

Setting up your Business in Rwanda

Issues to consider

Rwanda's strategic location offers the opportunity of a commercial hub to the East and Central African regions. Its economy is still new, both in terms of industrialization, foreign investor participation and commercial engagement. Thus immense opportunities still exist across all sectors and are complemented by an attractive investment climate with low inflation, zero tolerance to corruption and remarkable peace and security. The international community including the World Bank has rated Rwanda as one of Africa's top performers in terms of good governance. Rwanda has gained international reputation as one that is serious and committed to economic growth and development.

However there are a number of issues which you must consider when you are looking to set up your business in Rwanda. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Establishment (a branch of your overseas business)

- A separate legal entity
- Limited liability and ring-fencing of the Rwanda operations
- Profits of Rwanda operations of a branch are liable to Rwanda Corporation tax
- Must file the entity's accounts with the Registrar of companies in Rwanda.
- Accounts require auditing if Revenues are above Rwandese Francs 400 million (about Usd 500,000) or the entity is categorized as a large tax payer

Limited Company:

- Provides limited liability and ring-fencing to Rwanda operations
- Gives a perception of a local business, with longevity
- Corporation tax to be paid on company profits

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Limited Liability Partnership:

- Rwanda does not have a partnership law

How much Corporation Tax will the business pay?

Current Corporation Tax rates in Rwanda are:

Annual Turnover Rwandese Francs	Tax Payable Rwandese Francs
2,000,000 to 4,000,000	60,000
4,000,001 to 7,000,000	120,000
7,000,001 to 10,000,000	210,000
10,000,001 to 12,000,000	300,000
12,000,001 to 50,000,000	3% of turnover
Above 50,000,000	30% of net profit

(NB: rates are for the tax year to 2017)

Companies listed on Rwanda stock exchange also enjoy tax discount depending on the percentage of shares issued to the public.

The corporation tax rate changes to 15% if a company exports at least 50% of turnover.

What if we use Rwanda to set up our holding company?

Rwanda's tax legislation means that it is a very attractive place to set up a holding company. If a company sets up Rwanda as the head office of a holding company, then the holding company will be exempted from corporation tax.

If a Rwandan company holds shares in another local company and these shares are subsequently sold, the resulting gain is exempt from taxes, this only applies where the selling company is quoted in the stock market. If the company in which the Rwandan company holds shares is foreign, a withholding tax of 15% is charged.

Dividends received by a Rwandan parent company from a Rwandan company are exempt from tax while those that are received from foreign companies are taxable. However, a tax relief is granted for the taxes charged on dividends in the countries of origin.

Rwanda does not charge tax on intercompany dividends as long as both companies are based in Rwanda.

What if we make cross-border transactions between group companies?

Rwanda follows internationally recognised **Transfer Pricing (TP)** rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

Typical transactions between affiliated entities that are covered by TP regulations are:

- Sale and purchase of goods
- Provision of management services
- Property rental charges
- Transfer of intangible assets e.g. trademarks, patents
- Sharing of knowledge, expertise, business contacts etc.
- Provision of financial support e.g. inter-group loans and charging a "market" interest on loans

A business will need to prepare a Transfer Pricing Report proving the arm's length basis of transactions. The report will include a functional and risk analysis, analysis of the adopted pricing model and benchmarking of the arm's length basis.

For prudence, a taxpayer who is planning to make a transaction that has transfer price implications may ask for a ruling in which the Tax Administration agrees on a fixed transfer price or profit margin to be used. This ruling is issued by the Commissioner General.

What Employment Taxes and Social Security will need to be paid?

If an individual is resident in Rwanda then they are subject to Rwanda tax laws. A Rwandan resident is a person who;

- Has a permanent residence in Rwanda;
- Has a habitual abode in Rwanda;
- Is a Rwandan representing Rwanda abroad
- An individual who stays in Rwanda for more than 183 days in any 12-month period, either continuously or intermittently, is resident in Rwanda for the tax period in which the 12 month period ends

We would advise any new entrant to Rwanda or person who spends time working in Rwanda to take professional advice to determine whether they are Rwanda tax residents.

Current Personal Income Tax rates in Rwanda are:

Band of income (Rwandan Francs)	Tax rate (%)
Up to 30,000	0%
30,001 – 100,000	20%
Over 100,000	30%

(NB: rates are for the tax year to 31/12/2016)

Employers and employees also have to pay Rwanda social security, which is called Rwanda Social Security Fund.

Current Social Security rates are: 5% of gross salary is contributed by the employer while the employees contribute 3% of their gross salary. The employees contribution is not exempted from Pay As You Earn.

It is the employers' legal responsibility to pay over employee's tax and social security deductions to the Rwanda tax authorities.

Maternity benefits rates are: 0.3% of gross salary is contributed by the employer while the employees contribute 0.3% of their gross salary. The employees contribution is not exempted from Pay As You Earn.

Rwanda has no Reciprocal Agreement with any country with regards to deduction and remittance of employee's tax and social security deductions. However, income that is earned by non-citizen individuals employed by international organizations that have signed agreements with the Government of Rwanda in accordance with Rwandan law are exempt from employee's tax.

What is Value Added Tax (VAT) and should the business be registered?

VAT is a "goods and services tax" on supplies made, the standard rate of which is 18%. If a business makes taxable supplies in excess of Rwf 20 million in any 12 months then it MUST be registered for VAT.

There are three types of supply

- Standard rated Taxable – must charge VAT on supplies, can reclaim input VAT
- Zero rated Taxable – must charge VAT on supplies at 0%, can reclaim input VAT
- Exempt – cannot charge VAT nor reclaim input VAT

The supply of most types of goods and services in Rwanda would be classed as Taxable supplies. However when these supplies are made to companies which are outside of Rwanda they are zero rated.

Can we provide Share option plans to our staff?

Many companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

Rwanda has a number of “approved” share option plans which give tax benefits to employees and employers alike and it is often possible to adapt an overseas stock option plan to fit into one of these “approved” plans.

However this is a very technically complex area and careful planning needs to be undertaken as soon as share option plans are being considered for implementation in Rwanda.

How else can we compensate our employees?

Rwanda has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Pensions, private medical insurance, life and disability cover are now commonplace benefits provided by many Rwanda businesses to their workforce.

Flexible benefit packages are also gaining in popularity, giving employees options on how they wish to “spend” their benefits allowance; which can range from “purchasing” additional holiday entitlement to obtaining full family medical cover.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or [email](#) us directly.

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The information in this document was prepared as at 20 February 2017.

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