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

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ABSTRACT

The objective of the study was to assess the level of tax compliance among SMEs in Kigali city in terms of Taxpayers 'registration, keeping books and records, Fulfilling tax obligation on time and attitude to tax evasion. Taxpayers 'registration is at a moderate level (Mean=2.31). Keeping books and records is done at a moderate level (Mean= 2.91). In general, the level of fulfilling tax obligations on time is moderate (Mean= 3.04). In general, negative attitude to tax evasion is at a high level (Mean= 3.42). These findings were in line with the study conducted by Isbell (2017) where he showed that on average across 36 countries, 63% of Africans say taxes are necessary for development. Large majorities say paying taxes is a civic duty (72%) and not paying taxes is wrong (87%) though many describe non-compliance as wrong but understandable. About recommendations, RRA must increase the effort in the enforcement, like organizing more training and mobilization to SMEs taxpayers because many of them do not comply because of ignorance. Taxpayers should participate in training organized by RRA. They should inform themselves from different sources about the tax law as applicable in Rwanda. This will help them to comply and hence avoid penalties. They should understand that the purpose and benefits of paying taxes.

Key words: Taxpayers 'registration, keeping books and records, Fulfilling tax obligation on time and attitude to tax evasion.

1.Introduction

Small and medium enterprises (SMEs) are crucial in sustaining economies worldwide because they represent over 90% of enterprises and account for between 50% and 60% of employment at national level (Painter et al 2011). For example SMEs are the major growing force behind the fastest growing economy of China, in terms of contribution to the

national GDP (accounting for 40%), scale of assets, diversification of products, and the creation of employment. Similarly, the role of SMEs is well acknowledged in other countries such as Japan, Korea, and all other industrialized economies in terms of creating employment, reducing poverty and increasing the welfare of the society (Mukole, 2010). Small and Medium Enterprises (SMEs) and micro enterprises in Organization for Economic Cooperation and Development (OECD) countries account for over 95% of all firms, 60-70% of employment and 55% of GDP and create the majority of new jobs, indicating the impact SMEs have on employment. In Rwanda the SME sector, including formal and informal businesses, comprises 98% of the businesses and 41% of all private sector employment. The formalized sector has much growth potentially with 300,000 currently employed. Rwanda's trade deficit has grown from $229m to an estimated $770m over five years (2005 to 2009) because of SMEs contribution (MINICOM, 2010). Despite this, SMEs are facing many ethical challenges that seriously compromise the contributions they could make to the long-term economic well-being of their communities such as Compliance.

International Best Practice (IBP) suggests that any special tax regime for small enterprises should offer reduced compliance costs and a reduction in the actual tax burden. Experience in transition countries has shown that simplified tax systems generally not only reduce compliance costs of bookkeeping, and reporting standards but also considerably lower the actual small business tax burden. However, an alternative tax for small businesses should result in a low effective tax burden to discourage participation but not so low that it allows for tax evasion by larger firms (Richard and Paul, 2005). According to Multinational Tax Consultants (MTCs), there are a number of key components to develop Compliance strategy (Mukole, 2010), some of which are establishing clear risk management objectives and guidelines for the management of Compliance, effective project management to ensure that compliance obligations are monitored and met on timely basis and easy, real time access to reliable and relevant information. The Word Bank's Doing Business Project (WBDBP)

assessed obstacles that the tax system puts in the way of business in 175 countries. The report showed that Middle Eastern states such as the United Arab Emirates and Asian location like Hong Kong were leading among the five of easy tax system. Latin America and Africa impose the highest cost of complying with regulation and score poorly (Siringoringo, 2009). 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. Currently there are 18 tax laws in Rwanda (RRA 2010). 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, 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. Despite the efforts, RRA's annual reports from 2004 to 2010 show that there is a problem of Compliance among SMTs. The 2004 Annual Report showed that many potential taxpayers were outside the tax net, including small and medium taxpayers (RRA 2004). The 2005 and 2006 RRA Annual Reports showed the problem seen in 2004. The 2006 RRA's Report adds that the total recoveries made during 2006 amounted to Rwandan Francs (Rwf) 414.197 million. The main source of smuggled goods into the country is DRC, Uganda, Tanzania, Burundi and Dubai and Kigali City was the major market for smuggled goods.

In 2007, RRA report showed that small and Medium taxpayers audit raised an amount equivalent to Rwf 3.2 billion or 8.3% of total amount collected by the office. Thirty-five cases were sent for prosecution. Other violations like undervaluation, misclassification, and transit violations were also recorded (RRA, 2007). The annual report of 2008 says that among 3,248 business operators visited, only 1,723 were found registered with RRA. Some 394 were not filing their tax returns, whereas 754 were found to be above the VAT registration threshold but had not registered. Assessment principals and penalties amounted to Rwf 4 billion. The total amount of taxes paid by the same taxpayers through self-assessment was Rwf 2.9 billion. The compliance ratio was 42% (RRA, 2007). The RRA Report of 2016-2017 showed that total assessment of Rwf 1.0 billion was recovered. A total of 30 prosecutions were made in 2009/2010. In addition, revenue amounting to Rwf 617.6 million

was recovered due to tense anti-smuggling activities in 2009.The average tax declaration compliance rate for the audited taxpayers during 2016/2017 was 54.8% and the average compliance rate for small taxpayers for returns filing during 2016/2017 was about 54.4% (RRA, 2019). It is from this information that the researcher got interested in carrying out the research on the tax enforcement and Compliance among Small and Medium Enterprises (SMEs). In this regard, the study intend to assess the level of tax compliance among SMEs in Kigali city in terms of Taxpayers 'registration, keeping books and records, Fulfilling tax obligation on time and attitude to tax evasion.

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	Kimironko (Gasabo District)	Kicukiro (Kicukiro District)	Nyabugogo (Nyarugenge District)	Total Sample size	Sampling techniques
Small and Medium Taxpayers	33	33	33	99	Convenience or hazard technique

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 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	Weighed 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
1	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 compliance among SMEs in Kigali city. The indicators assessed are Taxpayers 'registration, keeping books and records, fulfilling tax obligation on time and attitude to tax evasion.

Table 3 **Taxpayers 'registration**

Assertions	Mean	Std. Dev.	Comments
I have been registered on RRA in 7 days after starting my businesses	2.88	1.10	Moderate level;
I know the group of taxpayers to which I belong	3.18	0.95	Moderate level;
I am registered to all taxes I must pay	2.76	1.13	Moderate level;
Average	**2.94**	**1.06**	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 registered on RRA in 7 days after starting my businesses was at a moderate level (Mean=2.88), taxpayers know the group of to which

they belong at a moderate level (Mean=3.18). the registration to all taxes was at a moderate level (Mean=2.76). In general Taxpayers 'registration is at a moderate level (Mean=2.94).

The Tax Identification Number (TIN) is a useful tool for quickly identifying individuals and organizations for tax purposes. It enables Tax Administrations to easily and effectively link the information contained in its various data bases with reference to each taxpayer, and it is a very effective instrument for facilitating the exchange of information between tax administrations and taxpayers, as well as with employers and others who have a withholding obligation or an obligation to provide third party information to the tax administration, and it is also a very effective instrument for facilitating the exchange of information between Tax Administrations and taxpayers. The use of the Tax Identification Number improves information management efficiency and permits and facilitates the implementation of matching rules.

Table 4: Keeping books and records.

Assertions	Mean	Std.Dev.	Comments
I write all transactions in books and accounts	2.70	1.16	Moderate level;
I present good records of accounts	2.75	1.11	Moderate level;
I keep my business record in a place required by the law	2.65	1.11	Moderate level;
I preserve my business records for a long time	3.54	1.11	High level
Average	**2.91**	**1.12**	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 writing all transactions in books and accounts was at a moderate level (Mean=2.70), presenting good records of accounts is at a moderate level (Mean=2.75). Keeping business record in a place required by the law is at a moderate level (Mean=2.65) and preserving business records for a long time is at a high level (Mean=3.54). In general, keeping books and records is at a moderate level (Mean= 2.91). Record keeping systems range from simple manila folder filing systems to elaborate on-line electronic systems. A record keeping system, whether basic or complicated, must be simple to use and enable enough record storage and

retrieval. Reasons to keep solid records include detail tracking, planning, and tax preparation [Federal Deposit Insurance Corporation (FDIC)].

Without a suitable record keeping system, you may lose track of essential business facts, causing issues with customer service. Tracking vital business facts may be impossible without a robust record keeping system. Proper record keeping aids in the planning of your company's future. For example, knowing if and when inventory will be required allows you to plan for the requirement to finance inventory. You can also avoid bringing too little or too many goods into the fall season, such as extra suits.

Again, a well-maintained record keeping system guarantees that you can meet tax filing deadlines. For example, if you operate a small firm or work as a contractor, you are often considered self-employed. Self-employed individuals must file an annual personal income tax return and pay estimated tax quarterly. All this information suggests that SMEs should maintain meticulous records. Despite the necessity of record keeping in business monitoring, several SMEs neglect it. Some of the reasons given for

a lack of record keeping include time, cost, a lack of expertise by business owners, and the use of inexperienced accounting staff. Musah and Ibrahim (2014) discovered that some business owners rely on their memory rather than keeping proper books of accounts, while others believe that keeping proper business records will expose them to paying more tax (Amoako, 2013).

According to Onalapo and Adegbite (2014), most SME owners use untrained account clerks who are unable to create reliable financial accounts. As a result of not understanding how their business is functioning, some small businesses have stagnated, and some have folded. According to Amoako (2013), the following reasons for not keeping accounting records were given by respondents: it is time consuming, expensive, requires technical skills and knowledge, additional staff, exposure of financial position, payment of more taxes, no need to keep accounting records, and difficulty in maintaining an accounting system. Incompetent accounting staff can result in erroneous record keeping (Ibrahim, 2015). As Keeping books and records level is moderate among the SMEs in Kigali City,

all the above factors should be considered to improve this level at least to a high level.

Table 5 **Fulfilling tax obligation on time**

Assertions	Mean	Std. Dev.	Comments
I make tax declaration before deadline	3.21	1.163	Moderate level;
I pay my tax before the deadline	3.13	1.094	Moderate level;
I pay my tax voluntarily	2.78	0.802	Moderate level;
Average	**3.04**	**1.020**	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 declaration before deadline is done at moderate level (Mean=3.21), Taxpayers pay tax before the deadline at a moderate level (Mean=3.13). I pay my tax voluntarily at a moderate level (Mean=2.78). In general, the level of fulfilling tax obligations on time is moderate (Mean= 3.04).This finding shows that they are similar to the study conducted by Isbell (2017) showed that on average across 36 countries, 63% of Africans say taxes are necessary for development. Large majorities say paying taxes is a civic duty (72%) and not paying taxes is wrong (87%) though many describe non-compliance as wrong but understandable. However, the improvement is required to increase the level of fulfilling tax obligation on time among the taxpayers in Kigali City from a moderate level to a high level.

Table 6:Attitude to tax evasion

Assertions	Mean	Std. Dev.	Comments
I realize low tax evasion among taxpayers	3.47	1.05	High level
I have committed not doing tax evasion	3.46	1.02	High level
I avoid tax evasion voluntarily	3.36	1.20	Moderate level
I accept that doing tax evasion is a crime	3.38	1.20	Moderate level
Average	**3.42**	**1.12**	**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 evasion among taxpayers is low. This is explained by high level of this assertion (Mean=3.47), Taxpayers are committed not doing tax evasion at a high level (Mean=3.46).

Taxpayers avoid tax evasion voluntarily at a moderate level (Mean=3.36) and taxpayers accept that doing tax evasion is a crime at a moderate level (Mean=3.38). In general, good attitude to tax evasion is at a high level (Mean= 3.42).

Tax evasion has an effect on both the social and economic aspects of an economy. First, it was discovered that tax evasion has a detrimental effect on governmental spending and economic expansion. Dalu et al. (2012) further stated that a country confronting a growing quantity of tax evasion and tax avoidance is likely to demonstrate a low productive investment mix, which would entail low economic growth and have a negative impact on the public run firms. The moral behavior of society is negatively impacted by tax evasion since one's culture and moral behavior determine whether one complies or does not. Effort is required to reduce the culture of tax evasion trough training and education.

Conclusion

The objective of the study was to assess the level of tax compliance among SMEs in Kigali city in terms of Taxpayers 'registration, keeping books and records,

Fulfilling tax obligation on time and attitude to tax evasion. Taxpayers 'registration is at a moderate level (Mean=2.31). Keeping books and records is done at a moderate level (Mean= 2.91). In general, the level of fulfilling tax obligations on time is moderate (Mean= 3.04). In general, negative attitude to tax evasion is at a high level (Mean= 3.42). These findings were in line with the study conducted by Isbell (2017) where he showed that on average across 36 countries, 63% of Africans say taxes are necessary for development. Large majorities say paying taxes is a civic duty (72%) and not paying taxes is wrong (87%) though many describe non-compliance as wrong but understandable.

Recommendations

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

To Rwanda Revue Authority (RRA)

RRA has to increase the effort in the enforcement, like organizing more training and mobilization to SMEs taxpayers because many of them do not comply because of ignorance.

To SMEs taxpayers

Taxpayers should participate in training organized by RRA. They should inform

themselves from different sources about the tax law as applicable in Rwanda. This will help them to comply and hence avoid penalties. They should understand that the purpose and benefits of paying taxes.

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