COLLEGE OF BUSINESS AND ECONOMICS

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THE IMPACT OF TAX LAWS AND TAX INCENTIVES ON FOREIGN DIRECT INVESTMENT IN RWANDA (2010 – 2015)

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CERTIFICATE

This is to certify that the thesis entitled "THE IMPACT OF TAX LAWS AND TAX INCENTIVES ON FOREIGN DIRECT INVESTMENTS IN RWANDA (2010-2015)" as a result of research carried out by Mr. BAHIZI Celestin, under my supervisor.

Signed ………………………………

Date ……………/…../……………….

Supervisor: Dr. Meera Shaik Nagoor, Phd

DECLARATION

I, BAHIZI Celestin, a student of university of Rwanda, college o business and economics, hereby, declare that the work presented in this thesis is original, and to the best of my knowledge it has never been submitted for the award of a degree in any university.

Signed ………………………………

Date ……………/…../……………….

BAHIZI Celestin

DEDICATION

I am wholly grateful to dedicate this research work to Almighty God who guides my vision and commitment throughout my life. I am further grateful to dedicate it to all my people without whom my education would be impossible. On specific note, my dedication goes to my dear wife and children:

ACKNOWLEDGEMENTS

The finishing point of this work has been a culmination of a long process that was punctuated by challenges and opportunities. Without the help of several persons and institutions this work would not have been possible.

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LIST OF ACRONYMS AND ABBREVIATIONS

CET	Common External Tariff
CIF value	Cost, Insurance and Freight
EAC	East African Community
FDI	Foreign Direct Investment
GDP	Gross and Domestic Product
GoR	Government of Rwanda
ICT	Information and Communications Technology
KPMG	Polish International Auditing Firm
NBR	National Bank of Rwanda
PAYE	Pay As You Earn
PPP	Public Private Partnership
RDB	Rwanda Development Board
RRA	Rwanda Revenue Authority
RSSB	Rwanda Social Security Board
USD	United States Dollar
VAT	Value Added Tax

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ABSTRACT

This research on “The Impact of Tax Laws on Direct Foreign Investment (2010-2015)” was proposed due to a sudden drop in the number of DFI’s in 2010 as soon as Rwanda adapted tax policy of the EAC to which it had become a member. The question is; how far is Rwanda coping within this scenario?

The researcher wished to know: Do tax policy and tax incentives in Rwanda attract FDI in the country? Must we have a favorable tax policy and tax incentives, first, in order to attract FDI? What is the impact of FDI on economic self-reliance in Rwanda?

Using a purposive sample size of 80 respondents, the researcher conducted the study using structured interviews, questionnaires, and secondary data. The tax Administration Body (RRA) and Foreign Private Companies were conducted in this research.

The researcher found that: Rwanda investment code is phenomenal-attracts foreign investors. There is considerable measure of tax compliance among foreign investors in Rwanda. Rwanda tax structure contributes considerably in reduction of tax aversions among investors. Exemption is the most tax incentive method to be emphasized. The indirect impact on revenues can be favorable, since the new investments, materialized through tax incentives, create new jobs and are related to effects generating tax revenues. Moreover, FDI in Rwanda would also be attracted by other factors.

The researcher recommends the Rwandan stakeholders on tax regulation saying: while there is no doubt that tax policy can influence economic choices, it is by no means obvious; on an *ex ante* basis that tax rate cuts ultimately leads to a larger economy. They should press on further.

CHAPTER ONE
GENERAL INTRODUCTION

1.1. INTRODUCTION

This chapter presents the introduction for this thesis. Taking for granted that a good tax system is central for economic growth, the chapter takes note of good tax system as must be in place for attracting Foreign Direct Investment (FDI). The chapter presents its case with a background of the study highlighting on the significance of FDI, especially in a country like Rwanda. The chapter raiser its concern by way of its problem statement by which it expresses concern over whether tax policy and management in Rwanda actually attracts FDI. It then clarifies on the focus of the research by stating the purpose of the study, the objectives of the researcher, and the research questions.

1.2. BACKGROUNG OF THE STUDY

Tax is a compulsory extraction of money by a public authority for public purposes. Taxation is a system of raising money for the purpose of governance by means of contributions from individuals or corporate bodies (Sayode & Kajola, 2006). These further suggest that taxation is the process of levying and collection of tax from taxable persons.

Due, (1968) observes that government has four major potential source of revenue: taxes, charges, borrowing and money creation. However, tax revenue is a primary revenue source which presents payment by community as a whole for public goods and services. Rwanda however, is not exceptional to this expression; Like in most of African countries, taxation is a major factor of sustenance to the country's economic growth. Rwanda's budget is largely supported by taxes. According to KPMG report, the total budgeted resources for the 2013/14 fiscal year are RWF 1,653 billion, which is RWF 103 billion higher than the 2012/13 revised budget. Taxes are expected to contribute 60.2% and the external resources will only be 39.8%. Rwanda Revenue Authority, the tax collecting organ, has put a number of strategies to achieve 60.2% set target, among others, to include e-filing and e-payment systems and this is expected to increase tax payers' compliance.

Bruce, (2006) points out that generating sufficient revenue to finance government service delivery is the most important function of a tax system. The government has to provide many goods and services to its citizens such as health, education, defense of the country, maintenance of law and order and management of the economy, the government however, requires adequate revenue to finance theses services. According to Chigbu et al (2011) apart from generating revenues, a tax system is also used as a tool of fiscal policy that influences the direction of investment and regulates the production and consumption of a certain goods and services.

An effective tax system is considered a key mechanism for development because it can mobilize the domestic revenue base as a factor of dependency. There is a growing recognition that taxation and state building are interrelated (Braütigam et al 2008). Tax system may contribute to improved governance through two main channels (Moore 2008; Richard 2010); a) common interests which ensure that governments have a stronger incentives to promote economic growth since they are dependent on taxes and therefore of the prosperity of tax payers; b) state capacity processes which require states to develop a bureaucratic apparatus for tax collection due to their dependence on taxes, this is expected to lead to broader improvement in public administration.

To improve the tax system to meet the investment strategies, Rwanda counterbalanced the old tax system where people lined up to pay taxes (see figure 1.1) tax payers spent 6 to 12 hours on a queue with e-solution that was introduced in 2010 by RRA (Gasore,2013; RRA,2015), e-filing and e-taxation for corporate income tax, value added tax, employees or labors contribution tax and withholding tax was fully rolled in 2012 by RRA possibilities to clients to file taxes without going to RRA offices; as a result a high turn of tax compliance was registered. Thus good tax policy enforcement will lead to an economic growth of a country's economies.

Figure1. 1: Rwanda Revenue Authority-Headquarters and Clients in Queue

Source: RRA Web citing New Times: http://www.newtimes.co.rw/section/article/2013-03-04/63498

After the introduction of e-tax platform (Gasore,2013), in his report the commissioner in charge of large and tax payers (RRA, March 2013) argues that over 77% of the targeted tax payers registered to use e-tax platform and a result the fiscal year 2012/2013 registered revenue performance against targets (RRA,2013), the registered performance were: a) total revenues 103.8%, b) Non –tax revenues 96.7%, c) Direct taxes 108.5%, d) taxes on goods and services 96.3%, e) taxes on international trade 131.6%.

Self-improvement on taxation is imperative to a country like Rwanda, since “it desirable for developing countries to take responsibility of improving their own tax systems” RRA (2012); this includes streamlining of the tax structure; “proficient structure of taxation has proved to reduce tax aversions and leads to tax payers’ compliance (RRA,2012)”. It has become obvious that poor tax systems discourage business growth (Vedder, September 2001). Rwanda in its Doing Business Reports has facilitated new investors by reforming tax systems. External investors in Rwanda were given tax holiday and tax allowance of 50% discounts, that is, if the investment is targeting RRA development, RRA report (2012).

1.3. RWANDA’S TAX STRUCTURE

The major sources of tax revenue for Rwandan government are: income tax, value added tax, excise tax, and customs duties. According to Rwanda tax act law N^{o} 16/2005 of 18/08/2005, income tax is charged on incomes of individuals from employments, self-employment, profits from the business entities, incomes such as rent income, dividends, interests, pensions, royalties, incomes from management or profession fees and others the main component of income tax in Rwanda are corporate tax and personal income taxes; corporate tax is a form of tax that is levied on corporate bodies such as limited companies and cooperatives, corporate tax rate is 30%, it is declared into three quarters in the year.

Personal income tax follows a graduated rate structure. The personal income tax schedule has three tax brackets with the lowest marginal rate being 0% and top marginal rate being 30%, personal income tax is normally declared and paid at every the end of the month, However, VAT which pays 18% is paid on consumption.

Hyman, (2010) brings it out that some excite taxes are designed to raise revenue, whilst others are meant to discourage particular consumption activities. The main products that are subject to excise duties in Rwanda are cigarettes with a rate of 150%, beers 60%, wines and spirits 70%, soda and lemonade 39%, powder milk 37%, vehicle 5-15%, juice from fruits 5%, mineral water 10% and telephone communication 8%, East African Tax Guide (2011/2012).

According to World Bank Report (2013/2014), Rwanda is doing well on Foreign Direct Investment (FDI), which is a significant component in a quick evolving of any country's economic integration (OECD, 2008), (NBR,2012). Rwanda in its plan to create a self-reliance economic environment has actively attracted FDI by creating a high conducive investment climate through important reforms which makes it easier for businesses to get started. It is interesting, this package includes, but is not limited to, regulatory framework, registration facilitation and requirements, change of registered business, closing businesses, disclosure requirements, working permit, government protection of investments, settlement of disputes, transfer of funds and public private partnership (PPP) whereby RDB is the chief negotiator between public and private sector, as result, Rwanda was ranked the 2nd easiest place to do business in Africa follow Mauritius which come the 1st, World Bank Doing Business Report (2012/2013).

Rwanda reduced a number of trade documents to augment its joint border management procedures with the neighboring countries, which improved the business logistics, doing business (DB) registered a tremendous performance by process categories, World Bank Doing Business report (2013/2014) indicate that ranked from 52nd in 2013 to 32nd in 2014.

In relation to FDI, taxation policy in Rwanda is focused on widening the tax base to increase fiscal revenues especially focusing on registering the informal sector, simplifying procedures and providing tax incentives to encourage both FDI and domestic investment. As a result, if a taxpayer exports commodities or services that bring to the country between (3,000,000) US dollars and (5,000,000) US dollars in a tax period, he or she is entitled to a tax discount of three percent (3%). If he or she exports commodities or services that bring to the country more than (5,000,000) US dollars in a tax period, he or she is entitled to a tax discount of (5%). Companies that carry out micro finance activities approved by competent authorities, pay corporate income tax at the rate of zero percent (0%) for a period of five (5) years from the time of the approval of the activity (RRA, 2012). (Official Gazette Republic of Rwanda, 2005).

This however, is seen as an important element to call for more direct investments as well as encouraging local investment as a way to create a self-reliant economy. The question would be how effective will this tax regulation be sustainable?

1.4. PROBLEM STATEMENT

Pamel Abbott Ac (2011), suggests that attracting domestic and foreign direct investment, is seen as essential for private sector led economic growth through creativing employment, building the skills base and increasing exports in agriculture, manufacturing and services. (NBR, 2012) suggests that reasons for investing in Rwanda are good macroeconomic environment, good Governance, investor-friendly climate, access to markets, untapped opportunities, highly competitive country and excellent Business environment.

According to Rwanda investment code law N^{o} 16-2005 of 18.08.2005 Art.26, determines the investment allowances and gives 40% discount on the investment within Kigali and 50% tax discount to investments done in RRA areas, the same article provides 51% tax discount on trainings curried out for these investments. Art.42 of the same law argues that companies carry out financial activities approved by competent authorities pay corporate tax at the rat of zero percent (0%) for the period of five year from the time of approve of the activity.

According to Angello M (2014), Rwanda strives to maintain her attractiveness for foreign direct investment in order to move toward self-reliance, in addition to above mentioned investment allowances, equipment used in telecommunication pay 0% import duties whilst construction materials were subjected to 0% and 10% import duty. However, in its move toward economic sustainability, the investment code set for changes by EAC largely relative to scraping of various tax incentives where by telecommunication equipment and construction materials will be subject to 25%. KPMG (2013/2014), emphasizes that in its spirit (Rwanda) of gradually moving from staying of application of EAC CET and encouraging firms to be more efficient and competitive, it was proposed that Rwanda applies to official EAC CET on the following; a) Construction materials: CET of 25% instead of 0% for local investors with a minimum capital of $ 100,000 in hotels and 10% for projects worth $ 1.8 million and above; b) importation of telecommunication equipment: CET of 25% instead of 0%.

Despite of Rwanda being proposed to apply to official EAC CET, KPMG (2012), denotes that foreign direct investment in Rwanda increased from US$ 16million in 2006 to US$119 million in 2009, however, it fell significantly from US$ 119 to US$ 42 million in 2010. It is therefore, the Rwanda adoption to official EAC CET and a serious decline of foreign direct investment that moved the researcher to examine the effect of tax and tax incentives on foreign direct investment in Rwanda.

1.5. PURPOSE OF THE STUDY

This study, therefore, seeks to explain the influence of tax laws (policy) and tax incentives over Foreign direct Investments in Rwanda and its value for a sustainable growth-as a phenomenon of added value advantage or a major factor of East African Community common market/customs union, the study covered a period of three years that is from 2010-2015; because of a number of foreign companies registered in Rwanda in a study period was a cross sectional other than a case study.

1.6. Objectives of the Research

The objectives of the research are:

i. To examine the Impact of Tax Laws and tax incentives to Foreign Investment in Rwanda
ii. To assess the role of tax laws and tax incentives in attracting FDI
iii. To examine the Implication of Tax incentives on Rwanda Economy.

1.7. Research Questions

i. Do tax policy and tax incentives in Rwanda attract FDI in the country?
ii. Must we have a favorable tax policy and tax incentives, first, in order to attract FDI?
iii. What is the impact of FDI on economic self-reliance in Rwanda?

1.8. SIGNIFICANCE OF THE STUDY

This study will help provide a clear understanding of taxation as a general tool of government to raise income for its development. It will explain tax operations in Rwanda. It will review Rwanda's economic advantages or disadvantages in keeping tax low or revising tax upward. It will further suggest possible solutions in handling tax predicaments in a given circumstance. In all, this study will enable government and its stakeholders take another look at its tax strategy in inducing Foreign Direct Investments to this country.

The study establishes the roles and contributions of Foreign Direct Investments (FDI) in influencing tax policy and administration in regard to effective money collection within the nation. It enables top managers and leaders to take a more comprehensive consideration of the different roles of its general staff in customer service right down to the lowest position in management. The study further provides recommendations on the efficiency of tax services rendered in comparative regimes. This will enable tax policy administrators reconsider negotiating for effective contributions of tax levies and services in Rwanda. This research has enabled the researcher acquire the knowledge and skills of taxation and tax policy management in the light of Foreign Direct Investment.

Finally, the study will contribute knowledge to the academic world, especially to tax policy makers and managers in the light of FDI contributions.

1.9. ORGANIZATION OF THE STUDY

The study was organized into five chapters:

Chapter-1: Introduction- This chapter covers an introduction, background of the study, problem statement, purpose of the study, objectives of the research, research questions, significance of the research, and organization of the study.

Chapter-2: Literature Review- This chapter considered work of authors that have tackled the subject of tax changes and policies as well as FDI attraction. This chapter also brought out the definition of the key concepts in this research as defined by different writers but also the researcher's arguments in relation to the research.

Chapter-3: The Research Methodology- This chapter defines methodology and empirical study; it clarifies the research design, population study, and sample selection. The chapter further brings out the sources of data collection, as well as data processing and analysis.

Chapter-4: Data Analysis, Interpretation and Findings- This chapter contains analysis, interpretation and findings of the study in light of the statement problem and objectives of the research using qualitative data as well as quantitative data by way of tabulation, and narratives.

Chapter-5:- Summary, Recommendations and Conclusion- Within this chapter, the researcher finally brought the study to its wrap up by way of: Summary, Recommendations, and Conclusion.

CHAPTER TWO
LITERATURE REVIEW

2.1. INTRODUCTION

This chapter examined relevant literature that has been written on tax laws, tax incentives and their impact on FDI in national contexts, Grinnell (1990) literature review is an in- depth study of the existing research articles that pertain to the topic presently being studied. The chapter build-up captures the introduction; definitions and key concepts like: tax or taxation, tax exemption, tax incentives and Foreign Direct Investment. The chapter described general tax incentives; relief, special tax incentives; as well as observing the types of taxes in Rwanda. It is also in this chapter where the theoretical structure of the research is defined and described; the purpose of tax exemption is summarized; and types of tax exemptions are enlisted. It was in this literature review that the research observed tax incentives in Rwanda; taxation and economic growth; the advantages and disadvantages of tax incentives; advantages Rwanda offers FDI; demerits of tax incentives-Rwandan case; comparative regional outflows and inflows of FDI (2010-2013).

2.2. DEFINITIONS OF CONCEPTS

2.2.1. Tax or Taxation

James & Nobes, (1997), say that Governments levy taxes to convert money into public funds. Benefits may sometimes be affordable in return. However, taxes seldom include payments made to government for loans, goods and services that are received. (OSITA, 2004), defined taxation as the compulsory leave by the government through its various agencies in the income, capital or consumption of its subject such as salaries, business profits, interests, dividends, commissions, rent and so on, in a general way, tax or taxation means any contribution imposed by the government upon its people or individual, companies for the use of government to provide services or facilities the by government. In relation to Rwanda KPMG report indicate that Rwanda Budget 2015/2016 will be supported by taxes at level of 60%, meaning taxes will cover a bigger percentage to finance public expenditures.

2.2.2. Rwanda Structure

BAHIZI, (2013), expresses Rwanda Tax Structure to be more than 90% progressive hence breaching the economic gap between the low income earners and high. The structure gives three major categories of taxes in Rwanda: Direct taxes, taxes on goods and services and taxes on international trade;

a. **Direct taxes**: A direct tax is the one that cannot be shifted by the taxpayer to someone else, (BAHIZI, 2013) explains the following to be direct taxes in Rwanda.

- **Profit taxes**
    - **Corporate income Tax**: The corporate income tax is levied on business profit of entities
    - **Tax profit made self-employed persons**: the person income tax is levied on income received by an individual. The taxable income is composed of Business Income, Employment income and investment income. The tax is calculated on the basis of the real incomes or by using the presumptive tax regime (lump sum tax regime)
    - **Withholding tax:** This is the amount withheld as a prepayment and then has to be offseted at the final liability, it includes 5% imposed on imports calculated on the CIF value; 3% on government purchase as down payment on profit tax of the total amount on income.
    - **Taxes on income (Pay As You Earn):** PAYE is a tax on income derived from employment. The base is the income from employment activities including wages, salaries, bonuses, leave pay, sick pay, medical allowances and all kind of allowances.
    - **Tax on investment income:** Taxes on investment income include taxes on loans, dividends, interests, royalties, lottery and other gambling process. The tax rate is 15% on realized income.

b. Taxes on goods and Services;

- **Value Added Tax (VAT):** The government of Rwanda adopted VAT in its tax system after realizing that other countries use VAT system as foundation for their economic growth, VAT broadens the tax base.

It is a multistage tax for all registered suppliers. It is also a self-policing mechanism. The purchase of one taxpayer is the sale of another hence, the tax involved is the input for the last and output for the first taxpayer.

- **Excise duties:** It is a tax imposed on goods and services considered to be luxuries rather than necessities and luxury taxes may be levied with the aim of taxing the rich to regulate consumption of some goods and services.

c. **Taxes on International trade**: This includes import duties; import duties are paid on imported goods especially those that are coming out of EAC.

2.3. TAX INCENTIVES

Tax incentives it's not something that is happening in Rwanda only, they are common around worldwide and are constantly evolving. However, they are happening at different levels basing on the interests of particular country. (Zolt, 2013, Pg 4) argues that Tax Incentives are special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. (Klemm, 2009) defines Tax incentives as all measures that provide for more favorable tax treatment of a certain activities or sector to what is granted to general industry. (Klemm, 2009), regards the following to be Typical Tax Incentives.

a. **Tax holidays:** Temporary exemption of a new firm or investment from certain specified taxes, typically at least corporate income tax. Sometimes administrative requirements are also waived, notably the need to file tax returns. Partial tax holidays offer reduced obligations rather than full exemption.

b. **Special zones:** Geographically limited areas in which qualified firms can locate and thus benefit from exemption of varying scope of taxes and/ or administrative requirements. Zones are often aimed at exporters and located close to a port. In some countries, however, qualifying companies can be declared "zones" irrespective of their location.

c. **Investment tax credit:** Deduction of a certain fraction of an investment from the tax liability. Rules differ regarding excess credits (credits in excess of tax liability) and include the possibility that they may be lost, carried forward or refunded. Investment allowance: Deduction of a certain fraction of an investment from taxable profits (in addition to depreciation). The value of an allowance is the product of the allowance and the tax rate. Unlike a tax credit, its value will thus vary across firms unless there is a single tax rate. Moreover, the value is affected by changes to the tax rate, with a tax cut reducing it.

d. **Accelerated depreciation:** Depreciation at a faster schedule than available for the rest of the economy. This can be implemented in many different ways, including a higher first year depreciation allowances, or increased depreciation rates. Tax payments in nominal terms are unaffected, but their net present value is reduced and the liquidity of firms is improved.

e. **Reduced tax rates**: Reduction in a tax rate, typically the corporate income tax rate.

f. **Exemptions from various taxes**: Exemption from certain taxes, often those collected at the border such as tariffs, excises and VAT on imported inputs.

g. **Financing incentives:** Reductions in tax rates applying to providers of funds, e.g: reduced withholding taxes on dividends;

In many countries Rwanda inclusive there is a need to maintain a competitive tax system in an increasingly globalized economy and thus becoming a force that shapes the tax policy. Whereas viewing the Typical Tax Incentives, Law N° 06/2015 of 28/03/2015 relating to Investment Promotion and Facilitation according to official Gazette n° special of 27/05/2015 of the Government Rwanda gives almost the same tax incentives, the question remains how effective they are toward FDI?

2.3.1. Tax Exemption

Tax exemption refers to a monetary exemption which reduces taxable income. Tax exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion items. Examples include exemption of charitable organizations from property taxes and income taxes, veterans, and certain cross-border or multi-jurisdictional scenarios.

2.3.2. Tax Exemption In Rwanda

The government of Rwanda has intentionally decided to offer tax exemptions as a way to self-economic reliance and reduce reliance on foreign aid.

According to African Development Bank Group (2010), GoR has given tax exemptions for the following reasons:

- To reduce the regressive nature of VAT by lowering the price of goods and services consumed by the poor by exempting from VAT goods consumed by the poor such as water service.
- Lowering the price of certain goods that are deemed to have a direct benefit for society such as medicines, health care and education by exempting them from VAT.
- Tax exemptions for NGOs and religious groups whose activities are of direct benefit to society.
- Where the foreign or official nature of the activity does not warrant taxation, for example items sold in duty free shops or internationally bound aircrafts or goods consumed by the armed forces.
- To stimulate the transformation of agriculture by exempting farm-household enterprises from income tax until they have a turnover of 1.4 RWF a year and exempting agricultural inputs and products for all agricultural enterprises from VAT.
- Providing incentives to stimulate economic growth to domestic and foreign investors. These incentives are expected to result in increased investment, employment, output growth and exports. These include incentives such as the favorable treatment of profits through reduced corporation tax and reduction in import duties.

2.4. PURPOSE – THE MOTIVATION OF TAX EXEMPTION

A good tax policy must have an element of motivation to it. This is the position of Romer C.D &Romer D.H (2009:1) legislated tax changes have numerous motivations. Some reflect efforts to stimulate a weak economy or to restrain an overheated one; others result from views about the incentive effects of marginal tax rates; others occur in conjunction with decisions to adopt new spending programs.

2.5. GENERAL TAX INCENTIVES, CONCESSIONS AND EXEMPTIONS

Tax incentives and Exemptions fall into three major categories, (UNCTAD, 2014); one, Exemptions available to all residents or those who fall in a given category – e.g., exemption from VAT on certain goods and services such as water, exemptions from profit tax (table 2.1); two available to all business or other organizations that fulfill the criteria for example – exemption of VAT on manufacturing equipment, medical-equipment for use in health facilities (table 2.1) and three, specifically designed to attract domestic investment and FDI and which require the investor to hold an investment License issue by RDB.

There is a relationship between one and two; for instance, all business can benefit from tax reduction for exporting goods beyond a certain climate value and this to attract more foreign investor. (UNCTAD, 2014), argues that incentives are widely used by Governments as a policy instrument for attracting Investment despite of persistent criticism that are economically insufficient and leads to misallocation of public funds.

Table 2.1: Incentives Wildly Given

Customs Duty

- Goods contained in the personal luggage of a traveller, and goods brought on setting up residency.
- Goods imported for diplomatic missions, consulates, international organization and charities
- Educational, scientific and cultural materials.
- Pharmaceutical products, instruments and apparatus intended for medical purposes, pesticides, agricultural inputs and tools and fishery equipment.

VAT – Exempt

For all Residents

- Water Supply and Sewage Treatment Services
- Goods and Services for Health Purposes including medical treatment, drugs and medical equipment and equipment for people living with disabilities.
- Educational Material and Services provided for/used by government education

institutions and those run by NGOs

- Print Media and Electronic Equipment used for Educational Proposes
- Transport Services including air, boat and road travel and the transport of goods by road and boat
- Sale and Lease of Land and Property for Residential Purposes
- Financial and insurance Services including premiums on health and life insurance, charges on operation of current account, transfer of shares, capital market transactions for listed securities
- Funeral Services
- Energy supplies
- Trade Union subscriptions
- Leasing of Exempt goods
- Agricultural and Livestock Products except for those Processes (locally processed milk is exempt)
- Agricultural Inputs and Equipment
- ICT Equipment
- Mobile ‘Phone Handsets and SIM Cards

For all Investors

- Machinery for Industry
- Medical Equipment, Medical Products, Agricultural, Livestock, Fishing Equipment and Agricultural Inputs
- Tourist Charter Planes
- Transfers of Market Shares

Income Tax

- Farm enterprises are exempt from tax with turnover up to 12 million RWF a Year.
- Non-Farm Enterprises are exempt from tax with a turnover up to 1.4 million RWF a Year.
- Those with annual earnings/profit below 36,000 RWF a year are exempt from tax.
- Premiums paid by employers and employees to recognized pension funds.
- Government, NGOs, religious organizations, donor funded projects exempt.

- Taxpayers who export commodities or service in a tax period to a value
  - Of between three and five million US$ are entitled to a tax discount of three per cent;
  - More than five million US$ are entitled to a tax discount of five per cent.
- Income accruing to registered collective investment schemes and employee share schemes is exempt from tax.
- Exemption of secondary market transactions for listed securities from capital gains tax.
- Listed companies are taxed at 20 per cent, 25 per cent and 28 per cent respectively for a period of five years if they sell 40 per cent, 30 per cent or 20 per cent of their shares.
- A venture capital firm is exempt from corporate income tax for five years from the date of registration with the capital market authority.
- The withholding tax is reduced from 15 per cent to five percent on dividends and interest income on listed securities and interest arising from investments in listed bonds with a maturity period of three years and over when the person who withholds is a resident of Rwanda or the EAC.
- Exemption from withholding tax on imports and public tenders for taxpayers who have a tax clearance certificate issued by the Commissioner General of Rwanda Revenue Authority who have complied with.

Source: East African taxation Project; Rwanda Case Study 2011

In relation to the table 2.1 above, the research realize that Rwanda provided almost the same incentives, as shown in Law N^o 26/2005 of 17/12/2005 and Law N^o 06/2015 of 28/03/2015 relating to Investment and expert promotion and facilitation, however, (Keen and Mansour, 2010) put it forward that generous investment incentives lead to large revenue losses and distorted competition. (OECD-DAC, 2012), tax incentives tend to reduce government revenues by 1-2 percent. Nevertheless (World Bank, 2011) argues that where the government is poor, corporate tax exemptions may attract investment, (Research, 2011), Rwanda is the most generous of EAC countries in providing tax incentives for FDI and domestic investment. According to (Ministry of Finance and Economic Planning, 2007), providing tax exemptions and incentives is regarded as a crucial factor of the Government’s policy of providing a competitive environment for economic growth and poverty reduction.

2.6. SCOPE AND DEFINITION OF FOREIGN DIRECT INVESTMENT

2.6.1. Definition of Investment

Investment is a term used normally in the fields of Economics, Business Management, Finance and Law. However, there is no clear cut definition of investment; it may be defined as spending on capital goods by firms and government which will lead to increased production of consumer goods and services in future periods. Investment may mean the commitment of money or capital to purchase financial instruments of assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instruments. (OECD, Definition of Investor and Investment in International Agreement at, 2015), however, (UNCTAD, 2014), before an investment is made it is important for the investor to know the risk involved before any step is taken.

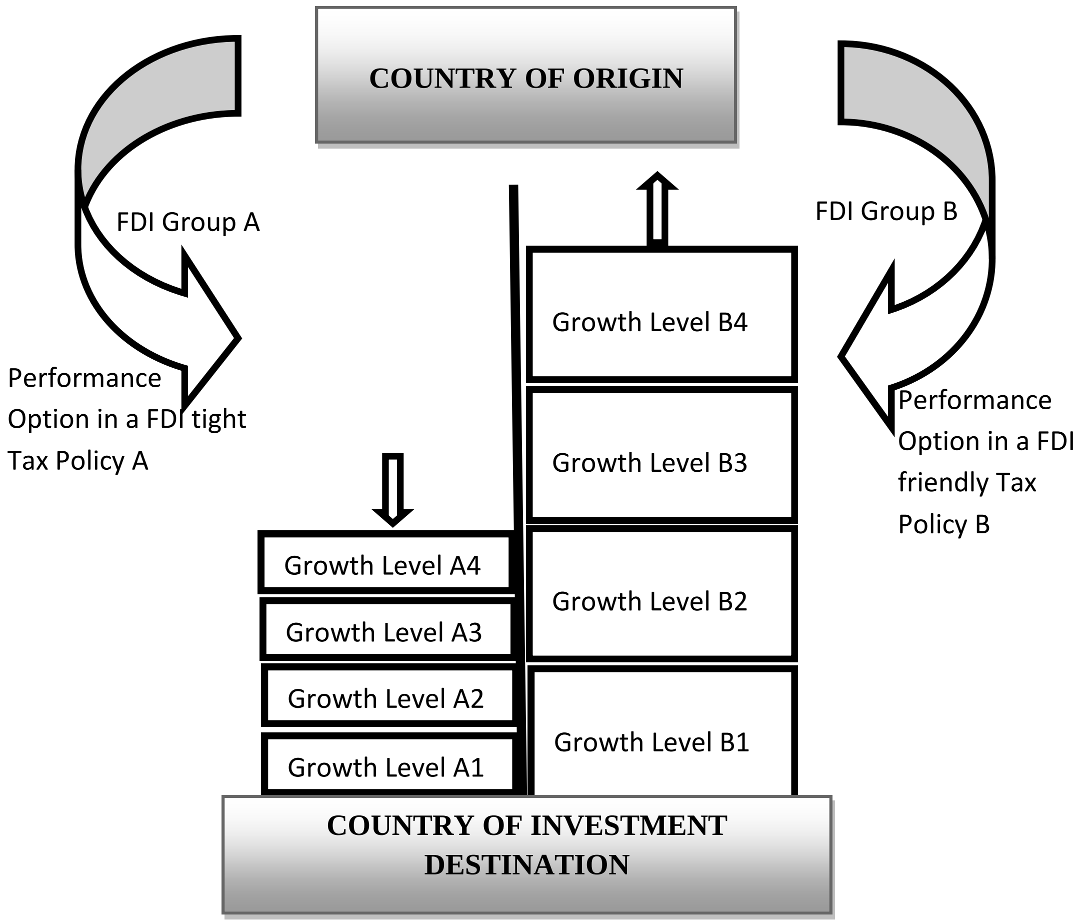
2.6.2 Foreign Direct Investment

OECD, (2015), define FDI as “every kind of asset” followed by an illustrative but usually non-exhaustive list of assets, recognizing that investment form are constantly evolving, on the other hand, (IMF, 1993) describes FDI as an investment involving a long-term relation and reflecting a lasting interest and control by a resident in an economy other than that of the direct investor.

2.7 .THEORETICAL FRAMEWORK

USC Libraries Online Definitions, the theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework introduces and describes the theory that explains why the research problem under study exists.

Figure 2.1: Theoretical Framework



Source: Primary Data

2.7.1. FDI – Group A

The theoretical framework provides for a hypothetical group of investors FDI A. The investor probably did not have all the facts; soon he finds himself confronted with tight tax policy. So that investment climate is arid. Unfavorable investment climate compels some in the group to return to country of origin, others divert interest to new investment destination all together where the situation is likely to treat their investment vision more favorably. However, this one investor dares to remain and do business, braving the tight tax policy. He does so, perhaps, for the reason that he sees possibility of taking on a survival mode to investment, where investment taxes can be avoided and by visualizing that option creates certain level of income for him to survive. Well, the investor may survive and thrive, but as long as he is not contributing to paying tax as he ought to, this trend causes the country to lose out on the much needed taxes for development and keeps it at Growth level A4.

Procedures to process and register investment in a tight policy environment usually take more time, leads to more unforeseen expenditures, and stress. This combination is bad for business and bears ill testimony. Bad testimony and realities on the ground deter other prospective investors to the country of destination and limiting growth opportunity of the country to A3.

Even where the investor chooses to press on against all odds; bad business environment is bad enough for the investor to keep proceeds away from reinvestment. This cuts on number of employment opportunities for citizens; limiting tax base, affects savings, and subsequently raising interest rates, discouraging borrowing, and affecting local investments. This trend of events keeps the country Growth at level A2.

At worst case scenario, agriculture is affected; local manufacturing, construction, and service industries take a down trend; consumption goes down; labor-layoffs and unemployment result; investors close down and relocate. The struggling economy, at best, is left languishing at A1.

2.7.2. FDI – Group B

However, the whole story of investment hardship takes a reverse trend when it comes to the hypothetical group FDI B where they are greeted by favorable investment climate. An inviting investment climate welcomes investors to business. Easy and speedy process of registration means easy starting of business. Availability of functional infrastructure, easy access to profitable information, friendly customer service at investment authorities, comprehensive tax holidays, all contribute to positive and relaxed business thrill. Available skilled labor, a wide customer base, a growing middle class, attract more FDI's and therefore wider tax base, lower unemployment rate, and a stronger economy with Growth level at B1.

A stronger economy pulls resources horizontally by increasing tax base with increased FDI's and improved infrastructure, etc. However, with this horizontal pull comes a vertical possibility of increased capital investment level pushed upward. Investors have confidence. They are saving more, borrowing more, moving in capital resources more, and are providing more services, more goods production and more labor absorption. The economy goes higher and revenue collection also shoots higher. The economy improves to a Growth level B2.

With inflation under surveillance, export base expanded, trade balance pretty favorable, and tax is kept to a revised low; then investment will swell even further, putting the economy to expansion – horizontally and vertically. This scenario puts the trend of growth of the country to an attractive level B3. At B4, the economy is by far and large not dependent on foreign aid – for feeding its people or balancing its budget. Exceptional cases may probably consider support for good governance, health, security and calamity.

2.8. FOREIGN INVESTMENT AND CLIMATE FOR DOING BUSINESS IN RWANDA

With an intention of complementing internal resources, Rwanda has actively attracted FDI by creating high conducive climate through important reforms which make it easier for business to get started. The whole package for investment promotion in general can be found within RDB and Investment promotion Law N^{o} 06/2015 of 28/03/2015 relating to investment promotion and facilitation, it includes regulatory framework, registration facilities and requirements, change of registered businesses, closing of business, disclosure requirements and other facilities such as working permit, special economic zone facilitations to mention but a few.

According to World Bank Doing Business Report (2013-2014), ranked Rwanda the 2nd easiest place to business in Africa, and the table 2.2 below shows the Rwanda rank across 11 indicators of doing business compared to some other African countries for the year 2013-2014.

Table 2.2: Top Ten Countries in Doing Business in Sub-Saharan Africa 2013-2014

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Mauritius	20	2	22	1	7	7	2	1	1	7	2
Rwanda	32	1	14	2	1	1	3	3	31	2	22
South Africa	41	7	1	27	15	5	1	4	7	12	8
Botswana	56	12	11	13	2	11	7	6	23	14	1
Ghana	67	20	37	6	4	5	5	9	8	4	16
Seychelles	80	16	10	25	9	40	9	2	2	13	3
Zambia	83	6	7	29	17	1	12	9	32	20	5
Namibia	98	23	2	4	43	9	12	18	20	10	9
Cape Verde	121	8	28	28	6	14	24	11	4	1	38
Swaziland	123	39	5	34	24	9	21	7	13	41	4

Source: World Bank Doing Business Report 2013-2014

According to table 2.2 above, Rwanda has is seen the easiest country for doing and investment as well compared to other sub-Sahara African countries, this is due to improved tax structures and tax incentives, in addition Rwanda eased access to construction permits by passing new building regulations and implementing new time limits for the issuance of various permits. According to BNR (2013), Rwanda reduced a number of documents required and enhanced its joint border management procedures with her neighbors which led to an improvement in trade logistics.

Table 2.3: Rwanda's Doing Business Performance by Category 2013 and 2014

	DB 2013	DB 2014	Change in rank
Rwanda Ranking	52nd	32nd	20
Starting a Business	8	9	-1
Dealing with construction permits	98	85	13
Getting Electricity	49	53	-4
Registering property	63	8	55
Getting credit	23	13	10
Protecting Investors	32	22	10
Paying Taxes	25	22	3
Trading Across Borders	158	162	-4
Enforcing Contracts	39	40	-1
Resolving Insolvency	167	137	30

Source: World Bank Doing Business Report 2013 and 2014

Considering doing business by category, table 2.3 indicates a great shift from 52nd to 32^{nd,} this is attributed to various incentives and facilities Rwanda has put in place to attract foreign direct investment as move toward self-economic reliance and to achieve the 2020 vision. As matter of fact paying taxes improved by 12% in 2014

2.9 .CONCLUSION OF THE CHAPTER

In conclusion, one would concur with Economic Studies at Brookings, (Sept. 2014), we find that, while there is no doubt that tax policy can influence economic choices, it is by no means obvious, on an *ex ante basis*, that tax rate cuts will ultimately lead to a larger economy. All these happen amidst the argument that, theory, evidence, and simulation studies tell a different and more complicated story. At the end of it all, countries like UAE, Singapore and Mauritius have done wonders by using the principles of tax incentives to ease ways-in for FDI and develop peoples and land.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. INTRODUCTION

The examining of pertinent literature in the forerunner chapter furnishes us with helpful details of possible factors that may facilitate meeting the research objectives of this qualitative study. The study is designed to examine the impact of tax law and tax incentives on foreign direct investments in Rwanda. The methodology study settings, population, sampling strategy, data collection techniques, data analysis procedures, validity and reliability, as well as handling the ethical issues related to the study are to be captured in this section.

3.2. RESEARCH DESIGN

Selltiz (1962) in (Nsubuga, et al: 2013:72), the practical steps the research design ought to take may include collecting quantitative or qualitative data or both from respondents. In the case of qualitative data, which this study pursues, respondents would have to be purposively selected to meet the research questions. The data presentation and analysis, in that case, would take on an interpretivism process aligned with the research objectives.

Denscombe (2012:72) a research design is the arrangement of the conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In a 'nutshell', what readers want to know as to: what strategy will be used – qualitative techniques; what kind of data will be collected- qualitative data; and how much; then of how the data will be collected – using both semi-structured interviews and questions; also who or what will be included; and how the data will be analyzed.

This research handled these by detailed clarifications in the setting of the research; the declaration of the population; indication of the sampling strategies and sampling size; enlisting the research instruments, portrayal of the data collection techniques as well as the data analyses procedures.

In order to achieve the stated objectives, the study needed in-depth data based upon the opinions of the respondents. The study took an interpretivism paradigm, seeking the casual explanations and is the hall marker of the natural sciences (Blaxter et al, 2010:61). In a succinct form, this study took a descriptive path in presenting the findings.

3.2.1. QUALITATIVE RESEARCH

Burns (2003) qualitative research approach is a systematic subjective approach used to describe life experience and situations to give them meaning. Henning (2004) states that qualitative research is a research that uses utilities open-ended, semi-structured or close structured interviews, observation and group discussion to explore and understand the attitudes, opinions, feelings and behavior of individuals or groups of individuals. (Vishnevsky & Beanlands 2004) while quantitative research is a survey which is an important outstanding medium of gathering a breath of information regarding "How many? Or How much?" qualitative research is the best research method for discovering underlying motivations, feelings, values, attitudes and perceptions.

Polit D. F. (2006), argues that unlike qualitative methods which assume that "truth" is objective and can be empirically revealed, quantitative research follows a naturalistic paradigm based on the notion that reality is not predetermined, but constructed by research participants. The rationale for using the qualitative approach in this research was the need to explore and describe the opinions of tax incentives policy managers in Rwanda as well as views of foreign investors in Rwanda on the implication of tax policies over FDI in the last four years.

3.3. STUDY SETTING

The research setting is what Nsubuga et al (2013) refer to as the universe of study - whether a tribe or a village, or an urban areas or a particular group. The research was carried out in Rwanda Revenue Authority (RRA) and in at China Star Construction Company (CSCC) - a company from China based in Kigali. The study included discussions with a selected number of participants, namely: the heads of corporate planning in RRA and management of the Chinese FDI.

These two factors were well selected since the former is directly involved in implementing the investment law in Rwanda and the other is a huge investor by Rwandan standard and is employing more than a thousand people in the country. As

Creswell (2003:185) claims, identification and purposeful selection of suitable sites and/or participants are very important because their suitability helps a researcher to study a research issue qualitatively.

3.4. RESEARCH POPULATION

According to Grinnell (1990), a population can be defined as the totality of persons or objects with which a study is concerned. According to Richard (1990:309), a population is any group of people, organisations, objects or events about which you want to draw conclusions. The population list of this study therefore constitutes RRA staff and Private companies in Rwanda. The total population of RRA staff is 1,266(see Appendix), whereas RDB gives a list of 68 private companies in free trading zone. because the research could not reach to every individual, the researcher purposively targeted key staff and heads of corporate planning units of RRA, large tax payers department and on the one hand foreign private companies in Kigali and thus a population a sample size of 100 (60 for tax Authorities and 40 for private foreign companies). Since everyone cannot be reached easily the researcher personally served the questionnaire by hand and collected them back through the same way.

3.4.1. SAMPLING STRATEGIES AND SAMPLE SIZE

Two sampling strategies were used: purposive sample and sampling formula. A purposive sample is used in order to collect viable data. “Sampling is a deliberate way, with some purpose of focus in mind” (Punch, 2005:187). Nsubuga et al. (2013:88) refer to purposive sampling strategy also as judgmental sampling which is selected because the individuals have certain special qualifications of some sort or because of prior evidence of representativeness. Units from a pre-specified group are purposively sought out and sampled at times due to their privileged positions by the virtue of their offices.

A sample size is a part of population selected from the population; however, to determine the sample size, the researcher adopted Yamane’s formula.
Yamane provides a formula to calculate the sample size; he says a 95% confidence level and 5% precision are assumed for equation.

$$n=\frac{N}{1+N(e)^2}$$

Where ***n*** is the sample size, **N** is the population size, ***e*** is the level of precision and **1** is always constant. With the help of the above formula the sample size is as follows;

$$n = \frac{N}{1+N(e)^2}$$

$$n = \frac{100}{1+100(0.05)^2}$$

$$n = \frac{100}{1+100(0.0025)}$$

$$n = \frac{100}{1+0.25}$$

$$n = \frac{100}{1.25}$$

$$n = 80$$

The simple random sampling allows for generalization to take place. The researcher therefore, used Bowley's proportional model formula to allocate questionnaires to the respondents.

Which is $nh = \frac{n * nh}{N}$

Where ***nh***=Number of questionnaire allocated to each respondent and **N** = Population

Therefore, for Tax authorities $\mathbf{n}\boldsymbol{h} = \frac{80x60}{100}$

$= 48$

Private foreign companies

$$\mathbf{n}\boldsymbol{h} = \frac{80x40}{100}$$

$$=32$$

Table 3 .1: Population Distribution and Sampling Strategy

	POPULATION	UNIT PER LOCATION	TOTAL
	RRA MANAGEMENT & STAFF		
1	Heads of Tax Audit Group (RRA)	5	5
2	Senior Corporate Planning Officers (RRA)	10	15
3	Tax Officers (RRA)	10	25
4	Tax Research and Policy Economists (RRA)	13	38
5	Statistics Officers (RRA)	10	48
	Total from RRA Management & Staff	**48**	**50**
	INVESTMENT COMPANIES		
1	KEZONE	12	12
2	OTHER PLACES	20	32
	Total FDI Companies	**32**	**30**
	Total Respondents	**80**	**80**

Source: RRA 2016

The advantage of this method of sampling is that it enables the researcher use his "experience to select cases which are typical or representative" (Fogelman & Camber, 2007: 135). Robson (2010:279), the indispensable factor underpinning the choice of the sampling technique is that the intended respondents do have unique positions and advantage. This judgmental sampling accordingly helped to meet the intended goals of the investigation of the research problem.

3.5. RESEARCH INSTRUMENTS

3.5.1. Primary Data Collection Instruments

According to Audrey (1989:57), primary data come straight from the people you are researching from and are therefore the most direct kind of information you can collect. Primary data is said to be the first hand observation and investigation.

This was used in the research as many profiles were asked their views on the impact of tax laws and tax incentives on Foreign Direct Investments in Rwanda. Primary data of this research, therefore, comprised data collected using questionnaire and interviews.

3.5.1.1. Questionnaire

A questionnaire is a method used for collecting data, where a set of written questions call for responses (Audrey 1989:57). A questionnaire contains both structured and unstructured questions. In structured questions responses permitted to the subjects are completely pre-determined, while in unstructured questions, respondents are asked to give their ideas (Grinell, 1990:133). The researcher used both structured and unstructured questionnaire, which permitted him to obtain primary data from the respondents.

3.5.1.2. Interviews

According to Richard (1990:309), a research interview is a data collection method whose main purpose is to obtain information. Research interviews, therefore, was used in situations where the respondents claim to have no time to fill the questionnaires. The researcher interacted, recorded and interpreted the answers for drawing conclusions about the research problem.

3.5.2. Secondary Data Collection

This study also incorporated secondary data. According to Casley, D.J et al. (1987:14), secondary source of data is usually removed from the original data and is often the examination of the study someone else has carried out on a subject. Secondary data, therefore, deals with presentation, analysis and interpretation of data which is normally carried out in order to support and back up the theoretical framework presented in Chapter 2 in line with the objectives of the study.

Comparatively, Goodwin J. (2012:345) reiterates that primary data approach from a field of enquiry is often underpinned by a sincerely held belief that key research questions can only be explored by the collection of ever new, and ever greater amounts of data, or that already existing data are insufficient for researchers to test their ideas. Yet such an approach to research can be problematic not least because the collection of primary data can be an expensive, time-consuming, and even wasteful approach to social enquiry. Secondary analysis can serve many purposes, as well as being a valid approach in its own right. However, despite its widespread application, secondary analysis is often undervalued or perceived to be the preserve of only those interested in the re-use of large-scale survey data.

3.5.3. Data Collection Techniques

A semi structured questionnaire issued to respondents. In the questionnaire, the purpose of the study was clearly explained. Ideally this was to give the respondents ample time to think through the questions and have also more time to decide if they really needed to participate. Each questionnaire was to subscribe to anonymity and to ensure this, the research distributed uniform colour (black), size and make of envelopes to all respondents to be deposited independently in a sealed box, marked "college work". The researcher later had some face to face interviews with some respondents. It was imperative to make prior visits for both permissions to collect data and appointment times with the respondents were agreeable to the data collection process.

3.5.4. Data Analysis Procedures

The main aim of qualitative data analysis is to reduce and transform the data into more manageable and understandable fashion (Berg, 2009). Moreover, it also focuses to extract various patterns, themes and make sense from material. There is no single procedure for qualitative data analysis and the purpose and nature of the study determines the kind of analysis to be used (Cohen et al., 2007).

3.5.4.1. Editing

According to Churchill (1992), editing is the inspection and correction, if necessary, of each questionnaire or observation form. Editing was, therefore, used in order to detect errors and omissions, correct them and ensure completeness, accuracy, uniformity and legibility of the work.

3.5.4.2 Coding

Grinnell (1990) defines coding as the process of grouping facts according to the themes and sub-themes of the study, by assigning a symbol or a number to a response. Coding facilitated the researcher to specify different categories or classes of responses in order to allocate individual answers to different categories.

3.5.4.3. Tabulation

Kothari, C.R. (2006:127) tabulation is the process of summarizing raw data and displaying the same in compact form (i.e. in the form of statistics tables) for further analysis. In a broader sense, tabulation is an orderly arrangement of data in column and rows. Kumar C.R. (2008:120) tabulation comprises sorting of data into different categories and counting the number of cases that belong to each category. The simplest way to tabulate is to count the number of responses to each question. This is called univariate tabulation. The analysis based on just one variable is obviously meagre. Where two or more variables are involved in tabulation it is called bivariate or multivariate tabulation. In research projects both types of tabulation are used.

3.6. VALIDITY AND RELIABILITY

Under this chapter the researcher took into consideration two dimensions to validity and reliability. The researcher needed to bring to light the meaning of these two terms as their meaning is quite different yet central to any research. Validity has to do with whether your methods, approaches and techniques actually relate to, or measure, the issues you are exploring (Blaxter et al., 2010: 245).

While reliability has to do with how well you have carried out your research project (Blaxter et al., 2010: 245), (Bell, 2010: 118), triangulation is an essential factor in the matter of validity and reliability - a multi-method approach. Several methods in both data collection and analysis were employed to realize both validity and reliability. Further still, the key to triangulation is to see the same thing from different perspectives and thus to be able to confirm or challenge the findings of one method with those of another.

3.7. ETHICAL ISSUES

In order to comply with the code of ethics the researcher obtained consent from the participants to ensure the sanctity and basic right of their self-determination (Cohen et al., 2007:52). Because of this right, the participants had not only the choice to refuse to involve in the study but also freedom to withdraw their participation from an investigation (ESRC, 2005). As Busher and James (2007) suggest, consent from prospective participants can be obtained by the means of written explanation about the nature of the study.

Cohen et al., (2007) argue that it is also important to address the ethical issues regarding the anonymity of participants' identity and confidentiality of the information given by them. Babbie (2009:67) argues, however, that 'anonymity is achieved in a research project when neither the researchers nor the readers of the findings can identify a given response with a given respondent.

The interviewees for this study may not be considered anonymous because the investigator had to identify them in order to take interview (Cohen et al., 2007). However, to protect the identification of interviewee from public, numeric pseudonyms were used throughout the study.

Respondents were assured of confidentiality of the information or data provided for this study because 'the researcher can identify a given person's responses but promises not to do so publically' (Babbie, 2009: 67). However, the names of the organizations were retained to ensure authenticity in the report of this study- this assurance was provided to all participants and the heads of the organizations, in particular, ahead of time.

3.8. CONCLUSION

The final analysis hinged and rotated around weaving all the facets of a qualitative research process in order to maintain design congruence with the expectations. These expectations will include; getting worthwhile data, study the research problem, provide the natural history of the inquiry process (Erickson, 1986) and be able to draw warranted conclusions (Miles & Huberman, 1994, in Robson, 2010: 502).

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

This chapter begins with the description of the data used in the study. Data about foreign direct investment attitude in Rwanda, comparison investments in different years before and after the introduction of investment promotion codes, tax revenues for the last five years, tax understanding, tax incentives, investment code and discussion was used. Both secondary and primary data was very important in this research; data was presented using graphics, tables and narrative. The data was presented and analysed into two sections, section one delt with secondary data while section two was devoted to primary data.

4.2. SECTION I, SECONDARY INFORMATION

4.2.1. FDI attitude in Rwanda

The government of Rwanda is aware that to achieve its middle-income status by 2020, private sector development and reducing the country's reliance on foreign aid is very paramount. For the last decade, the GoR has commenced a series of pro-investment policy reforms intended to improve the investment environment, expand trade in products and services and increase the level of Foreign Direct Investment, Taxation Policy in Rwanda is focused on widening the tax base to increase fiscal revenues especially focusing on registering the informal sector, simplifying procedures and providing tax incentives to encourage both FDI and domestic investment.

4.3. THE EXTENT TO WHICH TAX INCENTIVES ATTRACT FDI IN RWANDA

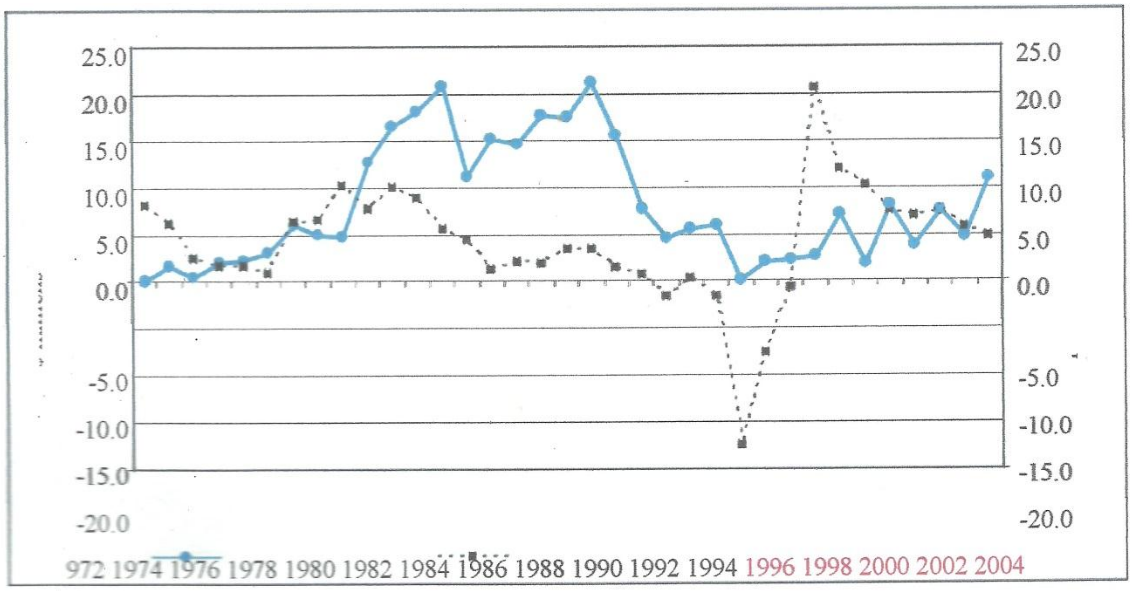
According to the information given by RDB, the increase of FDI has been registered since 2006 when the new fiscal regime came into force. The growth in FDI is a sign of confidence in economic development of Rwanda as it suggests that investors are confident of their future return on investments (figure 4.2 and 4.3).

However, the increase is not necessarily due to tax incentives and exemption only but also due to other factors. The research considered 2005 law of investment code as a reference to analyse the impact of tax incentives on foreign direct investment in Rwanda. The data of a number of projects registered and value of investments were taken into account, see table figure 4.1, 4.2 and figure 4.3 below.

According to UNCTAD (2006), Rwanda has never attracted large amount of foreign direct investments since its independence, and benefited from very little infrastructure and industrial investment. The small size of the economy, its rural nature, the low level of human capital, the poor quality of infrastructure and landlocked position, high operating costs and limited proved natural resources mean that Rwanda lacks the main driver of foreign investment.

Taking 2005 law as reference, the research analysed the level of Foreign Direct Investment from 1996 – 2004 and from 2006 – 2015. Rwanda largely based its economy on agriculture which was more of subsistence between 1994 and 2004; as a result foreign direct investment was at a very low level (see the figure below).

Figure 4.1: Net FDI inflows to Rwanda and real GDP growth, 1996-2004
(Millions of dollars and percent)

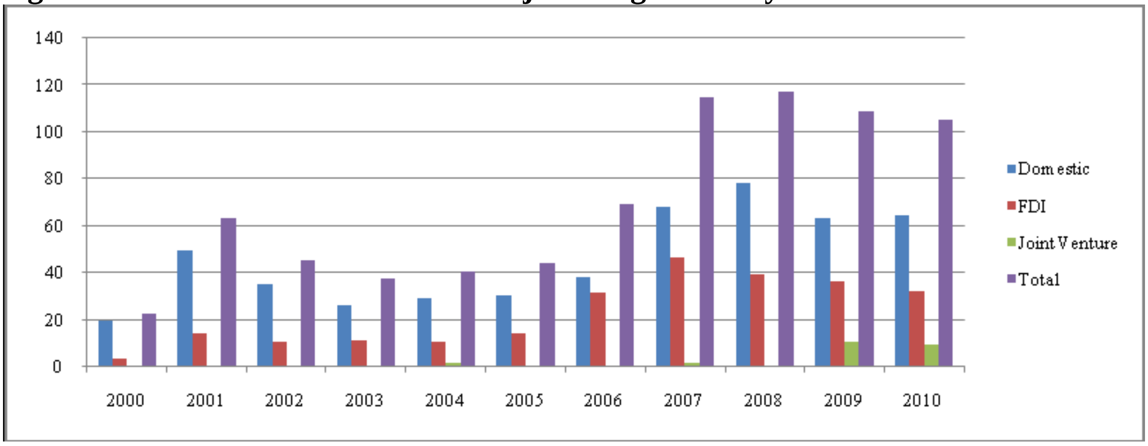


FDI inflows ($millions) Real GDP grow the, 3-year moving average (per cent)

Source: UNCTAD, Investment Policy Review (2006)

Although the genocide does not appear to have led to a wave of divestment by few the few larger foreign investors present in Rwanda 1994, FDI have remained minimal over the past ten years, however, from 1996 to 2004, Rwanda put sound economic policies and structural reforms like privatization of government institutions and agencies to attract foreign direct investment, incentives given by 2005 law of investment was not in place, by this however, the research seek find and analyze the impact of tax incentives on foreign direct investments in Rwanda, more projects were analyzed in the figure 4.2 and 4.3 below.

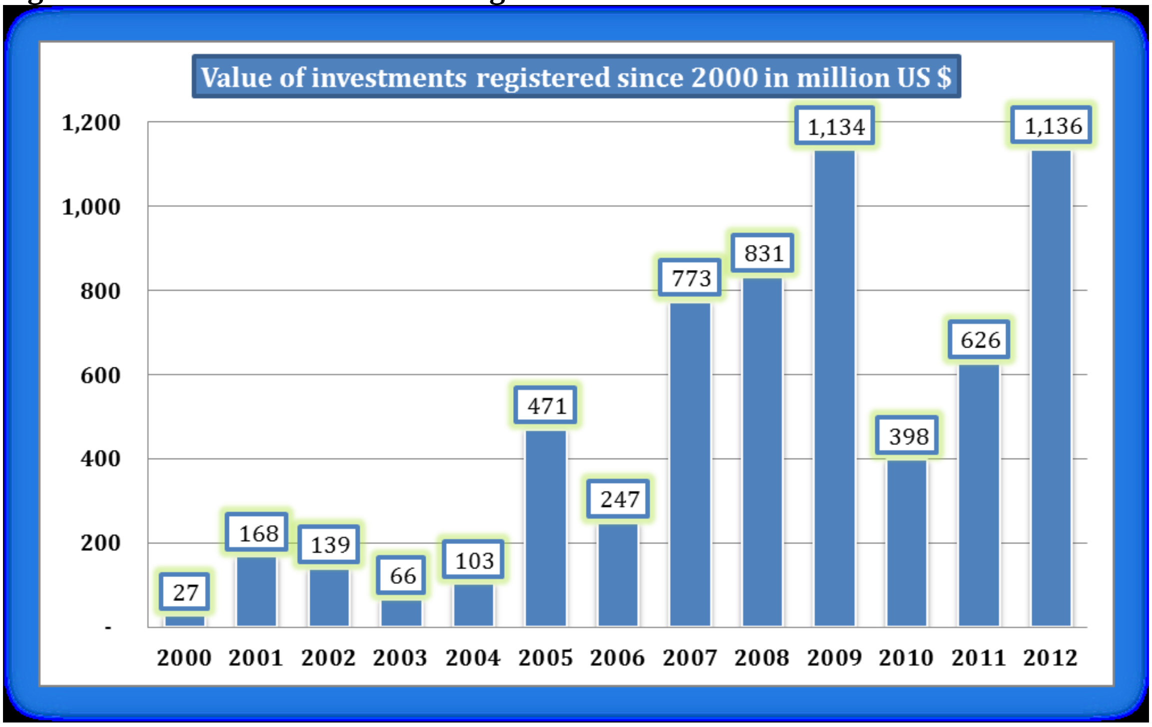
Figure 4.2: Number of Investment Projects Registered by RDB 2000-2010



Source: RDB investment report, 2011

Despite of the very low foreign direct investment in Rwanda 1996-2004, law No 16/2005 of 18/08/2005 article 18, 41 and 42 provides tax incentives and tax exemptions which altimetry built confidence for FDI, considering figure 4.2, above, a number of foreign investment projects were registered and a tremendous increase begun in 2005 surge more 2006 and so on.

Figure 4.3: Value of Investments Registered since 2000 in million



Source: RDB achievements Report 2012

According to the above figure, the data given in RDB report 2012, indicate a very less turn of registered investments in the year 2000 to 2004, this is however, a period Rwanda had not yet put in place investment promotion strategies like tax incentives; in her strategy to self-economic reliance and reduce foreign aid, the law N^{o} 26/2005 of 17/12/2005 relating to Investment and Export Promotion and facilitation was introduced to set the framework for the policy for encouraging FDI through fiscal incentives. As a result of the investment code, investments started increasing significantly where they reached $ 471 in 2005 from $27 in 2000 and $103 in 2004, however, 2015 investment reports are not yet in place.

Considering figure 4.3, over the last 13years the value of registered investments has increased meaningfully from $27 million in 2002 to $1,136 million in 2012. Investments started growing dramatically in 2005 where they reached $471 million from $103 million in 2004 nevertheless, in a verbal communication with RDB; foreign direct investment has increased up to 85% in 2015.

4.4. COMPARATIVE REGIONAL FDI IN & OUTFLOWS (2010 – 2013)

According to UNCTAD (2014), FDI flows to all major developing regions increased. Africa saw increased inflows (+4 per cent), sustained by growing intra-African flows. Such flows are in line with leaders' efforts towards deeper regional integration, although the effect of most regional economic cooperation initiatives in Africa on intraregional FDI has been limited. Developing Asia (+3 per cent) remains the number one global investment destination.
http://unctad.org/en/publicationslibrary/wir2014_en.pdf

Table4. 1: Comparative Regional FDI Inflows and Outflows (2010 – 2013)
(Millions of Dollars)

	Country	2010		2011		2012		2013	
		Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
1	Rwanda	42	-	106	-	160	-	111	14
2	Mauritius	430	129	433	158	589	180	259	135
3	DRC	2,939	7	1,687	91	3,312	421	2,098	401
4	Uganda	544	4	894	1	1,206	0	1,146	1
5	Kenya	178	2	336	9	259	16	514	6
6	South Africa	3,636	-76	4,243	-257	4,559	2,968	8,188	5,620
7	Tanzania	1,813	-	1,229	-	1,800	-	1,872	-
8	Botswana	136		1,093		147		188	

Source: UNCTAD (2014),

Available also at:http://unctad.org/en/publicationslibrary/win 2014_en.pdf

According to the World Bank Doing Business report 2010-2014, Rwanda enjoys strong economic growth which averaged 7% high rankings annually, Rwanda takes a 46 position out 189 countries in 2015, third best behind Mauritius and south Africa, and a reputation for low corruption. Rwanda presents a number of opportunities for U.S.
and Foreign Direct Investment, including in clean and renewable energy, infrastructure, agriculture, tourism, mining and information and communication technology.

Considering FDI inflows and outflows 2010-2013, in Rwanda, table 4.1 above shows that there was an increase of 152% of inflows compared to Mauritius which only increased by 0.69% while comparing 2010 and 2011, whereas Rwanda's outflows remained 0%, Mauritius increased by 22.4%; while comparing year 2012 and 2013, Rwanda inflows declined 30.6% whereas Mauritius decreased by 56%.

4.5. TAXES AND TAX INCENTIVES SWOT ANALYSIS IN RWANDA

Whereas findings have shown taxes and tax incentives perspectives toward FDI, (Zolt, 2013) argues that countries grant special tax incentives to attract additional investments. He further argues that tax incentives yield to increased capital transfer, transfers of know-how and technology, increased employment and assistance in improving conditions in less-developed countries areas. Rwanda in this case provides 50% discount on CIT to an investment in rural areas.

Tax incentives lead FDI to generate substantial spill over effects. For example, economic growth will increase the spending power of the country's resident that in turn will increase demand for new goods and services. Increased investment may also lead to increased government tax revenue either directly from tax taxes paid by the investors or indirectly through increased tax revenues received from employees, (Easson, 2001). Tax incentives have benefited Rwanda in the same ways, FDI companies pay dircet taxes to the GoR, but indirect tax through increased tax paid to employees. For example C&H Garments employs 300 Rwandans this however has increased peoples' spending power but at time increase the country's GDP.

Despite of the strength of tax incentives to Rwanda as factor of FDI attraction, tax incentives adopts revenue costs. The GoR has foregone revenues from projects that would have been undertaken even if the investor did not receive tax incentives (East African Taxation project, report 2011). The table 4.2, indicates calculated taxes foregone, however, no particular individual who unclearly gives the exact taxes foregone to tax incentives.

Table4. 2: Tax foregone due to tax incentives 2008 and 2009

Tax	2008 Tax Foregone	2009 Tax Foregone
Investment Allowance		21,826,890,607
Tax Reduction Based on Number of Employees	259,265,691	237,037,365
Corporate Income Tax at 0% for 5 Years (Micro Finance	529,065477	61,512,331
Import Tax Exemptions (VAT, Customs Duty, Withholding Tax)	92,211,995,534	118,193,608,019
Domestic Tax Exemptions resulting from contracts based in bilateral agreement e.g. COMESA	1,378,873,200	536,700,600
Total	**94,379,199,902**	**140,855,748,922**
As % Total Tax Revenue	34%	38%
As % Total Potential Tax Revenue	25.5%	30%
As % Total Government Revenue	29%	33%
As % Total Potential Government Revenue	22.5	24.7
As % of Government Budget	14%	17%
As % Total Potential Government Budget	12.3%	14%
Total as % of GDP	3.6%	4.7%

Source: East Africa Taxation Project Report, 2011

While ending this paragraph, the analysis shows a strong relationship between tax incentives for foreign and domestic investors, as well as some more targeted at the private sector and process in achieving government objectives, there has been a tremendous economic growth, an increase in investment in new business, an increase in exports. The increase however, may not be due to the availability of tax incentives but also to other factors making Rwanda a more attractive country which to invest. However, tax incentives also lead to loss of government funds in the process to private investment.

4.6. TAXES AND TAX STRUCTURE IN RWANDA

Despite of tax revenues lost in tax incentives, national taxation policy focuses on mobilization of revenues for economic development through efficient and equitable services that promote business growth. (BAHIZI, 2013), the tax policy has been reformed to meet RRA objectives as follows: Raising more revenue in short term; ensuring that tax burden is distributed equally; broadening the tax base to reflect the changing structure of the economy and easing the tax burden on general population creating favourable conditions for development of the private sector and furthering the on-going adaptation of tax structure to fit a market economy. In relation to raising revenues, RRA gives taxes collection progress as indicated in Table 4.3.

Table4. 3: Tax Revenue Collection 2010-2015 (Billion Francs)

Year	Customs taxes	Domestic taxes	Total Taxes
2010	141.252	271.237	412.489
2011	171.545	330.258	501.803
2012	199.028	403.528	602.557
2013	214.678	492.356	707.034
2014	253.905	556.118	810.023
2015	297.382	618.966	916.349

Source: Figures calculated by RRA, 2016

Basing on the table above, tax revenues have been increasing tremendously for the last five years. The factors behind the improved performance are the good collaboration with various stakeholders, Rwanda cooperatives Agency, the Private Sector Federation and Rwanda Governance Board. However, increased customs duties mean increased taxes on exports or imports especially on private sector business, nevertheless, there are less annual increase on custom duties compared to domestic taxes. This in way or the other indicates how FDI is affected in terms of export and imports of materials for FDI in Rwanda. The question is to what extent taxes do and tax incentives affect Foreign Direct Investment in Rwanda?

4.7. SECTION II, PRIMARY INFORMATION

Whereas, secondary data gives information about tax incentives on foreign direct investment with comparison of a number projects registered and value of FDI investments in for different years, the researcher moved ahead to find how effective is the taxes and tax incentives on FDI through interviews with RRA tax Authorities and Private Companies.

4.7.1. RRA STAFF (RESPONDENTS)

A number of 50 staff members of the organization took part in this interview. Based on their opinions, the researcher was able to bring out the following conclusions. Tables 4.4 to 4.5 present the demographic profile of respondents.

Table4. 4: Respondents by sex

S:N°	Sex	N° of Respondents	Percentages (%)
1	Male	30	63
2	Female	18	37
	Total	**48**	**100**

Source: Primary Data (2016)

According to Table 4.4, the respondents of RRA Management Staff comprised 63% males and 37% females. This depicts the number of males in RRA management offices outweighs the number of females.

Table4. 5: Distribution of Respondents by Age-Group

S:N°	Response	N° of Respondents	Percentages (%)
1	Below 30	10	21
2	Between 30 and 50	33	69
3	Above 50	5	10
	Total	**48**	**100**

Source: Primary Data (2016)

According to Table 4.5, the respondents of RRA Staff and Management comprised 21% below 30; 69% between 30 and 50; and 10% above 50. This depicts a team of largely youthful, energetic and responsible age bracket.

Table4. 6: Respondents (Staff and Customer Services Providers) by Education

S:Nº	Response	Nº of Respondents	Percentages (%)
1	Post Graduate (or its Equivalence)	33	69
2	Graduate (or its Equivalence)	15	31
3	Advanced School Certificate of Education (or its Equivalence)	0	0
4	Ordinary Level School Certificate (or its Equivalence)	0	0
	Total	**48**	**100**

Source: Primary Data (2016)

According to Table 4.6, the respondents of RRA Staff and Management comprised 69% post graduates, 21% graduates, 0% advanced certificate holders, and 0% ordinary level certificate holders or their respective equivalences. This line-up portrays a well-educated team but also implies the staff qualifies for the work they doing thus the researcher confirms that the information provided in his research is reliable.

4.8. Job - Category held by Respondents at RRA

In relation to Job - Category held by RRA respondents, where respondents were asked to mention the job titles; the researcher found out that at-least 70% of the respondents belonged to management. Then, 30% belonged to general office staff. This indication implies a consortium of leadership team of RRA who has a fairly appropriate understanding of what goes in and around the organization on daily basis.

Table4.7: Respondents' Length of Services with RRA

S:Nº	Response	Nº of Respondents	Percentages (%)
1	Below 1 Years	4	8
2	1 – 3 Years	6	13
3	3 – 6 Years	11	23
4	Over 6 Years	27	56
	Total	**48**	**100**

Source: Primary Data (2016)

Table 4.7 reveals that 23% of the respondents had worked with RRA for between three and six years. Moreover, 56% of them had worked for more than six years. Meanwhile a significant 8% had been working for RRA between one and three years and this is the same as of fresh minds into the organization had worked for less than a year. This revelation implies the existence of some considerable amount of experience and competence among this group of respondents in dealing with the subject pertaining to tax laws and tax incentives as they relate to foreign direct investments in Rwanda.

Table4. 8: Respondents' Acquaintances with Tax Laws and Incentives in Rwanda

S:Nº	Response	Nº of Respondents	Percentages (%)
1	Excellent	10	21
2	Very Good	33	69
3	Fairly Good	5	10
4	None of the above	0	0
	Total	**48**	**100**

Source: Primary Data (2016)

Table 4.8 reveals that most (69%) of the respondents view their acquaintance with tax laws and incentives as very good. More so 21% view it as excellent. Yet 10% view their acquaintance as fairly good, 0% thought it was something else. In all, this disclosure confirms the existence of some considerable amount of competence among this group of respondents in dealing with the subject pertaining to RRA.

In a conversation with some of these respondents, they asserted that they have no much experience with tax laws and tax incentives since they are only less than one year.

Table4. 9: Respondents' Acquaintances with Direct Foreign Investments code of 27/05/2015

S:Nº	Response	Nº of Respondents	Percentages (%)
1	Excellent	5	10
2	Very Good	30	63
3	Fairly Good	10	21
4	None of the above	3	6
	Total	**48**	**100**

Source: Primary Data (2016)

Table 4.9 again reveals that most (63%) of the respondents view their acquaintance with Direct Foreign Investments code as very good. More so 10% view it as excellent. Yet another figure of 21% views the acquaintance as fairy good. Whereas, only 6% focused their views on something else. Once more, therefore, this line-up signifies that there exists a considerable amount of competence among this group of respondents in dealing with the subject pertaining to tax laws and tax incentives as they relate to foreign direct investments in Rwanda. Moreover, the research indicate that there is a great need of RRA to teach and train their employees about tax laws and tax incentives in order to be able train private investors.

Table4.10: Respondents' View on Whether Investment Code in Rwanda Attracts DFI

S:N$^{\underline{o}}$	Response	N^{o} of Respondents	Percentages (%)
1	Yes, will attract more	24	50
2	Yes, not very much	15	31
3	Not; will discourage them	3	6
4	I don't know	6	13
	Total	**48**	**100**

Source: Primary Data (2016)

Table 4.10 reveals that 50% of the respondents view that investment code of Rwanda attracts more direct foreign investors. However, 31% of them take a low profile position on that and 6% has a contrary view - arguing that the investment code discourages investors.13% meanwhile didn't know exactly what the impact of the code has on investors' attraction into the country. Given the majority consideration, the investment code is phenomenal in it its effect on attracting foreign investors. However, someone can't ignore the views of the other respondents, thus the research suggests that the government and the policy makers to study more of the investment cod to its most effective purpose. The investment code law N^{o} 6/2015 of 28/03/2015 include the new tax guide lines and incentives to attract FDI in Rwanda. In this law incentives are given that effectively reduce corporation tax and give exemption to or reduce VAT, Custom duties and withhold taxes.

The same code gives a reduction on corporation tax for employing more than a 100 Rwandans but also gives a window to deduct training and research expenses to encourage investment in capacity building; and thus both RRA staff and private investors see it as target to increase investments.

Table4. 11: If Foreign Investors Are Well Informed on their Tax Obligations

S:Nº	Response	Nº of Respondents	Percentages (%)
1	Yes, they are	28	58
2	No, they aren't	18	38
3	I don't know	2	4
4	None of the above	0	0
	Total	**48**	**100**

Source: Primary Data (2016)

On whether foreign investors are well informed on their tax obligation, Table 4.11 reveals that most (58%) of the respondents agree with the assertion. However, 38% of them think the investors are not well informed. 4% say they don't know. This exposure implies there is some considerable amount of awareness by foreign investors on their tax obligations here in Rwanda.

Table4. 12: If Foreign Investors Are Compliant with their Tax Obligations in Rwanda

S:Nº	Response	Nº of Respondents	Percentages (%)
1	Yes, by above 80%	16	33
2	Yes by between 60 and 80%	23	48
3	Simply by between 40 and 60%	7	15
4	No, only by between 20 and 40%	2	4
	Total	**48**	**100**

Source: Primary Data (2016)

According to the table 4.12, 48% of foreign investors are compliant with their tax at level between 60 - 80%.

However, 33% more think the figure is hire – that is above 80%. About 15% said it was as high as between 40 – 60% compliance; although 4% insisted it was as low as between 20 and 40% compliance. This indication implies this is a considerable measure of tax compliance among foreign investors in Rwanda, however, there is still a need to find out why the compliance is not above is above 80%.

Table4. 13: How Effective Tax System Could Be a Key Mechanism for Development

S:N°	Response	N° of Respondents	Percentages (%)
1	Checks on defaulters and inspires tax payment on time;	35	73
2	Is proportionate to national growth;	10	21
3	Mobilizes domestic revenue-base as a factor of dependency;	3	6
	Total	**48**	**100**

Source: Primary Data (2016)

As to how effective tax system could be a key mechanism for development, Table 4.13 reveals that most (73%) of the respondents believe it checks on defaulters and inspires tax payment in time. However, 21% viewed it from the perspective that it is proportionate to national growth. However, 6% thought effective tax system mobilizes revenue-base as a factor of dependency. (Fjeldstad, 2001) ineffective tax system is often seen as one of the main constraints on the ability of states to collect revenues in general and direct taxes in particular. (Recom, 2013), estimates that better administration of existing tax legislation may increase revenue by 30 per cent or more in many countries and also suggest that in developing countries tax administration is more than a policy. Therefore, as majority claimed that simplification of tax legislation and improved tax administration are closely linked to enhance development and increase FDI.

Table4. 14: If Rwanda Tax Structure Proves to Reduce Tax Aversions

S:N°	Response	N° of Respondents	Percentages (%)
1	Yes, by above 80%	10	21
2	Yes by between 60 and 80%	16	33
3	Simply by between 40 and 60%	7	15
4	No, only by between 20 and 40%	15	31
	Total	**48**	**100**

Source: Primary Data (2016)

Concerning whether Rwanda tax structure proves to reduce tax aversion, table 4.14, reveals that 21% of the respondents claim it should reduce aversions by above 80%.

However, 33% it does do by between 60 - 80%. None the less, 15% more thought the figure is as high as between 40 – 60% reduction; although 31% insisted it was as low as between 20 and 40% compliance. This indication implies that Rwanda tax structure contributes considerably in reduction of tax aversions among foreign investors in Rwanda. Despite of respondents' arguments, RRA has put in place mechanisms to reduce tax aversions among which include enforcement of electronic billing machines and conducted more targeted campaigns about the new system, thus the research confirms Rwanda Tax Structure prove to reduce tax aversion in Rwanda.

Table4.15: In Respondent's View, What Tax Incentives Ought to be emphasized Most

S:Nº	Response	Nº of Respondents	Percentages (%)
1	Deduction	15	31
2	Exclusion	0	0
3	Exemption	27	56
4	None of the above	11	23
	Total	**48**	**100**

Source: Primary Data (2016)

In regard to what tax incentives ought to be most emphasized in Rwanda, Table 4.15 reveals that most (56%) of the respondents claim to be exemption. However, 0% say exclusion. Meanwhile, 31% viewed deduction as most worthy of emphasis. Nevertheless, 23% more thought none of the above was worthy of most significant for emphasis. As a matter of majority, therefore, the assessment provides for exemption as the most tax incentive to be emphasized.

4.9. PRIVATE COMPANIES (RESPONDENTS)

The researcher sought to have the arguments about the effect of tax laws and tax incentives on FDI and thus tax regulators and to who they affect (Foreign Direct Investors) were interviewed. Respondents comprised, therefore, companies that have partnership with the Government of Rwanda and sole private companies. The same companies have a variety natures of their business among which include; manufacturing businesses, Merchandise, Services (telecommunication or transport services, Construction businesses to mention but a few. The responses were tabled as follows:

Table4. 16: Legal Form of Investment in Rwanda

S:Nº	Response	No of Respondents	Percentages (%)
1	Partner with the government	8	25
2	Sole private company	14	44
3	Other	10	31
	Total	**32**	**100**

Source: Primary Data (2016)

According to Table 4.16, 25% of the companies have a partnership with the GoR, whilst 44% are solely Foreign Director Investors, whereas 31% belong to other, in a verbal communication with the "other" category these are private companies but with a registration of a local registered status. With the above line-up legal form investment, the researcher was given better arguments on the perspective of tax laws and tax incentives on FDI.

Table4. 17: The Nature of the Business in Rwanda

S:Nº	Response	No of Respondents	Percentages (%)
1	Manufacturing business	12	38
2	Merchandising business	0	0
3	Service business	9	28
4	Construction business	11	34
5	Other	0	0
	Total	**32**	**100**

Source: Primary Data (2016)

According to the table 4.17, 38% the respondents are manufacturing business, they either manufacture clothes, food products, building materials to mention but a few; a good example being C& H Garments, Azam, Safintra and so on, meanwhile 28% of respondents provide business services more so 34% are in construction business an example China Star Construction.

Table4.18: Specific Incentives Respondents Expected in order to improve their business

S:Nº	Response	No of Respondents	Percentages (%)
1	Tax holiday	10	31
2	Financial facilitation	4	13
3	0% tax rate (corporate tax)	18	56
4	Other	0	0
	Total	**32**	**100**

Source: Primary Data (2016)

In so far as specific incentives expected in order to improve business, According to Table 4.18, the respondents placed their expectations on 0% tax rate on corporate tax by 56%. 31% of the respondents placed their expectation on tax holiday. Meanwhile 13% considered financial facilitation; in this regard investors expected a quick financial loan at a very low interest rate, however, in a verbal communication with the respondents, the reverse was true. Basing on the above analysis, FDI or Private Companies expected tax incentives in one way or the other, and they place their main request on 0% on importation of raw materials or products to run their business. Investors routinely compare tax burdens in different location, as do policy makers, with comparisons typically made across countries that are similar in terms of location and market size (OECD, 2008), while tax is recognized as being an important factor on where to invest, it is not the main determinant, (OECD, 2008), FDI is attracted to countries offering; access to markets and profit opportunities, predictable and non-discriminatory legal and regulatory framework, macroeconomic stability, skilled and responsive labour markets and well developed infrastructures. The GoR, apart from tax incentives offered has provided more advantages to attract FDI including quick processing of legal documents.

Table4.19: How Long the Investment Has Been in Rwanda

S:Nº	Response	No of Respondents	Percentages (%)
1	5 years or more	17	53
2	4 years	6	19
3	3 years	5	15
4	2 years or less	4	13
	Total	**32**	**100**

Source: Primary Data (2016)

According to table 4.19, 53% of respondents have been operating in Rwanda for 5 or more years, 19% of respondents have 4 years of operating in Rwanda, more so 15% are established for the 3 years, mean while only 13% are below or up to 2 years. This implies that if the government had given a 5 years tax holiday, they are or have full taxes. However, the rest of sampled companies have been in a country in a period less than five years a good example being POSITIVO.

Table4.20: If the Respondent is Aware of the Taxes they are Paying

S:Nº	Response	No of Respondents	Percentages (%)
1	Strongly yes	17	53
2	Somehow yes	11	34
3	I am not sure	4	13
4	Strongly No	0	0
	Total	**32**	**100**

Source: Primary Data (2016)

As to whether respondent are aware of the taxes they are paying, Table 4.20, show that 53% of respondents strongly agree with the statement, whereas 34% say somehow yes, though 13% was not sure. This indication implies that majority of the respondents are aware, in researcher's analysis, table 4.11 agrees with table 4:20 of RRA respondents who claim that Foreign Director Investors have been informed and trained of their tax obligation, however, a small percentage is not sure of their taxes, thus calling for RRA tax regulators to do more training on tax laws, tax obligations and tax incentives.

Table4.21: Respondent's Opinion on Tax System in Rwanda

S:Nº	Response	No of Respondents	Percentages (%)
1	Excellent	0	0
2	Very Good	18	56
3	Fairly Good	14	44
	Total	**32**	**100**

Source: Primary Data (2016)

About the respondents' opinions on tax system in Rwanda, according to Table 4.21, 56% of the respondents think the system is very good. 0% more considers it to be excellent. However, 44% think is fairly good. By majority consideration, the tax system in Rwanda is remarkably good. This however, agrees with RRA respondents table:4:14, which confirm that Rwandan tax structure prove to reduce tax aversion by the 33% and 31% respectively. In verbal communication with private investors, Rwanda tax system, gives an opportunity to raise funds for public expenditure (Roads, Electricity, Internal and external Security, Education to mention but a few).

Table4. 22: How Acquainted Respondent is with the Tax Laws and Incentives in Rwanda

S:Nº	Response	No of Respondents	Percentages (%)
1	Excellent	0	0
2	Very Good	18	56
3	Good	12	38
4	Fairly Good	2	6
	Total	32	100

Source: Primary Data (2016)

Table 4.22 reveals that most (56%) of the respondents view their acquaintance with tax laws and incentives as very good. Furthermore, 38% viewed it as good. More so, 6% thought it is fairly good. This implies therefore, investors in Rwanda understand tax laws and tax incentives offered to foreign investors pretty well, in relation to this RRA responds are also much acquainted with tax laws and tax incentives as proved by table 4:8. This however means Foreign Director Investors have been taught of tax laws of Rwanda.

Table4.23: If Respondent thinks Taxes they Pay are Fair vis-à-vis their Investment

S:Nº	Response	No of Respondents	Percentages (%)
1	Yes	15	47
2	No	16	50
3	Not sure	1	3
	Total	**32**	**100**

Source: Primary Data (2016)

Despite of the good tax system and tax structure of Rwanda and the training accompanied by various campaigns from RRA, 47% of respondents in Table 4.23, held that the taxes they pay vis-à-vis their investments are not fair.

However, 50% agree and believe they pay fair taxes. By majority consideration, therefore, this assessment considers that the taxes foreign investors pay here in Rwanda are not fair vis-à-vis their investments.

4.10. WHAT PROMPOTED INVESTORS TO THEIR RESPECTIVE BUSINESS

It is true that Rwanda in its doing business strategy, decided to forgo some taxes in order to attract more investors this is done in a view to achieve vision 2020, it is more so was confirmed by all investors that before starting off a business they experienced tax incentives. However, on why investing in Rwanda, they all agree that there is a wide range of market, stable political climate, government support especially on processing legal documents. (D.Bowan, 2015), claim that there is no difficulty in obtaining foreign exchange or transferring funds associated with an investment into a usable currency and at a legal market clearing rate. However, while asked of the need for more investment, 100% request for 0% rate customs duty, referring to Rwanda official gazette of 27/05/2015 article 5 giving exemption of customs tax for products used in export processing zone.

Table4. 24: Respondent's View of What Tax Incentives Ought to be Emphasized Most

S:N°	Response	N° of Respondents	Percentages (%)
1	Deduction	5	16
2	Exclusion	4	12
3	Exemption	23	72
	Total	**32**	**100**

Source: Primary Data (2016)

In regard to what tax incentives ought to be most emphasized in Rwanda, Table 4.24 reveals that most (72%) of the respondents voted for exemption. However, 12% voted for exclusion. Meanwhile, 16% viewed deduction as most worthy of emphasis. Nevertheless, 0% thought none of the above was worthy of most significant for emphasis. As a matter of majority, therefore, the assessment provides for exemption as the most tax incentive to be emphasized.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0. INTRODUCTION

The purpose of this section of summary, recommendations and general conclusions was to bring all the findings of the research to a united, final reflection, in light of the problem statement, hypothesis, objectives and research question of this research.

General conclusions of the findings of the study expresses the general view of what the researcher discovered during the course of the research. It, therefore, handles the researcher's assessment of the work. It offers suggestions, and recommendations on some areas that are likely to be found wanting in law tax laws, tax incentives on direct foreign investments.

5.1. SUMMARY OF MAJOR FINDINGS

Basing on the Problem Statement of the research, the Objectives and the Research Question, the researcher drew conclusions on "The Impact of Tax Laws on Direct Foreign Investment (2010 – 2015)".

Much as Angello M (2014), remarks Rwanda's intention for economic attractiveness, before she had to adapt to the EAC tax harmony, by eliminating import duties on items like telecommunication, construction materials to 0%; and much as Rwanda adoption to official EAC CET impacted a serious decline of foreign direct investment in 2010 a fact that moved the researcher to examine the effect of tax and tax incentives on foreign direct investment in Rwanda; the research finds a tremendous positive change since then.

While the purpose of this study seeks to explain the influence of tax laws (policy) and tax incentives over Foreign direct Investments in Rwanda and its value for a sustainable growth - as a phenomenon of added value advantage or a major factor of East African Community common market/customs union, the findings establishes that various options of tax exemptions exist for legislation. For example: Tax incentives for regional development; for creating jobs; for transfer of technologies; for promoting exports; as well as free trade zones or export processing zones; among others. In Rwanda the following incentives are offered Investment Allowance; Loss Carried Forward; Tax Discount and Exemption; as well as Profit Tax Discount.

Secondary data further establishes that legislated tax changes have numerous motivations. Such as those that reflect efforts to stimulate a weak economy or to restrain an overheated one; others result from views about the incentive effects of marginal tax rates; others occur in conjunction with decisions to adopt new spending programs.
The primary data of this research further establishes that Rwanda investment code is phenomenal in its effect on attracting foreign investors; and the tax system is remarkably good. Furthermore, investors consider that the taxes they pay here in Rwanda are fair vis-à-vis their investments. The study also reveals that there is considerable measure of tax compliance among foreign investors in Rwanda. The effectiveness of tax management in Rwanda ensures all the tax is collected; and that tax payers willingly pay their dues in time.

The study confirms also that Rwanda Revenue Authority regularly conducts training of investors on tax and foreign direct investors understand tax laws and tax incentives offered to them pretty well. The study also establishes that Rwanda tax structure contributes considerably in reduction of tax aversions among investors in Rwanda. The research finding further provides that exemption is the most tax incentive method to be emphasized.

The research establishes several benefits of tax incentives to a country like Rwanda; for example: it allows new capital investments to flow in; investments in research and development impact positive change in an economy. Also, training of staff in connection with the investments made improves skills and provides opportunities for job creation and opportunities.

Secondary data further reveals that regardless of the fact that the main purpose of taxation is to increase the revenues to the budget, the tax system in its essence also has an impact in economic incentives. For this reason, tax incentives and reliefs are a flexible tool for making impact on the incentives in a direction, contributing to the achievement of other political objectives, such as investment promotion, creation of jobs, development of certain regions, etc.

In combination with other measures, the introduction of tax incentives and reliefs is a signal of the commitment of the State to facilitate entrepreneurs and foreign and local investors. In the conditions of a global economy with high capital mobility, the effective taxation must be low in order to attract external flows of foreign investments and, at the same time, ensure investments for production, financed with domestic capital. The system of tax incentives can compensate for other deficiencies in the investment climate in the country, such as unreliable infrastructure, macroeconomic instability, problems in the judicial system, etc.

The indirect impact on revenues can be favorable, since the new investments, materialized through tax incentives, create new jobs and are related to effects generating tax revenues. The price of tax incentives is less visible compared to the investment policies, which are related to direct expenditure for the budget. This makes the incentives attractive and preferred. Finally, practice shows that tax incentives and reliefs are an effective incentive for promoting foreign direct investment.

5.2. CONCLUSION

The research findings, therefore, appropriately establish the objectives of the study by examining the impact of tax laws and tax incentives to foreign investment in Rwanda – they attract investors; assessing their role in attracting FDI – they let the investors feel like they have better chance to make more mores; and examining their implication on Rwanda economy – they let the investors bring along capital investments and skills which in turn generate more jobs for a wider tax base.

5.3. RECOMMENDATIONS

In conclusion, every stake holder in the Rwanda revenue regulation, collection and management, be they BRD, RRA, Parliament, etc. should garner all the efforts that ensures investors get better comparative advantages that ensures their growth and the growth of the economy. This seemingly obscure phenomenon influencing economic choices shouldn’t seem a waste of funds and opportunities to anybody. The researcher concurs with Economic Studies at Brookings, (Sept. 2014), which established that, while there is no doubt that tax policy can influence economic choices, it is by no means obvious, on an *ex ante* basis, that tax rate cuts will ultimately lead to a larger economy.

All these happen amidst the argument that, theory, evidence, and simulation studies tell a different and more complicated story. At the end of it all, countries like UAE, Singapore and Mauritius have done wonders by using the principles of tax incentives to ease ways-in for FDI and develop peoples and land.

5.4. AREAS OF FURTHER STUDIES

Not everyone holds that tax incentives are a must. Tax Justice on Africa (July 2011), argued that every year Rwanda foregoes about a quarter of its potential tax revenue through tax incentives and exemptions given to businesses to attract private sector investment. Is this money well spent?

This is a question worth investigating by looking at the issue of providing tax incentives and exemptions for investors: Is this too generous for a country like Rwanda that is struggling to raise money to fund its development strategy? Would the money be better spent on other policy priorities like education or health? Why are the amounts foregone not made publically available? Is there monitoring and evaluation of their effectiveness and is there cost benefit analysis of tax incentives for attracting investment?

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ANNEXES

ANNEXURE-1

QUESTIONNAIRE

(RRA Staff - Respondents)

AN INTRODUCTION LETTER

Dear Respondents,

This is a research project on the **"The Impact of Tax Laws and incentives on Foreign Investment in Rwanda" (2010 - 2015)**. It is carried out for the completion of my Master's Degree dissertation. I kindly request you to provide me your opinions concerning this study. The questions asked are entirely for the use of the researcher and under no condition would they be communicated to any other person.

Thank you for your kind cooperation.

Celestin BAHIZI
University of Rwanda
College of Business and Economics
Kigali-Rwanda

Write your answer by making a tick on the box, provided; and thereby indicate the answer of your choice, giving your view or facts as necessary

1. Sex

   A Male ☐

   B Female ☐

2. Age category

   A Below 30 ☐

   B Between 30 and 50 ☐

   C Above 50 ☐

3. Level of Education

   A Post Graduate (or its Equivalence) ☐

   B Graduate (or its Equivalence) ☐

   C Advanced School Certificate of Education (or its Equivalence) ☐

   D Ordinary Level School Certificate (or its Equivalence) ☐

4. Job title/ post held ………………………………………………….

5. What is the length of your service with RRA?

   A Below 1 year ☐

   B 1-3 years ☐

   C Between 3-6 years ☐

   D Over 6 years ☐

6. How acquainted are you with tax laws and tax incentives in Rwanda?

   A Excellent ☐

   B Very Good ☐

   C Fairly Good ☐

   D None of the above ☐

7. How acquainted are you with Direct Foreign Investment in Rwanda?

   A Excellent ☐

   B Very Good ☐

C Fairly Good ☐

D None of the above ☐

8. Do you think the investment code will attract (or attracts) more foreign investors in Rwanda?

A Yes, will attract more ☐

B Yes, not very much ☐

C Not, will discourage them ☐

D I don't know ☐

9. In your view, do foreign investors in Rwanda have enough information about their tax obligations?

A Yes, they do ☐

B No, they don't ☐

C I don't know ☐

D None of the above ☐

10. In your opinion, are foreign investors in Rwanda compliant with their tax obligations?

A Yes, by above 80% ☐

B Yes, by between 60% and 80% ☐

C Simply by between 40 and 60% ☐

D No, only by between 20 and 40% ☐

11. How, in your opinion, is an effective tax system a key mechanism for development?

A Checks on defaulters and inspires tax payment on time; ☐

B Is proportionate to national growth ☐

C Mobilizes domestic revenue-base as a factor of dependency ☐

D Stops corruption tendencies in the civil service ☐

12. Does Rwanda need to pass laws that promote tax incentives?

A Yes, it does ☐

B No, it doesn't ☐

C I don't know ☐

13. Must we, in your view, have a favourable tax policy and tax incentives, first, in order to attract FDI?

A Yes ☐

B No ☐

14. If your answer to Q.11 is No, explain why (or write N/A for not applicable)

……………………………………………………………………………………..

……………………………………………………………………………………...

15. Importation of telecommunication and construction materials were subjected to 0% tax rate, however investment code of EAC sets changes to 25% tax rate on the same. In your opinion, has this affected foreign direct investment in Rwanda? How?

……………………………………………………………………………………..

……………………………………………………………………………………...

16. "Self-improvement on taxation is imperative to a country like Rwanda", in your opinion has Rwanda taken up a serious fight for this?

A Yes, by above 80% ☐

B Yes, by between 60% and 80% ☐

C Simply by between 40 and 60% ☐

D No, only by between 20 and 40% ☐

17. In your view, does Rwandan tax structure prove to reduce tax aversions, leading to tax payers' compliance?

A Yes, by above 80% ☐

B Yes, by between 60% and 80% ☐

C Simply by between 40 and 60% ☐

D No, only by between 20 and 40% ☐

18. "A tax incentive can be a deduction, exclusion, or exemption from a tax liability". Which of these, in your view, should be emphasized most?

A Deduction ☐

B Exclusion ☐

C Exemption ☐

D None of the above ☐

19. In your view, are tax laws and incentives attracting Foreign Direct Investments (FDI) here in Rwanda?

A Very much so ☐

B Yes, but not quite much ☐

C Not at all ☐

D I don’t know ☐

20. There are arguments that tax incentives cause loss of revenue to the national budget. How true is this about Rwanda, in your opinion?

A It is not true at all ☐

B It is true sometimes ☐

C It is true all the time ☐

D I don’t know ☐

ANNEXURE-2

QUESTIONNAIRE

(Foreign Private Companies)

AN INTRODUCTION LETTER

Dear Respondents,

This is a research project on the **"The Impact of Tax Laws and incentives on Foreign Investment in Rwanda" (2010 - 2015)**. It is carried out for the completion of my Master's Degree dissertation. I kindly request you to provide with me your opinions concerning this study. The questions asked are entirely for the use of the researcher and under no condition would they be communicated to any other person.

Thank you for your kind cooperation.

Celestin BAHIZI
University of Rwanda
College of Business and Economics
Kigali-Rwanda

Write your answer by making a tick on the box, provided; and thereby indicate the answer of your choice, giving your view or facts as necessary

1. What is the legal form of your investment in Rwanda?

   A Partner with the government ☐

   B Sole private company ☐

   C Other…specify…………………………………………………………

2. What is the nature of your Business?

   A Manufacturing business ☐

   B Merchandising business ☐

   C Service business ☐

   D Construction business ☐

   E Other…Specify …………………………………………………………

3. Briefly explain activities involved in your business

   ………………………………………………………………………………..

   ………………………………………………………………………………...

   ………………………………………………………………………………...

4. What specific incentives did you expect to improve on your business?

   A Tax holiday ☐

   B Financial facilitation ☐

   C 0% tax rate (corporate tax) ☐

   D Other… Specify …………………………………………………………

5. How long have your investment been Rwanda?

   A 5years ☐

   B 4years ☐

   C 3years ☐

   D 1 to 2years ☐

6. Could you be aware of the taxes you're paying?

   A Strongly yes ☐

   B Some yes ☐

C I am not sure ☐

D Strongly No ☐

7. Have the tax authorities (RRA) been able to inform you of your tax obligation?

   A Yes, ☐

   B No, ☐

   C Not sure ☐

8. Have did you find the tax system in Rwanda?

   A Excellent ☐

   B Very Good ☐

   C Fairly Good ☐

   D None of the above ☐

9. In your understanding do you think the taxes you pay are fair vis-à-vis your investments?

   A Yes, ☐

   B No, ☐

   C Not sure ☐

10. How acquainted are you with tax laws and tax incentives in Rwanda?

    A Excellent ☐

    B Very Good ☐

    C Good ☐

    D Fairly Good ☐

    E Below average

11. Have you benefited from any of tax incentives in Rwanda?

    A Yes, ☐

    B No, ☐

If Yes, what tax incentive?..

12. What prompted you to invest in this business other than any other business?

    ……………………………………………………………………………………..

    ……………………………………………………………………………………...

13. What tax incentives would you request from the government if you wished to make more investment in Rwanda to develop the Nation?

………………………………………………………………………………………..

………………………………………………………………………………………...

14. In your understanding, are you acquainted with the investment code of Rwanda?

A Yes, very much ☐
B Yes, but not very much ☐
C Not all ☐
D None of the above ☐

15. Do you think the investment code will attract (or attracts) more foreign investors to Rwanda?

A Yes, will attract more ☐
B Yes, but not very much ☐
C Not, will discourage them ☐
D I don't know. ☐

16. Which of the following, in your view, constitutes an excellent purpose for taxation?

A Supporting districts and infrastructural development ☐
B Creating jobs and paying civil servants ☐
C Providing security and health services ☐
D Generating sufficient revenue to finance government service ☐

17. How, in your opinion, is an effective tax system a key mechanism for development?

A Checks on defaulters and inspires tax payment on time ☐
B Is proportionate to national growth ☐
C Mobilizes domestic revenue-base as a factor of dependency ☐
D Stops corruption tendencies in the civil service ☐

18. Does Rwanda need to pass laws that promote tax incentives?

A Yes, it does ☐
B No, it doesn't ☐
C I don't know ☐

19. "A tax incentive can be a deduction, exclusion, or exemption from a tax liability". Which of these, in your view, should be emphasized most?

A	Deduction	☐
B	Exclusion	☐
C	Exemption	☐
D	All of the above	☐
E	None of the above	☐

1. *Number of RRA staff by grade and by Department as at 31 JANUARY,2016*

N°	DEPARTMENT	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10	Grade 11	HG	Total
1	CG'S OFFICE	2	0	0	1	4	0	2	1	0	0	0	1	11
2	DCG'S OFFICE	0	0	0	1	0	0	0	1	0	0	1	0	3
3	CORPORATE RISK MGT& MODERNISATION DPT	0	0	0	3	10	10	5	3	1	0	0	0	32
4	QAD	0	0	0	0	7	0	8	3	0	1	0	0	19
5	IT/ISD	0	0	1	0	23	0	11	4	1	0	0	0	40
6	TPSD	0	0	1	7	8	0	2	2	1	0	0	0	21
7	FINANCE	0	0	1	38	26	0	9	1	0	1	0	0	76
8	TRAINING	0	0	1	0	2	0	3	2	1	0	0	0	9
9	HUMAN RESOURCES DEPARTMENT	0	0	0	0	4	0	4	2	1	0	0	0	11
10	ADMINISTRATION& LOGISTICS DEPT	59	3	1	6	7	0	4	3	1	0	0	0	84
11	LEGAL & BOARD SECRETARIAT		0	1	0	12	3	4	2	1	0	0	0	23
12	PLANNING & RESEARCH		0	0	0	5	0	3	3	1	0	0	0	12
13	REVENUE INVESTIGATION & ENFORCEMENT	1	2	5	2	20	0	4	2	1	0	0	0	37
14	DTD	0	0	0	0	7	0	4	1	0	1	0	0	13
15	LTO	0	1	1	29	25	0	6	2	1	0	0	0	65
16	SMTO	0	3	3	84	38	0	13	5	1	0	0	0	147
17	REGIONS	0	0	0	55	24	0	7	2	0	0	0	0	88
18	DECENTRALISED TAXES 2	0	0	1	201	0	0	1	2	1	0	0	0	206
19	**CSD**	**1**	**2**	**5**	**167**	**56**	**1**	**23**	**4**	**1**	**1**	**0**	**0**	**261**
	TOTAL	**63**	**11**	**21**	**594**	**278**	**14**	**113**	**45**	**13**	**4**	**1**	**1**	**1158**
	POLICEMEN													**108**
	TOTAL													**1266**