

ANALYSIS OF TAX COLLECTION IN RWANDA 2008 TO 2013

CASE STUDY OF BANK OF KIGALI

BY

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DECLARATION

I, declare that this report is my original work and has not been presented elsewhere for any academic awards.

Signature


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20th June 2014
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APPROVAL

This research report is submitted for examination with my approval as a University Supervisor.

Sign

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.....
Friday, June 20, 2014

DEDICATION

I dedicate this research, to the most highest. Lord of Lords, may your grace be upon me and us all. To my parents KABAYIZA Boniface and the memory of my mother NYIRABAZUNGU Cecile especial to the memory of my beloved daughter ILIZA IKUZWE and the family of my brother NDATIMANA Patrick and other brother and sisters you are greatly honored, and May the good Lord Bless you abundantly.

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I would like also to thank all my friends who have been of great help to me by offering advice where necessary. God bless you

I thank my father who has sacrificed his life for my education by doing everything for me as heritage of good future. May God bless you? My acknowledgement goes also to the family of my brother NDATIMANA Alain Patrick and his family for their incomparable support and unforgettable advises which helped me during my education. To my family in general for their support that they have manifested in many different ways.

I can't end without presenting my gratitude to my friends, colleagues and those who have helped me directly or indirectly during my work. God bless you

LIST OF TABLES

Table 4.1: Tax Collection17

Table 4.2.1: Summary Analysis Tax Collection.....18

Table 4.2.2: Analysis of Variance for Tax Collection18

Table 4.3: Regression Statistics.....19

ABSTRACT

The purpose of the study was to make an analysis of tax collection in Rwanda from 2008 to 2013. The specific objectives of the study were to find out the main forms of taxes collected in Rwanda, perform an analysis of variance for tax collection in Rwanda from 2008 to 2013 and the last was to predict the tax collection of Rwanda for the next five years. The study found out that the main forms of tax in Rwanda were; corporate tax that was the highest collected with 15,387,697, followed by staff PAYE with a total collection of 9,511,397, then withholding tax having a total of 4,134,259, followed by VAT with a collection of 2,968,478, and district tax was the least collected with 142,519. The performed tax ANOVA results revealed that $F_{\text{Computed}} (21) > F_{0.05,4,25} (2.76)$ thus the researcher rejected the H_0 , and concluded that there was a significant difference in mean tax collection for the five forms of taxes. *Which implied that the tax collected differed by type of tax.* The researcher's predication was that that Rwanda would have **6,837,735.87 RWF** as the total tax collection for the next five years. The study recommends future research on the impact of withholding tax on economic growth in Rwanda" should be carried out, a correlative study between taxation and economic development in Rwanda is also recommended, and on the factors affecting tax collection in Rwanda.

ABBREVIATIONS AND ACRONYMS

ANOVA – Analysis of Variance

BK – Bank of Kigali

GNP – Gross Net Product

MFPED – Ministry of Finance Planning and Economic Development

ODA – Official Development Assistance

OECD – Organization for Economic Corporation and Development

RWF- Rwanda Currency in Franc

STATA – Scientist Statistical Application

TR – Tax Revenue

TTR – Total Tax Revenue

VAT – Value Added Tax

TABLE OF CONTENT

DECLARATION	i
APPROVAL	ii
DEDICATION.....	iii
ACKNOWLEDGMENT.....	iv
LIST OF TABLES.....	v
ABSTRACT	vi
ABBREVIATIONS AND ACRONYMS	vii
TABLE OF CONTENT	viii
CHAPTER ONE	1
1.1 Background to the study.....	1
1.2 Statement of the Research Problem.....	3
1.3 Purpose of the Study.....	3
1.4 Specific Objectives of the Study	3
1.5 Hypothesis of the Study.....	3
1.6 Significance of the Study	4
1.7 Scope of the Study	4
LITERATURE REVIEW	5
2.1.2 A two-way Analysis of Variance (ANOVA).....	6
2.2 Tax Collection	6
2.2.1 Inadequate Tax Collection	7
2.3 The Theoretical Literature Review	7
2.4 Related and Other Studies.....	7
2.4.1 Other Opinions, and Ideas from Authors or Experts	10
CHAPTER THREE	14

METHODOLOGY	14
3.1 Research Design	14
3.2 Research Population	14
3.4 Sample Size	15
3.5 Sampling Procedure	15
3.6 Research Instrument	15
3.7 Data Gathering.....	15
3.8 Data Analysis.....	15
CHAPTER FOUR	17
PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA.....	17
4.1 Main forms of Tax Collection in Rwanda from 2008 to 2013.....	17
4.2 Performance of Analysis of Variance for Tax Collection in Rwanda....	18
4.3 Prediction of Tax Collection in Rwanda.....	19
CHAPTER FIVE.....	21
SUMMARY CONCLUSIONS AND RECOMMENDATIONS.....	21
5.1 Summary Conclusions	21
5.1.1 Main forms of Tax Collection in Rwanda from 2008 to 2013.....	21
5.1.2 Performance of Analysis of Variance for Tax Collection in Rwanda	21
5.1.3 Prediction of Tax Collection in Rwanda	21
5.2 Recommendations.....	22

CHAPTER ONE

1.1 Background to the study

Developing countries around the world typically face some critical challenges while establishing an efficient tax system. Structure of the economy, institutional capacities, political setup, level of economic development, tax morale or tax culture, all these factors affect the tax system of most of the developing countries of the world. Globally when flow of Official Development Assistance (ODA) is increasingly shrinking, the need for an efficient internal resource mobilization system has become more essential than ever. At economic take off stage, it is very important for a country to contain a modest and efficient taxation system which can essentially supply sufficient internal resources to meet budgetary demands. Over the last few decades many developing countries had taken various reform programs to improve tax policy and strengthen the taxing capacity of revenue administration.

Considerable effort and attention in most developing countries is devoted to policies best suited to the promotion of economic development, where the major focus of these efforts is the search for desirable fiscal policies with considerable stress being placed on the role of taxation as an instrument of economic development. Taxation policy has always been an important instrument for augmenting revenue. This is as true in developing countries as in developed countries, where tax

revenue is the major source of domestic revenue. Thus the most important motivation for fiscal policy in most developing countries is the need to raise revenue.

Rwanda is a small landlocked sovereign country located in the Great Lakes region of East-Central Africa, bordered by Uganda, Burundi, the Democratic Republic of the Congo and Tanzania. Rwanda has four provinces with one city, and thirty Districts. Rwanda's population is approximately 10.1 million people. The country attracted international concern for the infamous Rwandan Genocide of 1994.

Bank of Kigali is the most dominant bank in the market with market shares of above 26 percent for total assets, loans and deposits. It is the best capitalized Bank in the market with shareholders' funds of Rwf.18,541 million. With the capital base, it is possible to undertake large project financing and still comply with the BNR guidelines on the maximum counterparty lending limits. Over the years, the Bank has consistently accounted for over 50 percent of the Banking sector profits. In 2009, the overall banking sector profits fell by 59 percent due to high cost of funds and higher nonperforming assets provisions, our profits only dropped by 6 percent compared to 2008.

In 2010, Bank of Kigali made significant progress in its quest to build ubiquitous footprint in Rwanda, making banking services available and within easy reach of the majority of Rwandans. We have extended

our branch network, adding 15 new branches, most of them outside Kigali. As we strive to provide our customers with the best service offering and deliver value to our stakeholders, we have received recognitions and awards that help to benchmark locally and internationally.

1.2 Statement of the Research Problem

Several studies have been undertaken on the response to tax collection. These studies however omit some key determinants of tax collection, such as the type of the tax. It is therefore, against this background that the researcher is doing analysis of tax collection in Rwanda.

1.3 Purpose of the Study

This sought to make an analysis of tax collection in Rwanda

1.4 Specific Objectives of the Study

- i. To find out the main forms of taxes collected in Rwanda
- ii. To perform an analysis of variance for tax collection in Rwanda from 2008 to 2013
- iii. To predict the tax collection of Rwanda for the next five years

1.5 Hypothesis of the Study

There is no significant difference in mean tax collection for the five forms of taxes

1.6 Significance of the Study

Given that the study is macro in nature and quantitatively biased, this will generally benefit many groups of people amongst which are the development planners, local and foreign investors, government ministries, and future researchers. Thus it will contribute to the existing tax literature that would be based on in making decisions and creating solutions to macro-economic problems that face Ugandan communities.

1.7 Scope of the Study

The study covered the whole of Rwanda within the tax collection sector because tax policies are macroeconomic. This study basically covered forms of tax collection, its analysis, and a five year predication Rwanda. This study data covered a period of six years from 2008 to 2013.

CHAPTER TWO

LITERATURE REVIEW

2.1 Analysis of variances (ANOVA)

The General definition of analysis of variance (ANOVA) is Statistical technique for determining the degree of difference or similarity between two or more groups of data. It is based on the comparison of the average value of a common component.

ANOVA in statistics is a statistical method used to test differences between two or more means. It may seem odd that the technique is called "Analysis of Variance" rather than "Analysis of Means." As you will see, the name is appropriate because inferences about means are made by analyzing variance. (Xuezhi Q. & Dickson P. 2012)

Analysis of variance, which is abbreviated as ANOVA, was developed by Sir Ronald Fisher (1925) to determine whether the means of one or more factors and their interactions differed significantly from that expected by chance. (Michael S. Lewis B. & Alan B. & Tim F. 2004)

2.1.1 A One-way Within Subjects ANOVA (also called Repeated Measures ANOVA)

One-way ANOVA analysis involves only one factor. One way ANOVA would be used to analyze the differences in one continuous variable across different time periods, phases, or stages of intervention within the same group of participants. For example: you could assess competency in social work practice skills according to a score on a skills

test taken by the same cohort of graduate students at three key points in an MSW program: at the beginning of the program, at the mid-point, and upon completion of the program.

2.1.2 A two-way Analysis of Variance (ANOVA)

Two-way (or more ways) refers to an analysis with two or more factors and the interactions between those factors. A factor comprises two or more groups or levels. Analysis of variance is based on the assumption that each group is drawn from a population of scores that is normally distributed, would be used to analyze the differences in a continuous measure (general health scores) across two characteristics measured categorically (e.g., ethnic group and gender).

It is also used to test an interaction effect of the two categorical variables, i.e., whether being female and Latina is related to a particular health level compared to other ethnic and gender groups.

2.2 Tax Collection

Tax is defined as a fee charged or "levied" by a government on a product, income, or activity. Thus; if tax is levied directly on personal or corporate income, it is a direct tax and if tax is levied on the price of a good or service, it is called an indirect tax. The purpose of taxation is to finance government expenditure and one of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. For example the taxes include; Corporate tax, VAT,

including Pakistan for his study. The findings of Mahdavi's study showed that aid had a negative effect, non-tax revenue had also negative effect while agriculture sector share had positive but insignificant coefficient. Trade sector share had a positive effect and economically active female variable had a net adverse but insignificant effect while the old-age portion of population showed negative association for both income and sales tax. Extent of urbanization and literacy rate both showed positive effect. Population density, monetization and inflation rate remained negatively correlated. Inverse of GDP per capita was strongly and negatively correlated with the level of taxation. Net effect of political rights and civil liberties was significant.

Lutfunnahar (2007) in his study identified the determinants of tax share and revenue performance for Bangladesh along with 10 other developing countries for the 15 years through a panel data analysis. The results obtained suggest international trade, broad money, external debt and population growth to be significantly determinants of tax efforts. The study concluded that Bangladesh and other countries have low tax effort (less than unity index) and are not utilizing their full capacity of tax revenue and therefore have the potential for financing budgetary imbalance through raising tax revenue.

Kemal (2007) explored the long-run relationship between the underground economy and formal economy. Results showed that underground economy is causing the formal economy but not the vice

versa. He suggested to the increase in the number of legal documentation, strengthening the institutions, better governance, decrease the number of regulations and restrict smuggling through tariff rationalization to cut down tax evasion.

Ahsan and Wu (2005) during their study examined the tax share in GDP for developed and developing countries for 1979 to 2002 and found the negative and significant relation of agriculture share, GDP per capita, and population growth to the tax ratio while trade share in GDP has positive and significant relation but corruption has negative and insignificant relation.

Bilquees (2004) measured the buoyancy and elasticity of tax revenue system in Pakistan over the period 1974 to 2003 by using the Divisia Index Approach and analyzed the factors responsible for the resulting size of elasticity coefficients. Her estimates of buoyancy suggested that tax changes did not lead to significant revenue augmentation. However high coefficient of sales tax with respect to GDP base reflected the inclusion of service sector and utilities in sales tax net, which has serious implications for poor.

Alm et al. (2004) took agricultural/GNP, mining/GNP, GNP per capita, taxes on international trade/GNP and shadow economy/GNP as the determinants of total tax to GDP ratio by using the data of developed and developing countries. His results showed the negative but not significant relation with agricultural/GNP and international trade/GNP,

positive and statistically significant relation with mining/GNP and negative but statistically significant relation with GDP per capita and shadow economy/GDP.

Bahl (2003) by using the data of OECD and less developed economies explained the determinants of tax revenue. He used the non-agricultural share of GDP, openness and the rate of population growth all of which showed the positive and statistically significant result. Simple correlation between tax effort and the size of shadow economy showed the negative but statistically significant result.

Teera (2002) in her study examined the tax system and tax structure of Uganda to investigate the factors effecting tax revenue in the country. Teera used the time series data of the period 1970 to 2000 and estimated a model. Her study findings revealed that agriculture ratio, population density and tax evasion affect all type of taxes. GDP per capita showed the surprising negative sign. Tax evasion and openness (as measured by import ratio) showed the significant negative impact. Aid variable showed positive sign since aid in Uganda always supported imports especially raw material so not surprisingly.

2.4.1 Other Opinions, and Ideas from Authors or Experts

According to Alfaro 2003; in an empirical analysis using cross-country data for the period 1981-1999 suggests that total foreign direct investments (FDI) exerts an ambiguous effect on growth. From the

results, FDI in the primary sector tend to have a negative effect on growth, while investment in manufacturing has a positive one.

In principle, economic growth may include FDI inflow when FDI is seeking consumer markets, or when growth leads to greater economies of scale and, hence increased cost efficiency.

On the other hand however, FDI may affect economic growth, through its impact on capital stock, technology transfer, skill acquisition, or market competition. FDI and economic growth may also exhibit a negative relationship, particularly if the inflow of FDI leads to increased monopolization of local industries, thus compromising efficiency and growth dynamics.

Many policy makers and academicians contend that foreign direct investment (FDI) can have important positive effects on a host country's development effort, in addition to the direct capital financing it supplies, FDI can be a source of valuable technology and knowhow while fostering linkages with local firms, which can jump start an economy

According to the Uganda's economic and financial overview 2007/08, foreign direct investment in Uganda totaled \$946 million during the fiscal year 2007/2008 compared to \$695 million in 2006/07. FDI inflows have increased in recent years owing to a number of factors, including the privatization of various sectors such as the telecommunication sector, large infrastructure, projects such as the Bujagali dam in Jinja, and exploration and development by various

foreign oil companies in the western districts. A number of specific policies have also boosted FDI in Uganda, such as ongoing macroeconomic stability, investment promotion efforts and the repatriation of confiscated land belonging to Asian-Ugandans, Obwona, (1998) studied FDI and economic growth. In this study we analyze the relationship between investment and Uganda's economic growth, in the past studies did not attempt to relate investment to economic growth instead researchers focused on investment impact on manufacturing sector and employment (Goss, et al 2007).

According to Keynes, increasing public investment is one of the best solutions to economic recovery, since it causes strong effects upon the economic drive. However according to recent studies, public investment expenditure generates less effect in the short term, due to the lags associated with the achievement of new project, but a larger long term impact by stimulating potential GDP. The standard Keynesian theory suggests that public spending have a large impact upon the GDP than the transfer or to the level of autonomous taxes, because a part of the higher disposable income from a tax cut or transfers increase is saved, while public investment affect aggregate demand directly.

Theoretically, increasing public investment has a larger short-run impact on aggregate demand and a larger long-run multiplier effect on aggregate supply. Therefore, the multiplier of the public investment is considered to be lowered on a short term as a result of the temporal lags

induced by the implementation of the new projects and its is considered higher on a long term as a result of the increase of the potential GDP (Ratto et al, 2005).

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The study adopted an ex-post facto research design. This was so because data concerning variables were basically secondary. The study undertook a detailed analysis of tax collection in Rwanda, which suits a quantitative research approach. The choice of the design was based on the nature of the research that intended to examine and analyze in depth and systematically the extent to which tax collection.

3.2 Research Population

The population investigated was records on tax collection. The researcher focused on tax collection; it was this focus that the relationship between tax collections was studied. The researcher visited websites of organizations which are partners in tax collection to capture the required information, these included BK.

3.3 Target Population

With the focus and scope of study highlighted above, the study population was drawn from all the computed annual tax collection in Rwanda over the six years.

3.4 Sample Size

Records used were drawn from 2008 to 2013 covering a period of six years and these were obtained from the major autonomous and semi-autonomous bodies that publish such records in the country.

3.5 Sampling Procedure

This study adopted a cluster random sampling technique; the population was divided into clusters of six years and a random sample of data published on tax collection from 2008 to 2013 were selected and all observations in this range were utilized in the analysis.

3.6 Research Instrument

The study data were recorded in the record sheets which were designed to suit the data required to attain the stated study objectives.

3.7 Data Gathering

Given the nature of work and busy schedule of organizations, the researcher utilized more of these organizations' websites to retrieve data as part of their resource Centre. The researcher made use of secondary data by reviewing available relevant text books, journal articles, periodicals manuals, dissertations, and publications on internet.

3.8 Data Analysis

After obtaining the required data, the researcher edited, categorized and entered it into excel. These data were then copied to STATA for analysis, it was organized in tables and also presented in form of line and scatter diagrams.

A couple of statistical analysis tools were employed among which was regression analysis. Percentage distributions were used to determine the level of tax collection.

$$y = \alpha + \beta_1 x_1 + e_i$$

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1 Main forms of Tax Collection in Rwanda from 2008 to 2013

The study's first objective was to find out the main forms of taxes collected in Rwanda from 2008 to 2013; the researcher's observation reveals that the corporate tax, value added tax, withholding tax, district tax, and staff PAYE tax were the main forms of tax collected in Rwanda between 2008 and 2013.

Table 4.1: Tax Collection (in RWF)

Year	Forms of Taxes Collected				
	Corporate	VAT	Withholding	District	Staff PAYE
2008	2,132,729	284,228	223,044	11,497	616,509
2009	2,175,441	312,961	315,198	7,427	788,358
2010	2,502,810	493,075	552,740	9,583	1,155,568
2011	1,965,143	577,985	833,221	54,809	1,868,603
2012	2,685,573	308,427	1,013,600	42,933	2,361,213
2013	3,926,001	721,802	1,196,456	16,270	2,721,146
Total	15,387,697	2,698,478	4,134,259	142,519	9,511,397

Source: Bank of Kigali, Annual Report.

Results in table 1.0 above show that from 2008 to 2013, corporate tax was the highest collected with 15,387,697, followed by staff PAYE with a total collection of 9,511,397, then withholding tax having a total of

4,134,259, followed by VAT with a collection of 2,968,478, and district tax was the least collected with 142,519.

4.2 Performance of Analysis of Variance for Tax Collection in Rwanda

The researcher's second objective was to perform an analysis of variance for tax collection in Rwanda from 2008 to 2013.

Table 4.2.1: Summary Analysis of Tax Collected in RWF

SUMMARY				
Groups	Count	Sum	Average	Variance
Corporate	6	15,387,697	2,564,616	513,834,226,967
VAT	6	2,698,478	449,746	31,682,902,961
Withholding	6	4,134,259	689,043	151,817,230,867
District	6	142,519	23,753	401,175,907
Staff PAYE	6	9,511,397	1,585,233	746,157,965,379

Source: Personal Research; June, 2014

Table 4.2.2: Analysis of Variance for Tax Collected in RWF

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	24,741,207,821,974	4	6,185,301,955,494	21	0	2.76
Within Groups	7,219,467,510,409	25	288,778,700,416			
Total	31,960,675,332,383	29				

Source: Personal Research; June, 2014

The researcher set a null hypothesis that there is no significant difference in mean tax collection for the five forms of taxes. This was tested by performing an analysis of variance test as in table 4.2.1 and 4.2.2 respectively.

From the thumb o rule, $F_{MSB/MSE} > F_{k-1, n-k}$. The results revealed that $F_{Computed} (21) > F_{0.05,4,25} (2.76)$ thus rejecting the H_0 , therefore concluding that there is a significant difference in mean tax collection for the five forms of taxes. *This implies that the tax collected differs by type of tax.*

4.3 Prediction of Tax Collection in Rwanda

The third objective of this study was to predict the tax collection in Rwanda for the next five years. A multiple regression analysis was run using STATA so as to help the researcher do prediction.

Table 4.3: Regression Statistics for Time and Total Tax Collection

Regression Statistics	
Multiple R	0.966585714
R Square	0.934287943
Adjusted R Square	0.917859928
Standard Error	564089.8862
Observations	6

ANOVA				
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>
Regression	1	18,096,404,620,320.90	18,096,404,620,320.90	56.87
Residual	4	1,272,789,598,974.42	318,197,399,743.61	
Total	5	19,369,194,219,295.30		

	Coefficients	Standard Error	t Stat	P-value
Intercept	1,753,250.87	525,139.11	3.34	0.03
Time	1,016,897.37	134,843.27	7.54	0.00

Source: Personal Research; June, 2014

From table 3.1 that is split into three, has been used to run a linear regression. That is, $Y = a + bx_1$, Where $Y =$ Total Tax Collection, and $t =$ Time. It was estimated and from above table of results the trend was found to be; $Y = 1,753,250.87 \text{ constant} + 1,016,897.37t$

Implying that irrespective of variations in time, Rwanda's tax collection would increase by 1,753,250.87 however a unit change in time affects total tax collection by 1,016,897.37. This therefore indicates that Rwanda has had a positive tax collection trend over the years (2008 to 2013). However the third objective aimed at predicting Rwanda's tax collection for the next five years, and from the linear regression analysis,

$$Y = 1,753,250.87 \text{ constant} + 1,016,897.37t, \text{ our } t = 5$$

$$Y = 1,753,250.87 + 1,016,897.37*5 = \mathbf{6,837,735.87 \text{ RWF}}$$

This therefore implies that Rwanda's total tax collection for the next five years will be **6,837,735.87 RWF**.

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary Conclusions

5.1.1 Main forms of Tax Collection in Rwanda from 2008 to 2013

The first study objective was to find out the main forms of taxes collected in Rwanda from 2008 to 2013. The results revealed that from 2008 to 2013, the main forms taxes were; corporate being the highest collected with 15,387,697, followed by staff PAYE with a total collection of 9,511,397, then withholding tax having a total of 4,134,259, followed by VAT with a collection of 2,968,478, and district tax was the least collected with 142,519.

5.1.2 Performance of Analysis of Variance for Tax Collection in Rwanda

The study's second objective aimed at performing an analysis of variance for tax collection in Rwanda from 2008 to 2013. The results showed that $F_{\text{computed}} (21) > F_{0.05,4,25} (2.76)$ thus the H_0 was rejected and the researcher concluded that there was a significant difference in mean tax collected for the five forms of taxes. *Which implied that the tax collected differed by type of tax.*

5.1.3 Prediction of Tax Collection in Rwanda

This was the last objective of this study that sought to predict the tax collection in Rwanda for the next five years. The predication was that

Rwanda's total tax collection for the next five years would be **6,837,735.87 RWF**.

5.2 Recommendations

The study realized several gaps that the researcher could not fill thus, coming up with recommendation as well as suggested areas for future researchers to look at.

A study on "The impact of withholding tax on economic growth in Rwanda" should be carried out.

A correlative study between taxation and economic development in Rwanda is also recommended.

The researcher recommends a study on "The factors affecting tax collection in Rwanda".

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