REPUBLIC OF RWANDA

Tax Expenditure Report

FY 2023/24

MINISTRY OF FINANCE AND ECONOMIC PLANNING

May 2025

CONTENTS

Summary of Findings

Tax expenditure (TE) is concentrated in VAT and import duties which have an approximately equal share. The main expenditures in import duty come from stays of application and investment incentives. The majority of overall tax expenditure relates to the activities of large producers.

The increase in import duties tax expenditure compared to 2022/23 is largely explained by TE on cars. VAT expenditure changes are driven by increases across a range of sectors, but particularly fuel and agricultural products. Income tax expenditure also increased, largely driven by increased use of provisions introduced in the 2021 Investment Code. This tax expenditure report widens the coverage to include incentives on investment income taxes and various smaller provisions.

Figure 1: Total tax expenditure trend by tax type (Rwf bn)

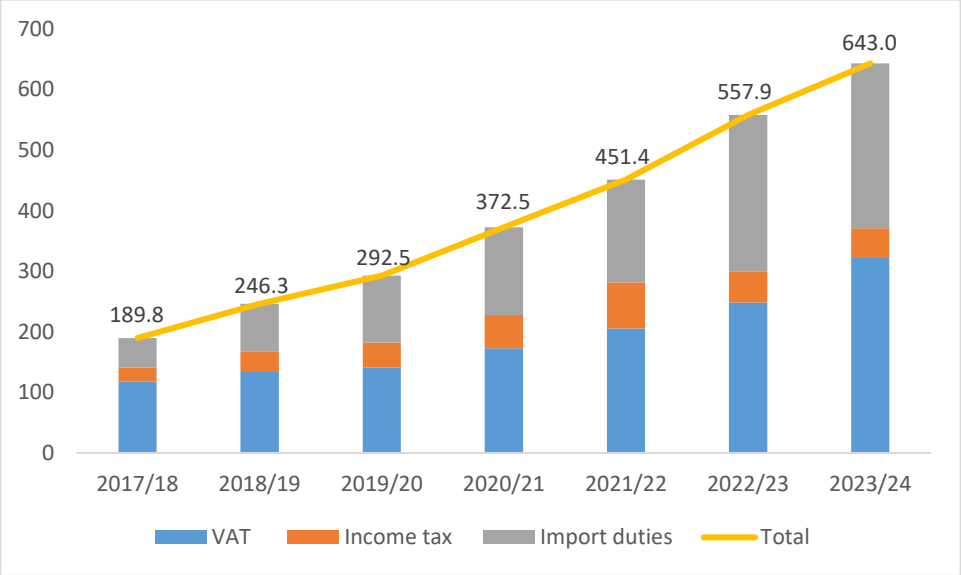


Table 1: Overview of total tax expenditure by tax type

Tax type	Tax expenditure (Rwf bn)							TE as % of total TE	Tax Expenditure to GDP
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2023/24	2023/24
VAT	117.9	133.4	141	172.6	205.4	248.6	323.4	50.3%	1.8%
Income tax*	22.9	33.4	41.3	54.9	76	50.5	47.6**	7.4%	0.3%
Import duties***	49	79.5	110.2	145	170	258.8	272.1	42.3%	1.5%
Total	**189.8**	**246.3**	**292.5**	**372.5**	**451.4**	**557.9**	**643.0**	**100%**	**3.6%**

Across all tax types, TE on purchases and outputs by public institutions are excluded, because it is tax revenue spent to provide public services. Including govt, VAT TE is Rwf 465.5bn and import duties TE is Rwf 296.5bn.

** Income tax estimations are for the previous calendar year, not fiscal year due to the CIT tax schedule. (E.g. 2022 instead of 2022/23.) The estimations exclude some tax expenditures that are not currently measurable.*

***The 2023 income tax expenditure excludes loss carry-forward, while the previous estimates include it. The 2023 income tax expenditure also includes investment income expenditure from withholding taxes, which were not included in previous years. The 2023 tax expenditure with loss carry forward included and without withholding taxes would be Rwf 83.4 bn.*

****TE is measured compared to a baseline of EAC / COMESA tariffs, and excise duty, WHT 5%, Infrastructure Development Levy, Africa Union Levy, Strategic Reserve Levy and Road Maintenance Lavy expenditures have been included in the estimates.*

Key assumptions of tax expenditure estimation

The figures in **Table 1** do not show the revenue that would be gained from removing tax expenditures. For any such decisions, it will be at least as important to consider the context and rationale for each tax expenditure rather than just the estimates in isolation.

Estimating these requires different assumptions depending on the granularity of the data available. The VAT calculations use 2017 SUT data and sector-specific growth rates to estimate 2023/24 levels. They also exclude the 46% of production by the informal sector – it is assumed that there are no changes to what proportion of the economy is informal.

Table 2: Tax expenditure as % of potential tax revenue

Tax type	Tax expenditure (bn Rwf)	Actual revenue collected (bn Rwf)	Tax expenditure as % of potential tax revenue*
VAT	323.4	792.0	29.0%
Business profit income tax	38.4	585.0	6.2%
Employment income tax (PAYE)	0.4	570.4	0.1%
Investment income tax (withholding taxes on payments and capital gains)	8.8	153.4	5.4%
Customs tax expenditure	272.1	352.0	43.6%
Of which: electric vehicles and domestic assembly exemptions	6.0	7.3	45.1%
Total	**643.0**	**2452.8**	**20.8%**

**Potential tax revenue is obtained as the sum of tax expenditure and actual tax collection.*

There is big variation among tax types in how tax expenditure compares with actual revenues. While for income taxes in general tax expenditure is a smaller portion compared to the benchmark tax system, import and excise duty revenues are just slightly larger than their respective tax expenditure.

Changing treatment of loss-carry forward

In this tax expenditure report, loss carry-forward is not considered a tax expenditure anymore, but a structural relief, as it is a standard feature of the CIT system. In **Table 1**, tax expenditure estimates from previous years remain unchanged to keep the consistency with previous reports. **Table 3** shows more comparable estimates of business profit income tax expenditures across the years.

Table 3: Income tax expenditure, excluding loss carry-forward and withholding taxes

	2018	2019	2020	2021	2022	2023
Income tax expenditure without loss carry-forward	16.3	17.4	11.6	24.0	11.2	38.4

Business profit income tax expenditures more than tripled between 2022 and 2023, driven mostly by tax changes in the 2021 Investment Code. While in **Table 1** a drop in tax expenditures between these two years can be observed, that is the result of the change in the definition, while the expenditures themselves increased.

Rationale for tax expenditure

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

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

Tax expenditure decisions should be considered as trade-offs between the benefits and their costs, and any policy evaluations should consider the magnitude of the benefits too. Estimating this is a separate question beyond the scope of this report. VAT and import duty provisions form the majority of measured tax expenditure. Most of these have the primary aim of improving affordability and/or promoting priority sectors.

1. Introduction

Tax expenditure is one of the channels that GoR uses to support economically a given type of taxpayer if they meet certain outlined criteria but are frequently subject to less scrutiny than direct spending and subsidies. It is the tax revenue that is foregone through, but not limited to, provisions in the law such as VAT exemptions and zero-ratings, income tax holidays and preferential rates, duty remission and regional integration.

Tax expenditures are defined as tax measures that deviate from an established benchmark tax system, assuming that taxpayer behavior remains unchanged. This benchmarking approach

provides a baseline for selecting which tax measures to report on. There is, however, no consensus definition of a benchmark tax system for income tax nor import duties, though there is an international standard for the value added tax (VAT) benchmark. The benchmark business and personal income 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. The benchmark import duties tax system for Rwanda reflects debate over regional harmonisation, the tiered structure of import duty rates and the role of import duties under a benchmark tax system.

Tax expenditure publication serves different objectives including, among others, the transparency of public finance and publication of budgetary outlays. Tax expenditure provisions are linked to direct spending programs and may be considered alternative means of accomplishing similar budget policy objectives. Governments keep detailed accounting of their program spending to ensure that spending efficiently and effectively supports policy objectives. Tax expenditure reporting can provide a more complete picture of where governments spend their money, improving transparency and accountability. Reports about tax expenditures estimates have been published annually since 2019. The present report is an annex to the 2025-2028 State Finance Bill submitted to Parliament according to *Law N° 002/2022.OL of 12/12/2022 on Public Finance Management.* Publication of the cost of tax expenditures is as important to the transparency of public finance as publication of budgetary outlays.

In raising a given level of revenue, providing tax relief to specific groups requires that tax rates on other taxpayers be higher than would otherwise be necessary. In addition, the regular publication of tax expenditure estimates implicitly creates a catalog of measures that can be used to raise revenues, when needed. Repealing the least effective tax expenditures is often an economically efficient means of raising revenue, as broadening the tax base raises revenues without the need for increasing distortionary tax rates.

Generally, to estimate the tax expenditure, an analytical model is used to compare the revenue in the actual tax system to the revenue in the benchmark tax system. VAT expenditure estimation uses a model based on the Supply Use Tables of 2017 produced by the National Institute of Statistics Rwanda. Estimates for business profit, employment income and import duties tax expenditures are generated by separate microsimulation models that recalculate the tax owed for each taxpayer when tax rules are adjusted to reflect the benchmark tax system.

2. Value Added Tax

Benchmark

The Value Added Tax has an international benchmark, which makes it simple to compute in theory. In Rwanda's VAT model, benchmark is defined as below:

The VAT is intended to be borne by final consumers—*typically households*—by collecting VAT on all goods or services supplied to them at a rate of 18%. Therefore, the benchmark VAT base is consumption, broadly defined and comprises all goods and services consumed in Rwanda. As such, the benchmark provides that the tax applies on a "destination basis"—that is, at the point of consumption in Rwanda—and that it applies to goods and services imported into Rwanda, but

not to goods and services exported from Rwanda. The zero-rating of exports is a fundamental characteristic of a value-added tax; it is thus part of the benchmark.[1] The benchmark for the VAT provides that the tax is imposed to the sales of goods and services at all stages of the production and marketing chain. At each stage, businesses can claim input tax credits to recover the VAT paid on their business inputs, so that the VAT effectively applies only to the value added at each stage. Since the only tax that is not refunded is the tax collected on sales to final consumers, the VAT is effectively imposed on final domestic consumption and providing a credit or refund for VAT on business inputs is not a tax expenditure. Financial service, gaming and life insurance tax were considered part of the benchmark in consistent with the international practice. Furthermore, the benchmark VAT tax base includes tax paid on the entire purchase price of newly constructed buildings and land by consumers for their own use. In the case of mixed-use property, for example a working farm that includes a personal residence, the portion intended for personal use is final consumption that forms part of the benchmark, while any VAT paid on the portion intended for business use would be eligible for input tax credits and therefore does not form part of the benchmark VAT tax base. The exclusion of TE on government purchases or supplies from the benchmark is a discretionary choice made that will not be followed by all countries. Tax expenditure on Government is for required public services rather than discretionary tax policies, and it is somewhat circular to consider as it affects its own budget. The rationale is explained in further detail in the Technical Annex.

The tax expenditure in VAT law comes through two types of provisions with the exceptions mentioned above:

- **Zero-ratings.** These mean that firms do not charge output VAT but can still reclaim input VAT. While exports are zero-rated, this is not considered tax expenditure because it is a necessary feature of Rwanda's VAT system – the products are taxed in the country they are consumed in, not where they are produced.

- **Exemptions.** These mean that firms do not charge output VAT and cannot reclaim input VAT. As a result, removing an exemption has a positive and a negative impact on tax revenue. The positive impact is through the output VAT they would charge, and the negative impact is through the input VAT that they can now reclaim.

The relevant law is *Law N° 049/2023 of 05/09/2023 establishing the Value-Added Tax*. It references schedules which provide detailed lists of specific products that are exempted or zero-rated, available on RRA's website.

[1] The legislative reference for zero-rating of exported goods and services is: Article 7 of *Law N° 049/2023 of 05/09/2023 establishing the Value-Added Tax*.

VAT estimations

Table 4 shows that most non-government VAT tax expenditure is concentrated in a few sectors:

Table 4: Sectors targeted most through current VAT tax expenditure (exc. government)

Sector	Tax expenditure (Rwf bn) on outputs produced by…						As % of total VAT tax expenditure					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Financial services	16.8	15.5	27.4	31.1	38.1	38.2	13%	11%	16%	15%	16%	12%
Education	12.9	17.1	19.5	23.5	31.9	22.5	10%	12%	11%	11%	13%	7%
Transport services	12.5	15.0	16.4	21.4	29.3	40.4	9%	11%	9%	10%	12%	12%
Construction (modern)	10.6	11.5	11.2	13.2	23.2	35.5	5%	6%	5%	6%	10%	11%
Other construction service activity *			14.2	11.7	6.7	9.7			8%	6%	3%	3%
Refined petroleum products	13.9	11.9	11.9	17.8	16.1	56.5	10%	8%	7%	9%	7%	17%
Human health activities **	4.6	7.9	8.8	7.5	6.0	3.0	3%	6%	5%	4%	3%	1%
Pharmaceutical products *			8.6	11.5	14.2	19.0			5%	6%	6%	6%
Textiles, clothing and leather products	4.9	4.5	7.7	7.8	-0.6	-1.3	4%	3%	4%	4%	0%	0%
Other manufactured food products *			7.4	8.1	10.4	15.0			4%	4%	4%	5%
Chemicals and chemical products	4.9	7.2	7.0	6.7	6.9	6.8	4%	5%	4%	3%	3%	2%
Other sectors	62.9	61.9	43.7	45.0	59.7	78.1	47%	44%	25%	22%	25%	24%
Total	**133**	**141**	**173**	**205**	**242**	**323**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

** Included in 'Other sectors' in previous estimates.*

*** This includes medical consultation and treatment; short- or long-term hospital activities; and health activities not performed by hospitals, medical doctors or dentists.*

Table 5: VAT tax expenditure by provision (exc. government)

#	Provision	TE estimate (Rwf bn)						Rationale / description
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
1	VAT Exemption for Financial Services	15.9	13.5	25.5	29.0	36.4	34.0	Intended to increase affordability of a sensitive product. Exemptions are applied by many countries because of difficulties in applying VAT to this sector.
2	VAT Exemption for Supplies for Health-Related Purposes	6.3	10.5	16.9	18.3	20.0	20.9	Increasing affordability of a sensitive product. Excludes TE on public healthcare provision.
3	VAT Exemption for ICT Equipment	18.9	16.8	16.3	14.6	14.3	15.5	Encourage use of modern ICT equipment and technologies.
4	VAT Exemption for Educational Materials, Services and Equipment	9.8	13.5	15.6	20.7	29.5	20.3	Increasing affordability of a sensitive product. Excludes TE on public sector education.
5	VAT Exemption for Agricultural Products	23.7	18.1	14.8	21.2	25.0	43.7	Increase affordability of products from a sensitive sector. Since most of agricultural produce is informal, the tax expenditure is driven by agricultural products sold by food manufacturers.
6	VAT Exemption for Agricultural Inputs		6.2	5.6	6.1	6.2	7.8	Reduce costs of production for a sensitive sector with high informality.
7	VAT Exemption for Specified Energy Equipment	14.0	12.8	12.1	18.8	24.5	4.4	Harmonize with EAC VAT policies; increase affordability of a sensitive product; target development of electricity generation.
8	VAT Exemption for Fuels						83.3*	

#	Provision	TE estimate (Rwf bn)						Rationale / description
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
9	VAT Exemption for Transportation Services	13.1	10.1	10.9	14.7	18.3	14.1	Targeting development of a priority sector and increasing affordability of these services. Majority of the TE is through international passenger transport.
10	Zero-rating for goods and services intended for people of a "Special Category"	3.9	8.0	6.2	12.9	21.0	34.0	Facilitates the supply of public goods and services by organizations working in partnership with the Government for the benefit of Rwanda. Excludes TE on government-led projects. Increase in TE driven by construction projects.
11	Zero-Rating of International Transportation Services for Goods	1.4	4.5	5.6	7.3	9.8	11.6	Target a priority sector, improve the regional competitiveness by harmonizing with EAC treatment, and address administrative challenges in refunding input VAT for their buyers. Increase in TE driven by expansion and greater formalization of transport sector in updated SUT.
12	Zero-rating for Armed Forces Shop	3.4	1.8	4.4	6.1	5.6	7.6	Improve the welfare of members of the Rwanda Defense Forces and the Rwanda National Police and their immediate families, by reducing their cost of living.
13	VAT exemption for raw materials and capital equipment supplied to the manufacturing and processing sector	2.2	3.1	3.3	4.3	5.4	6.1	Targeting development of a priority sector in line with 'Made in Rwanda' strategy; address administrative challenges in refunding input VAT; improve cash flow position for the sector.
14	Zero-Rating of Package Tours	2.1	1.5	1.6	3.0	5.0	5.1	Improve the competitiveness of Rwanda as a destination for foreign tourists.

#	Provision	TE estimate (Rwf bn)						Rationale / description
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
15	Zero-rating for minerals sold on the domestic market	1.3	0.0	1.5	2.3	2.2	1.6	Targeted at businesses involved in preparing minerals for export. Aims to address administrative challenges in refunding input VAT to domestic manufacturers that are using these minerals.
16	VAT exemption on gaming activities	0.6	1.1	0.8	0.4	0.1	0.4	No effective administrative mechanism for determining the value added. Exempting ensures input VAT is not recovered by firms.
17	VAT Exemption for Mobile Telephones and SIM Cards	2.2	1.7	0.8	1.0	1.7	2.6	Improve affordability of modern communication technologies and support the movement towards a cashless economy.
18	VAT exemption for the personal effects of returning Rwandan diplomats and other Rwandan citizens	0.4	0.3	0.5	0.7	0.8	0.8	Facilitate citizens returning to Rwanda.
19	VAT exemption for lease or sale of land or residential buildings	0.4	0.3	0.3	0.2	0.2	0.2	Increasing affordability of a sensitive product, and it should benefit everyone (either by owning or living in a residence). Limited data and not strong enough enforcement on transactions to know the value of this
20	VAT Exemption for Books Newspapers and Journals	0.3	0.0	0.1	0.0	0.0	0.2	Originally part of the education-related exemption but was split into its own provision in order to clearly allow all readers to benefit.
21	VAT exemption for Supply of Clean Water by Non-Profits	0.01	0.01	0.02	0.03	0.05	0.1	To encourage the supply of clean, treated water in remote areas.

#	Provision	TE estimate (Rwf bn)						Rationale / description
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
22	VAT exemption for all goods supplied to public institutions in charge of national defense or security	0	0	0	0	0	0	Improve the cash flow position of public institutions in charge of national defense or security. Its zero because of government exclusion from the benchmark.
23	VAT exemption for trade union subscriptions	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Increase affordability of a sensitive product. Negligible subscription expenditure since it is largely informal transactions of small value.
24	VAT exemption for precious metals sold to the National Bank of Rwanda	n/a	n/a	n/a	n/a	n/a	n/a	Prevents precious metal suppliers from reclaiming input VAT. This will be zero when excluding government.
25	VAT exemption for burial or cremation of a body	Not enacted	Not enacted	Not enacted	Not enacted	Not enacted	Not enacted	Increase affordability of a sensitive product. No schedule was published listing the eligible goods or services.
26	Exemption for rice and maize flour	Not enacted	Not enacted	Not enacted	Not enacted	9.1	17.0	Recently introduced for food security purposes
27	VAT exemption for electric and hybrid cars and motorcycles	n/a	n/a	n/a	n/a	n/a	7.0	Reduce costs of environmentally friendly vehicles
28	Manufacture and Build to Recover Programme (MBRP)	Not enacted	Not enacted	Not enacted	Not estimated	Not estimated	8.8	Boost economic recovery efforts with specific incentives for the manufacturing, agro-processing, construction and real estate development sectors.

#	Provision	TE estimate (Rwf bn)						Rationale / description
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
29	Other unattributed tax expenditure	7.1	8.4	8.0	9.2	17.2	22.7	They are tax breaks whose purpose or beneficiaries are not clearly identified including unclassified and wrong company sector registered

**There was a methodological update from fiscal year 2023/24 which improved the accuracy of estimation of indirect revenue effects on sectors which use exempted commodities. This update was particularly relevant for fuel VAT exemption estimates.*

The estimates depend on many factors:

- The size of the affected sector(s). In general, the larger the sector, the greater the tax expenditure from an exemption / zero-rating on its production.
- The growth of the affected sector(s). If the affected sector is growing significantly, the estimates will be larger.
- The proportion of the sector that is informal. A largely informal sector will be affected less by changes to VAT policy, meaning it will not have a proportionately large tax revenue impact. However, policy changes may be desirable for other reasons such as encouraging firms to become formal.
- The proportion of the formal sector which is claiming the exemption / zero-rating. If the majority of a sector uses relevant tax expenditure provisions, the tax revenue impact of removing this provision will be larger.

3. Income Tax

Tax expenditures are estimated separately for three main categories: business profit, employment income and investment income.

Business profit income

The total business profit income tax expenditure is calculated as the increase in CIT[2] payable by removing all the relevant provisions simultaneously, holding behaviour constant. 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. In the benchmark calculation, a statutory general rate of 29.4% is applied to worldwide income of Rwandan businesses minus expenses incurred to earn that income. The 29.4% rate is a blended average resulting from the 2023 corporate income tax reform, which reduced the statutory rate from 30% to 28% partway through the year. It is calculated based on the number of days each rate applied: (30% × 256/365) + (28% × 109/365) = 29.4%. This effective rate reflects the weighted average for the full fiscal year. Beyond this general concept, the benchmark includes the following specific rules:

- 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.

- Loss carry-forward is considered as a part of the benchmark, because it is a core feature of the CIT system.

- Loss carry-forward is reported separately from tax expenditures, as a structural relief.

- Measures that provide relief from double taxation are considered part of the benchmark income tax system.

- The simplified presumptive tax regimes for small businesses are also considered part of our benchmark.

  The relevant laws for income tax are *Law N° 027/2022 of 20/10/2022 Establishing Taxes on Income* (Income Tax Law) and *Law N° 006/2021 of 05/02/2021 on investment promotion and facilitation* (Investment Code). *Law N° 051/2023 OF 5/9/2023 amending Law N° 027/2022* reduced the CIT rate to 28%.

[2] Business profit income I taxed in Corporate Income Tax (CIT) and Personal Income Tax (PIT). CPIT revenues are much smaller than CIT and this report does not estimate tax expenditures in PIT.

The tax expenditure in Income Tax Law comes through the following types of provisions:

- **Tax holidays.** Firms registered for this benefit from a corporate income tax rate of 0% for a defined period of time e.g. five, seven or ten years, but they are still required to file CIT.
- **Preferential tax rates.** Firms and individuals that qualify pay a reduced income tax rate, sometimes for a defined time period e.g. fifteen percent for priority sectors.
- **Deductions**. These are increases in deductible expenses (e.g. accelerated deduction of an asset's value).
- **Tax exemptions**. Income from certain activities is defined as being non-taxable (for example, the first Rwf 12m of income from agriculture and livestock activities is exempt). There are also CIT exemptions for certain entities (although they are still required to file CIT).

In summary, 67,145 entities declared their corporate income tax in the year 2023 of which 5,788 provided a nil declaration; 27,403 declared under the real regime; and 39,742 declared under the simplified regimes. Of the 27,403 in the real regime, 15,198 declared a taxable profit (before preferential rates and tax holidays) and 6,417 declared a loss.

Table 6: Sectors benefitting most through current business profit income tax expenditure

Sector name	Tax expenditure (Rwf bn) on companies supplying…	As % of total Income tax expenditure
	2023	2023
Manufacturing	9.3	24%
Arts, entertainment and recreation	6.1	16%
Financial and insurance activities	5.5	14%
Mining and quarrying	4.1	11%
Administrative and support service activities	3.0	7.8%
Unclassified activities	2.5	6.6%
Information and communication	1.9	5.0%
Transportation and storage	1.8	4.8%
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.2	3.2%
Other sectors	2.9	7.5%
Total Tax Expenditure	**38.4**	100%

Table 7 shows the relevant provisions and their tax expenditures:

Table 7: Business income tax expenditure by provision

#	Provision	Tax expenditure (Rwf bn)						Rationale	Statistics
		2018	2019	2020	2021	2022	2023		
1	**Accelerated Depreciation**	12.37	11.14	6.61	16.70	4.40	10.2	This provision allows businesses to deduct 50% of the asset cost in the first year for new or used assets, to attract and promote investment.	A total of 35 companies benefit this provision. 52% of the share are in financial sector, 17% share in total are in ICT and with 14% in transport.
2	**Preferential 15% Tax Rate for Priority Sectors**	0.07	0.19	0.44	2.79	3.8	7.1	Attract investment in Rwanda, increase exports to improve the balance of payments, and facilitate knowledge transfers.	A total of 27 firms have benefited from this provision. More detail about their distribution is provided in Table 8.
3	**Exemption from Tax for Agricultural and Livestock Activities**	0.034	0.25	0.26	No data	No data	0.2	Supports agricultural production in Rwanda and recognizes the risks inherent in agricultural production. The estimate includes only companies who have sales above the 12 million Rwf turnover threshold.	82 companies currently meet the turnover threshold and benefit from the exemption for agricultural and livestock activities.
4	**Five-Year Tax Holiday for Microfinance Institutions**	0.015	0.01	0.15	0.41	2.7	1.2	Improve access to capital, encourage venture capital and microfinance institutions to start up in Rwanda.	4 companies have claimed this provision. Notably, one company accounts for 97% of the total expenditure under this provision.
5	**Preferential 0% rate for Large Foreign Investors with their Headquarters or**	0	1.59	0	0.44	1.16	0.0	Attract investment in Rwanda, increase exports to improve the balance of payments, and facilitate knowledge transfers.	No company used this provision.

	Regional Office in Rwanda								
6	**Preferential Tax Rates for Newly Listed Companies on Capital Market**	0	0	0	0.74	3.0	2.4	Introduced on 28th May 2010 to support the growth of domestic capital markets.	4 companies benefit from this provision, with 99% of the total expenditure share attributed to the manufacturing sector.
7	**Seven-Year Tax Holiday for Very Large Investments**	No data	No data	No data	0	0.06	0.8	Attract investment in Rwanda, increase exports to improve the balance of payments, and facilitate knowledge transfers.	5 firms have claimed this exemption.
8	**Preferential corporate income tax rate of three per cent (3%)**	Not introduced	Not introduced	Not introduced	0	0.1	9.8	Attract investment in Rwanda, increase exports to improve the balance of payments, and facilitate knowledge transfers.	9 firms benefit from this exemption.
9	**Preferential corporate income tax rate for export investments(15%)**	3.12	3.05	3.6	2.73	0.41	5.4	Attract investment in Rwanda, increase exports to improve the balance of payments and facilitate knowledge transfers.	12 firms are benefiting from this exemption.
10	**Preferential corporate income tax rate for export investments(25%)**	Not introduced	Not introduced	Not introduced	0.3	0.3	1.5	Attract investment in Rwanda, increase exports to improve the balance of payments, and facilitate knowledge transfers.	3 firms benefit from this exemption.
11	**Preferential tax incentives for a philanthropic investor**	0	0	0	0.010	0.010	0.015	Reduce taxes to stimulate investment with a social impact.	1 firm benefits from this exemption.

Business profit income tax expenditures had a major increase between 2022 and 2023. This increase has been driven by increased use of accelerated depreciation (#1) and by provisions introduced or expanded in the 2021 Investment Code (#2 and #8). The 15% tax rate for priority sectors (#2) covers a wide range of sectors and to show where this expenditure is concentrated, a sectoral breakdown is provided for this provision in **Table 8**.

Table 8: Sectoral distribution of preferential 15% tax rate for priority sectors

#	Sector of investment	Tax expenditure (Rwf bn)
		2023
1	**Clean energy**	4.42
2	**ICT**	1.49
3	**Other agricultural processing**	0.33
4	**Goods transport**	0.28
5	**Financial services**	0.23
6	**Passenger transport**	0.14
7	**Manufacturing**	0.11
8	**Affordable housing**	0.06
9	**Tourism**	0.01

Employment income

Pay As You Earn tax is the most important tax of employment income.

Table 9: Employment income tax expenditure by provision

#	Provision	Tax expenditure (Rwf bn)						Rationale
		2018	2019	2020	2021	2022	2023	
1	**Employment Income of a Casual Labourer**	0.55	0.43	0.79	0.93	0.70	0.36	Reduces the compliance burden and administrative burden compared to annual personal tax returns for employees.
2	**Employment Income from a Non-Resident Employer**	No data	No data	No data	No data	No data	No data	Recognizes the contribution that development partners make to Rwanda.

Investment income

The taxation of investment income happens through withholding taxes (WHT) on payments in Rwanda. In the benchmark tax system the prevailing statutory tax rates are: 5% tax on capital gains (Income Tax Law, Article 35-36) and 15% tax on payments for dividends, financial interests, royalties and service fees (Income Tax Law, Article 60). International tax agreements decreasing withholding tax rates are also considered as part of the benchmark, and not as tax expenditure.

Table 10: Investment income tax expenditure by provision

#	Provision	2023	Rationale	Legal reference
1	**Capital gains tax exemptions on shares of companies on the Rwanda Stock Exchange, on collective investment schemes and for registered investors**	no data	Promote private savings and indirectly support the growth of domestic capital markets.	Income Tax Law Art 38; Investment Code Art XVIII.
2	**5% WHT rate on dividends from companies on the Rwanda Stock Exchange if the recipient is an EAC resident or a registered investor**	0.46	Promote private savings and indirectly support the growth of domestic capital markets.	Income Tax Law Art 60 1°; Investment Code Art XI.
3	**Dividend WHT exemption on collective investment schemes**	no data	Promote private savings	
4	**5% WHT rate on interest from companies on the Rwanda Stock Exchange if the recipient is an EAC resident or a registered investor**	0	Promote private savings and indirectly support the growth of domestic capital markets.	Income Tax Law Art 60 1°; Investment Code Art XI.
5	**5% WHT rate on interest on treasury bonds**	8.35	Support the financing of the Rwandan national debt.	Income Tax Law Art 60 2°
6	**Interest income WHT exemption on deposits in financial institutions for longer than 1 year**	no data	Promote private savings	Income Tax Law Art 60 2°
7	**10% WHT rate on interests, dividends, royalties and service fees for innovation park and industrial park developers**	0	Support the financing of key infrastructure developments.	Investment Code Art XII.
8	**0% WHT on dividends, interest and royalties paid by investors of holding and financial services companies**	no data	Support the growth of Kigali International Financial Centre	Investment Code Art X.
9	**Capital gains tax and dividends WHT exemption for start-ups**	no data	Support investments into start-ups.	Investment Code Art XIV.

Structural relief

Structural reliefs are tax law provisions which are considered core parts of the tax system and generate revenue foregone compared to benchmark, which is higher than the one considered for tax expenditures. While other provisions could also be considered as structural relief, it is especially important to report loss carry-forward to support comparability with previous tax expenditure reports.

Table 11: Structural reliefs in income taxes by provision

Provision	Revenue forgone (Rwf bn)						
	2018	2019	2020	2021	2022	2023	Rationale
Loss Carry-Forward	17.1	23.9	43.3	52.0	39.4	44.5	The ability to carry losses forward recognizes the cyclical nature of business activity and low or no business revenues during the initial business development phase. It allows business expenses to reduce total taxes paid over a longer time frame and reduces the economic distortions generated by the non-refund ability of income tax in years when a business has negative taxable income.

4. Import Duties

Benchmark

The benchmark unit of taxation is the importer, including businesses (incorporated or not), brokers, and individuals. The tax base comprises all imports into Rwanda, and the value for duty is most often based on the Cost, Insurance, and Freight (CIF) value. In some cases where the value for duty is based on the quantity imported, this approach is maintained for the benchmark system. The benchmark duty rate depends on whether the imports originate from outside or within the communities with which Rwanda has trade agreements. For imported goods originating outside the East African Community (EAC) or the Common Market for Eastern and Southern Africa (COMESA), the benchmark rates are: 0% for raw materials, 10% for intermediate inputs, and 25% or 35% for finished goods. Some products classified by the EAC as Sensitive Items have a benchmark rate which may vary.

Due to the structural component of free trade with regional partners, duty-free importation from members of the EAC or COMESA is a standard practice and is not considered tax expenditure.

Excise duties on imports cover products such as motor vehicles (based on engine capacity), petroleum, lubricants, cigarettes, beer, wine, liquor, soft drinks, chocolate, sweets and chewing gum. The benchmark tax base and rate for each product are those specified in *Law N° 050/2023 Of 05/09/2023 Establishing the Excise Duty* in its article 4.

Withholding tax at a rate of 5% is a benchmark rate for a customs tax deductible from an importer's income tax declaration. The corresponding tax base is the CIF value of all imports. Tax expenditure exists where non-registered persons or those who do not file an income tax

declaration are exempt from this tax. The withholding mentioned in this paragraph is covered under the *Law N° 027/2022 Of 20/10/2022 Establishing Taxes On Income* in its article 62.

The Infrastructure Development Levy (IDL) and African Union Levy (AUL) apply ad-valorem rates of 1.5% and 0.2% on the CIF value of imports, respectively. These rates are provided for under the *Law N°34/2015 of 30/06/2015 establishing the Infrastructure Development Levy on imported goods* and the *Law N°19/2017 of 28/04/2017 establishing the levy on imported goods for financing African Union activities* respectively. The Strategic Reserve Levy (SRL) and the Road Maintenance Levy (RML) are specific taxes on petrol and gasoil, regulated by *Law N°36/2015 of 30/06/2015 establishing the Levy on Petrol and Gas Oil for the establishment of Strategic Petroleum Products Reserves* and by *Law N°49/2013 of 28/06/2013 Establishing Road Maintenance Fund (RMF) and Determining its Mission, Organisation and Functioning*. Any exemption from these levies is classified as tax expenditure, unless it stems from the duty free importation from the members of the EAC or COMESA.

Tax expenditure at customs primarily results from deviations from the standard EAC/COMESA tariffs:

- **Exemptions** at Customs are mostly legislated by the EAC Customs Management Act 2004 in its fifth Schedule, which details exempted products, some of which are for specific persons or institutions only.
- **Preferential tariffs** may be granted to Rwandans on certain goods, such as through an EAC Stay of Application which is applicable for a fiscal year. This does not include 'Sensitive Items' where there is a common EAC tariff.
- **Registered investors** or manufacturers can also claim import duty exemptions for their raw materials and industrial inputs if not already provided for under EAC's Common External Tariff.

Import duties expenditure estimations

In FY2023/24, the total customs-related tax expenditure amounted to Rwf 272.1 billion, representing 6% of the total CIF value, compared to Rwf 258.9 billion registered in the previous fiscal year. The increase is primarily attributed to the growth of the Duty Remission Scheme and the rise in Stay of Application tax expenditures.

The largest contributor to customs tax expenditure remains import duty, amounting to Rwf 212.9 billion. This is followed by excise duties (Rwf 22 billion), WHT (Rwf 12.6 billion), and IDL (Rwf 21 billion). Notably, TE from the Stay of Application increased significantly from Rwf 65.6 billion in FY2022/23 to Rwf 89.1 billion in FY2023/24.

The top 10 products represent 72.2% of total customs tax expenditure in FY2023/24, with cereals accounting for the highest share at Rwf 54.9 billion (20.2%), followed by vehicles (Rwf 40 billion, 14.7%), and sugars and sugar confectionery (Rwf 27.7 billion, 10.2%). Other significant product categories include iron and steel (Rwf 17.8 billion) and refined edible oils such as palm and sunflower oils (Rwf 12.4 billion).

Sectoral analysis provides insight into the specific economic activities benefiting from customs tax exemptions. The manufacturing sector accounts for the largest share of total customs tax

expenditure at 42.7%. This is primarily explained by the significant contribution from combined provisions related to raw materials and industrial inputs for registered investors, as well as the Duty Remission Scheme, which are designed to promote domestic production. This is followed by wholesale and retail trade (24.5%) and human health and social work activities (4.7%).

The increase in customs tax expenditure indicates continued efforts to support key sectors, particularly manufacturing and trade.

Table 12: Customs duties Tax Expenditure by tax type & by provision for FY2023/24

Provision	Tax expenditure (Rwf bn) through							
	Import duty	Excise duty	WHT 5%	IDL	AUL	SRL	FL	Total
Raw materials and industrial inputs for registered investors	14.0	0.0	0.0	5.6	0.8	0.0	0.0	20.4
Duty Remission Scheme	78.1	0	0	6.1	0.8	0	0	85.0
Stay of Application	84.2	0	2.7	2	0.3	0	0	89.2
Electric Vehicle	1.4	5.6	1.9	0.2	0	0	0	9.2
MBRP	8.5	0	0	0.7	0.1	0	0	9.3
Customs Law exemptions	26.5	16.4	8.0	6.4	1.0	0.5	0.2	59.0
-Agriculture inputs	1.3	0	0.4	2.5	0.3	0	0	4.5
-Diplomatic imports	1.6	0.2	0.5	0.1	0	0	0	2.4
-Armed Forces Shop	6.9	0	0.6	0.2	0	0	0	7.7
-Mosquito net	0.2	0	0	0	0	0	0	0.2
-NGO and government projects	3.1	0	2	2.7	0.4	0	0	8.2
-Returning residents	0.9	0.3	0.2	0.1	0	0	0	1.5
-Other	12.3	15.4	4.3	0.8	0.3	0.5	0.2	33.8
-Tax Cap of Wine	0	0.03	0	0	0	0	0	0.03
-Tax Cap of Liquor	0	0.31	0	0	0	0	0	0.31
-Luxury vehicles for MICE	0.21	0.19	0	0.01	0.0	0	0	0.41
Total	**212.7**	**22.0**	**12.6**	**21.0**	**3.0**	**0.5**	**0.2**	**272.1**
Total TE in % of total CIF								**6%**

Table 13: Trend in Customs duties tax expenditure by provision (exc. govt)

Provision	Nominal TE							As % of total TE						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Raw materials and industrial inputs for registered investors	34.2	61.8	66.6	69.4	84.2	121.7	20.4	70%	78%	60%	48%	50%	47%	7.5%
Duty Remission Scheme							85.0							31.2%
Stay of Application			23.4	46.9	43.5	65.6	89.2			21%	32%	26%	25%	32.8%
Electric Vehicle					1.6	7.2	9.2			0%	0%	1%	3%	3.4%
Manufacturing and Build to Recover Program (MBRP)					0.9	5.4	9.3			0%	0%	1%	2%	3.4%
Fuel exemption for public transport					3.7	0.6	0			0%	0%	2%	0%	0.0%
Customs Law exemptions	14.8	17.8	20.1	28.8	36.1	58.5	59.0	30%	22%	18%	20%	21%	23%	21.7%
-Agriculture inputs	1.3	3.1	4.4	4.56	4.6	4.8	4.5	3%	4%	4%	3%	3%	2%	1.7%
-Diplomatic imports	0.0	1.8	1.0	2.8	2	2.2	2.4	0%	2%	1%	2%	1%	1%	0.9%
-Armed Forces Shop	2.7	3.2	2.0	2.4	3.6	4.3	7.7	6%	4%	2%	2%	2%	2%	2.8%
-Mosquito net	1.5	0.4	0.1	0.1	1.3	0.3	0.2	3%	1%	0%	0%	1%	0%	0.1%
-NGO and government projects	2.3	3.3	4.7	4.6	10.1	7.2	8.2	5%	4%	4%	3%	6%	3%	3.0%
-Returning residents	0.8	0.7	0.5	0.9	1	1.3	1.5	2%	1%	0%	1%	1%	1%	0.6%
-Other	6.2	5.3	7.4	13.4	13.6	38.4	33.8	13%	7%	7%	9%	8%	15%	12.4%
-Tax Cap of Wine							0.03							0.0%
-Tax Cap of Liquor							0.31							0.1%
-Luxury vehicles for MICE							0.41							0.2%
Total	**49.0**	**79.5**	**110.2**	**145.0**	**170.1**	**258.9**	**272.1**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Total TE in % of total CIF	**3%**	**4%**	**6%**	**6%**	**6%**	**7%**	**6%**							

Table 14.Import duties tax expenditure by product (top 10)

TE per Product (Excl. EAC, COMESA and Government)								
Top 10 products								
Products description	**Tax expenditure (Rwf bn)**				**Tax expenditure in % of total**			
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Cereals.	28.1	25.3	47.5	54.9	19.40%	14.90%	18.30%	20.18%
Vehicles other than railway	8.8	12.5	14.2	40	6.10%	7.30%	5.50%	14.70%
Sugars and sugar confectionery.	27.2	21.1	37.7	27.7	18.80%	12.40%	14.60%	10.18%
Iron and steel.	16.4	15.1	15.4	17.8	11.30%	8.90%	5.90%	6.54%
Refined edible oils (Palm and Sunflower oils)	5.4	8.5	12.4	15	3.70%	5.00%	4.80%	5.51%
Electrical machinery and equipment	4.5	7.2	6.9	11.7	3.10%	4.20%	2.70%	4.30%
Plastics and articles thereof.	3.4	5.6	5.9	8.6	2.30%	3.30%	2.30%	3.16%
Articles of iron or steel.	2.2	3.2	5.6	7.4	1.50%	1.90%	2.20%	2.72%
Paper and paperboard; articles of paper pulp	3.6	4.6	6.4	6.8	0.025	0.027	0.025	2.50%
Furniture; bedding, mattresses, mattress supports	2.5	3.9	5.7	6.6	0.017	0.023	0.022	2.43%
Subtotal	102.1	107	157.7	196.8	70.4%	62.9%	60.9%	72.2%
Grand Total	**145**	**170.1**	**258.9**	**272.1**	**100%**	**100%**	**100%**	**100%**

Table 15: Tax Expenditure by Sector (excl. EAC, COMESA, and Govt)

ISIC Division	Tax expenditure (Rwf bn)	Tax expenditure in % of total TE
C - Manufacturing	116.3	42.7%
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	66.7	24.5%
Unclassified	15.9	5.8%
Q - Human health and social work activities	12.7	4.7%
M - Professional, scientific and technical activities	11.6	4.3%
D - Electricity, gas, steam and air conditioning supply	8.9	3.3%
H - Transportation and storage	8.7	3.2%
J - Information and communication	5.8	2.1%
S - Other service activities	4.4	1.6%
F - Construction	4.3	1.6%
R - Arts, entertainment and recreation	3.9	1.4%
I - Accommodation and food service activities	2.6	1.0%
N - Administrative and support service activities	2.2	0.8%
A - Agriculture, forestry and fishing	2.0	0.8%
K - Financial and insurance activities	1.8	0.7%
P - Education	1.6	0.6%
O - Public administration and defense; compulsory social security	1.2	0.5%
L - Real estate activities	0.7	0.2%
B - Mining and quarrying	0.5	0.2%
U - Activities of extraterritorial organizations and bodies	0.1	0.0%
E - Water supply; sewerage, waste management and remediation	0.1	0.0%
T - Activities of households as employers (and other related activities)	0.1	0.0%
Grand Total	**272.1**	**100%**

5. Domestic Excise

This chapter describes domestic excise duty expenditure provisions and their fiscal effect. While some excise duties are collected at customs, some are levied within Rwanda. Because the rationale for excise varies by product, the benchmark excise rate also varies correspondingly, taking the prevalent statutory rate to be the benchmark level. The benchmark tax base and rate for each product are those specified in *Law N° 050/2023 OF 05/09/2023 Establishing The Excise Duty* in its article 4.

Excise tax provisions on alcoholic beverages in Rwanda create tax expenditures by applying reduced rates to products made with at least 70% local raw materials. Specifically, beer made with local inputs is taxed at 30% instead of the 60% benchmark, resulting in a 30-percentage point revenue loss to promote local sourcing. Similarly, wine with local content is taxed at 30% compared to the 70% benchmark, while local brandies, liquors, and whisky are taxed at 60% instead of 70%. These preferential rates are designed to incentivize local production and support the growth of domestic industries by enhancing the competitiveness of locally produced alcoholic beverages. However, this provision was not utilized during the fiscal year, as no beverage on the market met the 70% local raw material criterion, and thus no actual tax expenditure was incurred under this category.

The vehicle excise tax regime in Rwanda is structured to encourage environmentally friendly and fuel-efficient vehicle use, with rates structured according to engine capacity: 5% for engines under 1500cc, 10% for 1500–2500cc, and 15% for engines above 2500cc. The exemption to locally manufactured or assembled vehicles aims to promote local industry, support public services, and ensure inclusivity, but they come with a fiscal cost. In the fiscal year under review, the government had forgone a total of Rwf 373.6 million in excise revenue due to such exemptions. Total collection of vehicle excise duty was Rwf 7.3 billion, and the tax expenditure constituted 4.8% of potential vehicle excise tax revenue. This tax expenditure reflects policy choices aimed at stimulating economic development, supporting domestic assembly, and promoting social welfare.

Table 16: Domestic excise expenditure by provision

Provision	Standard rate	2023/24	Rationale
30% Beer with at least 70% local raw materials	60%	0	Encourage local raw material use and support domestic production
30% Wine with at least 70% local raw materials	70%, with cap of 40,000 Rwf per litre	0	Encourage local raw material use and support domestic production
60% of brandies, liquors, and whisky with at least 70% local raw material content	70%, with cap of 150,000 Rwf per litre	0	Incentivize use of local raw materials in alcohol production
Exempted vehicles assembled in Rwanda	5%–15% (based on engine capacity)	0.37 bn	Promote local manufacturing and reduce import dependency

ANNEX I.: Climate Budget Tagging of Tax Expenditures

1. Introduction

1.1 Climate change policy in Rwanda

The impacts of climate change in Rwanda are already being felt. Significant negative impacts on growth and development in key vulnerable sectors have been observed, including agriculture, water, housing, transport, health, and energy.

In response, the Government of Rwanda has made several long-term commitments to climate change. Rwanda's 2020 Nationally Determined Contribution (NDC) envisages reductions in Greenhouse Gas Emissions in comparison to a Business As Usual (BAU) scenario of 38% by 2030 (16% unconditional, and 22% conditional measures). The 2022 Green Growth and Climate Resilience Strategy (GGCRS) describes a long-term pathway for low-carbon development. The 2024-29 National Strategy for Transformation (NST-2) emphasizes the need to build resilience to climate change and sets a target of mobilizing at least USD 3 billion of climate finance.

1.2 Climate Budget Tagging in Rwanda

Against this background Climate Budget Tagging (CBT) was introduced in Rwanda in FY2024-25. CBT is a tool for identifying, monitoring, and tracking climate-related expenditures in the national budget system. It provides comprehensive data on climate-relevant spending, enabling government to make informed decisions and prioritize climate investments.

The annex to this year's Tax Expenditure Report applies the CBT methodology to Tax Expenditures (TEs) and tags them in relation to their favorable impacts on either climate change mitigation or climate change adaptation. In this way, TE tagging further contributes to the objectives of CBT, by providing additional information and data on the amount of tax expenditure due to climate-related tax incentives.

2. Tax expenditures related to climate change

2.1 General trends

This is the first year of reporting on the relationship between TEs and climate change. Rwanda's CBT methodology identifies relevant expenditures based on their objective, with the tag being assigned if a particular item contributes to the objectives of climate change mitigation, adaptation, or both – i.e. using the terminology in this report, a tag is assigned if the rationale for the tax expenditure is related to climate change. Only expenditures favorable to climate change were tagged and are reported on below.

All TEs tagged as climate-relevant were related to climate change mitigation objectives. Expenditures with objectives related to climate change adaptation, or which could be categorized as both, were not identified. Tax expenditures for climate change mitigation fall into two broad categories: low-carbon mobility and energy (energy efficiency and renewable energy). TEs have been tagged on their objective, and the report does not draw any conclusions relating to their effectiveness or actual impacts on the reduction of greenhouse has (GHG) emissions.

Table 17 shows all TEs tagged and includes information on products under the TE provision, the rationale of the TE, and notes relevant policies and strategies to evidence the tags assigned.

Table 17: Climate-relevant tax expenditures and their rationale for FY2023-24

Item	Nature of tax Expenditure	Tax expenditure (Rwf billion)	Rationale/policy goals and relevance for climate change mitigation	Relevant policies (evidence for tag)
Energy supply equipment, such as energy-saving lamps and streetlights (Light Emitting Diodes – LED), Solar Water Heating (SHW) and batteries for renewable energy storage, wind energy systems, gas/gas cylinders and related materials, equipment used in supply of biogas energy.	Exempt from VAT	4.4	Increase affordability of sensitive energy-related products; incentivize increased deployment of renewable electricity generation and renewable heating; enhance energy efficiency.	Both energy efficiency and renewable energy transition are key implementation aspects in the NDC, with involvement of the private sector considered necessary. Feeds into the SolaRwanda Solar Water Heating program.
Electric and hybrid cars and motorcycles	Exempt from VAT Exempt from excise	16.2	To incentivize the take-up of electric and hybrid vehicles in the domestic market in Rwanda by reducing the purchase price. Initial outlay is identified as a barrier to ownership of electric vehicles (EVs) in Rwanda in the MININFRA Strategic Paper on Electric Mobility Adaptation in Rwanda.	EVs are a priority in the revised Green Growth and Climate Resilience Strategy 2022. De-risking 2022-2032, thriving electric vehicle market from 2035-2050 envisaged. NST2 references E-Mobility element in enhanced transport connectivity. NDC considers EVs a potentially significant means to reduce emissions from the transport sector.
Renewable energy companies	Preferential 15% CIT	4.42	To encourage investment in the deployment of renewable	The revised GGCRS 2022 aims to maintain share of renewables in energy generation

			energy, including efforts to encourage growth of renewable energy companies. *Two companies benefit from this provision.*	from 2025 at above 60%. Acceleration of renewable energy deployment is to be driven by private companies working in the energy sector (objective is also expressed in the NDC).
Passenger transport companies	Preferential 15% CIT	0.14	To encourage investment in and growth of passenger transport companies. *One company benefits from this provision.*	The revised GGCRS 2022 aims to accelerate public transport use and highlights potential to leapfrog to electric buses. Upscaling public transport is a key goal in the 2021 National Transport Policy and Strategy for Rwanda, as well as the NST2.
Manufacture of cooking stoves	Duty Remission Scheme	0.06	To incentivize domestic manufacture of cooking stoves.	Cooking stoves are associated with climate change mitigation when they substitute biomass or other fossil fuels for cooking.
Manufacture of LEDS / Solar	Duty Remission Scheme	0.49	To incentivize domestic manufacture of LEDs / solar energy equipment	Both energy efficiency and renewable energy transition are key implementation aspects in the NDC.

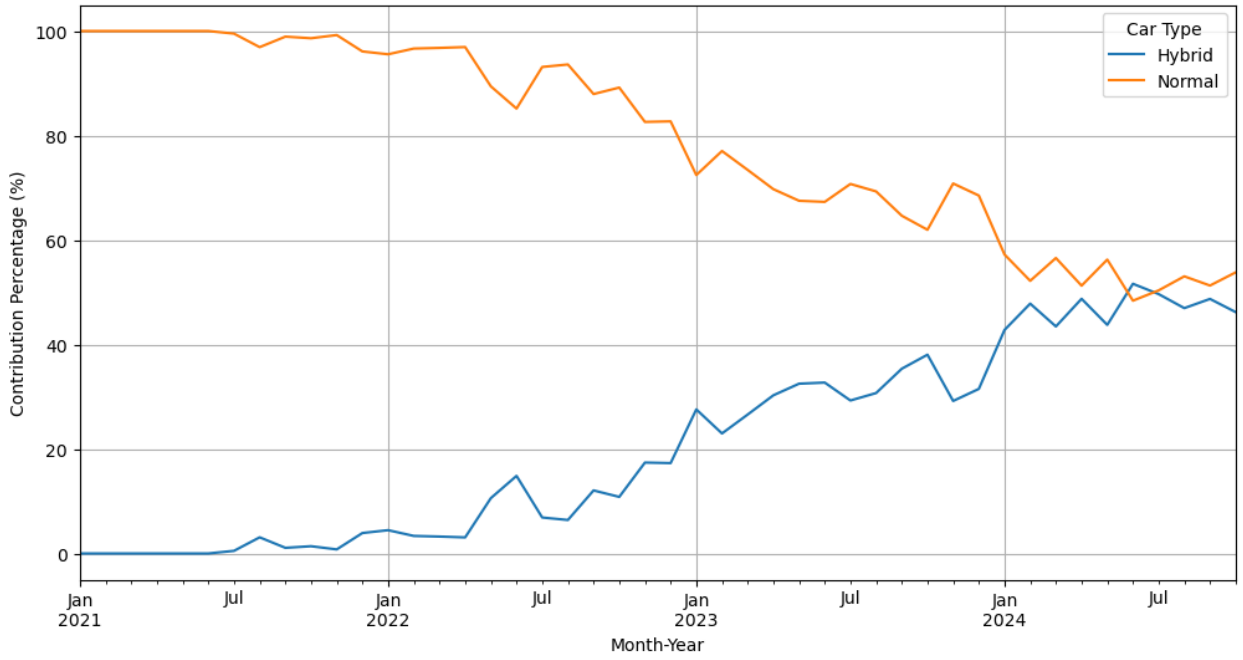
2.2 Specific findings

As shown in Table 17, total tax expenditure relating to climate change mitigation objectives amounts to Rwf 25.71 billion, or around 4.0% of total tax expenditure.

The single most important TEs are the VAT and excise exemptions for electric and hybrid vehicles, which alone are worth Rwf 16.2 billion, around two thirds of total climate change related tax expenditure. Alongside other policy measures to encourage market penetration of EVs, these TEs are having a positive impact on the vehicle fleet in Rwanda, which will in turn can be expected to slow the growth of – or even reduce – total greenhouse gas emissions from vehicles.

Figure 2 shows the relative contribution percentages of internal combustion engine (ICE) vehicles and hybrid vehicles to vehicle imports from January 2021 until October 2024: from a very low percentage in 2021, hybrid vehicles made up close to 50% of imports in 2024.

Figure 2: Monthly contribution trend – hybrid vs. internal combustion engine vehicles (normal cars)



The main beneficiaries of TEs related to private vehicles are likely to be households in the wealthiest consumption quintile. In the 2016/17 Integrated Household Living Conditions Survey EICV5, the vast majority of consumption expenditures for vehicle purchases were in the top 20% of households by consumption quintile.

The first Climate Budget Statement in Rwanda was published for 2024-25. In that year, total expenditure on climate change mitigation and adaptation amounted to Rwf 579.70 billion. While information on TEs is not available yet for 2024-25, it can be inferred that tax expenditure attributable

to climate-related TEs makes up a relatively small proportion of total expenditure on climate change objectives.

CBT uses the objective and rationale of a TE to assign a climate change mitigation tag. This identifies the volume of tax expenditure on objectives related to climate change; it does not draw any conclusions on the climate impacts of specific TEs. Consideration of the effectiveness of climate-related revenues foregone is beyond the scope of this report but this might be an interesting exercise for future iterations.

ANNEX II.: Methodology of tax expenditure estimations

This Annex explains the data sources, approach, further analysis and issues to address for a subsequent tax expenditure report.

1. Value Added Tax

Data sources

For the VAT tax expenditure estimation, the main source of data is NISR's Supply Use Tables (SUT) for 2017. These tables are comprehensive national accounts which show what different industries purchase from each other as well as final consumption by households and government, taking into account the informal sector too. This allows to aggregate the impacts of exemptions and zero ratings occurring at different stages in supply chains, but also observe which sectors are most affected.

Since this provides data for 2017, appropriate sector-specific growth rates (mostly sourced from GDP publications) were applied to estimate the levels for following years. The SUT for 2017 can be used for the following fiscal year as it will capture the recent changes in the Rwandan economy.

RRA VAT declaration data were used to calculate some of the more specific sector growth rates as well as the shares of each industry that are benefitting from exemptions and zero ratings.

The majority of tax expenditure calculations are done using the VAT Tax Expenditure model built by the IMF consultants during their 2018 technical missions to Rwanda and subsequently modified by MINECOFIN, RRA and the Centre for Tax Analysis in Developing Countries (TaxDev). For two provisions the customs expenditure model is used to estimate VAT expenditure: these are the zero-rating for purchases from the Armed Forces Shops (both models) and the exemption for returning residents (only customs model). These are estimated using exempted VAT on imports based on the Customs Procedure Clearance Codes (explained further in the calculation notes below).

Reallocation of wholesale and retail trade

The SUTs show that the sectors containing wholesale and retail trade do not contain data i.e. their total supply and consumption is zero.[3] This is because the value of their 'production' has been reallocated to the commodities that are actually provided. For example, a wholesaler or retailer of paper would be shifted to the manufacturing sector 'Wood, paper and related products' because this is the actual product traded. When calculating parameters for the model using VAT data, it is important to do the same reallocation and this has been done through manual reclassification of RCPA2 sectors at the three digit level. On some occasions, the reclassification has to be for a specific 4-digit or 8-digit ISIC code.

Growth rate calculations

Growth rate calculations are done using two sources for annual growth rates – GDP publications and VAT declarations. GDP growth rates were used if the sector has a large informal share and/or if the

[3] The Supply table shows data on their outputs but this is offset through equal negative margins. Their value added is instead captured as margins on the actual commodities produced.

GDP sector maps accurately onto the RCPA2 sector. Otherwise, VAT turnover growth rates were used i.e. if it is largely formal and the GDP growth rate doesn't map well onto the RCPA2 sector.

Exclusion of Government

Government is excluded from VAT tax expenditure because it allows a focus on what is important for discretionary policy-making. The reasons are three-fold:

1. Tax expenditure on Government is for required public services rather than discretionary tax policies. For example, tax expenditure on national defense or public healthcare would be considered a necessary cost for necessary services.
2. It is somewhat circular to discuss tax expenditure on Government services. If there is less tax expenditure on Government, it means Government pays more VAT to itself i.e. they pay more tax revenue but their budget would need to be larger to accommodate the VAT.
3. For the most part, it's not practical to consider taxing Government outputs. Many Government services won't involve individual sales transactions, so even if VAT exemptions were removed they would not be (fully) taxable and should be treated accordingly. For example, roads, policing and (to a lesser extent) public education are not provided through sales.

Sales involving government (either as the purchaser or as the seller) were excluded in the model by treating them as zero-rated. This means that both the tax revenue from them and tax expenditure on them are essentially ignored, whether through input VAT or output VAT. When calculating a benchmark, typically all exemptions and zero-rated sales were repealed. In this case, however, sales involving government were left as zero-rated and only the remainder of exempt and zero-rated sales were repealed.

2. Income Tax

Data sources

The tax expenditures are mostly calculated using the CIT microsimulation model built by IMF consultants as part of their technical mission to Rwanda and subsequently modified by MINECOFIN, RRA and TaxDev. The source of data for the estimations is the RRA's annual Corporate Income Tax declarations (for calendar year 2023, corresponding to tax revenues for 2023/24) and RRA's Pay As You Earn (PAYE) which are according to fiscal year. These sources show the deductions claimed by companies, some exemptions, preferential tax rates and tax holidays. Data on withholding taxes show the category of payment and the applied rate.

3. Import Duties

Data sources

Tax expenditures are calculated using a microsimulation model built jointly by TaxDev, MINECOFIN and the RRA. Customs data is used to calculate the tax expenditure through import duty exemptions. For each import, the data contains the standard tariff, the 'agreement' field noting EAC / COMESA exemptions, and the Customs Procedure Codes (CPCs) provide the reason for the reduced rate as per the Customs law.

Calculation notes

The benchmark is the EAC Common External Tariff combined with duty-free imports from COMESA. This means the following are *not* considered tax expenditure:

- No import duty on products imported from within EAC or COMESA (with a Certificate of Origin)
- No import duty on specified raw materials and capital goods
- 10% import duty on specified intermediate goods
- 25% or 35% import duty on specified finished goods
- Higher import duty tariffs on specified sensitive products
- Exemptions or reduced rates on goods imported by public organs

The import duty foregone is calculated as the difference between the import duty that should be paid (according to these EAC rules, the applicable tariff and the CIF value) and the import duty actually paid.

This has repercussions for other tax types – import duty forms part of the tax base for excise duty and VAT. Repealing exemptions on both import duty and excise duty, for example, would have a greater tax revenue impact than each one in isolation.

Customs excise duty is calculated based on the product's tax base (either CIF value plus import duty and handling fee, or quantity) and the standard excisable rate. Deviations from this are considered tax expenditure.

Withholding 5% is applied as a uniform 5% rate on the CIF value, however for registered companies it is deductible from their income tax declaration. This means that WHT 5% exemptions are only considered tax expenditure for those who would not pay income tax.

The infrastructure development levy is applied as a uniform 1.5% rate on the CIF value. Deviations from this are considered tax expenditure.

While some tax expenditure on Customs VAT could also be considered as tax expenditure, this is incorporated in the VAT analysis. Many companies will be able to reclaim the VAT paid at Customs as input VAT through their domestic declarations. Customs VAT expenditure exists where there is exemption and companies cannot reclaim the input VAT. Furthermore, the exclusion of government also reduces the scope of what is considered as tax expenditure here. As a result, the Customs VAT exemptions on the Armed Forces Shop and for personal effects of returning residents are those included in the VAT estimates.