



Tax Expenditure Assessment

September 2025



Introduction

What is tax expenditure?

- Tax revenue that is foregone through, but not limited to, provisions in tax laws
- A channel that a government uses to economically support a taxpayers

Rationale for tax expenditure

- Affordability
- Administrative difficulties
- Regional harmonisation
- Development of priority sectors
- Attracting investment
- Promoting Economic Growth



Purpose of report

Accountability

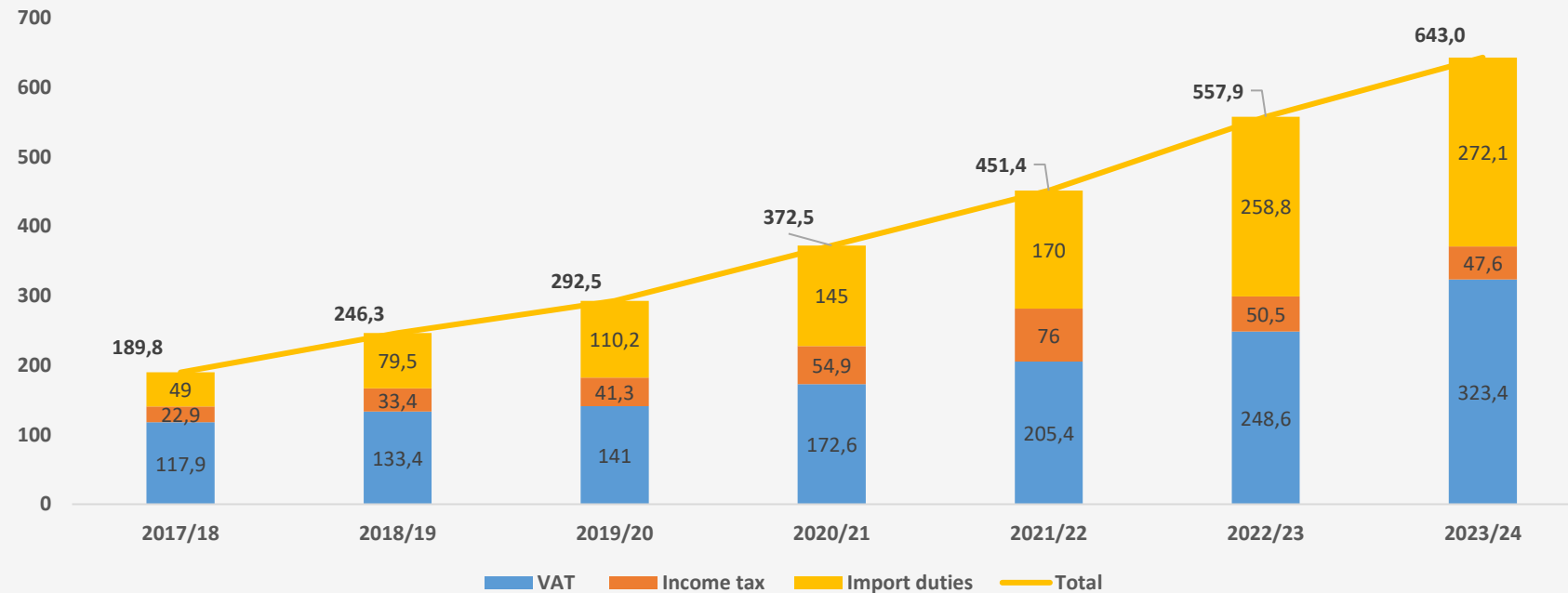
- Illustrate revenue foregone from different provisions to senior officials
- Bring tax expenditure to the attention of Parliament as an indirect budget support
- Transparent by making visible foregone revenue resulting from tax breaks or incentives provided by the government.
- Policy Evaluation and inspire future reform

Use of information

- Accessible to all stakeholders and general public
- Reference point
- Identify areas for increasing transparency



Main findings by Tax type in billion Frw



- The import duties TE increased compared to 2022/23 is largely explained by increased imports of industrial inputs by investors like sugar, wheat and rice.
- VAT TE changes are driven by increases particularly in Education, financial services and energy equipment (fuel and LPG)
- Income TE declined due to the inclusion of loss carry forward in the benchmark.
- TE grew by 15% in FY2023/24



What categories do we consider tax expenditure of?

VAT has two main types of tax expenditure:

1. **Zero-ratings.** If a product is zero-rated, it means that firms do not charge output VAT when they sell it, and they *can reclaim* the VAT that they have paid on the inputs they have bought to make that product.
2. **Exemptions.** If a product is exempted, it means that firms do not charge output VAT when they sell it and they *cannot reclaim* the VAT that they have paid on the inputs they have bought to make that product.

Income tax has a few different types of tax expenditure:

1. **Tax holidays.** Eligible companies do not have to pay Corporate Income Tax but they still need to file CIT.
2. **Preferential tax rates.** Eligible companies pay a reduced Corporate Income Tax rate.
3. **Deductions.** The tax system allows more expenses to be deducted than normal.
4. **Tax exemptions.** Income from certain activities is defined as non-taxable, and some types of organisations are exempt from paying CIT.

Import duties have the following types of tax expenditure:

1. EAC Customs Law exemptions
2. Preferential tariffs through Stay of Application
3. Registered investor incentives



VAT benchmark definition

VAT

- The Value Added Tax has an international benchmark which makes it simple to compute in theory.
- However, Value-added tax terminology can be confusing, so it's important to understand the three states of the tax: taxable, zero-rated, and exempt supplies

In Rwanda's VAT model, benchmark is defined as:

- **Unit of taxation:** The VAT is intended to be borne by final consumers—typically households—by collecting VAT on all goods or services supplied to them.
- **Tax base:** The benchmark VAT base is consumption broadly defined and comprises all goods and services consumed in Rwanda. As such, the tax applies on a "destination basis" and that it applies to goods imported into Rwanda, but not to goods exported from Rwanda. The zero-rating of exports is a fundamental characteristic of a value-added tax, it is thus part of the benchmark not a deviation.
- **Tax period:** The benchmark tax period is the calendar monthly or quarter.
- **Tax rate:** The benchmark rate is a single rate applying to all goods and services consumed in Rwanda: this standard rate is currently 18%.



Income tax benchmark definition

Income Tax

- There is, however, no consensus definition of a benchmark income tax system.
- The benchmark business and personal tax system for Rwanda reflects debate over the core structural characteristics of Rwanda's tax system, including: progressive taxation of labor income; flat rate taxation of investment income; a presumptive tax regime for micro and small businesses; and the importance of Pay As You Earn (PAYE) as a final tax on employment income.

In Rwanda's Income model, benchmark is defined as

- The total income tax expenditure is calculated as the increase in CIT payable by removing all the relevant provisions simultaneously in a "revenue gain method".
- The benchmark unit of taxation for the corporate income tax is the single company, cooperative society, public business, partnership or other entity established to realize profits from business activities within a calendar year.
- However, the Minister may allow a qualifying taxpayer to apply any other twelve-month period as a tax period.
- The statutory general rate of 28% is applied to worldwide income of Rwanda businesses minus expenses incurred to earn that income. Beyond this general concept, the benchmark includes the following specific rules:



Income tax benchmark definition

Income Tax

In Rwanda's Income model, benchmark is defined as follows:

- In the case of a capital asset that contributes to earning business income beyond the year in which the asset is purchased, the benchmark accounts for the cost being allocated over the useful life of the asset (i.e., the period during which the capital asset contributes to earnings).
- The cost of a capital asset “economic depreciation” is thus deducted over the period during which the capital asset contributes to the earning of business income.
- Losses can be deducted against income, but the excess of losses over income in a given taxation period is not refundable.
- Measures that provide relief from double taxation are considered part of the benchmark income tax system.
- The simplified presumptive tax regime for small businesses is also considered part of our benchmark.



Customs duties benchmark definition

Customs

- The customs taxes considered are: Import Duty, Excise on Imports, Withholding Tax of 5% (WHT 5%), Infrastructure development levy (IDL) and the African Union Levy (AUL)

In Rwanda's customs model, benchmark is defined as

- The benchmark tax base includes all imports into Rwanda (excluding government imports as for VAT)
- **For import duties**, the benchmark rates for: raw materials is 0%; intermediate inputs is 10%; and finished goods is 25%(Some products are classified by EAC as Sensitive Items and have a benchmark rate which varies from this)
- Because free trade with regional partners is a structural component of customs in Rwanda, the benchmark customs rates are usually duty-free importation from members of either the East African Community (EAC) or the Common Market for Eastern Southern Africa (COMESA).
- This means that such duty-free importation is not considered as tax expenditure



Customs duties benchmark definition

customs model, benchmarking... cn't

For excise on imports, list of products covered are mainly:

- motor vehicle with respect to their engine capacity: (5% for these below 1500cc, 10% between 1500cc and 2500cc while above 2500cc excised at 15%)
- lubricant,
- Cigarettes,
- beer,
- liquor,
- soft drinks,
- Candies and chocolate with all of those products attracting different rates.
- The benchmark tax base and rate are those specified in the Law. Any exemption is considered a tax expenditure.



Customs duties benchmark definition

customs model, benchmarking... cn't

WHT 5%:

- It's a Customs tax that is deductible from an importer's income tax Declaration
- However, this is not deductible for those who cannot file an income tax declaration
- Exemption of WHT 5% at importation for a non-registered person' is therefore considered to be tax expenditure.
- **Regarding the Infrastructure development levy (IDL) and the African Union Levy (AUL), an ad-valorem rates of 1.5% and 0.2% on the CIF value of imports are charged on all products. Any exemption is considered a tax exemption**



TE inclusion and exclusion

- Across all tax types, we exclude TE on purchases and outputs by public institutions because it is tax revenue spent to provide public services. For consistency, we also exclude VAT revenue from govt.
- Income tax estimations are for the previous calendar year, not fiscal year due to the CIT tax schedule. (E.g. 2023 instead of 2023/24.) The estimations exclude some tax expenditures that are not currently measurable.
- On import duties, we measure TE compared to a baseline of EAC / COMESA tariffs, and we have included excise duty, WHT 5% and Infrastructure Development Levy TE based on the same Customs laws.
- Potential tax revenue is obtained as the sum of tax expenditure and actual tax collection



What are the limitations of the TE Assessment in Rwanda?

- Excludes some tax expenditures that are not currently measurable.
 - We cannot measure tax expenditure on CIT non-filers, even though there appear to be fewer cases of this than before
 - Tax expenditure in specific provisions e.g. capital gains exemptions or from exempting employment income from non-resident employers
 - Any potential tax expenditure from other tax types e.g. strategic reserves levy
- Does not tell us the impact of non-compliance / informality on tax revenue.
- Does not tell us directly the revenue gained from removing tax expenditure.
 - Although it gives an indication, this will depend on how companies and consumers change behaviour when tax expenditures are removed
- Does not include analysis of benefits generated by tax expenditure.
 - Decisions should be considered based on trade-offs between the benefits and costs of tax expenditure.
 - It will be at least as important to also consider the context and rationale for each tax expenditure provision.

Thank You