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Rwanda Budget Insight 2016

The Story Behind the Numbers

Introduction

Continued Economic growth

Rwanda continues to be focused and driven in its bid to achieve economic growth as a country and prosperity for its people by the goals enunciated in the Economic Development and Poverty Reduction Strategy 2 (EDPRS 2) framework. The 2016/17 budget, like those before it, is founded on those goals. The thematic areas in the EDPRS2 have continued to take centre stage with an allocation of Rwf 1,071.8 billion representing 55% of the budget up from Rwf 879.7 billion which had been allocated in the last financial year.

While the long term goals embedded in Vision 2020 are very much a priority, Government's focus in this budget is on three main areas which are more medium term. These are:

1. An increase in local product exportation such as hides and skins as well as tea & coffee which have been a reliable source of foreign earnings for Rwanda;
2. Encouraged use of locally produced products; and
3. Ways to ease and hence encourage investment in Rwanda.

Real GDP grew by 6.9 percent in the FY2015/16 financial period and this was propelled by manufacturing, construction and services industries which grew by 7.5%, 9.9% and 7% respectively.

To be able to meet its goals, the 2016/17 resource envelope is projected at Rwf 1,949.4 billion with 62.4% of that funded through domestic revenues with tax revenue at about 54%. This budget represents an increase of Rwf 140.6 billion compared to the Rwf 1,808.8 billion in the 2015/16 revised budget. But despite the significance of the role the taxman has to play, the Government kept away from the usual temptation to introduce new taxes and burden its people even more. Instead it has taken the view that by educating its taxpayers and not being punitive, Government and its people becomes partners in national development. It is therefore proposed to modify the Tax Procedure Law to reduce the penalties and interest defaulters currently have to pay.

A pronouncement which will likely be met with mixed feelings is the one that proposes an increase in taxes payable on the importation of second clothing and shoes from the current USD 0.2/ kg to USD 2.5/ kg and USD 5/kg respectively. Those who locally manufacture these items will welcome this change as an opportunity to expand their local market and not have to unfairly compete with cheaper alterntaives. But for the man or woman on the street, whose wardrobe for the most part consists of hand me downs from a nameless and faceless good Samaritan, including a jacket which may carry initials of one of those agencies with a three letter abbreviation, worn proudly to keep out the cold or simply to be cool, this is not good news.

But when all is said and done, Rwanda has time and again showcased what it has to offer as a country and this can be seen from the size and number of international conferences it has hosted with the most recent ones being the World Economic Forum (WEF) and the Transform Africa Summit. The ability to successfully host events of such caliber and keep doing so, speaks to the old age adage that "Great things come in small packages". Rwanda may be small in size geographically and for now be considered a small economy but the Budget is testament to the fact that the Government means business and business means economic growth and spending on those things that will help make the "Land of A Thousand Hills" a force to recknon with.

Tax measures

Custom duties

Stay of duty on strategically important goods for Rwanda

Rwanda has been granted stay of duty or reduction in rate of duty for a number of items as follows:

Road tractors	0%
Transport vehicles that carry between 5-20 tonnes	10%
Transport vehicles that carry above 20 tonnes	0%
Tank trailers	0%
Public transport vehicles that carry between 25-50 persons	10%
Public transport vehicles that carry above 50 persons	0%
Imported sugar from outside the EAC (less than 70 tons):	25%
Wheat and hard grain	0%
Raw materials for local industries (as per specified list)	0%
Rwanda Armed Forces shop	0%
Raw materials for ICT equipment	0%

Who will be affected

Importers of the above items.

When

1 July 2016.

Our view

This list is not surprising as it has, for the most part, been the same for the past two to three years. The majority of items on which duty has been maintained at a reduced rate or removed altogether are either raw materials for important industries or items used in the priority sectors.

Increase in duty on second hand apparel

Duty on second hand clothes and shoes has been increased from USD 0.2/ kg to USD 2.5/ kg and USD 5/kg.

Who will be affected

Importers of second hand goods.

When

1 July 2016.

Our view

This is intended as an anti-dumping measure while at the same time encouranging growth of local industry. However for a number of low income earning and even middle class Rwandans or East Africans in general, second hand goods are still very much what they can afford for a certain level of quality. The quality and pricing of local products, where available, often leaves a lot to be desired making them unaffordable.

Miscellaneous

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Reduction in rate of penalties and interest for non-compliance

It is proposed to modify the Tax Procedure Law to reduce penalties and interest charged for defaulting.

Who will be affected

Taxpayers in general.

When

This will depend on when the modified Tax Procedure Law is published.

Our view

This measure is intended to encourage tax defaulters to comply hence increasing tax revenues and at the same time possibly widening the tax base by bringing in those who previously have operated under the tax administration radar for fear of having to pay significant fines for back taxes. One of the biggest cost for any business is tax and that can quickly add up when the rate of penalties or interest.

Taxpayer education focused on EBM use

RRA wants to focus on educating taxpayers about the use of the Electronic Billing Machines (EBM).

Who will be affected

All VAT registered tax payers.

When

1 July 2016.

Our view

From the time it became mandatory for VAT registered taxpayers to use the EBM more than two years ago, VAT compliance levels and to some extent taxes in general have continued to grow. This is likely a function of the fact that the EBMs are linked to the Tax Authority system enabling the RRA to keep track of sales made by different taxpayers and at the same time placing responsibility on the taxpayers to require anyone charging them VAT to provide an EBM receipt. The increase in RRA's collections from the prior financial year can greatly be attributed to having the EBM's in place. The Revenue Authority recognises that there are still a lot more people who are not using EBM machines but should be and it is for this reason that they are focusing on taxpayer education as a way to increase awareness and grow tax revenues.

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