RWANDA NATIONAL BUDGET BRIEF

2018/2019

THEME:

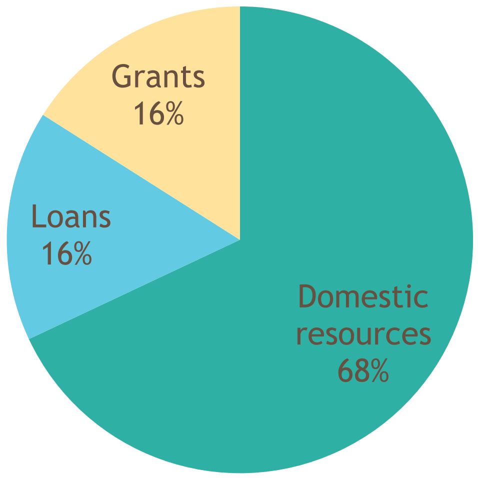
INDUSTRIALIZATION FOR JOB CREATION AND SHARED PROSPERITY

June 2018

INTRODUCTION

- The Budget proposal is valued at approximately RWF 2.4 trillion with the theme of Industrialization for Job Creation and Shared Prosperity.
- This will represent a 16% increase from the previous financial year.
- The theme is not only for Rwanda but it cuts across the East African Community members.
- Out of the total budget, 68% will be financed through domestic resources; 16% from loans; and the balance of 16% will be from grants.

Financial Sources



INTRODUCTION (CONT)

- To achieve the self-reliance goal, Government plans to improve its tax collection efficiency using technology through advanced Electronic Billing Machines (EBMs) and by widening the tax base. All imports to textile manufacturing will be at zero duty hence, making it cheaper to import any raw materials, machinery, or any inputs to production.
- It is worth noting that the 2018/19 budget implies that aid dependency will be reduced by 16%. The Rwandan economy aims at being self dependent by funding most of its expenditure. The existing loopholes will be closed to encourage more collections locally by Government.
- Further, this will be achieved through tax efficiency, increasing compliance and widening the tax base.
- No major tax reforms were introduced but the main aim is to improve the existing taxes.

INTRODUCTION (CONT)

- The National Budget emphasized on supporting the local industries to produce more and empowering young people to create jobs. The aim is to have 216,717 new jobs having set aside RWF 46.7 Billion for the same.

  http://www.newtimes.co.rw/news/eac-budgets-prioritise-job-creation

- Government noted that as much as the world has become a global village and encouraging more foreign investors into the economy, it is challenging to interfere the different models. However, there should be efficiency on taxes towards such new models.

- Due to the rising disputes, it was further noted that to reduce the time taken to conclude on such cases, tribunals will be set to enhance efficiency and convenience to businesses.

- The economy is expected to grow by 7.2% from 6.1% in the prior financial year.

BUDGET OVERVIEW

THE NATIONAL STRATEGY FOR TRANSFORMATION (NST1)

- The Budget is broken down as per the NST1 pillars in the implementation. The NTS1 will act as an implementation tool towards achieving vision 2020 for Rwanda.
- Its **Three Pillars** are **Economic Transformation, Social Transformation** and **Transformational Governance.**

- As shown in the table below, the Economic Transformation Pillar was highly emphasized in the Budget having been allocated with the highest amount of the resources in the next financial year.
- Out of the Total Budget, 57% of the resources will be geared towards achieving Economic Transformation, 27% on Social Transformation while 16% on Transformational Governance.

Pillar	Resource Allocation (RWF Billion)	Percentage
Economic Transformation	1,389.5	57%
Social Transformation	655.6	27%
Transformational Governance	398.4	16%
Total	**2,443.5**	**100%**

NTS1 (CONT)

THREE MAIN PILLARS

Economic Transformation Pillar

This will be tailored towards:

- Job creation;
- Facilitation of urbanization growth;
- Industrial development;
- Service led economy promotion; and
- Increasing agriculture and livestock quality productivity and production.

Social Transformation Pillar

This will ensure that Rwandan are well skilled and have quality standards of living with secure and stable society. The objectives include:

- Reduction of poverty;
- Population with quality health
- Competitive and capable population
- Quality education for all; and
- Modern households both in urban and rural regions.

Transformational Governance Pillar

- This is to ensure that good governance and justice are achieved by all. The objectives are:

- Reinforcing Rwandan culture and values;
- Safety and security for both citizens and property;
- Strengthening diplomatic and international relations;
- Strengthening capacity, service delivery and accountability of public Institutions ;
- Strengthening Justice, law and order ;and
- Citizens' participation and partnership in developments.

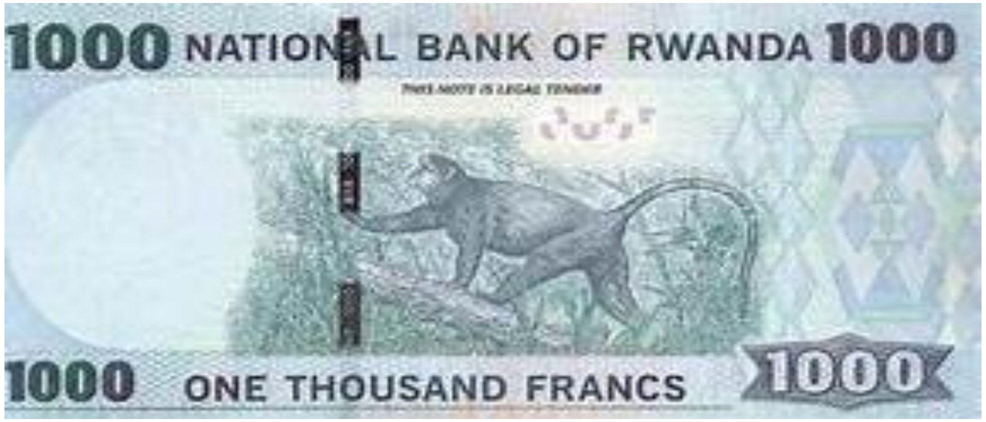
INCOME TAX

Changes

Companies will start to pay more taxes due to the cap tax deductibles at 2% of the turnover. The deductibles include management fees, royalties and technical fees.

If the amount is more than 2% of the turnover, the excess will be subjected to taxation. They will no longer be assumed to be deductible expenses especially by the multinationals in order to reduce the taxes to be paid.

There will also be **capital gains tax** of 5 per cent of sales or transfer of shares in a Rwandan economy.



Our take

- This will increase the taxes to be paid by businesses while Government will be increasing its domestic collections while closing the previously ignored loophole.
- Revenue leakage will be prevented.

Note:

The changes will be effective as from July 2018.

BDO

VAT (TAX EFFICIENCY)

Changes

- There will be introduction of second generation Electronic Billing Machines (EBMs) to be used by the business operators.
- This implies that EBM will be “FOR ALL” which means that the machine will be rolled out to the selected non-VAT registered tax payers, hence increasing the tax base.
- The tax base will be increased by including the non-VAT registered persons to use EBM.

CUSTOMS DUTY

Changes

Made in Rwanda Policy is aimed at being boosted as per the Budget Speech.

Second hand clothes and shoes importation are expected to be another source of Government Revenue.

1. Second hand

Second hand clothes will pay $4/Kg instead of $2.5% or 35%Kg whichever is higher; while

Second-hand shoe dealers will now pay $5/Kg instead of $0.4 or 35% whichever is higher.

2. Discipline Forces

All items to be retailed at/used by the Army Forces Shop (AFOS) will continue being imported at 0% instead of 25%.

Our take

Government will collect more taxes and at the same time encourage the local industries to develop and grow.

CUSTOMS DUTY CONT

Changes

3. Sport bikes

Those imported for the purpose of racing will be tax exempted in the financial year 2018/19.

This will relieve the users from paying the 25% tax as per previous financial year 2017/18.

4. Textile industry (Local)

The government will support the industry by promoting the made in Rwanda clothes policy.

All imports to production of textile and leather industry will be at zero tariffs in 2018/19 FY compared to 10% in the prior year 2017/18 FY. It will therefore, be cheaper to import any raw materials, machinery, or any inputs to production of such industry.

Note

List of raw materials used in **other industries** will continue pay 0% instead of 10% or 25%

Our take

Encourage more people to participate in biking as a sport.

Increased local production and growth of textile industries, hence improving the people's living standards and moving towards achieving the NTS1 objectives.

More employment opportunities leading to increased government revenue from individual tax payers.

CUSTOMS DUTY (CONT)

Changes

5. Public transport vehicles

i) Those that will be imported with the capacity of between 25 and 50 passengers are among the winners. The taxes to be charged will be 10% and not 25% as previously charged.

ii) Vehicles carrying at least 50 passengers will be subject to 0% tax as opposed to 25%.

6. Heavy vehicle imports

a) Road Tractors for Semi Trailers will no longer be taxed (0%) as previously (10%) of the value of the truck.

b) Trucks with capacity of between 5 to 20 tonnes will be taxed at 10% and NOT 25%.

c) Commercial trucks with capacity above 20 tonnes will NOT be taxed (0%). A big win from the initial 25% tax.

7. Telecommunication equipment

Imported communication equipment will pay duty at 0% from 25%.

Our take

A huge relief in the transport and communication industries encouraging more citizens to venture into the transport businesses for job creation and self sustainability.

CUSTOMS DUTY (CONT)

Changes

8. Electronic Transaction devices

The Rwandan government is still focusing on seeing growth in its service industry. The following electronic transaction devices that include all smart cards, ATM cards, Point of Sale Cards and their Operating Machines will continue to pay 0% instead of 25%.

9. Basic commodities

The government will bring the following changes on its population's basic needs s below;

- Rice will continue paying import duty rate of 45% or USD 345/MT instead of 75% or USD 345/MT
- Sugar will continue paying import duty rate of 25% instead of 100% or 460 USD/MT whichever is higher

Our take

The service industry is encouraged to continue growing in the economy while the quality of life of the citizens will be improved.

EXCISE DUTY

Changes

- Taxes on alcohol, mobile data and tobacco among other products will be amended in the next financial year to higher rates.

Our take

The amendment will further close the existing loopholes and increase the move towards self dependency by the economy of Rwanda.

The proposed increase in tax rates will reduce the health risks by discouraging the consumption and increase revenue collection.

I'll decide how much I can afford

OTHERS

Other proposals

- Procedural bill on penalties were proposed but are yet to be approved.
- ✓ Penalties for those who do not intend to default taxes need to be softened. To ensure that the penalties are aimed at tax compliance improvement and not scaring the business people away.
- ✓ Property law will also be revised to expand the tax base by including other taxes on land and houses.

Our take

This will improve tax collection efficiency.

Increased tax collection to meet the domestic revenue targets and self sufficiency.

MACRO-ECONOMIC AND FISCAL PERFORMANCE

- The economic performance of the country showed positive growth in **2017/18 FY by 6.1%.** It was mainly driven by the agricultural, forestry and fishing sector, industrial sector and service sector as shown in the table.

Performance	2016-2017	2017-2018	2018-2019
Economic growth	***+5.9%***	***+6.1%***	***+7.2%***
Agriculture, forestry and fishing	+3.88%	+6.59%	+5.6%
Industry	+6.74%	+4.21%	8.3%
Services	+7.20%	+7.99%	+7.6%

- The Rwandan economy is expected to continue with an upward economic growth (GDP) in the next FY 2018/19 of **7.2%.**
- The growth is anticipated to be supported by positive performance in the agriculture and industry sectors.
- **Agriculture** is projected to grow at **5.6%** as a result of increase in food and export production of crops.
- **Industry sector** is estimated to be the largest contributor in the next financial year with a growth of **8.3%.** This will be supported by the numerous construction activities.

Service sector is further expected to remain strong at **7.6%.** There will be recovery in trade, expansion of transport services and development of the tourism sector.

MACRO-ECONOMIC AND FISCAL PERFORMANCE CONT

Inflation

- The inflation rate moved from 5.7% in 2016/17 FY and declined to 4.9% during 2017/18 FY.

Reason for the decline

1. favorable weather conditions in the prior year which led to improved food production, and
2. There was ease in exchange rate pressures, hence the fall in food inflation.

Projection in 2018/19FY

- It is further expected that the rate will continue to decline in the next fiscal year.

MACRO-ECONOMIC AND FISCAL PERFORMANCE CONT

External sector

The **exports** improved in the prior financial year by a growth of **44.5%** while **imports** declined by **5.6%.** This led to improved trade balance.

CONCLUSION

- The tax incentives are meant to **support the strategic sectors** and promote service industry such as transport sector and encourage cashless economy, improve access to basic needs and support the sporting sector as well.
- The macroeconomic factors are generally expected to be favorable in the next fiscal year leading to better economic performance.

ABOUT BDO


BDO GLOBAL STATISTICS 2018*
TOTAL REVENUES
US$8.1 BILLION
8% INCREASE YEAR ON YEAR
162
COUNTRIES AND TERRITORIES
INCREASE FROM 158 IN 2016
NUMBER OF OFFICES
1,500
INCREASED BY 7%
GLOBAL HEADCOUNT
73,854
9% INCREASE YEAR ON YEAR
GLOBAL AVERAGE PROFESSIONAL STAFF TO PARTNER RATIO OF
9 TO 1
BDO
* Statistics as of 30 September 2017

BDO East Africa Rwanda contacts

BDO East Africa operates in Kenya, Tanzania, Uganda, Ethiopia and Rwanda. For further details and contacts kindly visit our website www.bdo-ea.com.

Sandeep Khapre
CEO

Direct Line : + 254 709 254 707
Mobile Line : +254 33605498
Sandeep.khapre.@bdo-ea.com

Emmanuel Habineza
Managing Partner

Direct Line : + 250 732 304 070
Mobile Line : +250 738304070
emmanuel.habineza@bdo-ea.com