It's No Illusion: You Can Pay Taxes with a Smile: The Rwanda Case

In 2008, the government of Rwanda embarked on a series of sweeping investment climate reforms with the support of the World Bank Group. One program pillar focused on tax reforms aimed at simplifying the tax regime for micro, small, and medium enterprises and, overall, improving the tax system for businesses by facilitating administrative procedures related to the value added tax (VAT) and income tax. This SmartLesson captures the challenges of streamlining Rwanda's tax system and the specific steps that led to a reduction in the overall tax burden for enterprises, a dramatic rise in the number of taxpayers, and a lighter and less costly national tax administration.

Background

In the push for tax reform, there was a twofold guiding principle: 1) to lower the cost of compliance for taxpayers, reduce the cash-flow burden by allowing quarterly rather than monthly tax payments and expediting refunds, and minimize points and frequency of contact between taxpayers and the tax authority; and 2) to safeguard government revenue by protecting collections and reducing administrative costs. The ultimate objective was to encourage businesses to pay taxes via a more attractive system.

Since 2008, the government of Rwanda has emphasized Doing Business reforms to improve Rwanda's attractiveness to local and international investors. In response, the World Bank Group launched its investment climate reform project to support the national reform agenda.

To begin streamlining the tax system, the project conducted a tax process mapping (TPM) exercise, a step-by-step technique to analyze process functions and rationalize procedures carried out at the Rwanda Revenue Authority (RRA). The mapping covered RRA's Domestic Tax and Legal departments.

The range of improvements was far-reaching. The project identified 10 processes, involving 98 changes to policies, procedures, and practices, as eligible for streamlining—in registration, de-registration, filing of returns, audits, assessments, refunds, enforcement and recovery, administrative appeals, internal investigations, and tax clearance.

The TPM exercise also included a desk review of tax laws and statutory instruments; detailed observation and walk-throughs of tax-administration processes; and consultations involving key stakeholders at each project milestone to ensure that the client and the Bank Group were in agreement.

By the end of 2012, two-thirds of the recommendations from the TPM exercise had been adopted and implemented swiftly. Examples include having registration forms in the local language (Kinyarwanda); merging or dropping steps in the tax administration process to reduce bureaucracy and increase efficiency; using e-mail, fax, or registered mail to notify taxpayers that they are de-registered; and redesigning forms for small taxpayers. The results were soon tangible. (See Box 1.) However, some of the reforms recommended, such as work on the leasing environment, tax incentives, and the small and medium taxpayer regimes, were ongoing and required more extensive discussion and hands-on assistance.
The global momentum for reform in Rwanda provided the enabling environment for tax reforms to achieve optimal impact.

During the period covered by this project, Rwanda passed a total of seven Doing Business reforms and saw its global ranking advance from 143 to 67, a unique performance in Sub-Saharan Africa. (Doing Business, 2010)

The success of the tax reform project can also be attributed to improvements in other sectors of the business environment in Rwanda.

**Breaking new ground**

The Rwanda Revenue Authority estimates that between 2009 and 2012 the number of domestic taxpayers grew by 400 percent, from 20,000 to 100,000, in part thanks to the reforms, which also reduced taxpayer visits, opportunities for rent seeking by tax authorities, and the volume of paperwork.

According to an independent evaluation covering 2008–2010, improvements in tax clearance, VAT filing, and payment systems alone saved approximately $500,000 in time and funds. A further $2.4 million in cost and time savings can be attributed to reforms in business registration. Roughly 5,000 new businesses have become operational, and the country’s private sector has attracted as much as $46 million in investments.

Related reforms in trading across borders also contributed to a more conducive investment climate, with Rwanda joining the East African Community Customs Union; the 24-hour one-stop border point and simplified trade regime that reduced time to clear consignment in customs; online tax calculators for VAT as well as personal and corporate income taxes; and increased service delivery points where RRA continues to decentralize its services by opening more offices in new areas such as licensing and construction permits.

Key significant outcomes include the following:

- **Merging tax registration and business registration** allows both processes to be completed on the premises of the Rwanda Development Board (RDB), the national investment-promotion authority. A liaison between RRA and RDB (to avoid duplication) was achieved with minimal fuss, because RRA had permanent staff on the premises of RDB, and the latter had already begun to install software that created a single number for both taxpayer identification and business registration.

- **A forfeit regime of fixed amounts for micro taxpayers,** introduced by RRA in September 2012, simplifies compliance for micro and small enterprises. It ranges from RF60,000 to RF300,000 for taxpayers with turnover between RF2 million and RF12 million. For small taxpayers (with a turnover ranging between RF12 million and RF50 million) a flat tax rate of 3 percent was introduced.

  “The investor community mostly appreciated the online tax filing services that could be done at taxpayer premises, the quarterly VAT payments, and the Tax Issues Forum.”
  —Vivian Kayitesi, Head, Investment Promotion Agency, Rwanda Development Board

  **• Reduction in the time to obtain a tax-clearance certificate** from one week to less than 24 hours occurred, once RRA installed computer software that analyzes taxpayer data.

  **• A broad range of online services**, including electronic tax registration and tax clearance, was introduced, along with an online onboarding program for new taxpayers.

  **• A number of tax-filing innovations**, introduced by RRA, permit taxpayers to make self-declarations and pay tax liabilities. They include the following:

    - Regulatory changes that now allow SMEs to file and pay VAT returns on a quarterly basis;
    - Filing electronically or by registered mail;
    - Provision of downloadable filing forms on RRA’s website;
    - A software application, provided on RRA’s website, enabling taxpayers to calculate and verify liability before filing tax returns;
    - Promotion of the use of certified tax accountants and consultant services to improve tax compliance and collection efficiency;
    - Translation into the local language, Kinyarwanda, of tax-filing forms for SMEs;
    - Development and introduction of tax declaration and payment by mobile telephone in cooperation with MTN, the country’s leading telephone service provider.

  “Quarterly VAT payments were popular mainly because SMEs regarded them as loans without interest. Quarterly rather than monthly payments, with corresponding reduction in time and transport costs to RRA offices, increase SME cash flows.”
  —Gerard Mukubu, Deputy Chief Executive Officer, Private Sector Federation

  **• Installation of a computer-based audit selection system** enables effective risk management through better identification and evaluation of risks. The system replaced a process that required full review and approval, and it reduced audit approval from 13 to 2 steps.

  **• A proposal to establish an independent tax-appeal tribunal**, and the drafting of the necessary legislation and rules, was accepted by the government, following the TPM exercise. The tribunal will permit taxpayers to appeal tax
assessments to an independent and impartial body.

- **A 30-day window for taxpayers to appeal an assessment** is provided by RRA. Perhaps the most critical impact of the Bank Group’s work is its contribution to the cultural shift regarding taxpayer compliance. In a dramatic turnaround, the taxpayer in Rwanda is now more compliant than not.\(^4\) This has contributed to expanding the tax base and tax collections; the challenge now is detecting tax-avoidance schemes, as opposed to blatant tax evasion.

“**RRAs educative campaigns made me understand the negative impact of tax evasion and the importance of avoiding arrears and declaring exact amounts. Today, I comply to qualify for bank loans and to expand my business. I also want to play my part in supporting the RRA efforts to improve tax payment for businessmen like me.”**

—Francois Ngoboka, Shop Owner, Nyabugogo Market (Kigali)

**Lesson 1: Exploit synergies across the range of investment-climate products to more effectively meet client needs.**

Information needed to register a business was essentially the same as that required for tax-registration purposes, which provided a compelling rationale to unify both processes. Previously, the procedures were performed by separate entities, RDB and RRA, with business registration occurring first. Following the setup of an interface between the two agencies’ registration systems, RRA automatically issues a taxpayer identification number, which is also used by RDB as the business registration number. The process is completed in six hours! This improvement was achieved through the collaborative efforts of the government of Rwanda and the Investment Climate ICT facility.

“**Implementing recommendations of the Tax Process Mapping exercise allowed faster services to RRA clients due to reduced processes and procedures. Today, top management is no longer required do a quality check for all audit files and enforcement cases; these are handled by the relevant heads of department or division.”**

—Pierre Celestin Bumbakare, Commissioner for Domestic Taxes, RRA

**Lesson 2: Low-hanging fruits feed you only for so long.**

As we know, quick wins are good for gathering momentum. But some deeper or more difficult issues take more time and are often more important—and without them, the whole reform process may have no impact. Some highlights of the streamlining that spurred the reform momentum were the online services—where tax and business registration were merged and the time for obtaining a tax-clearance certificate was reduced to less than 24 hours. Initially, to obtain a tax-clearance certificate, a taxpayer needed approvals from three different departments: customs, domestic taxes, and revenue protection. With Bank Group support, RRA streamlined and expedited interdepartmental access and exchange of taxpayer information. The tax-clearance process was then unified to avoid duplication, which not only enabled faster clearance but also freed up human and logistical capacity.

Oftentimes, the impact of an intervention cannot be measured until long after project completion. Therefore, establish milestones that are realistic and suitable for the client. Address the easily fixable first, to provide an incentive for further reforms.

In response to the Bank Group’s recommendation to consider designing utility software to calculate taxes and fines and to validate tax submissions, RRA needed more time to carry out a feasibility study and to source funds for implementation. Nonetheless, it is now operational.

**Lesson 3: Catalyze the voice of the private sector.**

Enacting regulation is time-consuming. Interaction with regulatory authorities should start early and be regular. To push passage of the Tax Appeals Tribunal bill, the team began engaging with client representatives at the mapping stage, when onerous processes and procedures were being identified and possible solutions conceived. The team met frequently with RRA, the Ministry of Finance’s tax policy team, the Ministry of Justice, and the Private Sector Federation to monitor progress and generate momentum for the legislative review process.

**Lesson 4: Go the extra mile, if necessary, to convince the client of a solution’s value and to ensure that capacity exists for implementation.**

Following introduction of a tax-appeal mechanism, the tax-reform team recommended that RRA also adopt an internal process to eliminate steps and enable taxpayers to appeal directly to the Office of the Commissioner General. The team brought in experts to share their experiences from previous interventions. For the proposal to establish a tax-appeal tribunal, the team used as regional models Tanzania and Uganda, both of which have had tax tribunals for some time.

The private sector already felt strongly about the tax-appeal process in Rwanda, and the World Bank Group’s introduction of a specific tribunal for tax matters catalyzed the reform momentum. Also helpful were trainings in the proposed assessment procedure, as were other processes, to effect seamless implementation and ensure quick adoption.
“IT management of VAT refund will be beneficial. The introduction of electronic tax registers would allow at least 60 percent traceability of business transactions in the country and also create a level playing field, since many taxpayers currently dodge VAT payment, to the detriment of those who pay.”

—Benjamin Gasamagera, Head, Chamber of Manufacturers Private Sector Federation

by staff. Rwanda’s experience confirms widespread knowledge that programs rely not only on the client’s appetite for reform but also on its ability to absorb and to benefit from technical assistance.

The Rwandan government quickly came onboard with reforms, once it was clear they would improve and simplify doing business.

**Challenges Ahead**

Three years into project implementation, with over a dozen major pieces of legislation enacted or amended, Rwanda has made significant progress in reducing unnecessary regulations and establishing a legal framework conducive for doing business. Reform momentum remains very high across all government agencies, and the government is committed to addressing the remaining barriers to business entry, business operation, and business expansion. This commitment is evidenced in the strides attained by Rwanda in the Doing Business 2013 report.

In spite of the overall success of reform, challenges remain. According to the Private Sector Federation, the requirements for securing VAT refunds still have room for improvement, and tax audits still take too long to complete. Also, some tax filing forms have not yet been translated into the local language. Moreover, tax accountant fees are too high for SMEs.

Given the rapid opening of the economy to investments, it is crucial that international taxation techniques to substantiate domestic tax reform be adopted. Tax experts are undergoing training in the detection of transfer-pricing practices. Training of tax officers through a joint initiative of the Bank Group and OECD began in May 2013.

The Bank Group continues to work with RRA to improve tax compliance through implementation of a mobile telephone solution, dubbed M-declaration, launched on October 5, 2013. (Photo by Alice Umuhora, IFC’s Kigali office)

RRA needs to continually reevaluate its internal processes and innovate ways to gain efficiency for itself and for taxpayers. This will require cooperation with business associations, government agencies, and Rwanda’s major external trading partners.

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