



Mobilising more and better: Towards improving domestic resource mobilisation in Rwanda

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- Rwanda increased tax revenue from under 10% of GDP in the early 2000s to 17% by 2018 through tax policy and administration reforms.
- Modernisation efforts such as Electronic Billing Machines, e-filing, and e-payment systems improved compliance and efficiency, particularly for VAT.
- Institutional reforms and performance management strengthened the credibility of the Rwanda Revenue Authority and fostered taxpayer trust.
- The tax base was broadened by integrating more SMEs and decentralising some revenue collection functions.
- Challenges include a large informal sector, compliance gaps, complex auditing, widespread tax exemptions, and underdeveloped property taxation.
- Priority reforms involve reducing unproductive tax expenditures, leveraging digital tools and AI for compliance, and strengthening local revenue mobilisation.
- Additional measures include improving transparency, building audit capacity, enhancing cross-border cooperation, and exploring new revenue sources like digital taxes and capital gains on property.

Executive summary

Rwanda has made significant progress in domestic resource mobilisation (DRM) through comprehensive tax policy and administration reforms. As a result, tax revenue increased from under 10% of GDP in the early 2000s to a peak of 17% by 2018. A combination of tax policy and tax administration reforms has contributed to this impressive performance. Modernisation efforts—particularly the deployment of Electronic Billing Machines (EBMs), e-filing, and e-payment systems—have improved compliance and efficiency, especially in VAT administration (IMF, 2023). Institutional reforms and a strong culture of performance management have enhanced the credibility of RRA and fostered taxpayer trust, while high-level political commitment has ensured consistent reform momentum. Rwanda has also broadened its tax base by integrating more small and medium enterprises (SMEs) into the tax net and decentralising some revenue collection functions.

Despite these gains, critical challenges persist. A large informal sector and predominantly agrarian economy limit the reach of taxation. Compliance gaps remain due to under-reporting, capacity constraints, and the complexity of auditing high-risk sectors. The proliferation of tax exemptions and incentives has eroded the tax base, while property taxation remains underdeveloped. Sustaining tax morale and expanding the tax base—especially among hard-to-tax groups—are ongoing concerns.

To address these challenges and align with the country's Vision 2050 targets, Rwanda should adopt the next generation of DRM reforms. Key priorities include:

- Broadening the tax base by reducing unproductive tax expenditures and identifying tax-capable firms that hide under the guise of the informal economy
- Leveraging digital tools, data analytics, and AI to improve audit targeting and compliance monitoring.
- Strengthening local revenue mobilisation through effective implementation of the new property tax law and enhanced fiscal decentralisation.
- Improving tax transparency, accountability, and effective communication to sustain taxpayer trust and voluntary compliance.
- Building capacity for specialised audits and cross-border cooperation to combat sophisticated tax avoidance and evasion.

- Exploring new sources of tax revenue, including capital gains on property and digital taxes.

Taken together, these reforms will not only sustain Rwanda's revenue growth but also enhance equity and fiscal self-reliance, contributing to the government's ability to finance long-term development goals.

Introduction: Rwanda's DRM journey and context

Rwanda's long-term development Vision 2050 aspires to transform Rwanda into an upper-middle-income country by 2035 and a high-income nation by 2050. Achieving this will require massive investments in human capital, infrastructure, and technology, which in turn demand substantial domestic resource mobilisation.

Vision 2050 explicitly highlights domestic financing as critical for sustainable development. The Vision emphasises self-reliance, building on the idea from Vision 2020 that Rwanda should finance its own development to the extent possible. One pillar of Vision 2050 is improved governance and domestic accountability, under which increasing domestic revenues is a key outcome (since higher revenues both enable development and reflect a stronger social contract). The trajectory implied by Vision 2050 is that Rwanda would need to raise its revenue-to-GDP ratio closer to 25% or more by 2050 (similar to today's high-income countries).

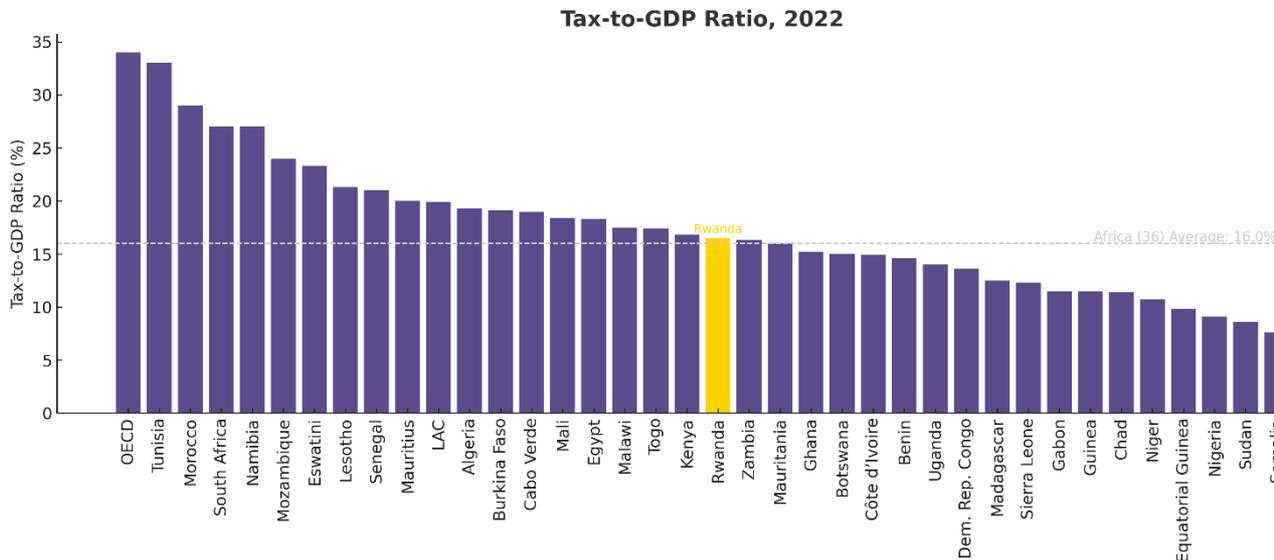
In essence, Rwanda's national plans underscore a clear narrative: today's development must be paid for increasingly by Rwandans themselves. NST1 made considerable strides in that direction; NST2 and Vision 2050 will double down on it. The COVID-19 pandemic was a setback, but it also reinforced the importance of domestic resource mobilisation¹. In recent times, this has been reinforced by the rolling back of official development assistance across different quarters. The alignment is evident in policy: initiatives like the Medium-Term Revenue Strategy (MTRS), the establishment of a high-level Tax Policy Committee in MINECOFIN, and integration of DRM targets in performance contracts all derive from strategic directives in NST1/2 and Vision 2050. Policymakers thus view tax reforms not in isolation, but as enablers of Rwanda's transformation agenda.

Against this backdrop, Rwanda set out to strengthen its tax system – both in policy and administration – to increase tax yields. By 2025, Rwanda's progress in DRM is evident: tax collections have grown significantly, and the tax system has undergone major reforms to enhance fairness and efficiency. When

¹ (as external flows became uncertain, domestic revenues proved to be the more reliable source)

benchmarked against countries at a similar level of development, Rwanda stands out as a strong performer in domestic resource mobilisation. Its tax effort has generally been higher and improved faster than many peers.

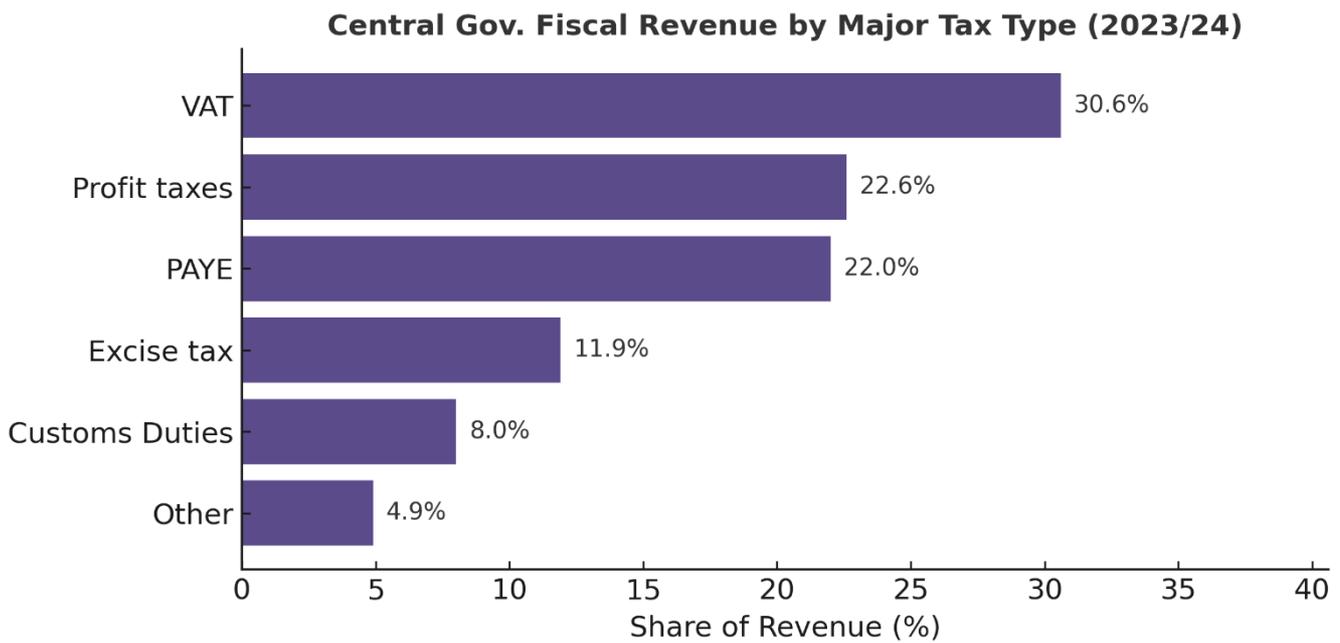
As of the early 2020s, Rwanda’s tax-to-GDP ratio (in the mid-to-high teens) exceeds that of most East African neighbours. According to comparative data, Rwanda's tax revenue was approximately 16% to 17% of GDP (pre-pandemic), comfortably above Uganda's (around 13% to 15%) and Tanzania's (around 14%) (Foon & Mugisha, 2021). Furthermore, Rwanda’s current tax level is higher than the Sub-Saharan Africa (SSA) average (approximately 16%) and significantly above the average for low-income countries (approximately 11%). This puts Rwanda near the top among countries at similar income levels.



Source: adapted from OECD Revenue Statistics in Africa Report

In the medium term, Rwanda aims to raise its tax-to-GDP ratio to 19% by 2029. This brief reviews the key reforms undertaken to improve DRM in Rwanda, highlights successes and remaining challenges, and recommends next-step innovations – all in line with national strategic goals (NST1, NST2, and Vision 2050).

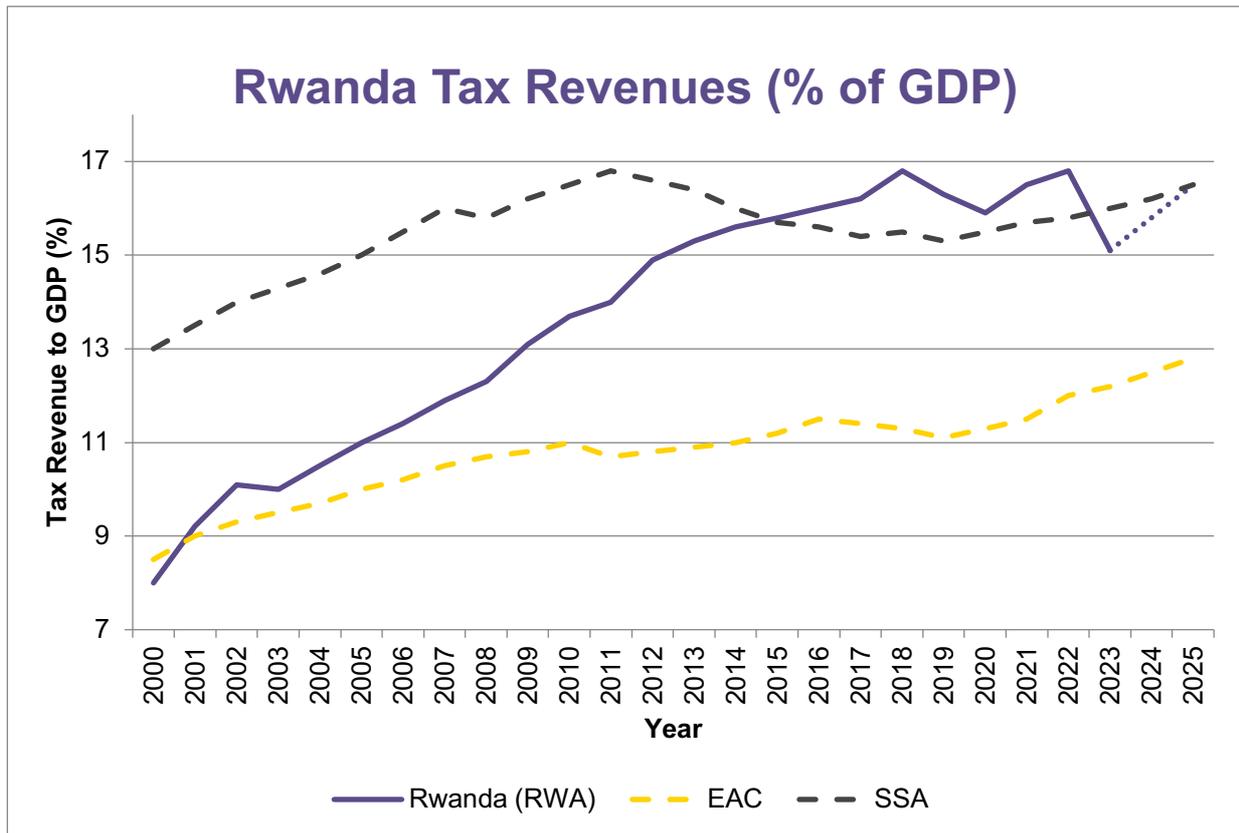
Revenue composition: Rwanda’s tax base is dominated by consumption taxes. Value-Added Tax (VAT) is the single largest source, contributing around 31% of total tax revenue (OECD, 2025). Taxes on goods and services other than VAT – mainly excise duties and customs/import duties – contribute roughly another one-fifth of revenues (RRA, 2024). Together, VAT, excises, and trade taxes form the backbone of collections. Profit taxes (PIT, CIT, and WHT) account for about 23% of tax revenue. (In the 2022 fiscal year, CIT made up 16% of total revenues, and PIT made up 22%). Property tax yields are minimal, making up approximately 1% of total taxes collected in 2023/24 (RRA, 2024).



Source: RRA Tax Statistics (2024)

Rwanda’s DRM reforms: Experiences

The reforms that Rwanda has implemented make it an oft-cited example of effective domestic resource mobilisation in Africa. These efforts have significantly increased tax collections – tax revenue rose from under 10% of GDP in the early 2000s to around 17% by 2018, at its peak (before a slight dip related to COVID-19 thereafter). This sustained growth in the tax-to-GDP ratio indicates that domestic revenues expanded faster than the economy, allowing Rwanda to finance more of its development agenda with its own resources. Key reform milestones span modernisation of tax administration, broadening of the tax base through policy changes, and institutional capacity building, all underpinned by strong political will and a focus on taxpayer compliance.



Source: 2025 is a projected value based on the IMF's WEO

Modernising tax administration with technology

A cornerstone of Rwanda's success has been aggressive tax administration modernisation. The Rwanda Revenue Authority (RRA) embraced digital tools to improve efficiency and compliance. An online e-filing and e-payment system launched in 2011 streamlined tax declarations and payments, cutting filing times dramatically – previously, a typical filing could take a business up to 23 days, including visits to tax offices and banks. By moving these steps online, the RRA not only expedited compliance but also reduced opportunities for corruption and error. Around the same time, the government mandated electronic tax payments to reduce cash handling and leakages in revenue collection. These measures boosted the filing compliance rate and improved the business climate, encouraging more taxpayers to enter the tax net (Hakizimana & Santoro, 2023).

Another major innovation was the rollout of Electronic Billing Machines (EBMs) in 2013 for VAT-registered businesses. By law, all VAT-registered vendors must issue electronic invoices via certified EBMs that automatically record sales transactions (Steenbergen, 2017). This system curbs under-reporting of sales for VAT purposes by providing the RRA with real-time sales data, acting as an inexpensive built-in auditing mechanism (Rossel et al, 2024; Eissa & Zeitlin, 2014). Initial uptake challenges (such as the cost of devices and technical glitches) were addressed by upgrading to EBM Version 2 in 2017 to improve reliability. The impact was notable: by 2014 (one year after introduction), about

80% of firms required to use EBMs were doing so. By 2017, the RRA reported discrepancies in 43% of VAT returns when cross-checked against EBM records, flagging under-reporting that could then be pursued via audits. VAT compliance has improved steadily – the VAT compliance ratio (actual vs. potential collections) rose from only 26% in 2001 to 38% by 2016 (Steenbergen, 2017). While still low, this represents substantial progress. The EBM reform is regarded as a cutting-edge initiative in Africa (emulated by other countries) and has been particularly lauded for boosting VAT compliance (Eissa, n.d.).

Leveraging data analytics has further strengthened enforcement. Throughout the 2010s, RRA adopted a risk-based auditing system that uses data from EBMs and third-party sources to identify high-risk taxpayers for audit. All tax declarations receive a risk score based on set criteria, allowing auditors to prioritise non-compliant cases. This approach improved audit yields and collection from audits (Kotsogiannis et al., 2025). In practice, for example, RRA can flag firms whose reported sales are anomalously low relative to their sector or size and target them for investigation. Such data-driven compliance measures, combined with automation, have materially boosted revenue performance. The RRA also introduced practical compliance improvements like adjusting filing frequencies (for example, quarterly filing for small VAT payers) and allowing direct bank transfers and electronic data uploads for tax payments (IMF, 2020), all of which further simplified compliance and reduced loopholes.

Tax policy reforms and broadening the tax base

Rwanda's reform journey also prominently features tax policy enhancements aimed at broadening the tax base instead of resorting to very high tax rates. The country has generally kept standard tax rates moderate and in line with regional peers (for example, 18% VAT, 30% corporate income tax), so revenue gains have come from expanding the taxable base and closing gaps rather than raising rates. A key milestone was scaling back tax exemptions and incentives that eroded the tax base. From 2010 to 2011, the government rolled back a range of VAT and income tax exemptions that were deemed unproductive, immediately widening the base for taxation. This contributed to a notable jump in revenue – Rwanda's tax-to-GDP ratio climbed from about 12.9% in 2010 to 16.6% by 2015 following these measures. These ongoing efforts ensure that incentives remain aligned with development goals and that the tax base is not unduly narrowed by special treatments. In tandem, Rwanda updated and simplified its tax laws to encourage compliance and reflect best practices. A Revised Income Tax Law in 2018 streamlined and clarified tax provisions (Bower et al., 2022), expanding the tax base. This included the clarification of a 5% capital gains tax, exclusion of liberal professions from the 3% lump-sum tax regime to the real regime and taxation of in-kind benefits (PwC, 2018). Additionally, a new Tax Procedures Code introduced around the same time

consolidated administration rules and introduced stronger penalties for evasion alongside clearer taxpayer rights.

Another significant reform was the overhaul of property taxation, Rwanda passed a new property tax law effective 2019. This law broadened the property tax base and updated property valuation methods, empowering local governments to raise more revenue from local sources. Decentralising such taxes (for example, local trading licenses and property taxes assigned to districts) has widened the reach of taxation and fostered fiscal decentralisation. However, implementation of the new law, which in part required ministerial orders for its enforcement, faced challenges, and some of the revisions have since been reversed in the 2025 tax reforms.

Rwanda has also been innovative in bringing the informal sector into the tax net. A simplified presumptive tax regime was introduced for small businesses (micro enterprises under a certain turnover pay a flat fee or low rate), lowering barriers to formalisation. Business registration and tax registration were integrated into a one-stop process, making it easier for entrepreneurs to formalise their operations and register as taxpayers. Notably, Rwanda employs a 15% withholding tax on payments to unregistered taxpayers (PwC, 2025) – if a business or individual transacts with a supplier who is not on the tax register (or hasn't filed returns), they must withhold 15% of the payment as a tax on behalf of that unregistered party. This effectively serves as a minimum tax on informal operators and creates a strong incentive for businesses to register and file taxes (so they can claim the credit or avoid the automatic withholding). Such measures directly rope in those who might otherwise evade taxes. Collectively, these policy measures have expanded the tax base dramatically. The number of registered taxpayers increased from about 26,000 in 2007 to 383,000 by 2023, reflecting successful efforts to capture more of the informal and SME sector (RRA, 2024). Small and medium enterprises (SMEs) have become significant contributors to revenue. The SME sector's tax contribution (from income taxes like personal and PAYE) rose from 0.8% of GDP to 1.8% of GDP within a few years (Chemouni, 2020). Likewise, the share of total tax revenue coming from small enterprises grew from 21% in 2011/12 to 39% in 2023/24, indicating a much broader base of taxpayers rather than reliance on a few large taxpayers. The introduction of the presumptive tax and easier incorporation processes incentivised many informal businesses to formalise. However, Rwanda's experience also shows that simply increasing registrations does not automatically translate to proportional revenue gains – implementation strategy matters. Evidence suggests that indiscriminate registration drives can strain administrative capacity and yield limited revenue, whereas targeting high-potential informal sectors and coupling registration with adequate enforcement and education is more effective (Moore, 2022; ICTD, 2023). This has been a lesson learned in refining Rwanda's approach to broadening the base.

Institutional strengthening and taxpayer compliance initiatives

Institutional reforms and capacity building within the RRA have underpinned Rwanda's DRM gains. Early on (in the 2000s), the RRA was restructured along functional lines, and a Large Taxpayer Office was established to better serve and monitor the biggest contributors. Over the 2010s, the RRA invested heavily in its human and technical capacity. Staff received training and professional development (including through the African Tax Administration Forum and IMF programs), and the RRA upgraded its ICT systems – notably integrating tax and customs data into a unified system and improving data-sharing with other government agencies like the business registry. This integration helps track taxpayers across different touchpoints and detect non-compliance (for example, cross-checking business registrations against tax filings).

Improving taxpayer compliance and morale has been another focus area.

The RRA has rolled out various taxpayer education programs, public awareness campaigns, and service improvements to encourage voluntary compliance. These initiatives have met with mixed results. On one hand, taxpayer education has measurably increased taxpayers' knowledge of the tax system and reduced perceptions of filing complexity, contributing to higher compliance in terms of filing and payment (Mascagni et al., 2024). On the other hand, changes in intrinsic tax morale – citizens' sense of duty or willingness to pay tax voluntarily – have been limited. The education and messaging campaigns have not significantly shifted public attitudes about the fairness of the tax system or the social contract. This suggests that while technical compliance can improve through better taxpayer services and understanding, building a stronger tax culture will require addressing deeper issues of trust and perceived reciprocity (for example, taxpayers seeing visible benefits of the taxes they pay). Rwanda acknowledges this gap and sees room to strengthen the tax social contract – for example, by increasing transparency, highlighting the link between taxes and public services, and continuing to demonstrate accountability in the use of revenues.

Another institutional aspect of Rwanda's DRM strategy is fiscal

decentralisation. By empowering local governments with their own revenue sources (like property taxes and local fees), Rwanda not only broadened the overall revenue base but also increased local accountability for revenue collection and service delivery. Local governments now collect certain taxes and fees, which have helped improve collections at the grassroots level and relieved some pressure on central revenues. It also means that as local revenue capacity grows (through updated property valuations, for instance), districts can fund local infrastructure and services, thereby reinforcing citizens' willingness to pay at the local level.

Rwanda's multi-pronged DRM reforms have yielded substantial gains in revenue and fiscal self-reliance. Tax collection grew steadily faster than GDP, enabling the government to fund an expanding budget. Domestic taxes now finance the majority of Rwanda's budget – by FY2023, over 50% of the national budget was funded by domestic resources (tax and non-tax), up from well below half two decades ago. Several lessons emerge from Rwanda's DRM experience. First, the importance of broad-based reform is clear – Rwanda has consistently prioritised revenue reforms, and the approach has favoured comprehensive changes across tax policy, administration, and legal frameworks rather than piecemeal tweaks. This comprehensive approach has been critical to steady gains. Second, investment in modern tax administration technology and data-driven strategies pays off: tools like e-filing systems, electronic invoicing, and risk-based audits significantly improve efficiency and compliance when implemented well. Third, broadening the tax base by bringing in more taxpayers (especially SMEs and informal sector operators) can raise revenues and equity, but it needs to be accompanied by capacity enhancements and strategic focus. Finally, Rwanda's experience illustrates that DRM reform is a continuous journey. In the next section, we focus on the remaining challenges in Rwanda's DRM journey.

Remaining challenges in domestic resource mobilisation

Despite the impressive gains, Rwanda has not fully overcome all obstacles in domestic resource mobilisation. Several challenges persist, which require continued attention:

- **Large informal sector:** A significant portion of Rwanda's economy remains informal or only partially within the tax net. Smallholder agriculture, informal trading, and micro-enterprises form a big share of GDP and employment. These are inherently hard-to-tax sectors. While RRA expanded taxpayer registration, many small businesses still operate below the VAT threshold or entirely outside formal registration. Informality means the tax base is narrower than it could be, given Rwanda's level of development. Tackling this requires innovative approaches (simplified presumptive taxes, incentives to formalise, enforcement through local authorities, etc.) and remains an ongoing challenge. High informality also affects tax morale: those in the formal sector may perceive an unfair burden when many others do not pay. Rwanda's tax authority, despite being tech-oriented, "still faces challenges such as high levels of informality," limiting its revenue potential ([Rossel et al, 2023](#))

- **Compliance caps and evasion:** Even among registered taxpayers, compliance is not complete. Under-reporting of income and sales, and non-filing or late payment, persist – especially among smaller firms and certain professions. RRA’s data indicate that a notable share of businesses under-declare their sales (as evidenced by the mismatch between EBM recorded sales and VAT returns for 43% of VAT payers in 2017) and some collect VAT but fail to remit it fully ([Chemouni, 2020](#)). Tax evasion tactics evolve, including false invoicing (despite EBMs, some collusion exists to issue fake receipts), shifting of profits by multinationals through transfer pricing, and taxpayers exploiting any loopholes in laws. Rwanda’s capacity to audit complex cases (for example, multinational companies or high-net-worth individuals) is still developing, which can lead to compliance gaps in those segments. Additionally, segments like the nascent digital economy create new compliance issues (identifying and taxing online vendors, etc.). Closing these gaps will require enhanced audit capabilities and inter-agency data sharing (such as using financial sector data to detect under-reported incomes), and can benefit from new technologies such as machine learning.
- **Administrative capacity constraints:** The Rwanda Revenue Authority, while efficient, operates with limited resources in absolute terms. The tax administration must continually do more with relatively few staff and a budget. Training and retaining skilled tax auditors and IT specialists is a challenge, as the private sector or international organisations can be more attractive. There is also uneven capacity between the central RRA and district-level tax officials who handle decentralised taxes. The expansion of the taxpayer register has stretched RRA’s capacity to service and monitor all taxpayers, risking lower compliance if not managed. Moreover, while IT systems have improved, the RRA must maintain and update them regularly – requiring ongoing investments and skills. Any capacity gaps could slow enforcement, especially as the economy grows and new sectors emerge.
- **Tax base erosion from incentives and exemptions:** Rwanda has used tax incentives aggressively to attract investment (e.g. tax holidays for exporters and investors in Special Economic Zones, VAT exemptions on strategic inputs). While this supports growth and jobs, it also erodes the tax base. Rwanda’s tax expenditure report shows that a large portion of Rwanda’s tax expenditure comes from exemptions on imports (foregone import duties and VAT) for investors and from VAT exemptions (MINECOFIN, 2024). Some companies may engage in “incentive shopping,” enjoying tax breaks and then relocating once they

expire ([Abbot et al. 2011](#)). The effectiveness of certain incentives is questionable, and once granted, incentives are politically difficult to withdraw. The government recognises this tension: Rwanda must balance its generous tax incentives with its domestic revenue needs. Even though some exemptions have been rolled back, going forward, better targeting and periodic review of incentives are needed to ensure they deliver value for money and don't unnecessarily narrow the tax base. This requires institutional collaboration across MINECOFIN, RRA, and RDB.

- **Limited taxation of property:** Thus far, Rwanda's tax system relies heavily on consumption taxes (VAT, excises) and income/payroll taxes, but property taxes remain underdeveloped. Property tax collection has historically been low (under 0.5% of GDP) (Franzsen & McCluskey, 2017). In principle, taxation benefits from having a wide tax base and low tax rates. The current property tax raises challenges to this principle on a number of levels. Firstly, single-house dwellings are exempt from the immovable property tax. This excludes about 89% of the population from the tax, according to the 2020 Rwanda household census. Secondly, the law allows for self-evaluation of immovable property with no incentive for discouraging undervaluation of property. Lastly, the flat rate of 0-80RWF/ m² with no distinction on the value of the land is regressive in that it imposes a higher effective tax rate on lower value land and a lower effective rate on higher value plots. For example, before the 2019 revision that introduced a rate of 300RWF/m², wealthy households with higher value plots were paying less than 0.1% of values in land taxes at the 80RWF/ m² rate relative to low value plots that were paying an effective rate of 1-3% (Kopanyi & Murray, 2017). Taking into account inflation and the increase in property and land value in the past years, the current 80RWF/ m² represents a decline in real terms, implying that higher value plots are now paying even less than 0.1% of value.

In summary, Rwanda's tax system, though much improved, still contends with the fundamental issues many developing countries face: a large informal economy, administrative resource limits, and the delicate balance between encouraging investment and maximising revenues. Addressing these challenges will be key to achieving the higher revenue targets in NST2 and Vision 2050. The government is aware of these issues – for instance, it has adopted a Medium-Term Revenue Strategy focusing on widening the base and improving compliance – but execution will require persistent effort and perhaps new innovations.

Recommendations: Next steps to strengthen DRM

To build on the progress and tackle the remaining challenges, Rwanda should pursue a next generation of DRM reforms. These reforms and innovations will help raise additional revenue in an equitable way and ensure alignment with development goals. Below, we discuss some actionable recommendations towards improving domestic resource mobilisation in Rwanda.

Taxing the informal sector

Despite Rwanda's business-friendly environment and progress in formalisation, a significant share of the economy remains informal – roughly 30% of GDP, with over two-thirds of workers employed in the informal sector (NISR, 2024). This represents a large untapped tax base, as most micro and small enterprises (MSEs) and informal traders pay little or no tax. Bringing more of these businesses into the tax system is challenging but essential for broadening the revenue base in a fair manner. The goal here should not be simply to register all firms in the informal sector, but to identify firms that could and should pay taxes, which use the informal economy to avoid paying taxes. Key strategies include:

- **Increasing compliance through the use of expenditure data:** Use digital tools to capture more of the informal economy's transactions, especially for firms that use the informal economy to avoid paying taxes. Mobile money is widespread in Rwanda; continued integration of mobile payments with tax collection (for example, a tiny levy on merchant mobile payments or using mobile transaction data to estimate sales) can gradually net more informal activity. Additionally, the EBM for All policy mentioned earlier is indirectly formalising small suppliers by requiring them to issue electronic invoices to work with larger firms (Kondylis et al, forthcoming). Over time, this will integrate more SMEs into the tax net. In addition, customs algorithms and VAT data can help identify firms that are hiding behind the informal economy.
- **Local tax collaboration:** Local authorities often know the informal traders in their markets; a joint effort between RRA and districts (possibly assigning revenue-sharing of collections) can improve coverage of SME taxes and modest property taxes.
- **Incentivise formalisation:** Couple tax requirements with positive incentives for SMEs to formalise. For example, link access to credit, government contracts, or business development services to tax registration and compliance. However, there is mixed evidence on whether formalisation leads to tax revenue gains. Therefore, any such

initiatives need to be closely accompanied by cost-benefit analyses to identify early on the returns (or not) to formalisation.

- **Outreach and education:** Strengthen taxpayer education targeting informal operators – use local government channels, business associations, and media to explain the benefits of formalisation and how to comply. RRA's taxpayer appreciation campaigns could be extended to the district level to engage SMEs.

Increasing revenues from the informal sector will be gradual – the goal is to widen the base without stifling nascent businesses. Even so, modest gains are feasible: if a fraction of informal activity is formalised, additional revenues of 0.5%+ of GDP could be realised in the medium term. More importantly, integrating SMEs into the formal tax system will promote fairness (so the tax burden is shared) and foster long-term business growth under the protection and services of formality.

Improving the effectiveness of tax inspections

Strengthening tax inspection and audit capacity is critical to improve compliance among registered taxpayers. While Rwanda has a relatively high filing compliance, under-reporting of income and VAT still occurs. Currently, RRA's audit and enforcement efforts recover unpaid taxes, but could contribute more with enhanced capacity. In 2019, the IMF estimated a large compliance gap, suggesting substantial revenue is left on the table ([IMF, 2023](#)). Key steps include:

- **Leverage advanced technology and data analytics:** Technology adoption has been a major driver of past success and remains a top opportunity to boost revenues and transparency ([Mathias Itoe & Akepe, 2023](#)). Rwanda can upgrade its EBM system to a comprehensive e-invoicing platform that covers all business-to-business transactions (not just retail point-of-sale), allowing RRA to track the VAT chain more fully. Investing in data analytics capacity is crucial – RRA should develop a modern analytics unit to mine data from EBM, e-filing, banking transactions, and third parties, for example, mobile money data, to detect underreporting and identify new taxpayers. Embracing electronic platforms for all taxpayer services (registrations, filings, inquiries) will reduce compliance costs further and free up staff for enforcement. Mobile technology can also be harnessed: given Rwanda's high mobile money usage, RRA could integrate tax payment with mobile money and use mobile phone data to help estimate the incomes of informal businesses. Therefore, continuing to innovate in tax administration technology will be key to improving compliance and efficiency.

- **Increase audit coverage and depth:** A modest rise in audit coverage can yield outsized revenue gains through deterrence. Optimising the staff-to-taxpayer ratio can yield dividends, especially for large firms and high-net-worth individuals. Establishing specialised units and adequately trained officers for certain segments, such as corporate, can enhance scrutiny, communication, and audit-probabilities, helping to reduce avoidance and evasion. This has been recorded with success in Indonesia, for example (Bachas et al, 2019). In Rwanda, Kotsogianis (2025) finds that comprehensive audits drive pro-deterrence results while narrow-scope audits have the opposite effect, raising the need for carefully managing tax audits and balancing the costs and benefits of audit strategies employed. Digital tools might also be able to improve audit coverage and case selection for revenue authorities, contributing to their efficacy.
- **Strengthen tax investigations:** For serious evasion cases, enhance investigative units that can pursue fraud and refer cases for prosecution if needed. Well-publicised enforcement actions improve overall compliance by signalling consequences for tax cheats.
- **Improve arrears collection:** Modernising the tax arrears management system (with automated reminders, instalment plans, etc.) can enhance the collection of arrears and ensure they don't fall through the cracks. Complimenting the management system with the deployment of dedicated teams to follow up on tax arrears and audit assessments, ensuring that identified unpaid taxes are actually collected, will support this.

Greater revenue from tax inspections can contribute an additional 0.5% of GDP in the medium term through both direct recoveries and improved voluntary compliance. As taxpayers observe a higher chance of audit and penalties, the deterrence effect can narrow the compliance gap. Rwanda's ongoing anti-corruption efforts and good governance record bolster this approach, as taxpayers gain confidence that the tax system is enforced fairly.

Tax expenditures: Increasing effectiveness while curbing costs in lost revenue

Rwanda has used various tax expenditures, primarily tax incentives, to attract investment and promote strategic sectors, but these incentives must be carefully managed to avoid eroding the tax base. The scale of revenue foregone due to various exemptions and preferential treatments is significant. The latest Tax Expenditure Report (FY2022/23) shows that total tax incentives amounted to 29% of potential tax revenue (about RWF 558 billion) and approximately 4% of GDP (MINECOFIN, 2025). This includes VAT exemptions

(RWF 248.6 bn), corporate income tax incentives (RWF 50.5 bn), and customs duty waivers (RWF 258.8 bn). While some incentives (like VAT exemptions on basic goods or investment allowances for priority industries) have policy rationales, others may not yield sufficient economic benefits to justify the cost. Rwanda can also work with EAC partners to harmonise tax incentives regionally to prevent a “race to the bottom” in granting exemptions ([Chemouni, 2020](#)). By widening the tax base and cutting back unproductive exemptions, Rwanda can raise revenue without increasing tax rates. The following measures can help expand the tax base through reduced and better-managed taxes:

- **Conduct cost-benefit reviews:** Systematically review all major tax incentives (investment allowances, import duty exemptions, sector-specific corporate tax holidays, VAT exemptions, etc.) to evaluate their impact on investment, jobs, or social outcomes. Any incentive with high revenue cost and marginal benefits should be slated for reform or removal.
- **Streamline and target exemptions:** Where incentives are maintained, better targeting is crucial. For instance, replacing broad VAT exemptions with targeted subsidies for the poor, or converting open-ended corporate tax holidays into performance-based incentives (tax credits) that firms earn by achieving certain goals (for example, export targets, job creation).
- **Improve transparency:** Transparency creates pressure to justify each exemption. Rwanda’s regular reporting on tax expenditures is a positive step, and this practice should be entrenched so that new incentives are granted sparingly and that they are time-bound.
- **Sunset provisions:** Introduce sunset clauses on all new tax incentives so that they expire after a few years unless explicitly renewed after review. This ensures periodic assessment of their efficacy.

By curbing unproductive tax incentives, Rwanda can reclaim a portion of the revenue currently foregone. Even a one-third reduction in tax expenditures could yield additional revenue on the order of 1% of GDP. Crucially, optimising incentives does not mean eliminating those that are truly effective – it means ensuring every Franc of tax relief is well-spent in advancing development, and any lost revenue is recouped through higher growth or other means. The Ministry of Finance should integrate these reforms into its Medium-Term Revenue Strategy to gradually widen the effective tax base without harming Rwanda’s investment climate.

Explore new revenue sources

Whereas we have mostly focused on tax administration reforms, there is also room for improvement in tax policy to improve DRM in Rwanda. Going forward, Rwanda should continuously refine its tax policy to ensure it is equitable and growth-friendly. One recommendation is to explore new revenue sources that can both raise funds and achieve policy objectives.

- **Environmental taxes:** Leveraging environmental taxes can simultaneously raise revenue and promote Rwanda’s climate and environmental goals. Carbon pricing is one such tool: by putting a tax on carbon emissions (for example, fuel consumption or industrial emissions), Rwanda could generate income while incentivising greener practices; such taxes are already in place in countries such as South Africa.² (IMF, 2023). Rwanda’s economy is less carbon-intensive, but a modest carbon levy (extended beyond the excise tax on fuel) could still yield revenue for climate adaptation funds. Further environmental taxes also include taxes on plastic, logging taxes and pollution-based taxes.
- **Capital gains tax on property and investment assets:** Introducing or strengthening a capital gains tax (CGT) on property and financial asset sales is a logical step to tax under-tapped wealth. Currently, Rwanda's tax system focuses on labour and business income; gains from real estate or stocks are either lightly taxed or not at all under specific circumstances. Taxing capital gains would ensure that individuals and companies profiting from asset appreciation contribute a fair share to public revenues. This is especially relevant as urban property values in Kigali and other cities have surged, creating untaxed wealth for owners. In many East African countries, CGT has become standard practice. Kenya, for example, reintroduced a capital gains tax in 2015 and recently tripled the rate from 5% to 15% (effective 2023) on sales of land, buildings, and unlisted shares (Cleartax, 2024). Rwanda could consider a moderate CGT net gains from property transactions and sales of business shares or securities. However, it is important for this tax to be carefully designed so that it does not deter investment.

To implement CGT effectively, Rwanda would need to define clear valuation and reporting rules, possibly drawing on its modern land registry and stock market data to track transactions. Exemptions can be considered for certain cases to protect equity – for instance, exempting the sale of a primary residential home up to a threshold, or small farmers selling agricultural land, so that the tax targets primarily large or speculative gains. Other African economies have successfully adopted equitable CGT. South Africa, for example, includes capital gains in the income tax base (with effective rates of

² The carbon tax was set at a rate of around R120 per ton of CO₂ (around seven USD), which rose to R134 (around eight USD) by 2022

around 10% to 16% for individuals), and other emerging economies tax capital income to broaden their base without raising general rates. The key advantage of a CGT is equity – it ensures that income from wealth accumulation is taxed similarly to income from work, enhancing vertical equity. It also improves efficiency by reducing the bias that might otherwise channel investments purely into untaxed capital assets; when moderate, it is unlikely to stunt genuine productive investment (investors value Rwanda for stability and growth prospects more than the absence of a capital gains tax). In designing a CGT, Rwanda should keep an eye on regional competitiveness: most neighbouring countries have either a CGT or equivalent transaction taxes around 5% to 15%, so a similar range would keep Rwanda aligned and avoid creating arbitrage opportunities.

- **Strengthening compliance of high-income professionals through professional bodies.** A significant challenge for domestic revenue is capturing the incomes of high-earning individuals who are not fully compliant, often professionals or entrepreneurs outside the formal wage system. These might include consultants, lawyers, doctors in private practice, artists, and other self-employed experts. Working with professional associations (medical councils, bar associations, architects' boards, etc) to tie practice licenses to tax compliance can help close the compliance gap for these professions. For instance, professional bodies could require a tax clearance certificate (proof that one has filed and paid taxes) as a condition to renew a business or professional license each year. This creates a direct incentive for high-income professionals to stay in the tax net.
- **Taxing the digital economy.** Rwanda is strategically positioning itself to harness digital transformation as a driver of inclusive growth. The country has made significant strides in expanding digital government services, scaling up mobile money usage, and facilitating e-commerce platforms. As these digital channels gain economic prominence, it is timely to consider how the growing digital economy can also contribute more meaningfully to fiscal revenues. Taxing the digital economy offers several pathways, including direct taxation of digital enterprises, indirect taxation such as value-added tax (VAT) on online sales, and targeted digital services taxes on certain activities. However, designing an effective taxation framework for the digital economy poses notable challenges. These include:
 1. **Establishing tax residency:** Many digital companies operating across borders do not maintain a physical presence in Rwanda, complicating the determination of taxable nexus and the attribution of profits.

2. **Complex and evolving business models:** Digital platforms often operate across multiple jurisdictions, offer bundled services, and generate income from intangible assets and user interactions.
3. **Valuing data-driven activity:** As data becomes central to value creation in digital markets, traditional methods of assessing taxable activity may fall short.

Overcoming these challenges requires both institutional and legal capacity building, alongside international cooperation to align with global tax standards on digital commerce. At the same time, Rwanda's approach must be calibrated to support continued innovation and growth in its digital sector. Tax policies should be designed to minimise compliance burdens for digital start-ups and MSMEs while ensuring fairness and progressivity in revenue collection.

Strengthen fiscal decentralisation and local revenue mobilisation

A robust local revenue base will complement national taxes and help fund local development needs, in line with Rwanda's decentralisation strategy.

Empowering districts and cities to collect and manage revenues can both increase overall collections and improve public service delivery. One key tax stream that can benefit from robust local revenue administration is the property tax. Effectively implementing the property tax law means accelerating the property valuation survey, updating property registers, and training district revenue officers in billing and collection- local authorities will be key in the success of these efforts. Allowing districts to retain a higher share of certain taxes or by providing performance-based grants for local revenue effort can incentivise local authorities to focus on revenue collection. For example, Rwanda can consider introducing modest taxes on high-value assets (for example, an annual wealth tax or capital gains tax on real estate sales above a threshold) that could be administered centrally but shared with local governments in addition to other local revenues. Additionally, local fees and charges (for business licenses, markets, etc.) should be streamlined and digitised to reduce leakages.

Enhancing revenue collection at the border

Customs duties, import VAT, and excise on imported goods form a significant portion of Rwanda's tax revenues. With Rwanda being an import-intensive economy (due to its landlocked status), efficient and robust border tax collection is vital. To enhance border revenue, Rwanda should:

- **Upgrade customs infrastructure:** Invest in modern scanners, electronic cargo tracking, and Rwanda's Electronic Single Window system to improve detection of smuggling and undervaluation. Quick

cargo clearance should be combined with rigorous risk profiling to catch high-risk shipments.

- **One-stop border posts & regional cooperation:** Leverage one-stop border posts with Uganda, Tanzania, and others to share information and coordinate inspections. Closer cooperation in the EAC (e.g. data on importers, common risk alerts) will reduce transit fraud and ensure Rwanda collects its due on imports.
- **Capacity building:** Train customs officers in valuation techniques and fraud detection (e.g. identifying false invoicing). Enhanced capacity can increase assessed import values, thereby raising import duty and import VAT receipts.

Stronger customs collection will ensure that, as trade volumes grow, revenue keeps pace. It will also level the playing field for domestic producers by clamping down on illicit imports. However, evidence shows that as economies grow, there is a transition from higher dependence on trade taxes to more domestic tax-based systems. Therefore, whereas trade taxes will continue to form an important revenue source in the short to medium term, there is a need to have strategies in place for reducing these taxes over time.

Enhance transparency, accountability, and taxpayer trust

Maintaining taxpayer buy-in is essential for further DRM gains. The government should boost transparency in fiscal matters. This includes publishing detailed annual reports on tax revenues and how they are utilised (for instance, a citizen's budget that shows taxes collected versus schools built, clinics funded, etc.). Rwanda's practice of publishing a Tax Expenditure Report each year to inform the public (and Parliament) about the cost of tax incentives is a step in the right direction. On the spending side, continue strengthening public financial management so that taxpayers see improvements in services for the taxes they pay. The RRA should intensify its taxpayer education programs, possibly creating partnerships with the private sector and civil society to promote a culture of tax compliance (for example, incorporating basic tax education in school curricula or doing media campaigns highlighting how paying tax contributes to national development). It is also recommended to establish formal feedback mechanisms – such as taxpayer satisfaction surveys and a grievance resolution system – to hear and address concerns from taxpayers, which will further build trust. International experience shows that transparency and accountability in taxation encourage a stronger social contract, with citizens more willing to pay and to hold government accountable for public spending (Abbott et al, 2011). While building trust is unlikely to lead to an immediate improvement in Rwanda's DRM, it is an important building block towards a well-established revenue authority.

Capacity building and regional cooperation

Well-trained tax officials are central to effective tax administration. Therefore, it is necessary to invest in the continued capacity building of RRA staff, particularly in specialised areas like transfer pricing, auditing of multinational enterprises, and the use of big data. The Tax Administration could benefit from establishing an analytical "Tax Intelligence" unit that combines data analysis with investigative skills to go after evasion (e.g., uncovering hidden businesses or income streams). Rwanda should also keep actively engaging in regional and international cooperation on tax matters. Through bodies like ATAF and the EAC, Rwanda can share best practices and also push for initiatives such as exchange of information agreements (so that, for example, Kenya and Rwanda can share data on each other's citizens' incomes or businesses to catch evaders). International tax transparency initiatives can help Rwanda address cross-border evasion and avoidance – for instance, joining the Common Reporting Standard (CRS) for automatic exchange of financial account information as capacity permits. Such cooperation will amplify Rwanda's domestic efforts by closing off external loopholes.

Implementing these recommendations will require diligent effort, but Rwanda has shown the political will and institutional capability to carry out reform. By deepening the use of technology, broadening the tax net, empowering local revenue collection, and insisting on transparency, Rwanda can likely achieve a second wave of revenue increase – putting it on course to meet the NST2 and Vision 2050 targets. Many of the recommendations (e.g. publishing tax exemption details, conducting cost-benefit analyses of incentives) are also echoed by international advisors and should be feasible in the short term. Importantly, reforms should continue to be implemented in a consultative manner – engaging the private sector and citizens, so that changes are understood and accepted, thereby smoothing compliance.

Conclusion

Rwanda's experience from 2010 to 2025 demonstrates that committed leadership and coherent reform strategies can translate into substantial gains in domestic resource mobilisation. The country has moved from reliance on external aid toward greater fiscal self-sufficiency by expanding its tax base, modernising tax administration, and fostering a culture of compliance. These efforts have funded critical investments in Rwanda's development and will remain vital as the nation aspires to middle-income and eventually high-income status.

Looking ahead, the momentum must be maintained and accelerated. The next phase of Rwanda's DRM reforms should capitalise on technology and innovation to tackle the remaining hard challenges of informality and

compliance. By doing so, Rwanda can continue to lead by example among its peers in Africa. The alignment of DRM objectives with national strategies (NST1, NST2, Vision 2050) provides a clear mandate and framework within which to pursue these reforms.

For senior policymakers in the Ministry of Finance and RRA, the task is to refine and implement the actionable reforms outlined above, monitor their impact, and remain flexible to adjust policies in response to economic changes (such as digital economy growth or regional integration dynamics). International partners like the IMF, World Bank, and ATAF stand ready to support these efforts with technical assistance and comparative knowledge. Ultimately, building a robust domestic revenue base is not just a fiscal exercise – it is a cornerstone of Rwanda’s sovereignty and sustainable development, empowering the country to fund its own future. Continuing on this path will ensure that Rwanda's remarkable transformation story is underpinned by equally remarkable achievements in domestic resource mobilisation.

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Revenue Gains from Different Reforms

Reform Area	Current revenue (bn RWF)	Estimated base (bn RWF)	Assumed Effective Rate (%)	Compliance Rate (%)	Projected revenue (bn RWF)	Revenue Gain (bn RWF)	Revenue Gain as % of GDP
Rationalising tax exemptions	1019.6	1250	10	80	1119.6	100	0.53
Formalising the informal sector	-	3000	3	50	45	45	0.24
Compliance Improvement Reforms	691.1						0.46
Property tax reform	41.5	41854	1	40	1.2	167.416	0.89

Explanatory Notes

Assumptions on revenue gains from tax reform

Tax incentives

Using data from the tax expenditure report and the RRA's tax statistics for 2022/23, we estimate the current revenue being collected from those sectors that benefit the most from exemptions. To arrive at the estimated base, we combine current revenues plus a downward-adjusted amount of current exemptions being offered to these sectors (927.9bn+242bn). We adjust this number downwards to reflect only a portion of the total exemptions being targeted in the reform and not all of them. We then use a conservative effective tax rate of 10% to reflect average recoverable revenue across different tax heads, and we similarly assume an 80% compliance rate. This leads to the estimated revenue gain of 100bn RWF, approximately 0.5% of GDP.

Formalising the informal sector and improving compliance for microenterprises

Literature estimates Rwanda's informal economy to be 30-40% of GDP. In these estimations, we used the conservative value of 30% of GDP. Using the GDP number of 2024 of 18,785 bn RWF, this translates to 5635bn RWF. However, only a portion is realistically taxable; we estimate the taxable base as

being 3000bn RWF. Assuming an effective lump-sum tax rate of 3% and a compliance rate of 50% we get projected revenue of 85bn RWF, approximately 0.6% of GDP.

Property Tax

We use land use and, average land price and number of parcels data from the land authority (land prices are expressed as averages regardless of whether a plot of land is developed or not). We then calculate the total land value for commercial, industrial and residential land parcels, which came up to 104tn RWF. We then estimate 40% of this as being taxable and apply the different tax rates as provided for in the immovable property tax law, such as for commercial (3%), industrial (1%) and residential(5%) plots, respectively. This provides us with our estimation of the taxable base and is a lower-bound estimate, as it does not account for land and property sales tax. Assuming a 40% compliance rate and an effective tax rate of 1%, we estimate a tax revenue gain of 164bn RWF, making up about 0.9% of GDP

Compliance Improvements: Based on IMF estimates as per the MTRS