General Assembly

ati 25

Technical session II:

Taxation and the informal economy: lessons and best practices

Co-organised with the International Centre for Tax and Development (ICTD)

23 July 2025 09:15-10:45 EAT| Hybrid

Tax systems that work for people and advance the Sustainable Development Goals

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Agenda

Time	Items	Speakers
09:15 – 09:20	**Welcome and introduction**	**Regina Navuga,** Tax Equity Manager Africa, International Budget Partnership (IBP)
09:20 – 09:35	**Broadening the tax base and formalising the economy:** what has worked and what hasn't?	**Max Gallien,** Research Lead, International Centre for Tax and Development (ICTD)
09:35 – 09:50	**Country experience:** risk-based registration, digitalisation strategies, targeting of higher income earners	**Denis Mukama,** Interim Commissioner, Strategy and Risk Analysis Department, Rwandan Revenue Authority
09:50 – 10:05	**Q&A and open discussion**	
10:05 – 10:25	**Experiences from Latin American countries**: formalisation strategies towards employment & social protection	**Guillermo Montt,** Social Protection Specialist, International Labour Organisation (ILO)
10:25 – 10:40	**Q&A and open discussion**	
10:40 – 10:45	**Closing remarks**	**Regina Navuga,** Tax Equity Manager Africa, International Budget Partnership (IBP)

ATI General Assembly 2025

Taxation and the Informal Sector: What we know

Max Gallien
International Centre for Tax and Development

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Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research

ANURADHA JOSHI*, WILSON PRICHARD** & CHRISTOPHER HEADY†


SOCIAL POLICY & ADMINISTRATION

An International Journal of Policy and Research

WILEY


Research in Brief

Not-So-Freeway: Informal Highway Taxation and Armed Groups in North-East India


MODERN AFRICAN STUDIES

VOLUME 61 NUMBER 1 MARCH 2023

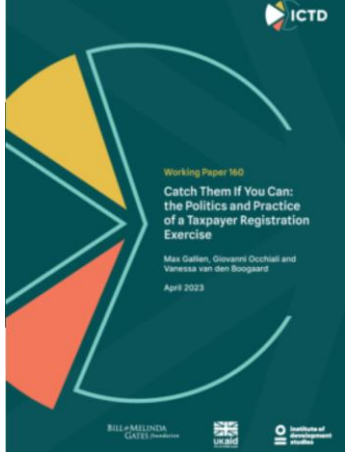
A QUARTERLY SURVEY OF POLITICS, ECONOMICS & RELATED TOPICS IN CONTEMPORARY AFRICA

EDITED BY EBENEZER OBADARE

CAMBRIDGE


Policy Brief

Why mass tax registration campaigns do not work


Working Paper 160

Catch Them If You Can: the Politics and Practice of a Taxpayer Registration Exercise

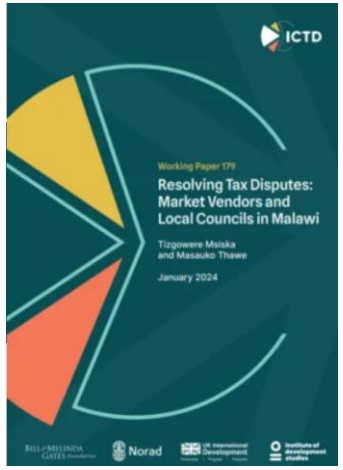
Max Gallien, Giovanni Occhiali and Vanessa van den Boogaard

April 2023


Development and Change

Volume 54 Number 6 November 2023

WILEY


Working Paper 179

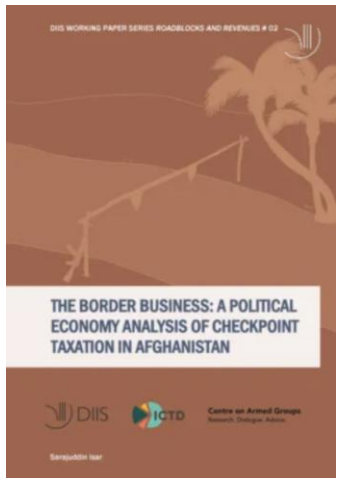
Resolving Tax Disputes: Market Vendors and Local Councils in Malawi

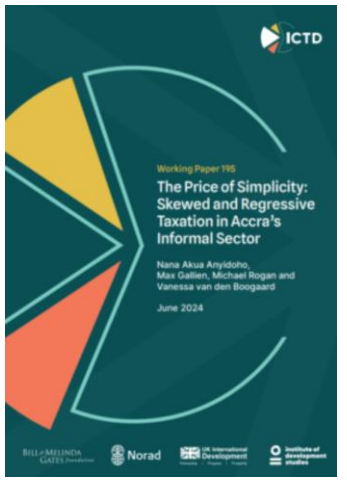
Tizgowere Msiska and Masauko Thawe

January 2024


Research in Brief

Presumptive Taxation and Equity: Evidence from the Ethiopian Informal Sector

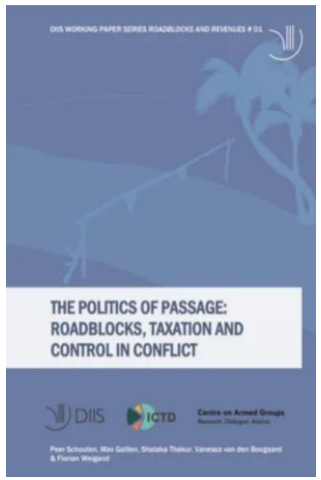

THE BORDER BUSINESS: A POLITICAL ECONOMY ANALYSIS OF CHECKPOINT TAXATION IN AFGHANISTAN

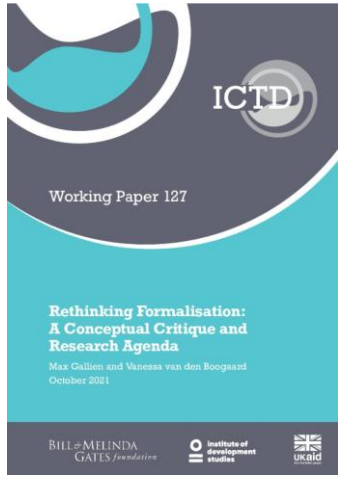

Working Paper 195

The Price of Simplicity: Skewed and Regressive Taxation in Accra's Informal Sector

Nana Akua Anyidoho, Max Gallien, Michael Rogan and Vanessa van den Boogaard

June 2024


THE POLITICS OF PASSAGE: ROADBLOCKS, TAXATION AND CONTROL IN CONFLICT


Working Paper 127

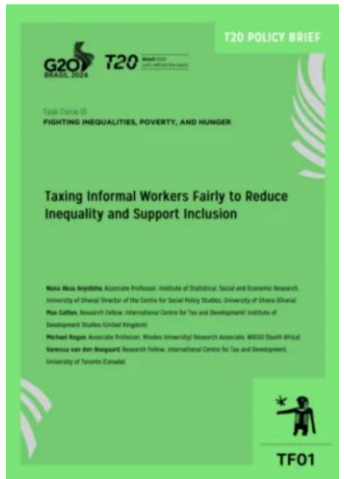
Rethinking Formalisation: A Conceptual Critique and Research Agenda

Max Gallien and Vanessa van den Boogaard

October 2021


Research in Brief

An Overlooked Market: Loose Cigarettes, Informal Vendors, and Their Implications for Tobacco Taxation


T20 POLICY BRIEF

Taxing Informal Workers Fairly to Reduce Inequality and Support Inclusion

TF01


Working Paper 216

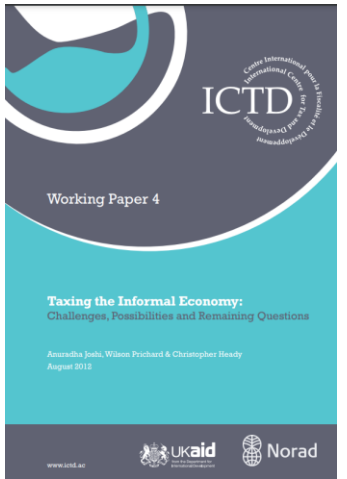
The Political Economy of Taxation in Somalia: Historical Legacies, Informal Institutions, and Political Settlements

Vanessa van den Boogaard and Najbullah Nor Isak

January 2025


Policy Brief

Simplified Taxation in Africa: What We Know – and Need to Know


Working Paper 4

Taxing the Informal Economy: Challenges, Possibilities and Remaining Questions

Anuradha Joshi, Wilson Prichard & Christopher Heady

August 2012


Studies in Comparative International Development


Research in Brief

Resolving Tax Disputes: Market Vendors and Local Councils in Malawi

Taxing Informal Sectors: The Challenge

Taxing Informal Sectors: The Challenge

- Economic activities that are nationally unregistered.

Taxing Informal Sectors: The Challenge

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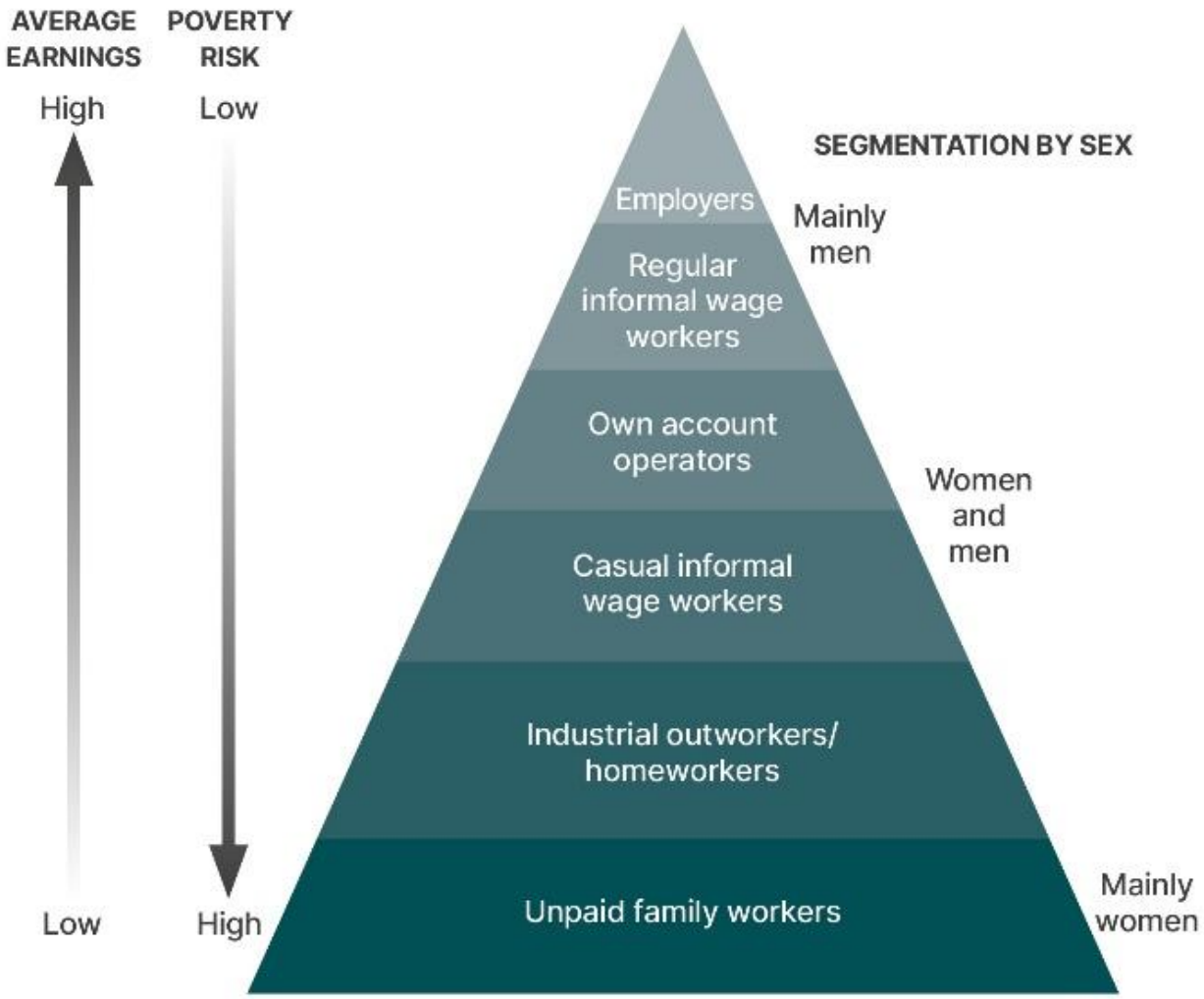
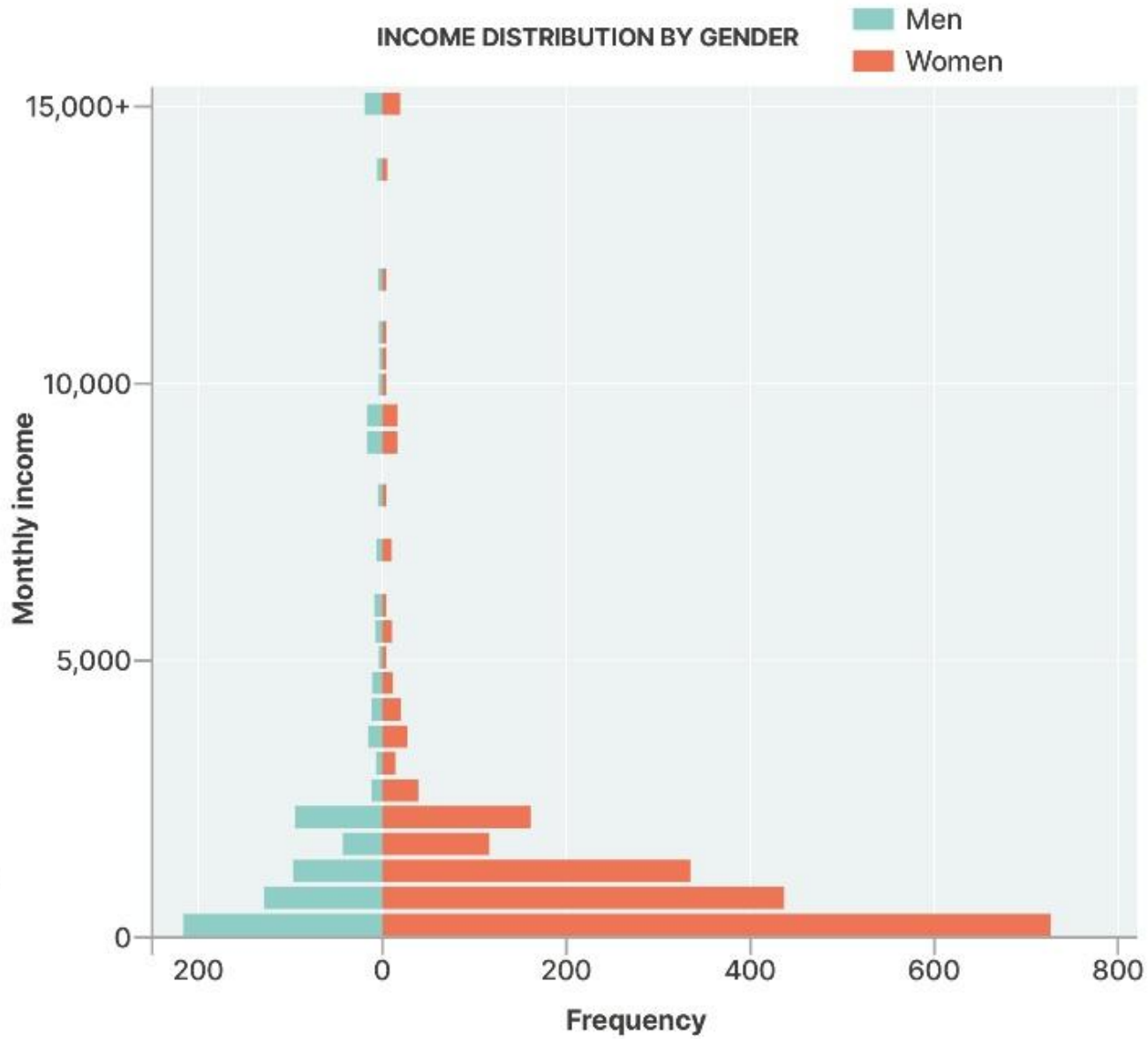
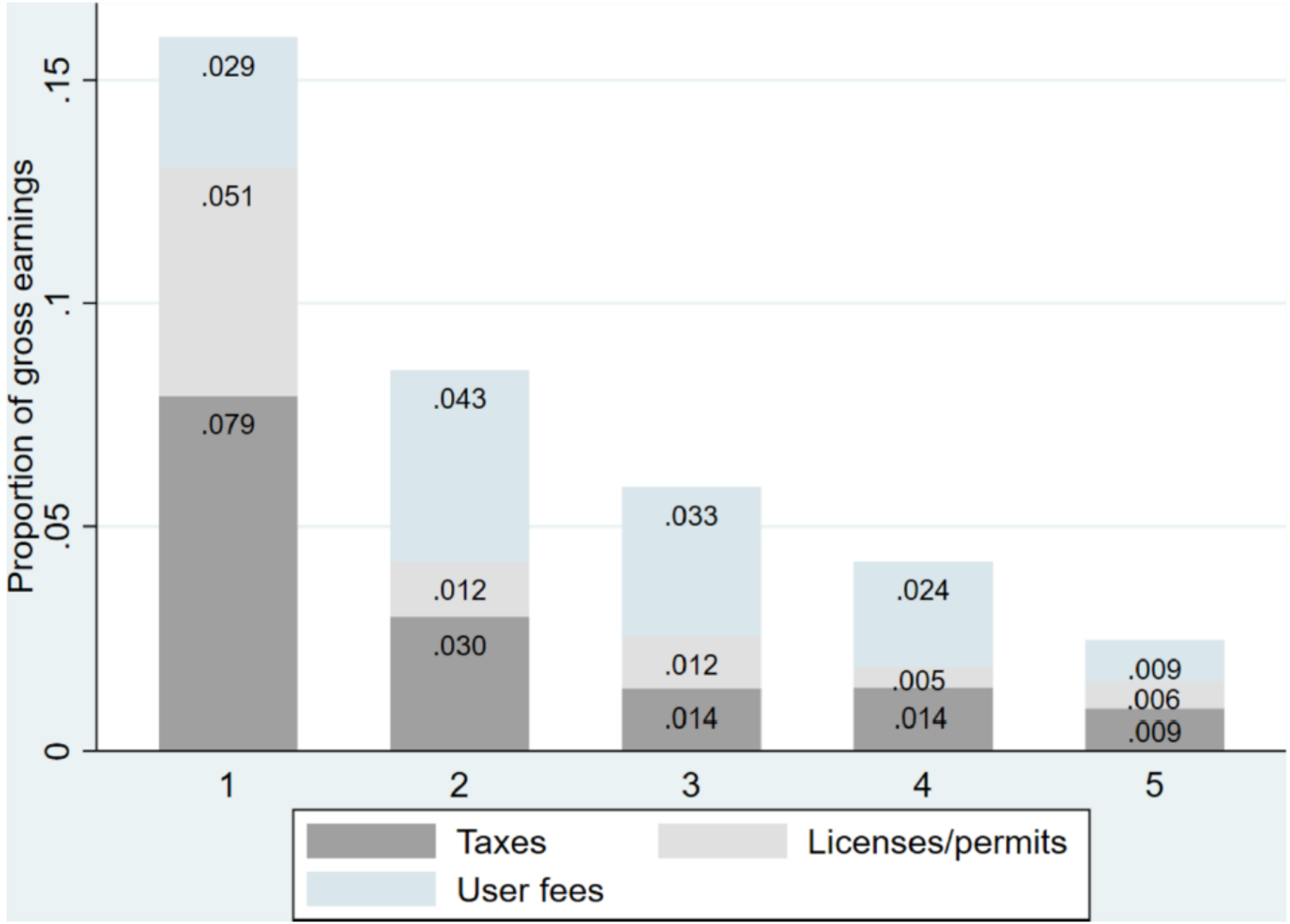
- Sectors that are made up of many small operators, with highly uneven incomes.


AVERAGE EARNINGS
High
Low
POVERTY RISK
Low
High
SEGMENTATION BY SEX
Employers
Mainly men
Regular informal wage workers
Own account operators
Women and men
Casual informal wage workers
Industrial outworkers/ homeworkers
Unpaid family workers
Mainly women


INCOME DISTRIBUTION BY GENDER
Men
Women
15,000+
10,000
5,000
0
Monthly income
200
0
200
400
600
800
Frequency

Taxing Informal Sectors: The Challenge

- Economic activities that are nationally unregistered.
- Sectors that are made up of many small operators, with highly uneven incomes.
- Overlapping sub-national, informal and presumptive burdens, often poorly targeted and coordinated.



Nana Akua Anyidoho, Max Gallien, Michael Rogan, Vanessa van den Boogaard, The taxed informal economy: Fiscal burdens and inequality in Accra, World Development, Volume 187, 2025

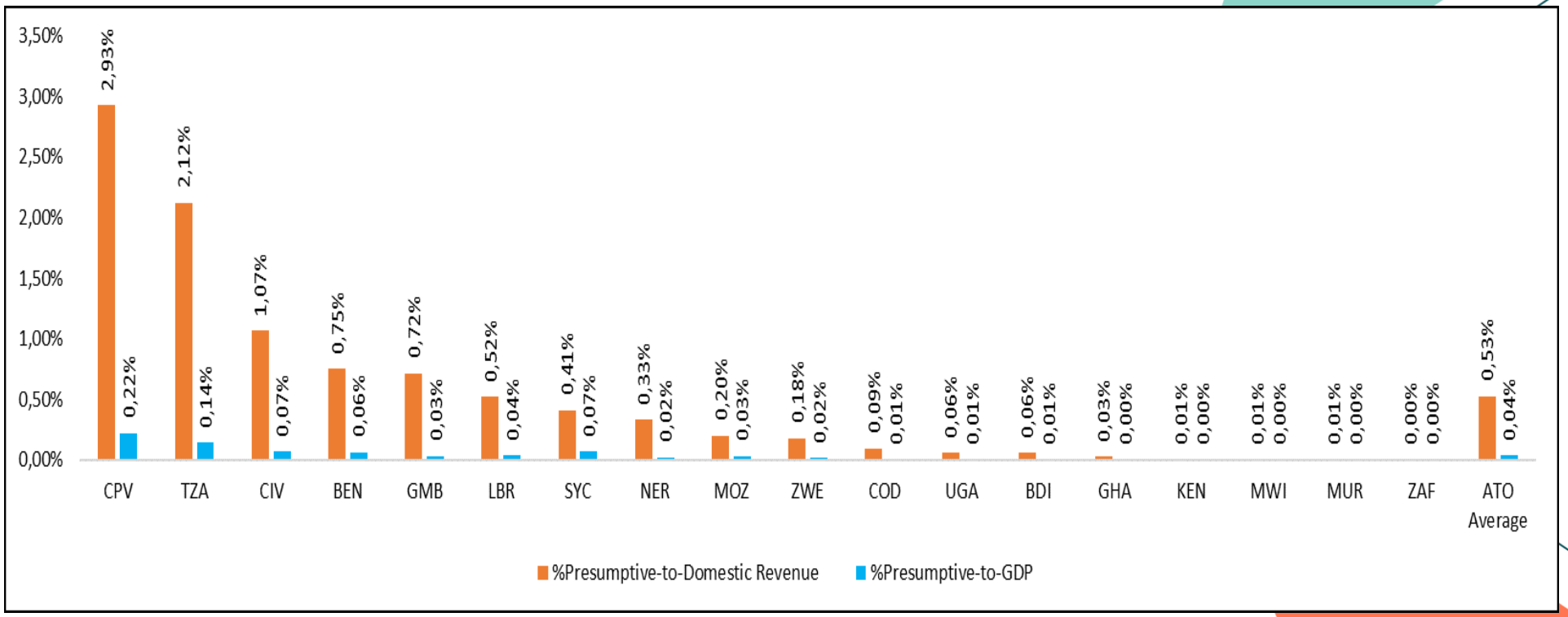
Taxing Informal Sectors: The Approaches

Taxing Informal Sectors: The Approaches

- Presumptive Taxation: costly, inefficient, inequitable

Taxing Informal Sectors: The Approaches

- Presumptive Taxation: costly, inefficient, inequitable



Taxing Informal Sectors: The Approaches

- Presumptive Taxation: costly, inefficient, inequitable
- Mass registration: diluting the register?

Taxing Informal Sectors: The Approaches

- Presumptive Taxation: costly, inefficient, inequitable
- Mass registration: diluting the register?

→ Limited revenues & firm growth; substantial equity concerns

Taxing Informal Sectors: The Way Forward

Taxing Informal Sectors: The Way Forward

- Targeting registration and taxation

Taxing Informal Sectors: The Way Forward

- Targeting registration and taxation
- Research and evidence

Taxing Informal Sectors: The Way Forward

- Targeting registration and taxation
- Research and evidence
- Concretising non-revenue goals

Taxing Informal Sectors: The Way Forward

- Targeting registration and taxation
- Research and evidence
- Concretising non-revenue goals
- New partnerships

Thank you!

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RRA

2025 ATI General Assembly – Technical Session II

Taxation and the Informal Economy: Lessons from Rwanda's Perspective

July 23, 2025

Denis MUKAMA
Interim Commissioner for Strategy
and Risk Analysis, RRA

Taxation of the Informal Economy in Rwanda

- RRA strategically implements measures to tax Rwanda's large informal sector by:

1. **Adopting a risk-based taxpayer registration** approach
2. **Streamlining taxpayer services and tax structures** to enhance ease of compliance
3. **Leveraging digitalization** to strengthen detection and enforcement of informality
4. **Prioritizing taxpayer outreach** and education
5. **Investing in ongoing research and policy reforms** to address informality

1. Risk-Based Taxpayer Registration

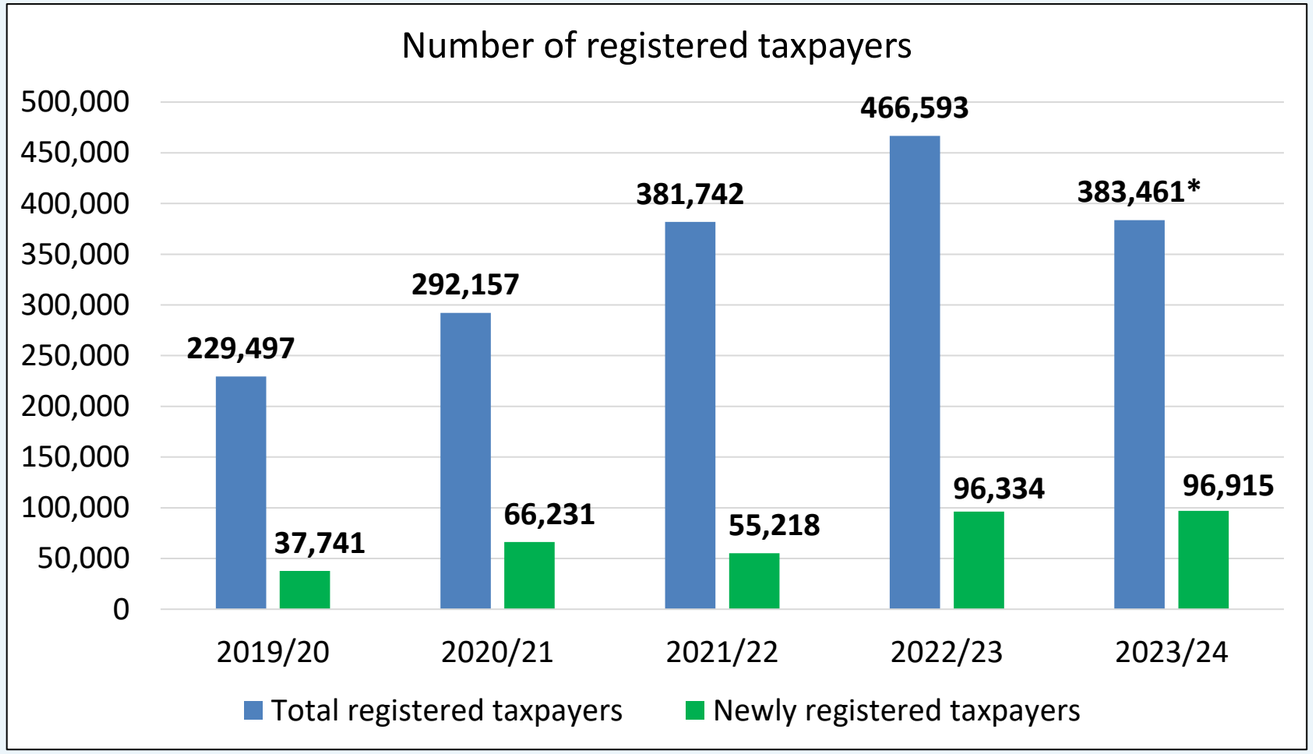
- RRA has shifted its approach from expanding the taxpayer registry to **growing the *active* tax base** by leveraging effective, risk-based registration and de-registration strategies
- Over 50% of CIT returns filed in 2013-2017 were nil returns – the **high incidence of "active ghosts"** in Rwanda was partially due to past ***Mass registration campaigns*** that included inoperative taxpayers, as well as the complexity of de-registration (RRA & ICTD, 2020)
  - ✓ RRA has digitalized and streamlined the de-registration process
  - ✓ RRA's 2023/24 tax registry clean-up initiative effectively removed over 170,000 inactive taxpayers

1. Risk-Based Taxpayer Registration

- RRA has successfully **expanded its active taxpayer base** by leveraging risk-based registration strategies to identify potential non-registered taxpayers
- **Risk rules are dynamically updated** to ensure they accurately and holistically capture informal taxpayers that are active and sufficiently large in scale, e.g.:
    - *Taxpayers registered in VAT but not CIT/PIT*
    - *Importers with CIF eligible for CIT/PIT registration*
    - *Local buyers that meet the VAT registration threshold*
    - *Taxpayers with pension contribution declarations but not registered in PAYE*
    - *Property owners but not paying property tax*
- Potential taxpayers identified for registration are targeted for **follow-up and compliance monitoring**
- Finally, newly registered taxpayers are offered **educational seminars** on their tax obligations

1. Risk-Based Taxpayer Registration

- In 2023/24 alone:
  - RRA registered **96,915 new taxpayers** who contributed **RWF 9.74 billion (~USD 7 million)** in tax revenue
  - The Local Government Tax (LGT) register also expanded by **115,069 taxpayers**, reaching a total of **1,347,846** (9% increase)



***RRA conducted a tax registry cleanup in 2023/24 to de-register inactive taxpayers**

2. Streamlined Services and Tax Structures

- RRA has prioritized **simplified tax procedures** to enhance compliance, including among informal and small businesses:
  - ✓ **User-friendly electronic tax services** – from registration and filing to payment and account management
  - ✓ **Integrated digital tax management system** accessible via mobile devices (MyRRA)
  - ✓ **Automated SMS and email alerts** to remind taxpayers of deadlines, notify them of penalties, confirm filings, and prompt action where needed

2. Streamlined Services and Tax Structures

- Alongside streamlined services, RRA's tax structure is **designed to target higher-income earners** while protecting lower-income earners
- Back in 2020, **wealthy individuals paid lower effective tax rates** on their income than those earning employment income – often due to lower tax rates on income streams such as investment earnings (RRA & ICTD, 2020)
  - ✓ As of 2023, RRA has **updated the top PIT and PAYE thresholds** to ensure higher-income earners are taxed at higher rates proportional to their income
  - ✓ RRA has maintained **tiered CIT, PIT, and PAYE regimes** to enable simplified declaration processes for lower-income earners, while sustaining a **calibrated minimum threshold** (last increased in 2022)

2. Streamlined Services and Tax Structures

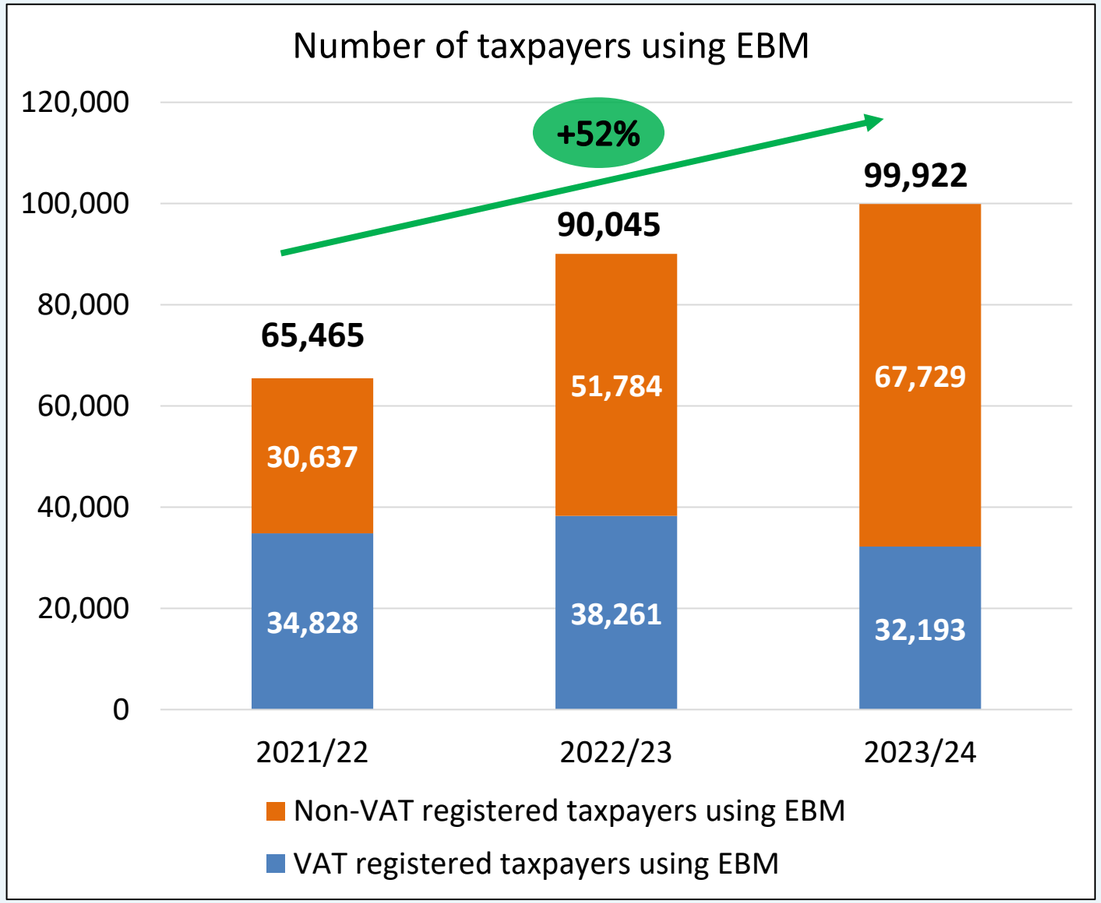
Tax Type	Previous Tax Rate		Current Tax Rate
PIT/CIT (Flat tax regime)			• Rwf 1 – 2,000,000: **0** • Rwf 2,000,000 – 4,000,000: **60,000** • Rwf 4,000,000 – 7,000,000: **120,000** • Rwf 7,000,000 – 10,000,000: **210,000** • Rwf 10,000,000 – 12,000,000: **300,000**
PIT/CIT (Lump sum regime)			• Rwf 12,000,000 – 20,000,000: **3%**
PIT (Real regime)	Before Nov 2022: • Rwf 0 – 360,000: **0%** • Rwf 360,000 – 1,200,000: **20%** • > Rwf 1,200,000: **30%**	From Nov 2022 to Oct 2023: • Rwf 0 – 720,000: **0%** • Rwf 720,000 – 1,200,000: **20%** • > Rwf 1,200,000: **30%**	• Rwf 0 – 720,000: **0%** • Rwf 720,000 – 1,200,000: **10%** • Rwf 1,200,000 – 2,400,000: **20%** • > Rwf 2,400,000: **30%**
CIT (Real regime)	Before 2023/24: **30%**		**28%**
PAYE	Before Nov 2022: • Rwf 0 – 30,000: **0%** • Rwf 30,000 – 100,000: **20%** • > Rwf 100,000: **30%**	From Nov 2022 to Oct 2023: • Rwf 0 – 60,000: **0%** • Rwf 60,000 – 100,000: **20%** • > Rwf 100,000: **30%**	• Rwf 0 – 60,000: **0%** • Rwf 60,000 – 100,000: **10%** • Rwf 100,000 – 200,000: **20%** • > Rwf 200,000: **30%**

3. Digitalization Strategies

- RRA has harnessed digital tools to **detect informality and enhance compliance oversight:**
  - ✓ **Automated VAT input/output controls and detection of fictitious invoices** submitted via Electronic Billing Machines (EBMs)
  - ✓ **Automated revenue controls** on income tax declarations
  - ✓ **Dynamic dashboards to flag discrepancies** in taxpayer registration data, filing and payment outcomes, etc.
  - ✓ **Data matching and integration with third-party systems** to identify and register new taxpayers

3. Digitalization Strategies

- To further strengthen digital oversight, RRA established its '**EBM for All**' policy in 2020
  - The policy requires all traders – including those not registered for VAT – to issue **EBM invoices**
  - EBMs provide **real-time visibility on taxpayer transactions and declared sales** across the formal and informal sectors
  - Since 2021/22, the number of **taxpayers using EBM rose by 52%**, largely driven by adoption among non-VAT registered firms



4. Taxpayer Outreach and Education

- RRA has prioritized **tailored taxpayer outreach and education**, focusing especially on raising awareness among small businesses, newly registered taxpayers, and informal actors
- Initiatives include:
  - ✓ **One Stop Service Center:** locations at RRA headquarters and at local centers
  - ✓ **Education & Sensitization seminars:** 120 tax education workshops held in 2023/24, exceeding the target by 20% (including risk-based sector, new policies, etc.)
  - ✓ **Communication campaigns:** 16 campaigns held in 2023/34 (Confirmed by RRA/ICTD study on effectiveness of communications and their strategies)
  - ✓ **Taxpayer Appreciation Month:** annual event to recognize top taxpayers nationwide

5. Research and Policy Reforms

- RRA's efforts to curb informality are supported by **ongoing analysis and policy development**, including:
  - ✓ Statistical analysis of the existing **tax gap** in Rwanda
  - ✓ Research on the key sectors and emerging trends in **hidden economy activities**
  - ✓ Investigation of the **effective tax burden** in Rwanda – including formal taxes, social security contributions, and informal taxes and fees
  - ✓ Announced **tax policy measures** focused on boosting revenue while incentivizing formalization (e.g., by removing select VAT exemptions that benefit unregistered firms)

THANK YOU

International Labour Organization

Simplified tax regimes with social security contributions Lessons from Latin America to forge a path towards formalization

Guillermo Montt, ILO Social Protection Specialist

July 2025

Many countries in the region have introduced simplified tax regimes

Ecuador (2008/22)	Régimen simplificado para emprendedores y negocios populares (RIMPE) combines Income and VAT Sales < USD 20,000/y: fixed rate Sales < USD 300,000/y: progressive brackets
Guatemala (1992/2012)	Régimen de pequeño contribuyente combines Income and VAT. Units pay 5% of VAT on the basis of monthly sales. No need for detailed accounting. Electronic invoicing required. Geolocalization

They substitute one or more taxes (income, VAT) with the objective of reducing the administrative burden and facilitating compliance to economic units which have:

a) Low income
b) High number and difficult reach
c) Low organizational capacity
d) High mobility (or low survival)

+ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Honduras, Mexico, Nicaragua, Peru, Paraguay and Uruguay

Some have gone further and added social security contributions

Argentina (Monotributo)

- Fixed rate combines income tax, VAT (3-800 USD/m) and social security contributions (26-140USD/m)
- Elegibility if monthly sales up to USD 60,000/year. Self-categorization into one of 11 Brackets
- +Monotributo Promovido, Monotributo Social
- Offers coverage for old-age, disability, maternity, illness
- 2,2M beneficiaries (>10% of workforce)

Brazil (SIMPLES)

- Combines 8 taxes and social security contributions
- Elegibility if monthly sales up to 70.000 USD / year
- Offers coverage for old-age, disability, maternity, illness
- Social security contributions are subsidised under MEI and overall contributions are 5% vs. 20% for general scheme
- 22,3M beneficiaries (>20% of workforce)

Uruguay (Monotributo)

- Scope limited to specific economic activities and anual income <55,000 USD
- Offers coverage for old-age, disability, maternity; health requires additional payment

With several objectives in mind and an active role for tax authorities

Expand the tax base, simplify procedures and administration

- Like in any simplified tax regime

Provide a stepping stone to formalization

- Become a transitional stage for economic units to graduate from and enter the general tax and social security regime

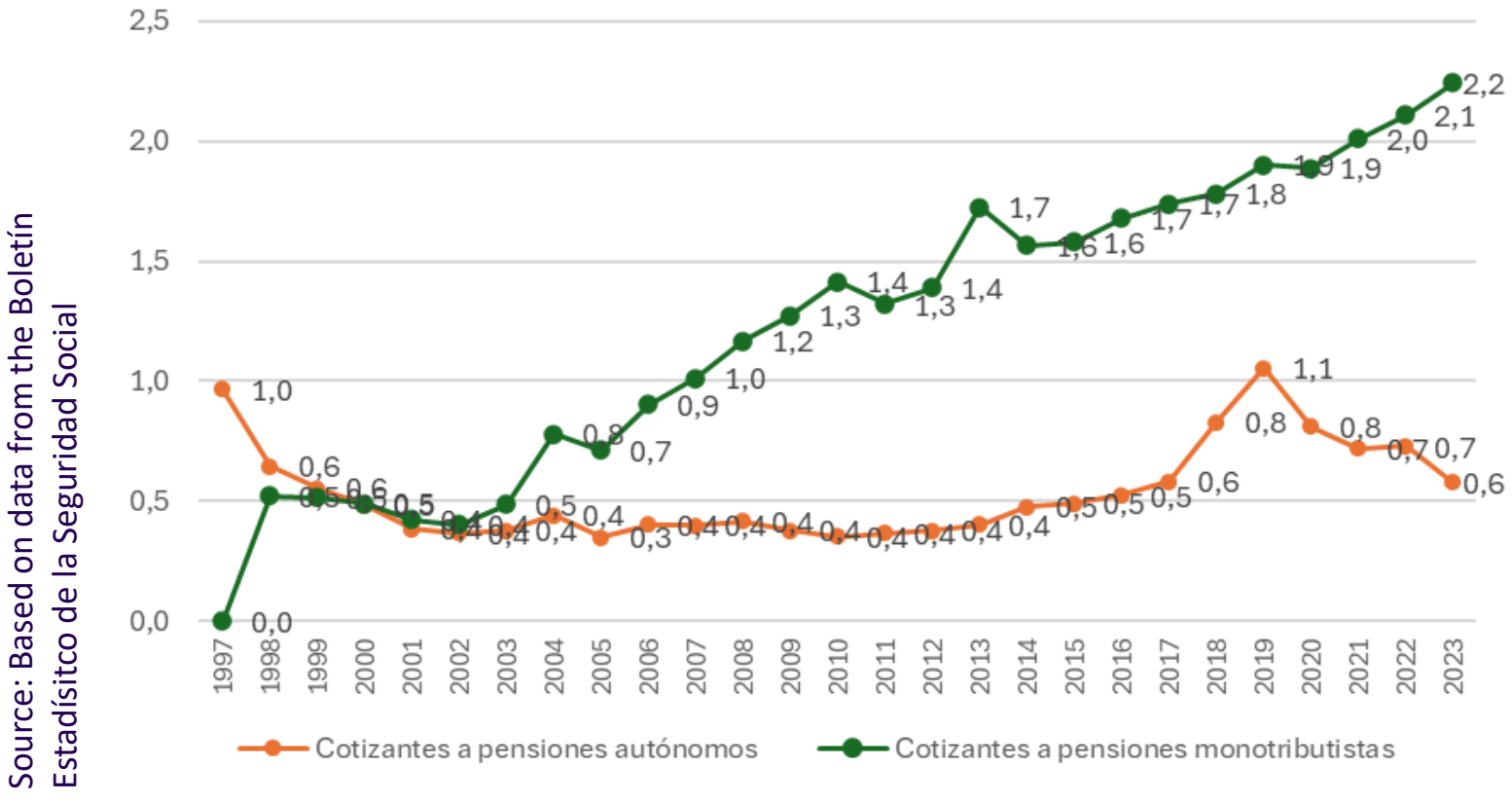
Expand social security coverage

- Capitalize on the adoption of simplified tax regimes to extend social security coverage

Tax authorities either collect directly and then distribute to social security agencies or viceversa.
Tax authorities were instrumental in the design and implementation which was usually led by the Finance Ministries.
Adds an indirect, social role to tax authorities' mandate

They have effectively formalised and extended social security to a large number of enterprises and own-account workers

Large number of workers now covered by social security in ARG



Source: Based on data from the Boletín Estadísitco de la Seguridad Social

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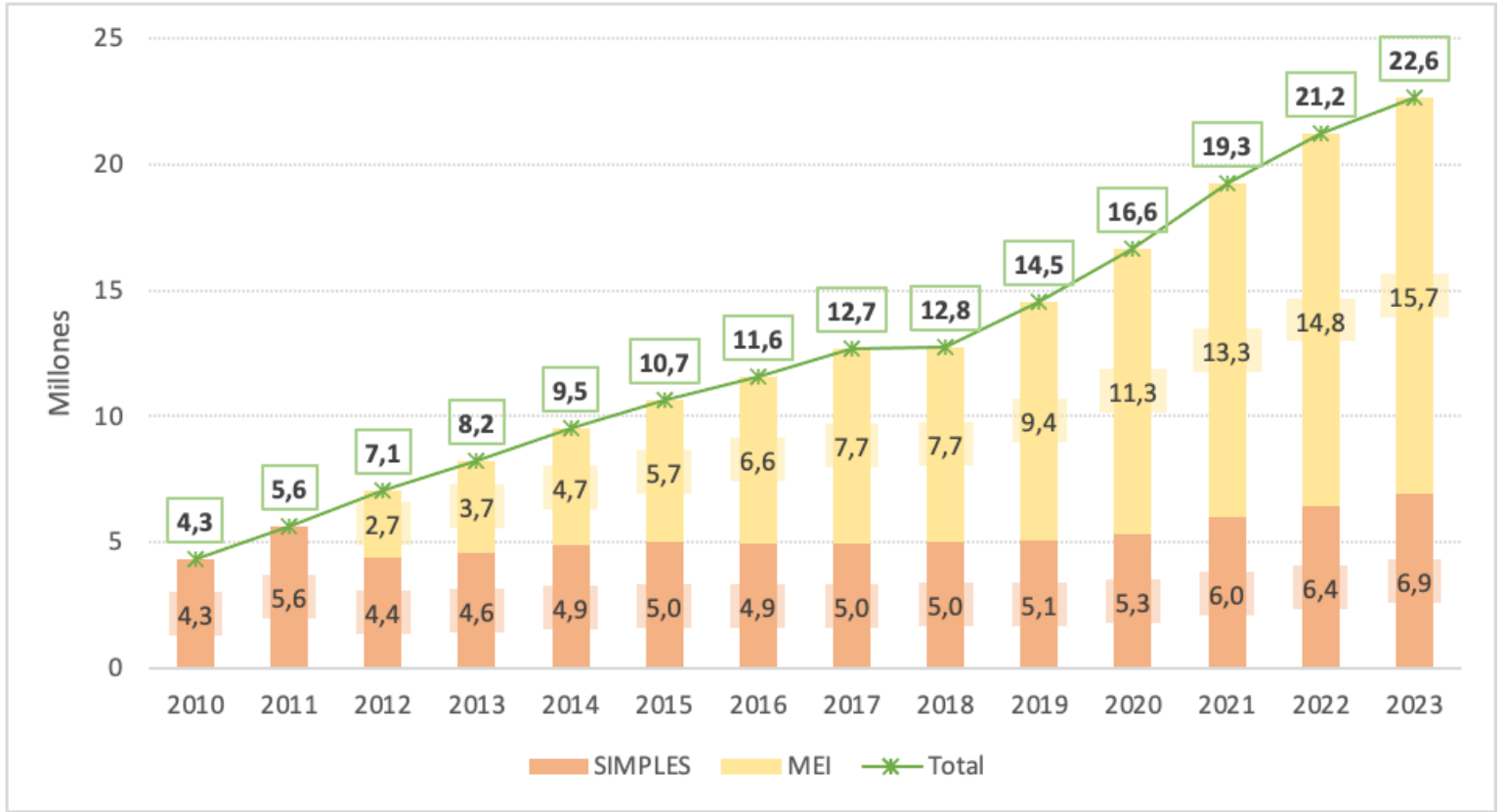
Large number of workers now covered by social security in BRA



Source: Based on data from https://www8.receita.fazenda.gov.br

They have effectively formalised and extended social security to a large number of enterprises and own-account workers

There is an evident value-for-money case for beneficiaries

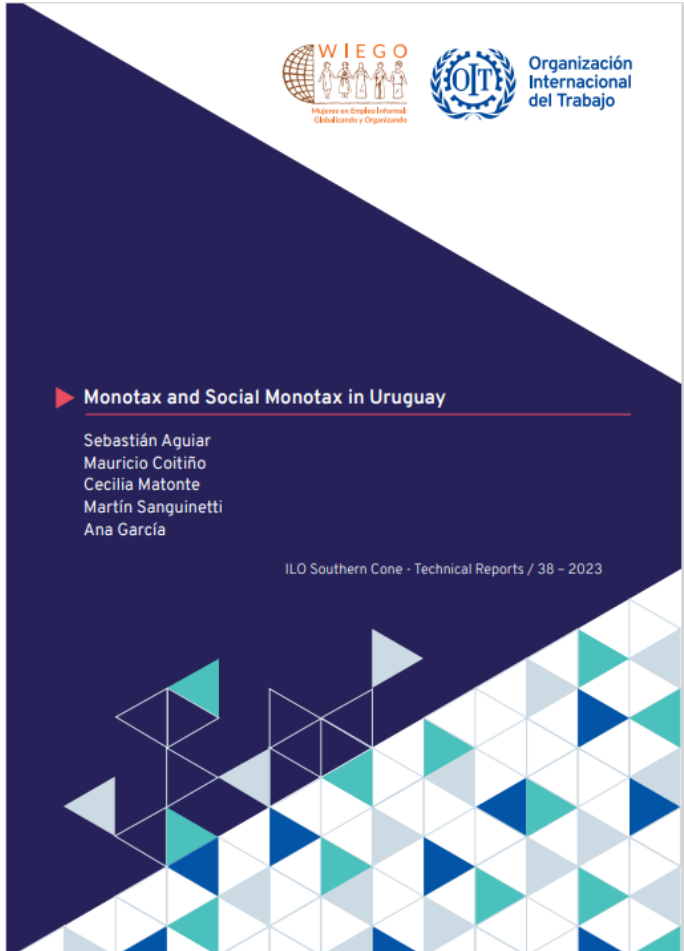
- **Social security benefits are explicitly or implicitly subsidised, which strengthens the principle of solidarity in social security**
- BRA: 5% vs 20% contribution rate in SIMPLES with a government subsidy in MEI to receive old-age/disability/sickness benefits and health coverage
- ARG: The majority of monotributistas contribute USD 26 / months for health/disability/sickness and an old-age pension
- **Impact on the sustainability of social security schemes needs to be followed closely, yet this semi-contributory scheme may be less costly than full-fledged informality and non-contributory pensions/health**
- **Risk of creating second-class benefits (URY)**

In Uruguay, users value the legitimacy and access to markets

For example, now, this year I'm working almost the same as before I had it, but I'm earning more. Formalization allowed me to reach another type of clientele.

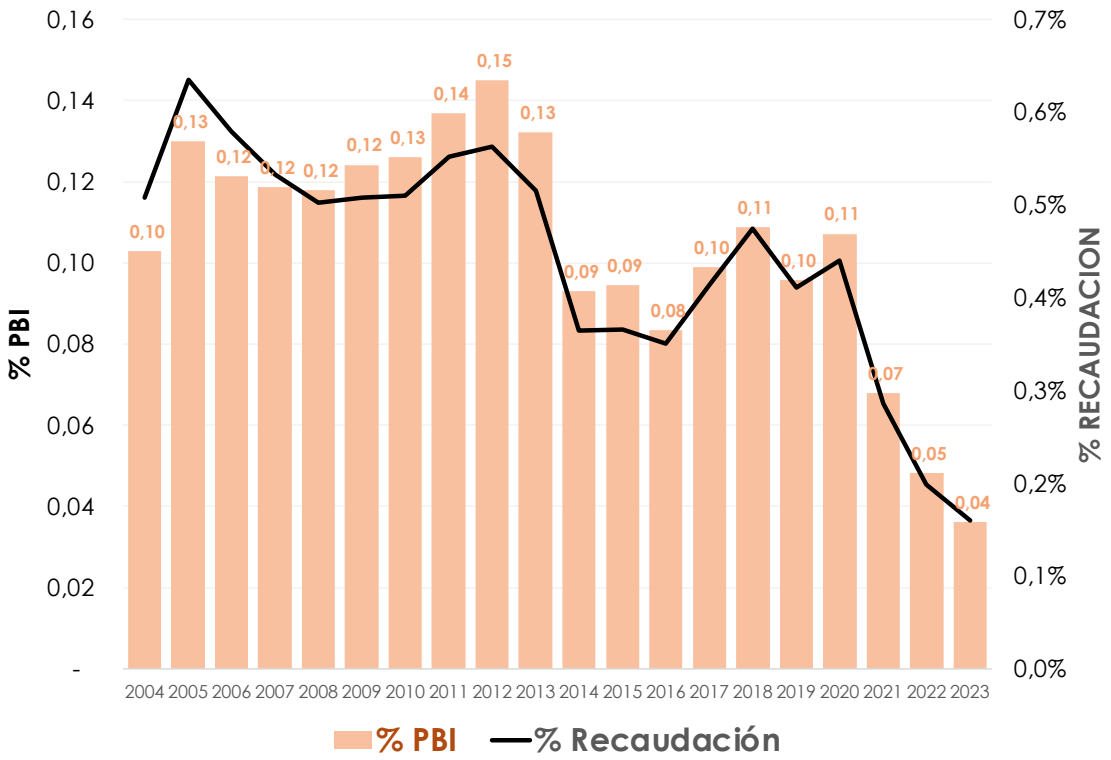
It went really well for us, because it opened up the possibility of participating in markets, exhibitions, events, which required you to have a formal company. And, at the same time, it offered you better marketing opportunities. And, also, because we could work with other payment methods.

And, as a secondary motivation, access to social protection.



However, revenue mobilization and transition to full-fledged formalization has been weak

ARG: < 0.2% of public revenue, < 0.05% GDP



No transition to full-fledged formalization

- Most people remain in the scheme, self-categorization is generally voluntary
- Costly to move up within the scheme and even more costly to graduate
- Limited capacity to verify adequate categorization
- Limited support to economic units to increase productivity and graduate

The take-away point

The monotax (or simplified tax regimes with social security contributions) is an effective tool for the expansion of (semi) contributory social security coverage with an important role for tax collection agencies.

It is highly valued by users. If designed correctly, it can be a stepping stone to regular formal treatment, but it more commonly results in a group of beneficiaries that remain in that second-class or subsidised status.

It is not a relevant domestic resource mobilization strategy, but does expand the range of tools available to show the value-for-money of tax and social security compliance.

Design and simplicity is fundamental (Colombia tried to implement, but then dismantled)