons	1,482,000
Vehicle with loading capacity of	20 tons	1,560,000
Vehicle with loading capacity of	21 tons	1,638,000
Vehicle with loading capacity of	22 tons	1,716,000
Vehicle with loading capacity of	23 tons	1,794,000
Vehicle with loading capacity of	24 tons	1,872,000
Vehicle with loading capacity of	25 tons	1,950,000
Vehicle with loading capacity of	26 tons	2,028,000
Vehicle with loading capacity of	27 tons	2,106,000
Vehicle with loading capacity of	28 tons	2,184,000
Vehicle with loading capacity of	29 tons	2,262,000
Vehicle with loading capacity of	30 tons	2,340,000

iii. Rate of income tax for other vehicles

According to the income, tax Law no 027/2022 of 20/10/2022, the table below gives the details:

Type of vehicle	Annual Tax (Rwf)
Car (Taxi)	88,200
Motorcycle	72,000
Moped	36,000
Hearse/Private ambulance	100,000
Jeep/Loader/Break-down vehicle	307,200
Bulldozer	780,000

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3. The payment time

According to the income tax Law no 027/2022 of 20/10/2022 as amended in 2023, an individual who carries out taxable income generating activities prepares an annual tax declaration in accordance with procedures specified by the tax administration and he or she submits the declaration with annexes comprising the balance sheet, profit and loss account for that tax period and other annexes thereto drawn according to the requirements of the generally recognized accounting principles and any other relevant document required by the tax administration not later than 31st March of the following tax period, unless otherwise provided by this Law. This means that the income tax is paid on annual basis on not later than on 31st March of the following year. Therefore, income tax of year n is paid on 31st March of year n+1, except the due date is in week-end or public holiday.

Remark: If a withheld or prepaid (paid quarterly) tax exceeds the amount of tax liability, is considered by the tax Administration as liquidation of tax arrears or as the payment of future tax obligations.

Exercise

1. KAKARAGE company has is a business company owning vehicles transporting people and goods in different regions of in Rwanda. From 1st January 2025, the following vehicles were registered on KAKARAGE company's TIN(Taxpayer Identification Number): 5 coasters of 27 places each, 8 minibus of 8 places, 3 vehicles with loading capacity of 27 tons each, 1 break-down vehicle and 1 bulldozer.

Required:

1. Calculate the tax liabilities on income tax to be paid by this company to Rwanda Revenue Authority.
2. Determine the payment date in accordance with Rwandan current income tax law.

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C. Pay As You Earn: (PAYE)

1. Definition

PAYE is a kind of personal income tax on employment income that is withheld by employers on behalf of their employees. Any taxpayer who pays its employees in cash, benefits in kind or allowances is required to declare and pay PAYE on their employees' behalf.

2. Tax base and rate

The table below is illustrating the taxable amount and corresponding tax rate.

From November 2023

Monthly taxable income in Rwandan francs		Tax rate
From	To	
0	60,000	0%
60,001	100,000	10%
100,001	200,000	20%
200,001	More	30%

3. Time for declaration of Pay As You Earn (PAYE)

According to law n° 020/2023 of 31/08/2023 on tax procedures, a taxpayer whose annual turnover is equal or less than two hundred million Rwandan francs (frw 200,000,000) declares and pays quarterly the Pay As You Earn within fifteen (15) days after the end of the quarter to which the pay as you earn is related. The taxpayer referred to in paragraph one of this Article may opt for the monthly declaration and payment of the PAYE in the same manner as the taxpayer whose turnover is higher than two hundred million Rwandan francs (frw 200,000,000).

Note: 1. In the case of engaging a casual labourer for less than 30 days during a particular tax year, the employer shall withhold 15% of the taxable employment income of the casual labourer. The payment time is within 15 days following the month of operation.

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2. An employer who is not the first employer of an employee in the tax year must withhold PAYE at the marginal top tax rate of 30%. The payment time is within 15 days following the month of operation.

Exercises:

Question 1: Mr. Kabuyabuya is a permanent employee of KARAOKE company he earns a monthly gross salary of Rwf 825,000.

Required:

- i. Determine the amount of PAYE that KARAOKE Company is liable to declare and pay to the tax Administration.

Question 2: In July 2025, Institut Catholique de Kabgayi (ICK) hires two employees to work as casual laborers on special task for 18 days with a daily salary of 2,900rwf and 3,200rwf respectively.

Required:

- i. Calculate the tax liabilities to be paid by ICK as PAYE for each employee to the tax administration.
- ii. Determine the date of PAYE payment.

Solution

Question 1.

- i. For the first 60,000 Rwf: No tax (0%)

For the next 40,000 Rwf (60,001 to 100,000) at a 10% tax rate: $40,000 * 0.1 = 4,000$ Rwf

For the next 100,000 Rwf (100,001 to 200,000) at a 20% tax rate: $100,000 * 0.2 = 20,000$ Rwf

For the remaining amount (above 200,000), which is (825,000 Rwf - 200,000 Rwf) at a 30% tax rate:
 $625,000 * 0.3 = 187,500$ Rwf

Total PAYE liability = 0 Rwf + 4,000 Rwf + 20,000 Rwf + 187,500 Rwf = **211,500 Rwf**

- ii. The due date of payment is within 15 days of the month following the payment.

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D. Withholding taxes (WHT):

In Rwanda, withholding tax (WHT) is a tax deducted at source on specific payments made to both residents and non-residents. It is applied as a way to collect taxes in advance on income that will later be declared for taxation. The Rwanda Revenue Authority (RRA) is responsible for administering the withholding tax system.

The following are some rates applied on withholding tax in different ways:

- ❖ **3%:** Must be withheld and paid by public institutions on payments to the winners of public tenders. It is 3% of the sum of invoice, excluding the Value Added Tax (VAT) is retained when successful bidders of public tenders are paid.
- ❖ **5% of CIF:** On imports through customs (if no Quitus fiscal)
- ❖ **18%:** For VAT reverse charge (when a person or company registered as taxpayer imports the service available locally).
- ❖ **15%:** Must be withheld and paid on income received by non-registered businesses or registered businesses without a recent income tax declaration.
- ❖ **25%:** This tax applies to the net winnings amount in gaming activities
- ❖ **30%:** Withholding tax on allowance allocated to a member of the Board of directors and any other member of a similar organ, is taxable at a rate of thirty percent (30%). This is simply for sitting allowance.

Remark: Note that withholding tax is declared and paid within 15 days following the month the tax was withheld.

Consequence for failure to withhold tax

Any person who is required to withhold tax and who fails to do so in accordance with this Law is personally liable to pay to the tax Administration, the amount of tax, which has not been withheld including penalties and interest on arrears in accordance with relevant laws.

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E. Tax on gaming activities

Taxes on gaming operators

According to the law n° 014/2025 of 27/05/2025 amending law n° 027/2022 of 20/10/2022 establishing taxes on income, gaming operators (A company engaged in gaming activities, excluding the national lottery) are required to pay a 40% tax on Gross Gambling Revenue (GGR). Gross gambling revenue is calculated as the difference between the total amount wagered and the winnings awarded.

Withholding tax on player winnings

Players' winnings are now subject to a 25% withholding tax, this tax applies to the net winnings, which is the amount won minus the amount wagered.

Tax declaration and payment deadlines

- Gaming operators: Must file and submit their tax declarations within 15 days following the end of each month.
- Withholding tax on winnings: Operators are also responsible for declaring and paying the withheld taxes on player winnings within the same 15 days period.

Note that:

1. Amount wagered: Is the total money that players post or bet while participating in gaming activities.

Example: If 1,000 players each bet 1,000 Rwf,

The total amount wagered = $1,000 \times 1,000 = 1,000,000$ Rwf

2. Winning awarded: It refers to the total amount paid out by a gaming operator to players who win after a gaming event.

Example: If total payouts to winners are 600,000 Rwf, then amount won = 600,000 Rwf

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Remark: A company engaged in gaming activities is exempted on corporate income tax (CIT).

F. Capital gain tax

A capital gain is the profit earned from the sale of a capital asset when the selling price exceeds the original purchase price. It is also charged on the sale or transfer of shares.

According to the Law n° 014/2025 of 27/05/2025 amending law n° 027/2022 of 20/10/2022 establishing taxes on income, the capital gain tax rate is 10% of the capital gain (starting from 1st July 2025).

In accordance with the above Law, the capital gain tax on the direct or indirect sale or transfer of shares, licenses, debt instruments, options, guarantees and similar assets is withheld by the resident company whose shareholding structure has been altered or whose shareholders have changed due to the sale or transfer or by the seller or buyer in the case of the sale or transfer of licenses, debt instruments, options, guarantees or similar assets. The company shareholder or buyer referred above declare and pay the capital gain tax to the tax administration within 15 days after the month in which the sale or transfer occurred.

Exercises

1. Mr Kabaryozwe purchased 700,000 shares from Birwaneho ltd, a private limited company in January 2023 at 120rwf per share. In June 2025, Mr Kayaya sold 225,000 shares to Mr K at 172rwf per share.

You are required to:

- a. Calculate the capital gain
- b. Calculate the capital gain tax.
- c. Determine the due date for payment

2. Mrs Kizanye owned 782,300 shares at MMM limited, a private company where share was purchased in September 2019 at a price of 1,450rwf per share. In November 2023, she transferred

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238,600 shares to her Son. The market price of the shares at the date of the transfer is 2,153rwf per share.

You are requested to:

- a. Compute her capital gain.
- b. Compute the capital gain tax.
- c. Determine the due date for payment.

Solutions

1. Sales proceeds: 225,000 shares x 172rwf=38,700,000rwf

Cost of the share sold: 225,000 shares x 120rwf= 27,000,000rwf

- a. Capital gain: $38,700,000\text{rwf} - 27,000,000\text{rwf} = 11,700,000\text{rwf}$
- b. Capital gain tax: $11,700,000\text{rwf} \times 10\% = 1,170,000\text{rwf}$
- c. Within 15days of July 2025 (not later than 15th July 2025)

Note that:

1. Sales proceeds: The cash or other forms of payment received by the seller because of a sale.
2. The proceeds from the transfer of shares: When shares are transferred from one party to another, the transaction generates proceeds that represent the total amount received by the seller or transferor

2.4.1.1.2 Corporate Income Tax (CIT)

Corporate income tax is a kind of income tax levied on business profits of companies.

1. Entities shall be subject to corporate income tax

According to the Law n° 027/2022 of 20/10/2022 establishing taxes on income, the following entities shall be subject to corporate income tax:

- Companies established in accordance with Rwandan law or foreign law;
- Cooperative societies and their branches;

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- Commercial public institutions;
- Partnerships;
- Entities established by Provinces, Districts, the City of Kigali, and towns, to the extent that these entities conduct a business;
- De facto companies or associations and any other entities that perform business activities, and are established to realize profits.

2. Persons exempted from corporate income tax

In accordance with Law n° 014/2025 of 27/05/2025 amending Law n° 027/2022 of 20/10/2022 establishing taxes on income in its article 45 of Law n° 027/2022 of 20/10/2022 establishing taxes on income is amended as follows:

- a) The Government of Rwanda;
- (b) The City of Kigali;
- (c) A district with legal personality;
- (d) The National Bank of Rwanda;
- (e) An organization exclusively engaged in faith-oriented, humanitarian, charitable, scientific or educational activities unless it turns out that revenues earned by such an organization exceed corresponding expenses or if it carries on a business activity;
- (f) An international organization or agency of technical cooperation if such exemption is provided for by international agreements or an agreement concluded between such an organization or agency and the Government of Rwanda;
- (g) A qualified pension fund;
- (h) The public entity in charge of social security;
- (i) The Development Bank of Rwanda;
- (j) Agaciro Development Fund Corporate Trust Ltd;
- (k) The Business Development Fund Limited (BDF Ltd);
- (l) A special purpose vehicle unless it turns out that revenues earned by such a vehicle exceed corresponding expenses;

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- (m) A common-benefit foundation;
- (n) A resident trustee for income earned by a foreign trust;
- (o) A company engaged in gaming activities.

However, the person exempted from corporate income tax submits to the tax administration his or her financial statements no later than 31 March following the tax period, or three months following specific tax period granted to the taxpayer having made a request to that effect in accordance with the provisions of Article 8 of the above Law.

3. Payment rate and date

The corporate income tax is calculated on the rate of twenty-eight percent (28%) (as stated in law n° 051/2023 of 05/09/2023 amending law n° 027/2022 of 20/10/2022 establishing taxes on income) of the profit and is paid on annual basis on 31st March of the following year. This means that income tax of year n is paid not later on 31st March of year n+1, except the due date is in week-end or public holiday.

2.3.2 Indirect tax

An indirect tax is a tax collected by an intermediary (such as a business) from the consumer, rather than being paid directly to the government by the taxpayer. It is included in the price of goods and services, meaning consumers pay it when they make purchases.

2.3.2.1 Value Added Tax (VAT)

1. Definition

A value-added tax (VAT) is a consumption tax placed on a product at each stage of the supply chain (as finished), from production to the point of sale. The amount of VAT that the consumer pays is added on the cost of the product.

In Rwanda, the value added tax is charged on taxable goods and services sold locally and taxable imported goods and services by applying zero percent or eighteen percent ((18%)).

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2. Characteristics of VAT in Rwanda

The following are the characteristics:

Base = Consumption;

Collection mechanism = Indirect;

Charged and collected = at all stages in the supply chain;

Burden = the final consumer;

Crediting or refunding = VAT outputs - VAT inputs.

3. VAT registration and declaration

In Rwanda, a person who carries out any taxable activity whose turnover is equivalent to twenty million Rwandan Francs (Frw 20,000,000) in the previous fiscal year, or five million Rwandan Francs (Frw 5,000,000) in the previous calendar quarter is required to register for Value Added Tax in a period not exceeding 7 days from the time he/she has reached the said turnover. In addition, any taxpayer may choose to register for VAT voluntarily.

The declaration of VAT is made in the following way:

1. A taxpayer whose annual turnover is equal to or less than Frw 200,000,000 declares the value added tax quarterly within 15 days after the end of each quarter.
2. A taxpayer whose annual turnover is more than Frw 200,000,000 declares the value added tax monthly within 15 days after the end of the month.

However, a taxpayer whose annual turnover is equal to or less than Frw 200,000,000 and who intends to opt for a monthly value added tax declaration is authorized to do so.

4. Persons responsible for paying value added tax

1. Every taxpayer registered for value added tax is obliged to charge the tax on the taxable goods and services and remit it to the tax administration within the deadline provided for by this Law.

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2. A person who imports taxable goods and services pays value added tax in accordance with the rates provided for by this Law.

3. A public procuring entity is obliged to withhold value added tax on all payments made for taxable goods and services supplied by successful value added tax registered bidders.

5. Computation of net VAT payable and refundable

Recall that, Input VAT refers to the VAT that a business pays on its purchases of goods and services. While the Output VAT refers to the VAT that a business charges on the sale of goods or services.

Assume that, **A**: Input VAT and **B**: Output VAT

The following are possible scenarios:

When **A > B**: VAT Refundable position

When **A < B**: VAT payable position

When **A=B**: No VAT payable to tax administration and no VAT refund to the taxpayer by tax administration.

6. Exclusive and Inclusive of VAT

Exclusive of VAT means that VAT is excluded in the price or amount. VAT exclusive is equal to the price or amount times the VAT rate

On the other hand, under *inclusive of VAT*, is when VAT is included in the price or amount.

To calculate inclusive of VAT, we use a VAT fraction.

VAT fraction = VAT rate / 1 + VAT rate = $0.18/1+0.18=0.18/1.18$ or $18/118$. It allows extracting VAT from a VAT-inclusive price.

Example,

Mr Frank purchased goods subject to VAT on the price of 3,500,400RWF.

You are required to:

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- Compute the amount of VAT to be paid when the invoice amount is exclusive of VAT.
- Compute the amount of VAT to be paid when the invoice amount is inclusive of VAT.

Solution

a. VAT (VAT to be paid) = 3,500,400Rwf x 18/100 = 630,072rwf

Total payable amount (including VAT) 3,500,400+630,072=4,130,472rwf

b. VAT (VAT to be paid) = 3,500,400 x 18/118 = 533,959.3 Rwf

Price excluding VAT = 3,500,400rwf - 533,959.3rwf = 2,966,440.7rwf

Case	Invoice Amount	VAT Payable	VAT-Exclusive Price	VAT-Inclusive Price
a. Exclusive of VAT	3,500,400 rwf	630,072 rwf	3,500,400 rwf	4,130,472 rwf
b. Inclusive of VAT	3,500,400 rwf	533,959.3 rwf	2,966,440.7 rwf	3,500,400 rwf

7. Payment of value added tax

- The value added tax declared by a taxpayer must be paid within 15 days following each month or each quarter of declaration.
- The value added tax payable by an importer is due when the imported goods enter the customs point in accordance with customs law.

8. VAT Exemption

The law n° 009/2025 of 27/05/2025 amending law n° 049/2023 of 05/09/2023 establishing value added tax in its article no 8 specifies goods and services exempted from value added tax.

9. VAT Reward

Ministerial order n° 002/25/10/TC of 16/04/2025 relating to the reward based on the value added tax as follow:

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- A final consumer is rewarded 10% of the VAT amount as shown on the invoice issued.
- A consumer who pays and requests an invoice but is denied, and informs the tax administration receives an additional reward equivalent to 50% of penalties paid on that invoice.
- Reward is deposited to the mobile money or bank account designated by the last consumer on quarterly basis, within 15 following the declaration period of that quarter.
- Registration is done by dialing *800# and follow the instruction.

Eligibility criteria for VAT reward:

- To register for the value added tax reward system
- To have received an invoice indicating his or her mobile telephone number in Rwanda;
- The value added tax appearing on the invoice has been declared and paid.

Data analysis

The tax administration performs an analysis on a reward greater than Frw 200,000 or a single invoice of value equal to or greater than Frw 1,000,000 by considering the following:

- a) What was purchased;
- b) Quantity of the purchase;
- c) Reason for purchase;
- d) Purchaser;
- e) Payer;
- f) Method used for payment.

10. The use of electronic invoicing system and VAT penalties and fines

According to law n° 020/2023 of 31/03/2023 on tax procedures in following articles:

Article 18: Obligations of the user of electronic invoicing system

Any user of electronic invoicing system is bound by the following obligations:

1 ° to possess an electronic invoicing system;

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- 2° to issue an electronic invoice to every buyer regardless request thereof;
- 3° to indicate real name of goods and related tax rates on the electronic invoice for value added tax registered persons;
- 4° to indicate real name of goods and related prices on the electronic invoice for value added tax unregistered persons;
- 5° to notify the Tax Administration of failure of electronic invoicing system within a time not exceeding six (6) hours;
- 6° to refrain from deleting invoice except for sound grounds.

Article 87: Value Added Tax violations

A person who does not comply with legal provisions on Value Added Tax is subject to an administrative fine as follows:

1° if a person carried out business activities without being registered on Value Added Tax where it was so required, he or she is liable to an administrative fine of fifty percent (50%) of the amount of Value Added Tax due for the entire period of operation of the business;

2° if a non-Value Added Tax registered person issues a Value Added Tax invoice, he or she is liable to an administrative fine of one hundred percent (100%) of the Value Added Tax imposed and pays the tax indicated on that invoice;

3° if a person issues an incorrect Value Added Tax invoice with intention to decrease the amount of Value Added Tax payable or to increase the Value Added Tax input credit, he or she is liable to an administrative fine of one hundred percent (100%) of the amount of the Value Added Tax payable.

Article 88: Failure to use electronic invoicing system by a person registered for the Value Added Tax: A person registered for the Value Added Tax who sells goods or services without issuing an electronic invoice is liable to an administrative fine of ten (10) times the value of the evaded Value Added Tax. In case the fault referred to in Paragraph One of this Article is repeated within a period

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of two (2) years, the defaulter is liable to an administrative fine of twenty (20) times the value of the evaded Value Added Tax.

Article 89: Non-compliance with obligations of the user of electronic invoicing system

A person who fails to comply with obligations of the user of the electronic invoicing system provided for under Article 18 of this Law is liable to an administrative fine of two hundred thousand Rwandan francs (FRW 200,000). In case the fault referred to in Paragraph One of this Article is repeated within a period of two (2) years, the administrative fine is increased to four hundred thousand Rwandan francs (FRW 400,000).

A person registered to the Value Added Tax who carries out a taxable transaction and who delivers an electronic invoice with under-valued price or quantity of goods or services is liable to an administrative fine of ten (10) times the value of the evaded Value Added Tax.

In case the fault referred to in Paragraph 3 of this Article is repeated within a period of two (2) years, the administrative fine is increased to twenty (20) times the value of the Value Added Tax evaded.

2.4.2.2 Consumption tax/ Excise duties

1. Definition

In general, Excise tax is considered to be levied with the aim of taxing the rich or in a deliberate effort to regulate consumption of some goods or services, for either moral reasons, national emergency or revenue productivity. Excise duty is normally imposed on goods or services considered to be luxuries rather than necessities.

According to Law n° 011/2025 of 27/05/2025 establishing the excise duty, the excise duty is levied on an imported product, a product manufactured in Rwanda and a service supplied in Rwanda at the corresponding tax rates.

2. Excise duty calculation methods

In Rwanda, to calculate Excise duty, three regimes/calculation methods are used:

- **Ad valorem:** A fixed percentage is charged on the value of a particular good.

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- Specific: A fixed amount of money is charged upon the quantity purchased
- Hybrid: Ad valorem and specific are charged simultaneously on the same product.

3. Excise duty tax base

- The tax base for imported products is calculated in accordance with the provisions of the East African Community Customs Act (EACCMA).
- The tax base for a product manufactured in Rwanda and a service supplied in Rwanda is the selling price of the product or services.

Remark:

- ✓ The tax base for cigarettes combines the specific base and the retail price tax inclusive.
- ✓ The selling price is the total amount paid or to be paid by a buyer or recipient of a taxable product or service to the producer of the product or the service supplier, excluding the value added tax.
- ✓ If the producer and the buyer or recipient are related, the selling price is the price that the product would reasonably be expected to fetch in an arm's length transaction at that time at the wholesale level.

4. Exemption from excise duty

According to Law n° 011/2025 of 27/05/2025 establishing the excise duty, the following goods are exempted from the excise duty:

- (a) Goods for charitable organisations;
- (b) Vehicles assembled in Rwanda;
- (c) One personal vehicle of a former diplomat returning from foreign diplomatic mission;
- (d) One vehicle of a Rwandan national returning from a foreign country who fulfils exemption requirements provided for in the East African Community Customs Management Act;
- (e) Vehicles in the following categories:
 - (i) Minibus and bus that can carry not less than 14 persons;
 - (ii) Lorries and single cabin pick-ups manufactured to carry goods;
 - (iii) Refrigerating vehicles;

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- (iv) Tourist vehicles;
- (v) Ambulances and vehicles designed for persons with disabilities;
- (f) Products specifically manufactured for export;
- (g) Products sold to duty free shops and other specific persons determined by relevant Laws.

NB: The tourism vehicles provided for in (e) (iv) are subject to the requirements provided for by the East African Community Customs Act.

5. Excisable goods in Rwanda

According to Law n° 011/2025 of 27/05/2025 establishing the excise duty, the following goods are excisable goods.

The table below illustrates the products, tax rate and corresponding classification for Excise duties

PRODUCTS	TAX RATE	HS Codes
Juice from fruits, vegetables or other plants whose local raw material content is at least 30% by weight of its constituents including water.	10%	2009.11.00 2009.12.00 2009.19.00 2009.21.00 2009.29.00 2009.31.00 2009.39.00 2009.41.00 2009.49.00 2009.50.00 2009.61.00 2009.69.00 2009.71.00 2009.79.00 2009.81.00 2009.89.00 2009.90.00
Other juices from fruits, vegetables or other plants	39%	2009.11.00 2009.12.00 2009.19.00 2009.21.00 2009.29.00 2009.31.00

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		2009.39.00 2009.41.00 2009.49.00 2009.50.00 2009.61.00 2009.69.00 2009.71.00 2009.79.00 2009.81.00 2009.89.00 2009.90.00
Lemonades, sodas and other juices.	39%	2202.10.00 2202.91.00 2202.99.00
Flavoured or coloured syrups and other preparations intended to be consumed as beverages after simple dilution with water (In the form of powder or granules).	39%	2106.90.90
Beer whose local raw material content, excluding water, is at least 70% by weight of its constituents.	40%	2203.00.10 2203.00.90
Other beers	65%	2203.00.10 2203.00.90
Wine whose local raw material content, excluding water, is at least 70% by weight of its constituents	40%	2204.10.00 2204.21.00 2204.22.00 2204.29.00 2205.10.00 2205.90.00
Other wines	70% of the value of a litre not exceeding FRW 40,000	2204.10.00 2204.21.00 2204.22.00 2204.29.00 2205.10.00 2205.90.00
Brandies, liquors and whiskies whose local raw material content, excluding water, is at least 70% by weight of its constituents.	60%	2208.20.00 2208.30.00 2208.40.00 2208.50.00 2208.60.00

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		2208.70.00 2208.90.10 2208.90.90
Other brandies, liquors and whiskies.	70% of the value of a litre not exceeding FRW 150,000	2208.20.00 2208.30.00 2208.40.00 2208.50.00 2208.60.00 2208.70.00 2208.90.10 2208.90.90
Other fermented beverages.	65%	2206.00.10 2206.00.20 2206.00.90
Other alcoholic beverages with local raw material content.	30%	2206.00.10 2206.00.20 2206.00.90
Cigarettes	36% of retail price tax inclusive of a pack of 20 rods plus Frw 230 per pack	2402.20.10 2402.20.90 2402.90.00
Cigar and similar products containing tobacco or tobacco substitutes.	160%	2402.10.00
Electronic cigarette	FRW 30,000 per unit	8543.40.10
Cartridge with liquid for use in electronic cigarette.	FRW 24,400 per unit	8543.40.90
Premium (excluding benzene)-essence-.	FRW 183/litre	2710.12.20
Gas oil (Mazutu).	FRW 150/litre	2710.19.31
Lubricants or fluids for motor vehicle and machinery maintenance.	37%	2710.19.51 2710.19.52 2710.19.56 3403.19.00 3403.99.00 3819.00.00 3820.00.00

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Vehicles with an engine capacity of less than 1500 cc or hybrid vehicles which are not more than three years of age from the date of manufacture.	5%	8703.21.90
		8703.22.90
		8703.31.90
		8703.40.90
		8703.50.90
		8703.60.90
		8703.70.90
Vehicles with an engine capacity of between 1500 and 2500 cc or hybrid vehicles which are more than three years of age but not more than eight years of age from the date of manufacture.	10%	8703.23.90
		8703.32.90
		8703.40.90
		8703.50.90
		8703.60.90
		8703.70.90
Vehicles with an engine capacity above 2500 cc or hybrid vehicles which are more than eight years of age from the date of manufacture.	15%	8701.10.00
		8701.21.90
		8701.22.90
		8701.23.90
		8701.29.90
		8701.30.00
		8702.10.19
		8702.10.22
		8702.10.29
		8702.20.19
		8702.20.22
		8702.20.29
		8702.30.19
		8702.30.22
		8702.30.29
		8702.90.19
		8702.90.29
		8703.23.90
		8703.24.90
		8703.33.90
		8703.40.90
		8703.50.90
		8703.60.90
		8703.70.90
		8704.10.90
		8704.21.90
		8704.22.90
		8704.23.90
		8704.31.90
		8704.32.90

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		8704.41.90 8704.42.90 8704.43.90 8704.51.90 8704.52.90 8704.90.90 8705.10.00 8705.20.00 8705.30.00 8705.40.00 8705.90.00
Sweets and chewing gums.	FRW 322/kg	1704.10.00 1704.90.00
Chocolates.	FRW 1,930/kg	1806.10.00 1806.20.00 1806.31.00 1806.32.00 1806.90.00
Cosmetics and beauty products.	15%	3303.00.00 3304.10.00 3304.20.00 3304.30.00 3304.91.00 3304.99.00 3305.10.00 3305.20.00 3305.30.00 3305.90.00 3307.10.00 3307.20.00 3307.30.00
Telephone communications.	12% for the first year following the date of commencement of this Law. 14% during the second year following the date of	

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	commencement of this Law.	
	15% from the third year following the date of commencement of this Law.	
Amount or commission charged on financial transactions.	15%	

Remark: 1. Excise duty on hybrid vehicles is implemented since 1st July 2025. While excise duty of 15% on amount or commission charged on financial transactions will be implemented effective 1st July 2027.

Note: The HS Code is part of the Harmonized System (HS) of tariff nomenclature, which is used internationally for classifying traded goods.

Example: 2009.11.00

20: Chapter

09: Heading

11: Subheading

00: Tariff line/statistical code (Often used by countries for further classification; in many cases, 00 indicates no further breakdown at the 8-digit level.

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Some importance of HS Codes in international trade

HS (Harmonized System) codes are internationally standardized product classification codes developed by the World Customs Organization (WCO) and they are critical to global trade and customs operations.

1. Uniform classification of goods: HS Codes provide a common language for classifying goods across countries and enable consistency and clarity in international trade documentation.
2. Customs duties and tariffs: Customs authorities use HS codes in calculation of import/export duties.
3. Trade statistics: Governments use HS codes to compile data on Import and export trends, trade balance and sectoral performance.
4. Trade compliance and enforcement: HS codes are used to ensure products comply with Import/export restrictions, health and safety regulations and sanitary and phytosanitary measures.
5. Help to detect illegal trade, such as misclassification to avoid duties.

6. Time for taxation

According to Law n° 011/2025 of 27/05/2025 establishing the excise duty, Excise duty is payable when:

- A taxable product is cleared out of the factory, in case of products manufactured in Rwanda;
- Product is under the customs control in case of imported products (the tax on an imported product is paid concurrently (simultaneously) with customs duties).
- The service is supplied.

7. Periods for declaration & payment

The tax period is the calendar month. The taxpayer declares and pays the tax within five days (5) following the calendar month of activity.

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Example: This mean that the excise duty declaration and payment for April 2025 should be declared and paid not later than 05th May 2025.

8. Excise tax stamps

The taxpayer of excise duty whose products are locally manufactured or imported to be sold on the Rwandan market affixes on them a tax stamp. Directives of the Commissioner General (of RRA) determine the list of products subject to the affixing of a tax stamp, its design as well as procedures for its issuance, affixing and payment.

2.4.3. Tax on International trade (Customs duties)

Recall that in brief the international trade deals with import, export and transit. It is a task for customs administration to collect the international trade taxes (customs duties and taxes) According to Section 2 of EACCMA, 2004 “Customs means the Customs Administrations of EAC Partner States”.

2.4.3.1 Categories of imports(Customs regimes)

Imports are divided into five categories:

- a. IM4/IMS4): Home Consumption: These are home use consumption regimes. IM4 symbolized by “C” as customs declaration assessed by clearing agent while IMS4 symbolized by “B” (importation simplified declaration) as customs declaration assessed by customs officer with customs value fixed by customs administration (example CIF not exceeding 500,000rwf and 2 million Rwandan francs for all borders from RDC).
- b. IM5: Temporary Importation Regime
- c. IM6: Re-importation
- d. IM7: Warehousing after movement bond (WH7/T1) & Customs Warehousing Regime
- e. IM8: Import Transit Procedures

Note that, all above import regimes are processed through a customs declaration and using Rwanda Electronic Single Window system (version 4.3.2 Prod).

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2.3.3.2 Categories of export(Customs regimes)

EX1: Export

EX2: Temporary export

EX3: Re-export

2.4.3.3 Duties/taxes under imports

The import duty is paid to the rate in force at the time when goods liable to such duty are entered for home consumption. Customs tariff may be:

1. *Ad valorem*: Calculated based on percentage. Example: 25%
2. *Specific*: Calculated based on specific amount: Example: Second hand clothes and shoes
3. *Combination of the two (Hybrid tax)*.

The following are the rates collected at importation (depends on products)

1. Import duties: (various rates from EAC-CET)
2. Excise duty(ED): Various rates from law n° 050/2023 of 05/09/2023 establishing the excise duty.
3. Value added tax(VAT): 18%
4. Withholding tax(WHT): 5%
5. Infrastructure Development Levy(IDL): 1.5%
6. African union levy(AUO): 0.2%
7. Quality Inspection Fees(QIF): 0.2%

2.4.3.4 Tax rates on imports

By considering the East Africa Community Common External Tariff (CET) 2022 version June 2024, There are 4 tariff bands;

- a) 0%,
- b) 10%

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- c) 25%
- d) 35%

Remark: On the side of export, there is an exemption as a means of encouraging the exportation. Only computer processing (500rwf or 3,000rwf) is paid.

2.4.3.5 Computation of customs taxes/duties

Import duty (ID) value = Customs Value (CIF) x Import duty rate

ED value = (Customs value + import duty value + storage fees (weight x 10rwf)) x ED rate

VAT = (Customs value + Import duty + Excise duty + storage fees (weight x 10rwf)) x 18%

Remark: Not always the case that product is excisable taxed (it depends). So, calculation without excise duty then goods, the following is the formula:

VAT = (Customs value + Import duty + storage fees) x 18%

Withholding Tax (WHT) = CIF x 5%

Infrastructure Development Levy (IDL) = CIF * 1.5%

African Union Levy (AUO): Customs value (CIF) * 0.2%

Quality Inspection Fees (QIF): Customs value (CIF) * 0.2%

Note that: Environmental levy was added on the above customs duties and tax since the 2025-2026 fiscal year. It will be Customs value (CIF) * 0.2 % (Law n° 010/2025 of 27/05/2025)

NB: Law n° 010/2025 of 27/05/2025 establishing an environmental levy on imported items packaged in plastic materials states that the concerned products are:

- Water
- All types of juice, energy drinks and carbonated non-alcoholic beverages
- Peanut butter, honey and derived products
- All types of body lotions, petroleum jelly and shampoos
- Mattresses
- Clothes

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- Shoes
- Toilet papers

2.4.3.6 Motor vehicle registration fees

Registration fees for imported motor vehicles shall be paid to the Customs office during the tax clearing process. Registration fees for moto vehicles imported into the country shall be payable only once.

According to Ministerial Order N° 003/25/10/TC of 16/04/2025 determining vehicle registration fees based on engine capacity as follows.

Engine power/capacity(cc)		Fees (in Rwf)
Between	And	
0	1000	75,000
1001	1500	285,000
1501	3000	445,000
3001	4500	748,000
4501	Above	997,000
Other		1,000,000
Electric vehicles		285,000
All electric motorcycles		75,000

Remark: The registration fee for a vehicle with a personalized number plate is FRW 5,000,000

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Typical example on customs declaration:

21 Identity and nationality of active means of transport crossing the KDN028U /ZH3131			KE	22 Currency & total amount USD 11,000.00	23 Exch. rate 1,437.1080	24 Nature of transac.
25 Mode 33 at border	26 Inland mode 33 Transport	27 Place of loading/unloading	28 Financial and banking data Bank Terms of payment			
29 Office of entry/exit 11GA Gatuna		30 Location of goods WHSE1				
Marks and numbers - Containers No(s) - Number and kind Marks & no USED TOYOTA LANDCRUISER of CHS:JTMJV03JXD4094459 MOD:2012 Number and 1 NE Kind Unpacked or unpackaged Containers No --- Other vehicles, piston engine, cylinder >1500 =<3000cc 4500			32 Item 1	33 Commodity code 87032390	900	
				34 Cty. orig. a JJP b	35 Gross mass (kg) 2,550.00	36 Prefer.
				37 PROCEDURE 4071 000	38 Net mass (kg) 2,550.00	39 Quota
				40 Summary declaration / Previous document S/L 11DPW 2025 S 6731 art. 1		
Licence No 1,580,819+0+173,890+0-0 A.D. VEH 325 380 008 007 141 006 014				41 Supplementary units NMB 1	42 Item Price 11,000.00	43 V.M. 1 cod
					A.I. Code 1.0000	45 Adjustment
				Vin Number	46 Statistical value 17,562,897	
Type	Tax base 17,562,897	Rate 25.00	Amount 4,390,724	M 1	48 Deferred payment	49 Identification of warehouse DP WORLD
C02	21,979,121	15.00	3,296,868	1	B ACCOUNTING DETAILS	
E21	25,275,989	18.00	4,549,678	1	Mode of payment CASH	
V02	17,562,897	5.00	878,145	1	Assessment number L 14509	/ Date 02/07/2025
W01	17,562,897	0.20	35,126	1	Receipt number	Date
AUO	748,000	1.00	748,000	1	Guarantee 0	RWF Date
MVF	17,562,897	1.50	263,443	1	Total fees 3,000	RWF
IDL	Total 14,161,984			1	Total 14,164,984	RWF

Exercise

Question: Mr Kalori a simple importer of juice (non- natural) from Uganda using Gatuna one stop border post with the certificate of origin as EAC country member.

The following are details of his importation:

Description		Quantity	value(in \$) per dozen
Juice(other juice from fruits)		430 dozens of 350ml/bottle	3.05\$

Other information: From Common External Tariff, the Import duty rate: 25%, Exchange rate: 1\$=1,415rwf.

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You are required:

Calculate the following:

- a. Import duty to be paid in Customs at Gatuna one stop border post.
- b. Excise duty to be paid in Customs at Gatuna one stop border post.
- c. VAT to be paid in Customs at Gatuna border one stop border post.

2.4.4. Decentralised taxes (Local government taxes)

2.4.4.1. Immovable property tax

A. Tax base

The immovable property tax is levied on *the market value of a building and surface of a plot of land*. The tax on the building and its improvements is based on the market value. If the immovable property consists of a plot of land that is not built, the tax on immovable property is calculated on each square meter of the whole surface of the plot of land.

B. Tax exemptions

- ✓ One building (for occupancy for dwelling purposes and its annex)
- ✓ Immovable property determined by the District Council and donated to vulnerable groups;
- ✓ Immovable property belonging to the State, Province and Decentralized entities, Public institutions (except if they are used for profit making activities or for leasing).
- ✓ Foreign diplomatic missions in Rwanda (their countries do not levy tax on immovable property of Rwanda's diplomatic missions);
- ✓ Land used for agricultural and livestock activities (area = or < (2ha);
- ✓ Land reserved for construction of houses in rural areas but where no basic infrastructure has been erected (established).

D. Tax rate on immovable property

According to Law n° 048/2023 of 05/09/2023 determining the sources of revenue and property of decentralized entities,

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1. The tax rate on immovable property is determined as follows:
 - a. Zero to FRW 80 per square meter of the surface of land;
 - b. 0.5% of the market value of both the building and related plot of land for residential use;
 - c. 0.3% of the market value of both building and related plot of land for commercial use;
 - d. 0.1% of the market value of both the building and related plot of land for industrial use, building and plot belonging to micro-enterprises and small business

(2) However, special consideration is given to the following:

- (a) A plot and a building for residential use of three floors are taxed at the rate of 0.25% of their market value;
- (b) A plot and a building for residential use with more than three floors are taxed at the rate of 0.1% of their market value;
- (c) In determining the taxable value of a commercial or industrial building, machinery and other equipment attached to the building are not considered.

E. Tax on sale of immovable property

- (1) The tax on sale of immovable property levied in accordance with the following rates and modalities:
 - (a) A rate of 2% is levied on the sale value of an immovable property for commercial use if the seller is a taxpayer registered for income tax;
 - (b) A rate of 2.5% is levied on the sale value of an immovable property sold by a person not registered for income tax;

However, the tax stated is levied on the balance of the sale value of the property after deduction of FRW 5,000,000 that is not subject to tax

Remark: The District council determines the tax rate on square meter, while the standard rates set by an Order of the Minister in charge of taxes (MINECOFIN).

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Prepared by Giraneza Mugaragu Gilbert (Master's in Economics)

Lecturer of Introduction to Taxation

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Note that, the tax declaration and submission is not later than 31st December of the tax year. However, the minister having tax in its attributions can extent the time.

2.3.4.2. Trading license

A. Definition

Any person for each place in which he/she opens a business activity within a District, is liable to tax to pay trading license.

Note that, the tax year starts from 1st January to 31st December including seasonal or periodic activities but when activity started after January, remaining months are only concerning with trading license. This means that starting mid-year, the taxpayer pays pro-rata for the remaining months. The District council determines annually the rural or urban areas and small-scale activities.

B. Trading license exemptions

The following are exempted to trading license:

- ✓ Non-commercial state organs,
- ✓ Small and medium enterprises during the first two (2) years following their establishment.

C. Tax rate.

The following table illustrates turnover and tax due in Rwandan currency.

a. The trading license tax shall be calculated based on the following tables: All value added tax registered taxpayers.

Turnover	Tax due (in Rwandan francs)
From Rwf 1 to Rwf 40,000,000	60,000
From Rwf 40,000,001 to Rwf 60,000,000	90,000
From 60,000,001 to Rwf 150,000,000	150,000
Above Rwf 150,000,000	250,000

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b. Other profit-oriented activities

Type of activities	Rural Areas	Towns	City of Kigali
A) Vendors without shops, small scale technicians who do not use machines	4,000rwf	6,000rwf	8,000rwf
B) Transport of people and goods on motorcycles	8,000rwf	8,000rwf	8,000rwf
C) Traders and technicians who use machine	20,000rwf	30,000rwf	40,000rwf
D) All other vehicles besides bicycles	40,000rwf each vehicle	40,000rwf each vehicle	40,000rwf each vehicle
E) Transport activities by motor boat	20,000rwf each boat	20,000rwf each boat	20,000rwf each boat
F) Other profit-oriented activities	20,000rwf	30,000rwf	40,000rwf

D. Tax payment:

Not later than 31st January of the tax year (in which the activities are undertaken).

Example, if you are operating a business in 2025, you must pay the trading licence tax by January 31, 2025. This means you are paying in advance for the right to conduct business during that same year (2025). But note that, the minister in charge of tax can extend the time. The payment may be annually paid or quarterly paid.

2.4.4.3. Rental income tax

In Rwanda, rental income is subject to taxation under the country's tax laws. The tax on rental income is regulated by the Rwanda Revenue Authority (RRA) and applies to both individuals and businesses that earn income from leasing out property.

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1. Who is liable to tax?

An individual or any other person who is not subject to corporate tax earning income from rented immovable property located in Rwanda.

2. Taxable income

Rental income tax is charged to the following:

1. Income from rented buildings in all or part;
2. Income from rented improvements in whole or in part;
3. Any other activity to which rental income may be accrued

3. Tax year and tax payment

From 1st January to 31st December of the previous year which shall be the income taxable year. and the tax payment is not later than January 31st of the following income taxable year (where the rented building or improvements are located).

4. Tax computation

Taxable income is obtained by deducting from gross income 50%, considered as expenses incurred to maintain and upkeep the rented property. In case, the taxpayer produces the proof of bank payment (loan for construction and purchasing the property), the estimated expenses are 50% plus actual bank interest paid from the beginning of the rental period.

5. Tax rate

Income (annual)	Rate
From 1 Rwf to 180,000 Rwf	0%
From 180,001 Rwf to 1,000,000 Rwf	20%
Above 1,000,000 Rwf	30%

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Example:

Starting from 1st January 2023, Mr Stone owns two properties in Kigali town which he rents to different business men. For property one he receives a monthly rent of 800,000rwf and for property two, he receives a monthly rent of 1,200,000rwf. However, the property two was constructed using a loan of 15,000,000rwf from the bank at an interest rate of 16% per annum.

Required:

- Calculate the taxable rental income for Mr Stone.
- Determine tax liability and the tax payable for Mr Stone at 31st December 2023.

Solution

Property One:

a. Gross rent: 800,000rwf x 12= 9,600,000rwf

Allowable expense 50% x 9,600,000rwf=4,800,000rwf

Taxable rental income=9,600,000-4,800,000=4,800,000rwf

Property Two:

Gross rent: 1,200,000 x 12=14,400,000rwf

Allowable expenses 14,400,000 x 50%= (7,200,000rwf)

Allowed interest expenses 16% x 15,000,000rwf =2,400,000rwf

Taxable rental income: 14,400,000rwf-7,200,000-2,400,000rwf= 4,800,000rwf

Total taxable rental income: 4,800,000rwf +4,800,000rwf= 9,600,000rwf

b. Tax liability

Tax rate of 0%: 0 - 180,000

Tax rate of 20%: 180,000 - 1,000,000= 164,000rwf

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Tax rate of 30%: (9,600,000-1,000,000) * 30% = 2,580,000rwf

Total liability = 164,000rwf + 2,580,000rwf = 2,744,000rwf

2.4.5. Other taxes/levy/fees collected by Rwanda Revenue Authority

2.4.5.1. Motor vehicles for road maintenance (annual motor vehicle road user charges)

In accordance to Law n° 013/2025 of 27/05/2025 establishing a levy on petrol, gas oil and motor vehicles for road maintenance, the following are the tax base, payment date and exemption for motor vehicles for road maintenance.

a. The base of the levy on motor vehicle is set according to the motor vehicle categories as follows:

Category	Levy amount (Frw)
Car	50,000
Jeep	50,000
Pick-up	100,000
Microbus	100,000
Minibus	100,000
Bus	100,000
Truck	120,000
Half-trailer	120,000
Trailer	150,000

b. Payment date

The levy on motor vehicles for road maintenance is declared and paid annually to the Tax Administration (RRA) no later than 31 December of each year.

Remark: Payment with momo, dial *800# and follow the instruction.

c. The following motor vehicles are exempted from road maintenance levy:

1. Motor vehicles of the Government of Rwanda;
2. Motor vehicles of high commissions, embassies and diplomats accredited to Rwanda;
3. Motor vehicles of international organizations having signed an agreement with the Republic of Rwanda.

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2.4.5.2 Tax tourism on accommodation

a. The meaning

In accordance with n° 015/2025 of 27/05/2025 establishing a tourism tax on accommodation the term “accommodation” means a service which consists of providing a room or place to sleep or rest.

b. Rate and base

The rate of the tourism tax on accommodation is set at 3% of the amount paid or payable for accommodation, exclusive of value added tax.

c. Declaration and payment

An accommodation facility declares the tourism tax on accommodation after the end of the calendar month. An accommodation facility pays the declared tourism tax on accommodation within 15 days following each month of declaration.

2.5 Challenges that Rwanda Revenue Authority is currently facing.

1. Tax evasion and avoidance: Tax evasion and avoidance pose a significant challenge to the Rwanda Revenue Authority (RRA) as they directly reduce the amount of revenue collected to fund public expenditures. Tax evasion involves illegal practices such as underreporting income, falsifying records, or not declaring taxable activities, while tax avoidance involves using legal loopholes (gaps) to minimize tax liability. Detecting and addressing these behaviors requires RRA to invest heavily in audits, data analysis, enforcement mechanisms, and continuous legal reforms, which increases administrative costs and stretches institutional capacity.

2. Informal sector dominance (large informal sector): The dominance of the informal sector in Rwanda presents a challenge for the Rwanda Revenue Authority (RRA) because a large portion of economic activity occurs outside the formal tax system. Many informal businesses operate without registration, maintain no formal records, and often conduct cash-based transactions, making it difficult for RRA to identify, assess and monitor them for tax purposes. This limits the tax base, reduces potential revenue, and undermines tax fairness, as the burden falls disproportionately on compliant taxpayers in the formal sector.

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3. Limited tax compliance (low voluntary compliance): Voluntary tax compliance levels for many taxpayers is still low. This may lead to non-payment or late payment of taxes and lastly it increases the burden on the Rwanda Revenue Authority to enforce compliance, leading to higher administrative costs and a need for more aggressive collection measures.

4. Complexity in tax legislation and policies: Complexity in tax legislation and policies poses a significant challenge for the Rwanda Revenue Authority (RRA) as it makes tax compliance difficult for many taxpayers, particularly small businesses and individuals with limited tax knowledge. Ambiguous language, frequent changes, and overlapping tax provisions increase the likelihood of unintentional errors, reduce voluntary compliance, and create opportunities for tax avoidance. For RRA, this complexity results in higher administrative costs, increased demand for taxpayer support services, longer audit and dispute resolution processes, and potential revenue losses.

5. Technological limitations and cybersecurity threats: RRA relies heavily on digital platforms such as e-tax, e-filing, e-payment, Rwanda e-Single Window and online declaration systems to enhance tax compliance and service delivery. However, several technological limitations can hinder these efforts.

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CHAPTER THREE: TAX EXPENDITURE

1. Definition

A tax expenditure refers to a government policy that provides certain groups or activities with preferential tax treatment resulting in a reduction in tax revenue that would have otherwise been collected under the standard tax system.

In case of Rwanda, according to ministry of finance and economic planning (Minecofin), a tax expenditure is the tax revenue that is foregone through provisions in the law such as VAT exemptions and zero-ratings, income tax holidays and preferential rates.

2. Types of tax expenditure

Tax expenditures can take various forms, and they are classified based on the specific tax provisions that provide preferential treatment or incentives.

The following are some common types of tax expenditures:

1. *Tax credits:* Tax credits directly reduce the amount of tax owed by the taxpayer. They are often used to incentivize certain behaviors such as investing in specific activities or supporting low-income individuals or families.
2. *Tax deductions:* Tax deductions reduce the taxpayer's taxable income, resulting in a lower tax liability. Deductions are often used to encourage activities deemed beneficial for individuals or the economy.
3. *Preferential tax rates:* Certain types of income may be taxed at a lower rate than ordinary income. This preferential treatment is intended to encourage investment, entrepreneurship or other economic activities.
4. *Deferrals (delays or rearrangements):* Deferrals allow taxpayers to delay the payment of taxes on certain income or gains until a later date. This is often used to encourage savings or investment in specific areas.
5. *Industry-Specific incentives:* Governments may use tax expenditures to support specific industries or economic activities, fostering growth, innovation or job creation.

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6. *International tax provisions:* Tax provisions related to international transactions designed to avoid double taxation or encourage certain cross-border activities.

7. *Housing-related tax expenditures:* Tax provisions aimed at promoting homeownership or providing relief related to housing expenses.

NB: It is important to note that tax expenditures can change over time as tax laws are amended or new provisions are introduced. Governments regularly review and evaluate these provisions to ensure they align with policy objectives and contribute to desired outcomes.

3. The importance/ reasons for tax expenditure

1. *Promoting investment and economic growth:* Tax expenditures may be implemented to incentivize investment, stimulate economic activity, and attract foreign capital.

2. *Supporting small and medium-sized enterprises (SMEs):* Tax expenditures can be targeted at supporting SMEs, which play a vital role in driving economic growth and employment in country. Measures such as tax credits, exemptions, or reduced tax rates for SMEs help reduce the tax burden on small businesses, encourage entrepreneurship, and foster the development of a vibrant private sector.

3. *Promoting social objectives and poverty reduction:* Tax expenditures may be used to achieve social objectives and alleviate poverty by providing targeted assistance to vulnerable populations.

4. *Encouraging sustainable development and environmental conservation:* Tax expenditures can be utilized to promote sustainable development and environmental conservation initiatives. Country may offer tax incentives or credits for investments in renewable energy, energy-efficient technologies, waste management, and conservation efforts. These measures aim to incentivize environmentally friendly practices, reduce greenhouse gas emissions.

5. *Attracting Foreign Direct Investment (FDI):* Tax expenditures play a crucial role in attracting foreign direct investment (FDI) and fostering country's integration into the global economy. These measures aim to attract multinational corporations, promote technology transfer, create jobs, and spur economic development.

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4. Case study of Rwanda

Rationale for tax expenditure the reasons for Rwanda's tax expenditure can be broadly summarized into five groups:

1. Improving affordability of sensitive products (such as healthcare, education and agriculture);
2. Internationally recognized administrative difficulties about how to apply taxes (such as defining the value added in financial services or gambling);
3. Regional integration and harmonization (such as EAC-wide import duty exemptions);
4. Targeting development and competitiveness of priority sectors (such as transport); and
5. Attracting investment to Rwanda that generates other economic benefits (such as job creation, economic growth, knowledge sharing and local production).

End of the course.

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