

## Rwanda Tax Expenditure Report

### What is tax expenditure?

- **The tax revenue that is foregone through provisions in the law** such as VAT exemptions and zero-ratings, income tax holidays and preferential rates. We explain each of these in more detail later in the report.
- **A form of government spending**, since it is essentially tax revenue that is being spent for the benefit of specific sectors or consumer groups. It is typically subject to less scrutiny and fewer approval requirements than expenditure out of the national budget.

Tax expenditure (TE) is concentrated in VAT, import duty and CIT. Of these, VAT is the most significant. The majority of overall tax expenditure relates to the activities of large producers.

*Table 1: Overview of total tax expenditure by tax type in 2017/18*

Tax type	Tax expenditure (Rwf bn)	Current tax revenue (Rwf bn)	Potential tax revenue (Rwf bn)	Tax expenditure as % of potential tax revenue	TE by tax type as % of total TE
<a href="#">VAT (exc. govt)*</a>	117.9	335.4	453.3	26.0%	60.7%
<a href="#">Income Tax**</a>	22.9	235.9	258.8	8.9%	11.8%
<a href="#">Import duty***</a>	53.5	80.9	134.4	39.8%	27.5%
<b>Total</b>	<b>194.3</b>	<b>1,163.8</b>	<b>1,358.1</b>	<b>14.3%</b>	<b>100%</b>

\* we exclude VAT TE on government purchases and outputs because it is tax revenue spent to provide public services. Including govt, VAT TE is Rwf 282.6bn. For consistency, we also exclude VAT revenue from govt.

\*\* excludes some tax expenditures that are not currently measurable.

\*\*\* we measure TE compared to a baseline of EAC / COMESA tariffs, and we have included excise duty TE based on the same Customs laws.



**Table 1** shows the potential additional revenue that would be generated by eliminating tax expenditure for each tax type. It will be at least as important to consider the context and rationale for each tax expenditure rather than just the estimates in isolation.

Estimating these requires different assumptions depending on the granularity of the data available. The VAT calculations use 2014 data and sector-specific growth rates to estimate 2017/18 levels. They also exclude the 46% of production by the informal sector – we assume there are no changes to what proportion of the economy is informal.

### Rationale for tax expenditure

The reasons for Rwanda's tax expenditure can be broadly summarised into five groups:

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