

Tax Alert

Rwanda announces major tax policy reforms for the next six fiscal years (2024/2025 to 2029/2030)

The Government has announced a comprehensive tax policy reform plan that will span six fiscal years, from 2024/2025 to 2029/2030. The reforms aim to achieve four strategic objectives:

- Broaden the tax base by reducing tax exemptions and introducing new taxes
- Enhance fairness and domestic business competitiveness by aligning tax rates with regional practices and supporting key sectors
- Boost revenue mobilization to reduce dependence on external financing for the National Strategy for Transformation (NST2)
- Promote public health and social welfare by taxing harmful products and activities

The reforms include various tax measures, such as changes to excise duties, VAT, and new taxes. Most of the reforms will take effect in 2024/2025 between April 2025 and June 2025, while some will be phased gradually until 2029/2030.

The Government deserves credit for adopting a phased approach, which will enable it to assess the effects of the policies and provide taxpayers with clear and timely information on their future tax liabilities, unlike in previous years when tax changes were often abrupt and unpredictable.

The tax reforms are aligned with the Medium-Term Revenue Strategy (MTRS 1), a comprehensive package of measures to enhance revenue mobilization and administration. These reforms will lay the

foundation for the MTRS 2, which is currently being developed to further advance the tax system's efficiency and equity.

This tax alert offers a comprehensive assessment of the key tax policy changes and how they affect individuals and businesses in Rwanda.

Tax reforms to be implemented in 2024/2025 (between April 2025 – June 2025)

1. Cosmetic and beauty products (15% of CIF)

The government plans to introduce a 15% excise duty on cosmetic products such as make-up, body lotion and hair products, which are currently not subject to excise duty. This aligns with the regional practice, as Kenya and Uganda also charge a 15% excise duty on beauty products. However, pharmaceutical beauty products will remain exempt from excise duty. The government expects that this reform will generate more revenue, as cosmetic products have a high demand among consumers.

On one hand, this reform may incentivise consumers to switch to more natural and locally sourced cosmetic products, which could have positive environmental and health benefits. However, this may also impact the competitiveness of local industrially produced cosmetics as local producers may also face

higher production costs and lower demand. Therefore, a more progressive and targeted approach could be to apply a lower excise duty rate for essential cosmetic products and a higher rate for luxury cosmetic products, and then to exempt locally produced cosmetic products from the excise duty to support Made in Rwanda initiatives and improve local competitiveness.

2. Cigarettes (FRW230 per pack + 36% of retail price)

The proposed reform of the excise duty on cigarettes involves raising the specific rate from FRW130 to FRW230 per pack, while keeping the ad valorem rate at 36% of the retail price.

We understand that this tax is intended to discourage smoking and its negative health and social impacts. However, cigarettes are a price-inelastic product that have a high demand among smokers.

So, the reform may have some unintended consequences, such as increasing the smuggling and illicit trade of cigarettes and encouraging the consumption of cheaper and more harmful substitutes. These outcomes could undermine the revenue and health goals of the tax reform.

3. Gambling Tax

The government plans to increase the withholding tax on gambling winnings from 15% to 25% for players and the tax on Gross Gambling Revenue from 13% to 40% for gambling operators, calculated on gross revenue minus winnings awarded.

We understand that this will be the only income tax to be paid by the operators and the 28% corporate income tax on profits generated from gambling activities will no longer apply.

The government expects this measure to generate additional revenue, as we understand that the total value of bets in gambling activities rose sharply from FRW 251bn in 2023 to FRW 640bn in 2024 (157% increase). This measure also aligns with the new gambling policy that aims to regulate the industry more effectively. We acknowledge

the government's intention to ensure that the gambling industry operates in a regulated manner and protects the social welfare of the population.

However, the government should continuously monitor the impact of this measure on the industry and consider ways to support gambling businesses that operate responsibly, as they have a positive economic multiplier effect. Gambling establishments contribute to the local economy by sourcing goods and services from local suppliers, hiring local workers, and promoting local entertainment. Gambling businesses, especially casinos, also attract tourists who are among major clientele for other local businesses such as hotels, restaurants, and entertainment spots within the country.

4. Registration fees for imported vehicles

The government intends to revise the registration fees for imported vehicles to reflect current market values and the state of the motor vehicle industry. The fees that are currently in force have not been adjusted since 2009 and are outdated. This measure is a reasonable update to align the fees with current economic conditions. However, government should provide clear and timely information to stakeholders with regards to the revised fees.



5. Road maintenance and strategic fuel reserve levies (15% of CIF)

The government intends to replace the current specific tax on fuel (i.e. a fixed amount of FRW115 per litre) with an ad valorem tax (a variable percentage) at the rate of 15% of CIF. This will make the fuel levy more responsive to changes in fuel prices and align it with the funding needs for road maintenance and fuel reserves, which are critical for the country's infrastructure and energy security.

The increase in this levy together with the introduction of VAT on fuel will increase the pump prices by about 15%. We note that this increase brings the pump prices close to, and in some cases, slightly higher than what is seen in other countries within the EAC and SADC as shown in the table below.

Retail fuel prices per litre (RWF)		
Country	Gasoline prices	Diesel prices
Rwanda (Current)	1,638	1,652
Rwanda (Expected)	1,900	1,881
The rest of EAC		
Uganda	1,927	1,907
Kenya	1,900	1,799
Burundi	1,898	1,862
Tanzania	1,532	1,469
DRC	1,462	1,458
Rest of SADC		
Zimbabwe	2,149	2,219
Malawi	2,054	2,218
Mozambique	1,896	2,004
Zambia	1,742	1,619
South Africa	1,683	1,753
Namibia	1,580	1,598
Botswana	1,504	1,524
Angola	459	306

This measure may disproportionately affect low-income households, who may face higher costs of transport, food, and other necessities, as the traders may pass on these costs to the consumers. We recognise that this measure may be unavoidable to ensure adequate funding for road maintenance and fuel reserves.

We recommend the government to implement measures to cushion the consumers, especially

low-income households, from the adverse effects of this measure. These measures could include subsidising public bus fares and transport of essential goods, such as food, to mitigate the risk of food inflation.

6. VAT on mobile phones

The government has announced its intention to remove the VAT exemption for mobile phones, which it granted in 2010 to improve affordability and digital access. The government argues that this exemption is no longer relevant or effective, as the main obstacle to smartphone ownership and use is the low level of education and digital skills among the population.

Ending the exemption may help to simplify the tax system and broaden the tax base, which may subsequently raise the much-needed revenue to the government. However, this will also increase the cost of mobile phones, which will have an impact on affordability, especially for low-income households. The government should therefore consider how to offset this effect through targeted subsidies and budget allocations to support digital education and smartphone use.

7. Excise duty on beer (65%)

The government proposes to raise the excise duty rate on beer by five percentage points, from 60% to 65% of factory price. This rate has remained unchanged since 2006. The government expects this measure to generate more revenue, as beer is a discretionary and non-essential consumption product. This measure could be perceived as a fair tax on a luxury product. However, the government should also assess the impact on the beer industry and explore ways to support local producers. Moreover, as with excise duty on cigarettes, this measure could induce low-income households to switch to cheaper and potentially harmful local alternatives, which could have adverse health consequences for these groups.

8. Gradual increase of excise duty on airtime (12%,14%,15%)

The government intends to raise the excise duty rate on airtime gradually from 10% to 15% over three years, to harmonize it with the region, where Uganda charges 12%, Kenya 15%, and Tanzania 17%. The phased increase is intended to even out the airtime price adjustment shock for consumers and service providers by spreading the tax burden over three years. The expected airtime price per minute will rise from FRW40 to FRW40.8 in the first year, FRW41.5 in the second year, and FRW42 in the third year. These prices are still lower than those in most EAC countries, such as Uganda (FRW89.2), Kenya (FRW43), and Burundi (FRW62.2), except for Tanzania (FRW16.7), which has a highly competitive market.

This measure aims to generate more revenue for the government while avoiding abrupt price increases that could discourage consumption and investment. However, the measure will also impose a higher cost on airtime, which may affect the affordability and accessibility of communication services for consumers. The market dynamics may also influence the extent to which the service providers can pass on the tax cost to their customers or absorb the cost to maintain their competitiveness. The gradual increase is intended to reduce the price sensitivity of the demand. This measure could be viewed as a reasonable adjustment to conform to regional standards.

9. Tourism Levy (3%) on accommodation

The government intends to introduce a tourism levy of 3% of the room cost for accommodation (bed tax). This means that a room that costs \$100 per night including VAT would incur a tourism levy of US\$ 2.5 ($\$100 \times (100/118) \times 3\%$). The total room cost would be US\$102.5.

We believe this is a reasonable tax on tourism, which is a key sector for Rwanda's economy. However, we are concerned that the levy may affect hotel bookings that have already been made by tour operators and some hotels well before their guests' arrival in Rwanda after the levy takes effect.

We recommend that the levy should only apply to bookings made after the law is gazetted, not to those already confirmed.

Otherwise, the operators would face an unexpected and significant cost increase that could harm their businesses as they may have to absorb the cost of the tourism levy. The government should ensure that the tourism levy is used to support the development and promotion of the tourism industry and that the levy is transparent and accountable.

10. VAT on ICT equipment

The government proposes to remove the VAT exemption on ICT equipment that was introduced in 2012 to foster digitization. The government claims that the exemption has outlived its usefulness and that it will support key sectors through government investment and grant exemptions to sensitive sectors such as security, health and others on a case-by-case basis.

We observe that this measure should not affect the VAT position of businesses as they can deduct or claim refunds for the VAT paid on ICT equipment, such as telecommunication or tower equipment. Therefore, the removal of the VAT exemption on ICT equipment is unlikely to generate significant tax revenue and is aimed at streamlining tax exemptions in this sector. This measure may be perceived as a necessary step to widen the tax base – which we do not agree with as it should have no net impact on VAT registered businesses and hence minimal revenue implications. However, the government should ensure that the support for key sectors is effectively delivered.





Tax reforms to be introduced in 2025/2026

1. Hybrid vehicles

The government aims to foster the use of more fuel-efficient and less polluting cars by exempting hybrid vehicles from import duty. However, it has noted that many of the imported hybrids are old and outdated, which undermines the environmental benefits of the exemption.

To address this issue, the government plans to keep the import duty exemption but restore VAT of 18% and withholding tax of 5% and apply excise duty of 5%, 10%, or 15% based on the age of the vehicle. These rates will apply to hybrid vehicles depending on their age as follows: less than 3 years (5%), between 4 to 7 years (10%) and above 8 years (15%). This measure is expected to deter the importation of old hybrids and encourage the demand for electric vehicles that are fully exempted from all taxes. We support this measure as a necessary step to promote green mobility and reduce carbon emissions.

We commend the government for its efforts to support the transition to electric vehicles and protect the environment. However, the government should also consider providing incentives for the disposal or recycling of old hybrid cars to avoid creating a stockpile of obsolete vehicles that could pose environmental and safety hazards. Furthermore, we recommend the government to ensure the availability and accessibility of infrastructure and facilities for electric vehicles, such as charging stations and maintenance services, to facilitate the adoption of this technology.

2. Environmental levy (0.2% of CIF)

To create a level playing field between imported and locally produced products packaged in single-use plastics, the Government proposes to introduce an environmental levy of 0.2% of CIF on selected imported plastic-packaged goods, such as water, juice, mattresses, and soaps. This measure also aims to support Rwanda's environmental protection efforts by encouraging the use of sustainable packaging alternatives. Currently, local producers of plastic-packaged goods pay a levy of FRW120 per Kg of plastic bottles for waste management and recycling initiatives.

We commend this measure for introducing some fair competition and aligning with the Government's vision of becoming a green and clean country. However, we also urge the Government to monitor the impact of the levy on the prices and affordability of these essential goods, especially for low-income households, and to provide exemptions or subsidies where necessary. Furthermore, the Government should ensure that the revenue collected from the levy is effectively used for waste management and recycling initiatives and that the local producers of plastic-packaged goods comply with the existing levy and environmental standards.

3. Capital Gains Tax from 5% to 10% on sale of shares and similar instruments

The Government proposed to broaden the scope of capital gains tax to cover more financial instruments such as bonds and debt instruments in form of equity. The Government also plans to double the rate from 5% to 10%, arguing that the capital gains tax in neighbouring countries is much higher than that of Rwanda e.g. Kenya (15%), Tanzania (30%), Uganda (30%), Ethiopia (30%).

We observe that the existing low rate of 5% was initially adopted because the capital gains in Rwanda is computed as the difference between the sales/transfer proceeds and the original acquisition cost, without any adjustment for inflation. This implies that the cost base is lower than the cost base in other countries, for example in Uganda where indexing is applied.

This results in a higher capital gain in Rwanda on which the 5% is levied. This was deemed a fair rate and a simpler method to implement.

However, if the Government is to raise the rate to 10% and justify it by comparing with other countries, then Rwanda may have to align the basis of determining the cost base to reflect that of the neighbouring countries as well. Typically, the original acquisition cost is adjusted for inflation using the consumer price index of the financial instruments from the time they were acquired to the time they were sold, so that the seller does not have to pay taxes on gains caused by inflation.

If the cost base is adjusted for inflation, as it should be with higher CGT rates regimes, then the reform will be coherent. However, we believe that if the cost base is adjusted for inflation, then the expected increase in tax revenue is likely to be very marginal, and yet it is likely to increase the complexity of determining the cost base, which could also be subject to manipulation by taxpayers.

It is therefore our recommendation that the scope of capital gains tax be expanded to include bonds and other financial instruments, but the rate of 5% should be maintained.

4. Annual motor vehicle road user charge

The Government proposes to introduce an annual motor vehicle road user charge for each vehicle to pay a certain amount annually to finance road maintenance. According to the Government this charge will vary from FRW50,000 for cars and jeeps to higher amounts for heavier vehicles and it is meant to finance road maintenance. There may be concerns about this proposal as the road maintenance levy has already been increased to 15% of CIF.

In our considered view, we find this proposal unnecessary, inefficient, and burdensome for the tax system and the taxpayers. It will create more complexity and confusion, as well as increase the cost of collection and administration. It will also frustrate businesses that have to deal with multiple taxes for the same purpose. We recall that the Government has previously consolidated several decentralized taxes to simplify the tax system/

improve compliance and introducing this levy in addition to road maintenance levy, goes against the rationale.

We recommend that this proposed charge is not introduced, as this change will duplicate the existing road maintenance levy, which already serves as the purpose of fund road maintenance.

5. VAT on fee-based financial services

The Government proposes to reinstate VAT on fee-based financial services, such as withdrawal commissions, ATM card charges and current account maintenance fees. We understand that the exemption was initially introduced in 2001 due to the difficulties of computing the value addition in financial services. The proposal is to maintain the VAT exemption on interest related payments that are still hard to tax and cashless fees such as MOMO payment fees and charges on interbank transactions.

In our view, this is not a reinstatement, as most of the fee-based financial services are already subject to VAT and there is no specific provision in the law that exempts them. However, over the years, the list of financial services communicated by the Commissioner General has tended to exclude most commission-based fees. We see this measure as a reconfirmation that fee-based financial services are subject to VAT, as opposed to being a new measure. Although we understand that different financial institutions could have been treating them differently.

We welcome the Government's effort to provide certainty and uniformity on the VAT status of fee-based financial services, as this will enhance compliance and reduce disputes. However, we urge the Government to consult with the financial sector and the public on the impact of this measure, as it could increase the cost of accessing financial services and discourage financial inclusion. We also recommend that the Government review the scope and definition of the exempt interest related payments and cashless fees, as these could also be subject to different interpretations and applications.

6. VAT on fossil fuel

The proposal seeks to restore VAT on fuel, which was exempted in 2010/11 to align with regional practices at the time. However, since

then, some of the regional peers, such as Kenya, have reinstated VAT on fuel. The Government argues that this measure will enhance business competitiveness, improve tax compliance, and encourage the transition to electric vehicles and environmentally friendly alternatives, which are more cost-effective.

The Government also maintains that the majority of fuel consumption of gasoline and diesel is by high-income households, i.e. the top 20% of income distribution, which implies that it should not affect low-income households. Moreover, the Government contends that the VAT restoration will not increase the overall tax burden for business, as input VAT will be deductible or refundable under the existing VAT mechanism, meaning the businesses providing transport services of goods and passenger transportation will be able to recover the VAT and therefore would not pass on the VAT cost to low-income households.

We challenge this argument as most of the operators of transportation services used by low-income households are not VAT registered, e.g. owners of goods trucks, pick-ups and Motos and are likely to remain as such. As such, they will have to absorb this VAT cost, which is part of the fuel prices, and transfer it to the consumers through an increase in transport fares of the goods and services they supply to them, and this could be detrimental. VAT is a regressive tax, as it imposes a higher relative burden on the income of low-income households than on higher-income earners who may not significantly feel the impact because they have a higher disposable income.

Further, governments have traditionally protected these groups from this regressive nature of VAT, by applying exemptions to goods and services that are directly very essential to these groups – which this tax reform is removing.

We therefore recommend that this tax reform is not implemented.

7. VAT on transport services of goods by road

The Government proposes to restore VAT on the local transport service of goods by road, which was previously exempted.

This would enable licensed transporters to claim back the VAT they pay on fuel as an input cost, reducing their tax burden.

The Government expects that this would have a negligible effect on the prices of goods, as the VAT charged on transport would be offset by the VAT claimed by businesses along the supply chain, ensuring that the tax is only borne by the final consumers. However, this proposal does not apply to cross-border transport service for imports/exports, which remains zero rated from VAT. Therefore, the companies that provide cross-border transport can still recover the VAT they pay on fuel.

We acknowledge that this proposal aligns with the VAT principle of taxing the final consumption and allowing the input VAT to be deducted or refunded. However, some concerns may be raised about the potential impact of this proposal on the transport sector and the low-income households.

Firstly, this proposal would only benefit the licensed transporters who are VAT registered, and not the unregistered or informal small transporters who may account for a significant share of the market. This could create an uneven playing field.

Secondly, this proposal would increase the tax burden on the low-income households, who are the final consumers of the transport service and the goods that depend on it. As most of their income is spent on transport and food (which is sensitive to transport costs that are influenced by fuel prices) they would face a higher VAT cost on their low income. Therefore, we recommend that the Government should consider the following measures to mitigate the adverse effects of this proposal:

- Provide targeted subsidies or exemptions for the transport service of essential goods, such as food, medicine, and educational materials, to reduce the VAT impact on the low-income households and support their access to basic needs.
- Strengthen the social protection safety nets for the low-income households to compensate for the increased VAT cost and protect their welfare.

Tax reforms to be implemented in the fiscal year 2026/2027

1. VAT exemptions on business inputs (machinery and capital assets, raw material)

Under the current VAT regime, businesses can apply for an exemption from VAT on importation and local procurement of machinery, capital assets and raw material, subject to the approval of the Commissioner General. However, this exemption has not been widely used by businesses, as the approval process is lengthy, complex, and arbitrary. Furthermore, the exemption became obsolete after the launch of the Manufacture, Build and Recover Program, which provided a comprehensive tax relief package in response to COVID-19. Therefore, this exemption has failed to achieve its intended objective of supporting capital-intensive businesses since 2015.

The Government intends to repeal this exemption, arguing that it will improve tax compliance and revenue collection from unregistered, exempt, and informal businesses. We do not agree with this argument, as we do not see how these businesses have benefited from this exemption in the first place. The exemption was meant to avoid the cash flow problem of paying VAT upfront on importation and then claiming it back the following month, for both businesses and the RRA. However, since the exemption was seldom granted, businesses had to pay the VAT anyway, and the RRA had to refund it from its limited resources. Therefore, repealing the exemption will not generate any additional revenue, as there are no exempt or non-registered businesses that will be affected by the change.

On the other hand, we believe that the RRA will lose a valuable opportunity to use this exemption as a tool to reduce its VAT refund burden and administrative costs for capital-intensive projects, such as construction and power plant projects and other infrastructure projects. These projects are usually in a VAT refund position until they are commissioned, which means that the RRA must allocate a sizeable portion of its assigned 15% VAT retained to refund these projects. Sometimes, these refunds are so large that they cause delays and backlogs for other taxpayers, as has been

the case in the past. This exemption could have been used to avoid this situation, by exempting these projects upfront, so that they would not have to pay the VAT that they would eventually claim back. This would have been VAT neutral for the businesses, but beneficial for the RRA, as it would have saved time and resources in auditing and refunding these projects and instead use the limited VAT resources to refund other taxpayers.

Therefore, we recommend retaining the exemption, as it is not an automatic exemption per se, and it could be used strategically by the RRA to manage its VAT refund obligations and cash flow.

However, the exemption should be simplified and streamlined, to make it more accessible and transparent for businesses that qualify for it. This would also require the RRA to monitor and evaluate the impact of the exemption on the VAT revenue and compliance.





Orders that signal a clear departure from the Biden Administration on global tax and trade policy. The first targets the OECD's two pillar project, known as the 'global tax deal,' and effectively withdraws the US's consent to the project. The second is a series of directives to implement 'America First Trade Policy.' It refers to a retaliatory provision of US tax law, never used before, that could double the tax rate on the US income of companies and individuals from foreign countries whose laws are found to discriminate against US citizens or companies.

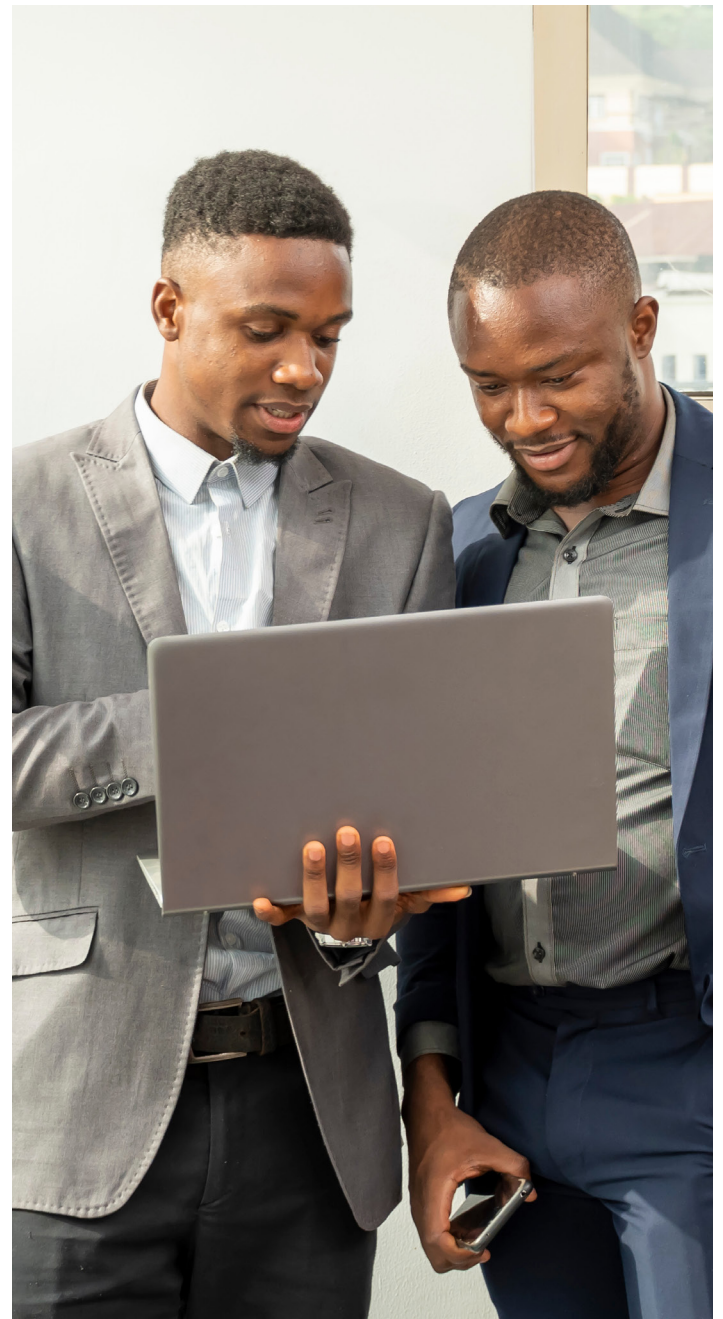
The Government should carefully review the DST reform to ensure that it has the capacity to enforce it, and that it does not end up with a policy that is either ineffective or counterproductive, leading to the likes of YouTube, Amazon and Netflix choosing to block their access to Rwanda.

2. Digital Services Tax

The Government intends to levy a Digital Service Tax ("DST") on foreign companies that provide online services in Rwanda, following the lead of other countries, such as Kenya (which switched to significant economic presence tax last year after introducing DST in 2021), S. Korea, South Africa, and France. The DST would apply to income derived from Rwanda by online platforms, such as Google, Amazon, Netflix, Microsoft, eBay, AliExpress, Shein etc. A simplified registration and tax regime would be established to ease compliance.

This reform is commendable, if it aims to make the companies that generate income from Rwanda liable for registering and paying the taxes. However, Rwanda should assess its ability to convince companies like Google, Amazon, and Netflix to register in Rwanda, given that their operations in Rwanda may be too insignificant to warrant such a move and the administrative costs that will entail in complying with the DST provisions.

The Government should also be mindful of President Trump's new tax policies – since most of these companies are US based companies. On his first day in office, President Trump issued two Executive



Tax reforms to be implemented in the fiscal year 2027/2028

Excise duty of 15% on fees charged for financial transactions

The Government proposes to introduce a 15% excise duty on financial services, arguing that this would align with regional practice. It asserts that the financial sector is mature enough to withstand the tax impact without compromising the goals of financial inclusion and cashless transactions. It points to the sector's profitability of FRW 219bn in 2023 and the return on equity of 19.3%, which are above the EAC average, as evidence of the sector's resilience and capacity to contribute more revenue. It also cites Uganda (15%), Kenya (20%), Tanzania (10%) as regional examples of countries that tax financial transactions such as MOMO fees and banking fees.

We caution that this proposal would have adverse effects on the financial sector and its customers. We doubt that financial institutions would be able to absorb these additional taxes without passing them on to the customers. For some products, customers would face a price increase of up to 33% (15% plus VAT of 18%). This would significantly raise the cost of banking services and, coupled with the excise duty increase on airtime, could undermine the objectives of financial inclusion and cashless transactions. The population may resort back to using cash, as has happened in the region where such taxes exist.



Tax reforms to be implemented in fiscal year 2028/2029

The Government plans to phase out VAT exemptions for zero-emission vehicles

Electric vehicles will enjoy the tax relief until June 2028 and then become subject to VAT in FY2028/29. We support this measure, as we recognise that the exemptions were designed to boost the uptake of electric vehicles and that by 2028/2029 the country will have transitioned to this cleaner mode of transport. However, the Government will need to implement other measures besides tax exemption to encourage and maintain the adoption rate, so that the reforms do not undermine the gains achieved by these exemptions.



Tax reforms to be implemented in fiscal year 2029/2030

VAT on energy equipment (e.g. solar panels)

The Government proposes to extend the VAT exemption for energy equipment (such as solar panels, Liquefied Petroleum Gas, energy saving lamps) for another five years until 2030, in alignment with the Sustainable Development Goals.

Thereafter, (i.e. from FY2029/30 onwards) the Government intends to levy VAT on these

products and use the revenue to finance energy generating infrastructure, such as methane gas exploitation. This proposal reflects the success of the VAT exemption in promoting the adoption of these equipment, which have contributed to environmental protection and energy efficiency. However, the Government should consider maintaining some targeted exemptions, especially for LPG, beyond 2030, to encourage its use in households as a cleaner and safer alternative to charcoal.



Conclusion

The Government's tax policy reforms for 2024/2025 to 2029/2030 are ambitious and aim to achieve multiple objectives, such as broadening the tax base, enhancing fairness, boosting revenue, promoting public health, and supporting NST2. However, some of the proposed reforms may have unintended and adverse consequences to the economy, the environment, and the welfare of the population, especially the low-income households. Therefore, we set forward the following recommendations;

- We recommend an alternative approach on the excise duty on cosmetic products, as it is a regressive tax that disproportionately affects low-income consumers and local producers. A more progressive and targeted approach could be to apply a lower excise duty rate for essential cosmetic products and a higher rate for luxury cosmetic products, and then to exempt locally produced cosmetic products from the excise duty to support Made in Rwanda initiatives and improve local competitiveness.
- Implement measures to cushion the consumers, especially low-income households, from the adverse effects of the fuel levy increase, such as subsidising public bus fares and transport of essential goods, such as food, that could trigger food inflation.
- Offset the effect of ending the VAT exemption for mobile phones through targeted subsidies and budget allocations to support digital education and smartphone use.
- We recommend that compensating measures are adopted to shield consumers from any adverse impacts from the restoration of VAT on fuel. The VAT restoration will increase the cost of fuel, transportation, and goods and services across the economy, and disproportionately affect low-income households. An alternative measure could be, providing targeted subsidies or exemptions for the transport service of essential goods, such as food, medicine, and education materials, to reduce the VAT impact on the low-income households and support their access to basic needs. Strengthen the social protection safety

nets for the low-income households to compensate for the increased VAT cost and protect their welfare.

- We suggest that the VAT restoration on the local transport service of goods by road is not adopted. This is because its adoption will increase the tax burden on the low-income households, who are the final consumers of the transport service and the goods that depend on it.
- Do not repeal the VAT exemption on machinery, capital assets and raw material, as it is not an automatic exemption, and it could be used strategically by the RRA to manage its VAT refund challenges and cash flow. However, simplify and streamline the exemption to make it more accessible and transparent for businesses that qualify for it.
- Carefully review the DST reform to ensure that it has the capacity to enforce it, and that it does not end up with a policy that is either ineffective or counterproductive, leading to the likes of YouTube, Amazon, Netflix choosing to block their platforms' access to Rwanda.
- Caution that the excise duty on financial services would have adverse effects on the financial sector and its customers and could undermine the objectives of financial inclusion and cashless transactions. The population may resort back to using cash, as has happened in the region where such taxes exist.

The reforms aim to balance the objectives of revenue mobilization, fairness, competitiveness, and public health, while considering the regional and global trends and challenges. The reforms also reflect the Government's responsiveness to the feedback and recommendations of various stakeholders, such as businesses, consumers, and civil society. We commend the Government for these forward-looking tax proposals and urge it to continue the dialogue and consultation process to ensure the successful implementation and evaluation of the reforms.



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