Budget Brief

Rwanda 2016

Fostering growth while increasing exports and boosting Rwandan made goods and services.

The Rwanda Highlights

The 2016/17 Rwanda Budget of Rwf 1,949.4 billion is focused on implementing strategic policies aimed at addressing infrastructure needs in order to increase export of goods and services.

The economy is expected to grow by 6.9% in 2016/17 compared to the 6.5% registered in 2015/16. Agriculture is expected to grow by 5.0%, services by 7.0 %, indicating a gradual diversification of the economy. The highest growth rate was registered in information and communication, financial and cultural, domestic and other service sectors which grew at 15.9%, 10.1% and 10.8% respectively.

The budget will be financed through the following sources;

Source	Amount Billion
Tax Revenue	1,071.6
Non Tax Revenue	110.8
Domestic Financing	34.0
Grants	365.3
Loans	367.7
Total	**1949.4**

Agricultural exports and Agri-business

Rwanda has a focus on agriculture as the key driver of the economy. The target value of agricultural exports is expected to grow from US$ 259 Million in 2015 to US$ 300 Million in 2016/17FY, representing a 15.9% growth.

Tax incentives for the agricultural sector are proposed to enable the government meet these objective.

Construction and Mining

Rwanda's 2016/2017 budget also focused on improving the balance of trade which currently stands at a deficit of US$ 1.2 billion. Infrastructure development is a major sector in Rwanda's economy, and is accounted for a considerable increase in importation of construction materials.

Focus on infrastructure

The Rwandan government is encouraging domestic production in a bid to reduce imports which stand at US$ 240 million and increase export revenues. Rwanda already has several companies producing construction materials locally and the government will focus on working with them to ensure that their growth plans are implemented.

Financial sector development

Rwanda's financial system remains solvent and with sufficient capital buffers. The capital adequacy ratio of banks (CAR) stood at 22.5% in December 2015, while that of capital level stood at 31.1%. This capital level is above Basel committee benchmark of 13% and above the National Bank of Rwanda (BNR) regulatory minimum requirement of 15%.

The financial system holds adequate liquidity levels. The liquidity ratio of the banking sector stood at 45.9% in December 2015, well above the prudential limit of 20%. The liquidity ratio of MFIs stood at 89.6%, significantly above the prudential limit of 30%. The liquidity ratio of insurance companies stood at 355% - significantly above the minimum prudential benchmark of 150%.

This indicates that Rwanda has a fairly stable financial sector.

Export of services

Tourism industry has continued to be one of the sectors exhibiting great potential in Rwanda, generating over US$ 300 million per year. Revenues from Meetings, incentives, conferences, and exhibitions (MICE) tourism were US$ 39 million in 2015, with a target of US$ 52 million in 2016. In 2016/2017, 45 international events are expected to be hosted in Rwanda. The key actions will therefore include operationalization of Kigali Convention Center and operationalization of Rwanda Convention Bureau.

Investment in ICT Sector

The Government has a strategic plan in place to develop Rwanda's ICT sector as a highly differentiated cluster/ecosystem of information and technology (ICT) companies exporting high value products and services. In 2016/2017, government will focus on the construction and launch of Kigali Innovation City.

Stable financial sector

Bien Venue Rwanda!

In a bid to maintain its position as an attractive foreign investment destination, the Rwanda government has scraped corporate income tax for international companies with headquarters in Rwanda and with an investment of USD 10 Million. Further, any person investing more than USD 50 Million in Rwanda will enjoy a 7 year tax holiday.

To further boost investment in the country, investors in priority sectors such as exporters, manufacturing, energy, tourism, transport and ICT will now benefit from a lower tax rate of 15%.The government has also increased capital allowances from 40% to 50% for investments made in the country whether in or outside Kigali.

As part of the tax reforms, the government has removed the following incentives from the investment code:

- Tax discount of 3% for exporting goods or services that bring to the country USD 3 to 5 Million; and
- Tax discount of between 2% to 7% for employing more than 100 to 900 Rwandans.

Harmonization of regional laws

There is a proposal to introduce Capital Gains Tax (CGT) at 5% on the disposal of shares or immovable property. This is in line with the recent developments in the region such as in Kenya where CGT was reintroduced in 2015.

The government however proposes to exempt from CGT gains on disposal of affordable residential houses and immovable property acquired through inheritance.

Big brother is watching…

In a bid to ensure that all multinationals document a transfer pricing (TP) policy governing all the transactions with related entities, there is a proposal for companies to submit the TP documents with the annual tax return.

With this, at the point of filing their annual tax returns, all multinationals will ensure that they have in place

CGT is here with us

Reprive of P.S.V import duty

a documented TP policy for their related party transactions. Failure to comply with this contemporaneous filing requirement attracts a penalty of 2% of turnover.

Rwanda's introduction of TP rules now brings to 5 out of the 6 East African countries that have TP rules.

Harmonisation of the EACCMA

To standardise the application of EACCMA rates, the government has proposed new tax rates as tabulated below:

Particulars	New rate	Old rate
Imported second hand - clothes	USD 2.5/Kg	USD 0.2/ Kg
Imported second hand - shoes	USD 5/Kg	USD 0.5/Kg
Road tractor	0%	20%
Vehicles carrying 5 tonnes to 20 tonnes	10%	25%
Vehicles carrying above 20 tonnes	0%	25%
Tank trailers	0%	10%
Vehicles transporting 25-50 persons	10%	25%
Vehicles transporting above 50 persons	0%	25%
Imported sugar out of EAC less than 70 thousand tones	25%	100%
Imported second hand - clothes	USD 2.5/Kg	USD 0.2/ Kg
Road tractor	0%	20%

* Further, there are proposals to charge an additional levy of Frw 33 per litre of fuel.

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