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Tax Compliance of Wealthy Individuals in Rwanda

Summary of ICTD Working Paper 109 by Jalia Kangave, Kieran Byrne and John Karangwa

Increasing emphasis is being placed on the need for low income countries to collect more tax revenue. In parallel, the need for equitable tax systems is also gaining prominence. While African countries have made remarkable progress in increasing tax collections, taxation in many African countries is inequitable in various respects. For example, many revenue authorities collect the bulk of personal income taxes (PIT) from people in formal employment who earn modest incomes, with very little being collected from wealthy individuals. In Rwanda, between fiscal years 2016/2017 and 2018/2019, PIT accounted for approximately 24% of total tax revenue. However, 97% of this amount was collected from those in formal employment, through Pay As You Earn. Only 3% was collected from personal businesses.

In an effort to raise more revenue and to promote more fairness in the tax system, a small cluster of revenue authorities in African countries have put in place mechanisms to ensure that wealthy individuals pay their fair share in taxes. Working with the Rwanda Revenue Authority (RRA), we have delved into individual wealth in Rwanda to establish the extent to which wealthy individuals in Rwanda are tax compliant.

Data and methods

We used four methods:

- We started by conducting a desk review of laws and other relevant literature.
- We then conducted interviews with 20 government officials and 8 experts from audit firms, law firms, the Private Sector Federation and commercial banks.
- Our key informants identified three main categories of wealth: land, property and shares. Because of this, we concentrated on these kinds of assets in the third stage of our research. This involved collecting quantitative data on mortgage and shareholdings from the Rwanda Development Board and land ownership from the Rwanda Land Management and Use Authority. This enabled us to draw up a preliminary list of High Net Worth Individuals (HNWIs).
- We then looked at the tax records of the Domestic Tax Department and the Local Government Tax Department of the RRA for the period 2015-2018, to assess the extent to which these apparent HNWIs were declaring income and assets and paying income and property tax, as well as having appropriate tax withheld on their behalf.

> “Due to provisions in the law, High Net Worth Individuals often do not carry the responsibility for their own tax affairs, particularly in so far as declaring income earned from investment. As a result, few declare income and file tax returns.”

What did we learn about the taxation of wealthy individuals in Rwanda?

We have six main findings.

- Rwandans do not like to be publicly recognised as wealthy. There is a political and cultural aversion to the public display of wealth. As such, using the phrase High Net Worth Individuals in Rwanda would be problematic.
- Wealthy individuals invest significantly in property. The top 1% of residential landowners own approximately 15% of residential land in Rwanda. Even though property rental is a lucrative business, particularly in Kigali, this is not reflected in the revenues collected in property-related taxes.
- Only a few wealthy individuals declare all their personal income for tax purposes. Whilst the RRA data indicates that several wealthy individuals are millionaires (in USD), we found low levels of compliance among these individuals. For example, of the 42 individuals that we identified as prospective HNWIs, we found that in 2018, only 1 in 5 individuals filed a personal income tax declaration.
- Due to provisions in the law, HNWIs often do not carry the responsibility for their own tax affairs, particularly in so far as declaring income earned from investment. As a result, few declare income and file tax returns.
- Wealthy individuals in Rwanda often earn income through streams which are taxed at lower rates. While consultancy fees, investment earnings and disposal of shares are taxed at 15%, 15% and 5% respectively, other individual earnings (excluding casual labourers) are taxed at 20% and 30%.
- Some wealthy individuals engage in tax evasion, including the spread of wealth across more than one national identification number and reporting losses across a portfolio of firms.

> “RRA should notify identified individuals that it is aware of their wealth and expects them to file income tax returns. RRA should offer to support those individuals who have difficulty in filing their returns.”

Conclusion and recommendations

A key requirement for the taxation of wealthy individuals is the declaration of income by these individuals. We recommend three complementary approaches to promote tax declaration. The first is sensitisation of the relevant taxpayers. RRA should notify identified individuals that it is aware of their wealth and expects them to file income tax returns. RRA should offer to support those individuals who have difficulty in filing their returns. Second, the Income Tax Act should be reviewed to consider whether all individuals above a certain threshold should be required to file income tax declarations. This should exclude those who only earn employment income. Lastly, to detect cases of tax evasion and establish the extent to which wealthy individuals use tax planning schemes, RRA should build the capacity of its officials in the intelligence unit and international tax unit by providing formal training and engaging in knowledge sharing activities with officials in other revenue authorities.

Further reading

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Credits

Jalia Kangave is an independent consultant and ICTD researcher working on taxation of wealthy individuals, gender and tax, and research capacity-building. At the time of undertaking this research, she was a Research Fellow at the Institute of Development Studies.

Kieran Byrne is an Overseas Development Institute (ODI) Fellow working as a tax policy analyst/researcher at the Rwanda Revenue Authority.

John Karangwa is a Manager for Research and Policy Analysis at the Rwanda Revenue Authority.

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ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.