FACTORS AFFECTING TAX COMPLIANCE IN RWANDA

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DEDICATION

To my late father Rusanganwa Eliezer, mother Mukarurangwa Thérèse, wife Unyuzumutima Juliette and children Munyentwali Trésor, Munyentwali Pedro and Unyuze Genny Nethania.

LIST OF ACRONYMNS AND ABREVIATIONS

BAD:	Banque Africaine de Dévelopment
GDP:	Gross Domestic Product
GNP:	Gross National Product
IMF:	International Monetary Fund
MINECOFIN:	Ministère de l’Economie et des Finances
ODI:	Overseas Development Institute
OECD:	Organization for Economic Cooperation and Development
PIT:	Personal Income Tax
RRA:	Rwanda Revenue Authority
RWF:	Rwandan Francs
SAS:	Self Assessment System
SMEs:	Small and Medium Enterprises
TCMP:	Tax Compliance Measurement Program
VAT:	Value Added Tax

OPERATIONAL DEFINITIONS OF TERMS

Tax Compliance	Willingness to obey tax laws in order to obtain the economic equilibrium of a country. Andreoni et al. (1998)
Tax Avoidance	Legal reduction in tax liabilities by practices that take full advantage of the tax code. James (1999)
Tax Evasion	Illegal and intentional actions taken by individuals to reduce their legally due tax obligations. James (1999)
Direct Tax	Tax which the burden of tax is borne entirely by the entity that pays it, and cannot be passed on to another entity. Barjoyai, (1987)
Indirect Tax	Indirect tax is typically a charge that is levied on goods and services. Barjoyai, (1987)
Shadow Economy	Income generating enterprises that operate on small scale using simple skills and are not tied to any government regulations. (Tax Justice Network Africa, 2012

ABSTRACT

After 1994 genocide perpetrated against the Tutsi which destroyed the country socially and economically, tax revenues have played a major role in country reconstruction process by financing the national budget up to 49 per cent in the fiscal year 2012/2013 compared to 35 per cent in 1995. Despite this significant share of tax revenue in total government revenues, the tax ratio to Gross Domestic Product is still low amounting to 12.5 per cent in 2012/2013, compared to the average of 18 per cent in some developing countries. In addition to this low tax to Gross Domestic Product ratio, the informal sector which accounts for 44 per cent of Gross Domestic Product, also contributes to government revenue losses. The low ratio of tax revenues to Gross Domestic Product is explained under self assessment system by economic and non economic factors. Therefore; the objective of this study was to analyze the factors affecting tax compliance in Rwanda. This study employed diagnostic research design to investigate associationship among study variables. The research has relied on primary data collected using questionnaires and secondary data collected from National Accounts Reports and revenue collections performance reports done by Rwanda Revenue Authority. The population of the study was individuals registered to Personal Income Tax and informal sector business operators. The sample under study was made up by 793 respondents. To achieve the above objectives, the study used a univariate regression and Multinomial Logistic Regression models to evaluate the relationship among the variables. To estimate the tax gap, tax revenues were regressed on Gross Domestic Product and the study covered a period from 1995 to 2012. EVIEWS 6 and SPSS 20 softwares were used to analyze the data. The results indicated that tax revenue has a positive relationship with Gross Domestic Product, and there was tax gap for each and every tax year. The regression results indicated that the model is a good fit, meaning that the Gross Domestic Product in the model account for the variation in tax revenue. The variables were cointegrated; implying that there was a long-run relationship among them. The study also revealed that the level of income, compliance costs, penality rate, attitudes towards taxes, equity and fairness of the tax system and social norms are statistically significant to affect tax compliance levels in formal sector. For informal sector, only, attitude towards taxes and perception of government spending were found statistically significant to influence tax compliance behavior. The coefficients of tax audit rate, audit probabilities, tax knowledge, were found statistically insignificant. The study recommended: first, further simplification of compliance process by reducing compliance costs. Secondly, the review of penalty rates and introduction of new techniques of enforcing compliance like tax amnesty. Thirdly, enforcing tax morale among citizens, and fourthly, Tax authorities should avoid unreasonable, intrusive tax audits and unfair penalties because this may lead to negative attitudes towards the tax office and taxes in general.

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