

Assessment of Tax Enforcement in Selected Small and Medium Enterprises (SMEs) in Kigali City, Rwanda.

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ABSTRACT

The purpose of the study was to assess the level of tax enforcement as it is exerted by Rwanda Revenue Authority (RRA) among SMEs in Kigali city. The indicators under consideration are Tax system, Training on tax, Tax Audit, Tax rewards and Tax penalties. Administered questionnaire was used to collect data. Finding showed that generally, tax system was appreciated at a moderate level (Mean=2.67). The average level of RRA trainings is low (Mean=2.31). The General level of tax audit practice is high level (Mean=3.72). Generally, the level of Tax Rewarding is Moderate (Mean=3.37). Generally, the level of appreciation on Tax Penalties was Moderate (Mean=2.53).

As recommendations, RRA should change its tax system. This is because level of appreciation of the taxpayer to the system is moderate with a mean of 2.67. The are to improve include helping taxpayers to pay only when they have made profits. Facilitating the taxpayer to increase the capacity to pay their tax liabilities, making tax law friendly user by SMEs taxpayers. RRA should increase training for SMEs taxpayers. This is because the level of this indicator is low. The low level has been found in all areas of training assessed. RRA should increase the rewards to the best taxpayers so that this practice is recognized by all taxpayers. It should also avail them the standards of selection and to the public. This will increase trust and competition in complying to the tax laws. RRA should modify the penalties given to taxpayers who have broken the tax laws. This is because the taxpayers said that the tax penalties discourage many SMEs. The tax penalties should be reduced and increase other methods of enforcement such as education, rewards and audit. Taxpayers should inform themselves from different sources about the tax system as applicable in Rwanda. This will help them to comply with the law and avoid penalties.

Key words: Tax system, Training on tax, Tax Audit, Tax rewarding and Tax penalties.

1.Introduction

In the late 1980' East African countries underwent fiscal deficit and rising level of debt. This is mainly attributed to poor fiscal monetary policy, high level of corruption, war and conflicts etc. To face this problem,

the most significant reform was creation of semi- autonomous agencies in charge of tax collection and tax administration, beginning with Uganda with [Uganda Revenue Authority (URA) in 1991, Kenya with Kenya Revenue Authority (KRA) in 1995,

Tanzania with Tanzania Revenue Authority (TRA) in 2006 and Rwanda with Rwanda Revenue Authority (RRA) in 1997. The objectives of these reforms were to improve tax enforcement in order to raise the tax revenue as a ratio of GDP, to improve economic efficiency in the tax system, to reduce compliance and administrative tax costs, and to improve administrative efficiency of the tax system (RRA, 2004).

According to the Foreign Investment Advisory Services (FIAS), Rwanda has made great strides in reforming its investment climate in supporting private sector development since 1994. The government is committed to pursuing the reform agenda and removing barriers to entry or growth of private businesses, to overcome a perception of Rwanda as a high risk market, unattractive to existing and potential foreign and domestic investor (FIAS, 2006). To this regard, the Government of Rwanda is committed to address these issues, through streamlining the business environment, lowering the cost of doing business and facilitating the emergence of a strong local business community by providing financial and non-financial services and facilitating tax burden towards taxpayers through Rwanda Revenue Authority (RRA, 2007). Reforms have taken

place on tax policy, tax administration, restructuring and amendment of tax laws (RRA 2010). The RRA was established in 1997, and with PwC's assistance, a modernization committee was established within the RRA in 1998. In order to assist the RRA in mobilizing taxpayers, tax advisory councils were established in 2000. A taxpayer appreciation day was also introduced in 2001. In 2003, the RRA's mandate expanded to include non-tax revenue (vehicle sales, fines, etc.). RRA put in place ASYCUDA, the Automated System for Customs Data, in 2004. Laws governing income tax and excise taxes were revised in 2005. A RRA training center opened in Huye in 2007. For small businesses, a flat tax was implemented in 2010. E-filing and e-payment were introduced by RA in 2011. Electronic billing machine (EBM) introduction occurred in 2012. In 2016, private audit firms begin to conduct audits. 2018 saw the introduction of new property tax laws, a fresh income tax law (Chemouni, 2020). Again, through its training department, RRA has launched many formations and explanations to the taxpayers about tax laws in Rwanda, and the importance of paying tax. It has also opened many branches throughout the country, and it is also trying to implement a system of

declaration and paying tax online, the system which will support the present facilities (RRA, 2010). Rwanda Revenue Authority has one of the most effective programs of community information dissemination in the region with the aim of building a culture of Compliance FIAS, from 2006. RRA continues to strengthen its partnership with local authorities and security organs to combat smuggling and tax evasion. Also, RRA intensifies enforcement measures including carrying out thorough investigations to identify the source of fraud. Furthermore, RRA continues to intensify taxpayers' education and engage in discussion with the business community to increase voluntary compliance (Mascagni & Nell, 2022). RRA focused efforts in fighting forged invoices and monitoring international transit. Special attention was given to operations aimed at fighting smugglers of some sensitive products, evaders of VAT and users of forged documents. RRA strengthens its partnership with local authorities and security organs to identify the source of fraud and to combat smuggling and tax evasion in order increase voluntary compliance. Rwanda Revenue Authority introduced means of delivering quick and quality service to the business community

which saves the taxpayers, but also saves RRA's image

Nevertheless, the tax enforcement issues are still reported. The Commissioner General of Rwanda Revenue Authority observed that tax systems in Africa face numerous challenges such as deficiencies in domestic tax laws, limited exchange of information networks, poorly negotiated treaties and capacity constraints within tax administration among others. Loopholes in tax laws and inadequate international tax cooperation were noted that has helped multinationals to shift profits to other jurisdictions leaving Africa with low tax revenues. To address these issues, the commissioner called for adherence to international standards on tackling tax avoidance as well as promoting transparency and information sharing (Minecofin, 2023). The RRA staff's skills are still quite limited. According to an RRA advisor, at the lower levels, employee quality is hit or miss: the leadership relies on a select group of individuals who are capable and dedicated, while the majority are underutilized and ineffective. "In terms of capacity, there is a significant gap between senior management and the rest." However, the mid and lower levels of management are not as well educated as the senior management, who has

a good education and has studied abroad. Another issue with staff management is that there aren't any real management meetings other than the senior management meeting, according to an RRA insider. Planning activities are not present (all are extremely ad hoc). Additionally, the management barely interacts with the workforce. Worker bees are at the bottom, followed by management (Chemouni, 2020). Due to a general lack of delegation, staff members lack the authority to make decisions, which leads to bottlenecks at the top. 'The staff is not focused on the taxpayer's (the customer's) experience. When taxpayers interact with the RRA, this leads to a variety of problems. The root of the problem is mindset, but particularly the staff's limited authority and lack of decision-making space. An accountant from the private sector agreed that people in RRA are very friendly. It is simple to bring up issues with them, but getting a response is difficult. (Chemouni, 2020). 48 employees were the subject of investigations in 2018–19, leading to 28 sanctions, including five dismissals (up from 20 the year before) (RRA 2019). The researcher has seen very important to carry out such study in order to understand the

perception of SMEs towards the tax enforcement as it is applied by RRA. The assessment was done in terms of Tax system, Training on tax, Tax Audit, Tax rewarding and Tax penalties.

2.Methodology

The study was a descriptive using both qualitative and quantitative approaches. It is a cross sectional research, because data were collected once in time, in January 2023.

The target population of this study was the taxpayers having SMEs in Kigali business centers who are estimated to 12,337 in Gasabo District, 8,091 in Kicukiro District, 12,191 in Nyarugenge District totaling to 32,619 SMEs in 2018. The Sample size was calculated using Yamane formula at 0.01 margin of error and it was 99 SMEs owners in Kigali city. The respondents were found in Kimironko business center in Gasabo District, Kicukiro business in Kicukiro District and Nyabugogo business centres in Nyarugenge District.

Then the researcher has taken 33 in each business center as shown in the table 1.

Table 1:sample size

category	imironko Gasabo District)	icukiro Kicukiro istrict)	yabugogo Nyarugenge istrict)	otal ample ze	ampling chniques
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Small and medium taxpayers					convenience or wizard technique
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Source: Primary data, 2023

Research instruments

In conducting the research, the researcher used Administered questionnaire. The questionnaire contained scaled questions.

The researcher administered the questionnaire in order to generate higher response rate and provide fuller and more complete answers (Saunders, 2000). The scales used are represented in the table 2.

Table 2: Scales of the questionnaire

Scale	Significance	Weighted Mean	Interpretation
5	Strongly agree	4.2- 5.00	Very high level
4	agree	3.4 -4.2	High level
3	Don't know	2.6- 3.4	Moderate
2	Disagree	1.8- 2.6	Low level
	Strongly Disagree	1.00- 1.8	Very low level

Source: Primary data

Data collection procedure

The researchers uploaded the questionnaire in google form. We used tablet to collect data from 99 respondents. Because of using administered questionnaire, the collection rate has been 100%.

Data Analysis

SPSS were used for data analysis. Descriptive statistics especially the mean and standard deviation was used.

3. Results and Discussions

The objective of the study was to assess the level of tax enforcement applied by RRA

among SMEs in Business centers of Kigali city. The indicators assessed are Tax system, Training on tax, Tax Audit, Tax rewards and Tax penalties.

3.1 Assessment of Tax system

To assess the perception of respondents on tax system of Rwanda, we used eight assertions. We used mean and standard deviation. Findings are summarized in the table 3.

Table 3 : Level of appreciation of Tax system

Assertions	Mean	Std. Deviation	Comments
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the new tax system as applicable to my business is clear	92	027	moderate level
tax taxpayers in the same category bear a proportionately equal tax burden	63	32	moderate level
know the nature of tax liability I pay without doubt	42	27	low level
pay the tax when I have made profits only	35	119	low level
taxable income calculation is not very costly to me	12	062	moderate level
periodic declaration on tax is doesn't costs much time and resources	89	039	moderate level
can pay the tax assessed	12	46	low level
average	67	99	moderate level

Legend: the mean range: 1.00- 1.8 = Very low level; 1.8- 2.6=Low level; 2.6-3.4=Moderate level; 3.4 -4.2 =High level; 4.2- 5.00=Very high level
n= 99

Source: Primary data (2023).

Findings showed that the level of tax system is clear at a Moderate level (Mean=2.92), Tax taxpayers in the same category bear a proportionately equal tax burden at a moderate level (Mean=2.63). Taxpayers know the nature of their tax liability at a low level (Mean=2.42), Taxpayers pay the tax only when they have made profits at a low level (Mean=2.35), Taxable income calculation is not very costly to taxpayers at a moderate level (Mean=3.12), A periodic declaration on tax is doesn't costs much time and resources at a moderate level (Mean=2.89), Taxpayers can pay the tax assessed at a low level (Mean=2.12).

Generally, tax system was appreciated at a moderate level (Mean=2.67). According to Asiimwe (2009), a good tax system should be comprehensive, impose a minimum burden on the taxpayer, be optimal, be efficient, be buoyant/ flexible and consider the principle of double taxation. Thus, the moderate level identified in this study is not appreciated by many small and Taxpayers. There is a need to increasing the effort of disseminating the activities of RRA towards.

3.2 Assessment of Training on tax

Training on tax was assessed using five assertions. Findings are in the table below:

Table 4 : Level of training

assertions	mean	std. Deviation	comments
RRA give training to taxpayers	91	784	low level

RRA trains me on taxpayer's rights and obligations	95	676	low level
The training I receive from RRA is enough to meet Compliance requirements	84	548	low level
RRA helps me to get knowledge about tax planning	90	647	low level
RRA helps me to complete records and bookkeeping	97	704	low level
Average	31	74	low level

Legend: the mean range: 1.00- 1.8 = Very low level; 1.8- 2.6=Low level; 2.6-3.4=Moderate level; 3.4 -4.2 =High level; 4.2- 5.00=Very high level
n= 99

Source: Primary data (2023).

Findings showed that the RRA give training to taxpayers at a low level (Mean=1.91), RRA trains taxpayers on their rights and obligations at a low level (Mean=1.95). The training from RRA can help taxpayers to meet Compliance requirements at a low level (Mean=1.84). RRA helps taxpayers to get knowledge about tax planning at a low level (Mean=1.90). RRA helps taxpayers to complete records and bookkeeping at a high level (Mean=3.97). The average level of RRA trainings is low (Mean=2.31). Considering these findings, we can say that only RRA helps to complete records and bookkeeping. This have been done by the introduction of EBM which facilitate many Taxpayers to record transactions and keep the records electronically. However, there is

a gap in training the taxpayers about tax obligation (Machogu & Amayi, 2013).

Achieving tax compliance and improving revenue generation is not an easy task. However, this problem can be minimized through tax education. Taxpayer education program is one of the strategies of improving service delivery to the taxpayers. Taxpayer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments, for providing education, counseling, and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars, and front desk help to disseminate key information to the taxpayers.

The education component is expected to deal with non-compliance practice among the Small and Medium Enterprises (Machogu, Amayi, 2013). The non-compliance and may

be unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes (Christina, Deboral and Gray, 2003). It is expected that tax education will enable the taxpayer to understand tax laws

and procedures as well as creating positive tax compliance attitude (Machogu, Amayi, 2013).

3.3 Assessment of Tax Audit

To assess Tax Audit, we used five assertions and findings are summarized in table 5.

Table 5:Level of Tax Audit

Assertions	Mean	Std. Deviation	Comments
have been visited by tax auditors	34	108	Very high level
Tax auditors visited business by surprise	74	027	Very high level
Collaboration with tax auditors is effective	58	84	High level
Tax auditors can discover all types of tax evasion practices	96	94	Moderate level
Tax auditors are not corrupt people	00	69	Moderate level
Average	72	90	High level

Legend: the mean range: 1.00- 1.8 = Very low level; 1.8- 2.6=Low level; 2.6- 3.4=Moderate level; 3.4 -4.2 =High level; 4.2- 5.00=Very high level
n= 99

Source: Primary data (2023).

Findings showed that tax audit is at a very high level (Mean=4.34), Tax audit is done by surprise at a very high level (Mean=4.74). the collaboration with tax auditors is effective at a high level (Mean=3.58). Tax auditors can discover all types of tax evasion practices at a moderate level (Mean=2.96). Corruption among Tax auditors was at a moderate level (Mean=3.00). The General

level of tax audit practice is high level (Mean=3.72).

The assessment showed that the way tax auditors visit taxpayers and the way they exercise their tax is good. From this taxpayer have a chance to benefit more from these audits. For instance, audit helps to identify weaknesses in the accounting systems and enables the auditor to suggest improvements. It assures directors not involved in the accounting functions on a day-to-day basis that the business is running in accordance with the information they are receiving and helps reduce the scope for fraud and poor accounting; facilitates the

provision of advice that can have real financial benefits for a business, including how the business is running, what margins can be expected and how these can be achieved. advice can cover anything from the tightening of internal controls to reducing the risk of fraud or tax planning. It enhances the credibility and reliability of the figures being submitted to prospective purchasers. It protects or improves credit ratings. banks and trade suppliers may rely in part on credit rating agencies' assessment of the company and will look more favorably

on companies that have an audit. It provides insurance loss adjusters with reliable data for claims. It indicates the entity's ability to continue as a going concern. It helps ensure appropriate disclosures; and it gives assurance on the entity's ability to manage risk (EFAA, 2019). Therefore, RRA should continue auditing practices.

3.4 Assessment of Tax Rewarding

The assessment of Tax Rewarding was conducted using five assertions. Findings are presented in table 6.

Table 6: Level of Tax Rewarding

Assertions	Mean	Std. Deviation	Comments
RRA gives rewards to taxpayers who comply with the tax law	2.95	0.50	Moderate level
Selection of compliant taxpayers for reward is transparent	2.73	0.60	Moderate level
The rewards are enough to encourage taxpayers	3.90	0.63	High level
See indirect rewards of tax that I pay from the government	3.41	0.88	High level
Appreciate the benefit given by the government from tax	3.84	0.15	High level
Average	3.37	0.75	Moderate level

Legend: the mean range: 1.00- 1.8 = Very low level; 1.8- 2.6=Low level; 2.6- 3.4=Moderate level; 3.4 -4.2 =High level; 4.2- 5.00=Very high level

n= 99

Source: Primary data (2023).

Findings showed that distribution of rewards to taxpayers who comply with the tax law is at a moderate level (Mean=2.95). The

transparence in selecting taxpayers for rewarding is at a moderate level (Mean=2.73). The rewards can encourage taxpayers to comply with tax law at a high level (Mean=3.90). Indirect rewards of tax from the government is at a high level (Mean=3.41). The appreciation of benefit given by the government from tax is at high

level (Mean=3.84). Generally, the level of Tax Rewarding is Moderate (Mean=3.37). According to Feld, Frey & Torgler (2006), rewards are a particularly effective policy device for increasing tax compliance. Because they are perceived as helpful, rewards may be more effective than punishments in eliminating undesirable behavior or motivating desired behavior. Indeed, social psychologists have long been interested in the role of rewards in shaping human and animal behavior. There are numerous ways to implement tax-paying incentives. They can range from direct

monetary payments to winning a large sum of money in a lottery to receiving various types of gifts. Basing on the above literature, RRA should be increase the practice of rewording. This may increase the level of compliance and hence increase the tax revenue. Tax incentives can help to minimize both tax avoidance and unemployment (Lisi, 2023).

3.5 Assessment of Tax Penalties

To assess Tax Penalties, we used fives assertions. Findings are presented in table 7.

Table 7: Level of appreciation on tax penalties

Assertions	Mean	Std. Deviation	Comments
Non-compliant to tax obligations offered high penalties	3.93	0.6	High level
accept that penalties given to taxpayers are enough to discourage tax evasion	2.31	0.70	Low level
appreciate the procedures used to give penalties	2.24	0.61	Low level
accept that taxpayers can claim on penalties they receive	2.15	0.98	Low level
accept that the appeal process is effective	2.04	0.36	Low level
Average	2.53	0.62	Low level

Legend: the mean range: 1.00- 1.8 = Very low level; 1.8- 2.6=Low level; 2.6- 3.4=Moderate level; 3.4 -4.2 =High level; 4.2- 5.00=Very high level

n= 99

Source: Primary data (2023).

Findings showed that penalties to non-tax compliant is given at a high level (Mean=3.93). Penalties can discourage tax

evasion to a low level (Mean=2.31). Tax penalties are appreciated by taxpayers at a low level (Mean=2.24). The opportunity to claim on penalties is at a low level (Mean=2.15) and the effectiveness of the appeal process is low (Mean=2.24). Generally, the level of appreciation on Tax

Penalties was Moderate (Mean=2.53). Based on the above findings, it is showed that taxpayers are perceive those penalties as high. Despite of this, cannot tax evasion cannot be reduced because of these penalties. Many taxpayers do not appreciate the way they are distributed. Taxpayers said that many of those who get those penalties close their businesses. Taxpayers do not get claim on their penalties. According to Hillier & Aw (2019), Taxpayers should be explicitly informed of the imposition of an administrative penalty without undue delay, and they should have the right to review or appeal the penalty imposed. Some correction on Behalf of RRA. Tax penalties are frequently used to increase compliance by discouraging certain undesired behaviors and punishing those who engage in them. Taxpayers, on the other hand, should not be punished if they are not at fault or have acted appropriately, including by adopting a reasonable reading of the law even if it differs from the opinion of the tax authorities. (Waerzeggers, Hillier & Aw ,2019). To be more effective, Tax fines should be combined with the danger of feelings of guilt or shame (as opposed to the simple threat of legal consequences). When combined with education, personalized communication, and/or rewards, a penalty

regime can be more effective (Swistak, 2016).

Conclusion

The purpose of the study was to assess the level of tax enforcement as it is exerted by RRA among SMEs in Kigali city. The indicators under consideration are Tax system, Training on tax, Tax Audit, Tax rewards and Tax penalties. Administered questionnaire was used to collect data. Finding showed that generally, tax system was appreciated at a moderate level (Mean=2.67). The average level of RRA trainings is low (Mean=2.31). The General level of tax audit practice is high level (Mean=3.72). Generally, the level of Tax Rewarding is Moderate (Mean=3.37). Generally, the level of appreciation on Tax Penalties was Moderate (Mean=2.53).

Recommendations

From the above findings and conclusion, the researcher formulated the following recommendations.

To Rwanda Revue Authority (RRA)

RRA should change its tax system. This is because level of appreciation of the taxpayer to the system is moderate with a mean of 2.67. The are to improve include helping taxpayers to pay only when they have made profits. Facilitating the taxpayer to increase the capacity to pay their tax liabilities,

making tax law friendly user by SMEs taxpayers. RRA should increase training for SMEs taxpayers. This is because the level of this indicator is low. The low level has been found in all areas of training assessed. RRA should increase the rewards to the best taxpayers so that this practice is recognized by all taxpayers. It should also avail them the standards of selection and to the public. This will increase trust and competition in complying to the tax laws. RRA should modify the penalties given to taxpayers who have broken the tax laws. This is because the taxpayers said that the tax penalties discourage many SMEs. The tax penalties should be reduced and increase other methods of enforcement such as education, rewards and audit.

To SMEs taxpayers

Taxpayers should inform themselves from different sources about the tax system as applicable in Rwanda. This will help them to comply with the law and avoid penalties. They should participate in any training organized by RRA. They should understand that the purpose of penalties is to discourage taxpayers who break tax law not to discourage people doing businesses.

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