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Global Tax Alert

Rwanda amends Income Tax law: Defines permanent residence and effective place of management, provides guidelines on carryforward of tax losses past five years

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Executive summary

Rwanda enacted Ministerial Order Number 003/19/10/TC of 29/04/2019 (the Order) on 6 May 2019. The Order contains amendments to the Income Tax law addressing permanent residence, effective place of management and guidelines on the carryforward of tax losses past five years.

This Alert summarizes the key amendments under the Order.

Detailed discussion

Permanent residence of a natural person

The permanent residence for a natural person is defined as a house, an apartment, a hotel or any other residential quarters in Rwanda where the individual habitually stays.

Effective place of management

A taxpayer, other than a natural person, is deemed to have their effective place of management in Rwanda under any of the following circumstances:

- Day-to-day control and management are performed in Rwanda.
- Shareholders' meetings are held in Rwanda.
- Books of accounts are prepared and maintained in Rwanda.
- The main shareholders or directors are residents of Rwanda.

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Certification of financial statements

The threshold for certification of financial statements by qualified professionals has been increased from an annual turnover of FRW400 million to FRW600 million.

The list of taxpayers who are exempted from this requirement has been expanded to include distributors of soda, juice, petrol and petroleum products and audit firms except when they cumulate activities.

Simplified accounting records

Small businesses are now required to maintain the following simplified accounting records:

- Daily cash and credit sales
- Daily cash and credit purchases of goods and service
- All cash incomes and expenditures

The simplified accounted records should capture, among others, details of the transaction date, invoice number, customer/supplier name and Tax Identification Number (TIN), nature of goods of services, quantity and price.

Authorization of loss carryforward period past five years

The order introduces new guidelines regarding the grounds and process for authorization of a taxpayer to carry forward a loss for more than five tax periods. A taxpayer applying for a carryforward of losses must:

- Submit a written application, together with the tax declaration for the fifth tax period, to the Commissioner General of Rwanda Revenue Authority
- Present sound reasons regarding the cause of the loss for which they are requesting to carry forward and reliable strategies to overcome such a loss
- Prove that the loss was derived from the investments carried out
- Submit audited financial statements for the tax period corresponding to the loss
- Be a credible taxpayer who declares and promptly pays tax and is not guilty of tax evasion in the previous five years
- Have not distributed any profits in the previous five years

The Commissioner General is required to respond before the end of the tax period during which the application was filed. Where the tax period expires without any response from the Commissioner General, the loss is considered as authorized to be carried forward for only one year, but this period cannot be extended beyond five years.

Authorization to carry forward the loss for more than five tax periods may be withdrawn, where the taxpayer meets all the following criteria:

- Does not declare and does not pay taxes on time
- Is guilty of tax evasion
- Distributed profits

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