
CHAMBERS GLOBAL PRACTICE GUIDES

Corporate Tax 2023

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Rwanda: Law & Practice

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Law and Practice

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1. Types of Business Entities, Their Residence and Basic Tax Treatment

1.1 Corporate Structures and Tax Treatment

It is common for businesses to adopt a corporate form to enable them to have legal personality separate from that of the shareholders.

Forms of Corporate Structures

In Rwanda, the law provides for two categories of companies.

- Private companies (Ltd), which are incorporated if they have the following essential requirements:
 - (a) a name, ending with the words “Private limited company” or the letters “Ltd”;
 - (b) one or more shares with restricted rights of transfer;
 - (c) one or more shareholders with unlimited or limited liability;
 - (d) one or more directors, of whom at least one must be ordinarily resident in Rwanda; and
 - (e) incorporation documents.
- Public companies (PLC), which are incorporated if they have the following essential requirements:
 - (a) a name, ending with the words “Public limited company” or the letters “Plc”;
 - (b) one or more shares, all of which must be fully transferable;
 - (c) shareholders, whose liability is limited to the amount, if any, unpaid on the shares held by each;
 - (d) one or more directors;
 - (e) a company secretary; and
 - (f) incorporation documents.

The law further groups these categories into five types:

- a company limited by shares, in which the liability of its shareholders is limited to the amount paid or unpaid on the shares held by them;
- a company limited by guarantee is used primarily for non-profit organisations, with the liability of its members limited to an amount that the members may agree;
- a company limited by shares and guarantee, in which liabilities of the shareholders are limited to paid or unpaid amounts on their shares; they may also be limited by guarantee, where liabilities of members are limited to the amount that the members undertake to contribute to the assets of the company in the event of winding up;
- an unlimited company, in which the legal liability of its members or shareholders is not limited, and in which all members or shareholders have total and joint liability to cover all contingent debts; and
- a protected cell company, in which a single legal entity consists of a core linked to several cells, each with separate assets and liabilities.

A company limited by shares and a company limited by shares and guarantee may be a private company or a public company. However, a company limited by guarantee and an unlimited company cannot be a public company.

Any of these companies may be a limited life company. Individual cells of a protected cell company may also be established for a limited period of time.

Taxation of Legal Entities

Entities are subject to the same tax structure and are not taxed as separate legal entities.

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1.2 Transparent Entities

Limited Partnership

Law No 008/2021 of 16 February 2021 governing partnerships provides for three types of partnerships:

- a general partnership;
- a limited partnership; and
- a limited liability partnership.

A limited partnership has one or more partners with unlimited liability, and one or more partners with limited liability for the debts of the partnership.

It has been the vehicle of choice for fund managers across private equity to aggregate and put to work the capital of their investors, as its structure offers a great deal of organisational flexibility so that the specific requirements of individual investors can be accommodated.

The partners can set the rules on matters such as how the profits are shared, how interests in the partnership are transferred and how the business is to be conducted. The relationship between the limited partner and the general partner mainly relies on explicit contractual measures, which are entered into at the outset of the partnership.

Protected Cell Company

This is a company in which a single legal entity consists of a core linked to several cells, each with separate assets and liabilities.

It may create one or more cells for the purpose of segregating and protecting cellular assets.

Venture capital firms prefer the protected cell company structure because it allows them to

diversify under an umbrella company without spreading the liability of one cell.

1.3 Determining Residence of Incorporated Businesses

Incorporated businesses and transparent entities are considered to be resident in Rwanda during a tax period if they are established according to Rwandan laws and have a place of effective management in Rwanda at any time during that tax period.

1.4 Tax Rates

Every company incorporated in Rwanda has the following tax obligations.

Corporate Income Tax

Every company must pay income tax at the rate of 30%, whereas the law also states that newly listed companies on capital markets shall be taxed for five years at:

- 20% if those companies sell at least 40% of their shares to the public;
- 25% if they sell at least 30% of their shares to the public; and
- 28% if they sell at least 20% of their shares to the public.

Value Added Tax

A company carrying out business in Rwanda that has a taxable turnover of more than RWF20 million in any tax year or RWF5 million in a calendar quarter must register for value added tax (VAT) in accordance with Article 11 of the Law on Tax Procedure, 2019.

Withholding Tax

- According to the new Law No 027/2022 of 20 October 2022 establishing taxes on income, a company must pay withholding tax on employment income at the following rates:

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- (a) first year following the date of commencement of the new law: RWF0–60,000 at a tax rate of 0%, RWF60,001–100,000 at 20%, and RWF100,001 and more at 30%; and
- (b) from the second year after commencement of the new law: RWF0–60,000 at a tax rate of 0%, RWF60,001–100,000 at 10%, RWF100,001–200,000 at 20% and 200,001 and more at 30%.

The income of a casual labourer is subject to tax at the special rate of 15%. However, in computing a casual labourer's tax, an income not exceeding RWF60,000 per month is rated at 0%.

The taxpayer is required to file a tax declaration and make payment in accordance with the procedures prescribed by the tax administration within 15 days after the month in which the taxes were withheld.

The following taxpayers are exempt from withholding taxes relating to payments, goods imported for commercial use and public tenders:

- those whose business profit is exempt from taxation;
- those who have a tax clearance certificate issued by the tax administration; and
- those who are newly registered during the concerned annual tax period.

Trading Licence Tax

Trading licence tax is paid by any person for each place in which they open a business activity within a district in Rwanda.

According to Article 34 of Law No 75/2018 of 7 August 2018 determining the sources of revenue and property of decentralised entities, taxpayers who sell goods or services that are exempt from

VAT but whose turnover is equal to or greater than RWF20 million pay trading licence tax in the same manner as taxpayers registered for VAT.

The basis for the calculation of trading licence tax, as indicated in the law, is the turnover of the previous year, as follows:

- turnover from RWF1–40,000,000 – pay a due tax of RWF60,000;
- RWF40,000,001–60,000,000 – pay RWF90,000;
- RWF60,000,001–150,000,000 – pay RWF150,000; and
- RWF150,000,001 and above – pay RWF250,000.

2. Key General Features of the Tax Regime Applicable to Incorporated Businesses

2.1 Calculation for Taxable Profits

Taxable profit is calculated by subtracting the deductible expenses allowed from the annual turnover.

Rwandan tax law stipulates that deductible expenses should fulfil the following conditions:

- they are incurred for the direct purpose of the business and are directly chargeable to the income;
- they correspond to a real expense and can be substantiated with proper purchase receipts;
- they lead to a decrease in the net assets of the business; and
- they are used for activities related to the tax period in which they are incurred.

Taxable profits are based on the accounting profits. Taxable income is rounded to the near-

est RWF1,000 and taxed following the real profit according to the following formula.

- First year following the date of commencement of new Law No 027/2022 of 20 October 2022 establishing taxes on income:
 - (a) annual taxable profit of RWF0–720,000 is taxed at a rate of 0%;
 - (b) RWF720,001–1,200,000 at a rate of 20%; and
 - (c) RWF1,200,001 and more at a 30% tax rate.
- From the second year after commencement of the new law:
 - (a) annual taxable profit of RWF0–720,000 is taxed at a rate of 0%;
 - (b) RWF720,001–1,200,000 at a rate of 10%;
 - (c) RWF1,200,001–2,400,000 at 20%; and
 - (d) RWF2,400,001 and more at a 30% tax rate.

However, small enterprises must pay a lump sum tax of 3% on annual turnover.

Profits are taxed on an accrual basis.

2.2 Special Incentives for Technology Investments

Law No 006/2021 of 5 February 2021 on investment promotion and facilitation provides the following.

Technology Investment

- A preferential corporate income tax rate of 3% on foreign-sourced royalties is granted to a registered investor operating as an intellectual property (IP) company, subject to fulfilment of the set requirements.
- A preferential corporate income tax rate of 15% is granted to a registered investor in the information and communications technology (ICT) sector with an investment involv-

ing one of the following activities: ICT and knowledge-based services, manufacturing or assembly.

- A corporate income tax holiday of up to seven years for a registered investor in ICT with an investment involving manufacturing, assembly and service. This incentive, however, excludes communication, ICT, retail and wholesale trade, ICT repair companies or enterprises, and telecommunications companies.

Research and Development

- A preferential corporate income tax rate of 0% is granted to an international company that has its headquarters or regional office in Rwanda to set up actual and effective administration and co-ordination of operations in Rwanda, and perform research and development work.
- A preferential corporate income tax rate of 15% is granted to a registered investor that establishes an innovation research and development facility, an ICT training centre, a software build and test lab, an ICT and innovation specialised institution of higher learning, a business incubation centre and related activities in the area of ICT and the innovation sector.

2.3 Other Special Incentives

A preferential corporate income tax rate of 0% applies to registered investors who set up actual and effective administration and co-ordination of operations in Rwanda and perform at least three of the following services in Rwanda:

- procurement of raw materials components or finished products;
- strategic planning and business development;
- marketing and sales promotion planning;
- information and data management services;

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- treasury management services;
- research and development work;
- training and personnel management; and
- other shared services.

A preferential corporate income tax rate of 3% is granted to the following registered investors subject to the fulfilment of set conditions:

- those licensed to operate as a pure holding company;
- a special-purpose vehicle (SPV) registered for investment purposes; and
- those licensed as a collective investment scheme.

A preferential corporate income tax rate of 3% on foreign-sourced trading income is granted to a registered investor operating as a global trading or paper trading enterprise.

A preferential corporate income tax rate of 15% is granted to the following registered investors.

- An undertaking in one of the following operations: energy generation, transmission and distribution from peat, solar, geothermal, hydro, biomass, methane and wind. This incentive excludes an investor having an engineering procurement contract executed on behalf of the government of Rwanda.
- Those in the sector of transport of goods and related activities whose business is operating a fleet of at least five trucks registered in the investor's name, each with a capacity of at least 20 tons.
- Those operating in mass transportation of passengers and goods with a fleet of at least ten buses registered in the investor's name, each with a capacity of at least 25 seats.
- Those manufacturing within the subsectors of textiles and apparels; electronics ICT equip-

ment; large-scale agricultural operations; processing in wood, glass and ceramics; and value addition and professional operations in mining and agricultural equipment.

- Those licensed to operate as a fund management entity, collective investment scheme, provider of wealth management services, financial advisory commercial entity, provider of family office services, fund administrator, financial technology commercial entity, provider of captive insurance schemes, private bank, mortgage finance institution, finance lease commercial entity, provider of asset-backed securities, reinsurance company, or provider of trust and corporate services.
- Those involved in the construction of affordable houses, and upon fulfilling the criteria provided for by relevant laws.
- Those with an investment involved in electric mobility, and upon fulfilling the criteria provided for by relevant laws.
- Those with an investment project involved in adventure tourism and agriculture tourism, and upon fulfilling the criteria provided for by relevant laws.

A preferential corporate income tax rate is granted for export investments: (i) 25% corporate income tax is applied to a registered investor with at least 30% of total turnover of goods and services and less than 50% of total turnover coming from the export of goods and services, and (ii) 15% corporate income tax is applied to a registered investor with at least 50% of total turnover coming from the export of goods and services. These are applicable to eligible investors for a maximum of five years commencing from the first year of exporting at least 30% of total turnover of goods and services. Eligibility in any given year is determined by exports in that year.

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There is an exemption from customs taxes and duties for products used in export processing zones. A registered investor investing in products used in export processing zones is exempted from customs taxes and duties in accordance with provisions of the East African Community Customs Management Act.

There are incentives for internationalisation. A small, medium-sized or emerging investor registered as an investor with an investment project involved in exportation is entitled to a 150% tax deduction of all qualifying expenditures relating to internationalisation, including:

- overseas marketing and public relations activities, including launch of in-store promotions, roadshows, overseas business or trade conferences;
- participation in overseas trade fairs not supported by another existing initiative;
- overseas business development costs; and
- market entry and research costs, such as the costs of establishing a legal entity in a foreign market, the salary costs of employees stationed in a foreign market, analysis of market opportunities, and supply chain and entry requirements.

There is a corporate income tax holiday of up to seven years for investment equivalent to at least USD50 million and contributing at least 30% of this investment amount in the form of equity. The USD50 million is fully invested within a maximum period of seven years. These sectors include energy, manufacturing, tourism, health, ICT and export-related investment projects.

There is a corporate income tax holiday of up to five years for a specialised innovation park developer or a specialised industrial park developer and licensed microfinance institutions.

A preferential withholding tax of 0% is applicable to dividends, interest and royalties paid by investors benefiting from a preferential corporate income tax of 15% and 3%.

A preferential withholding tax of 5% is applicable to dividends and interest income paid to an investor investing in a company listed on the Rwanda Stock Exchange.

A preferential withholding tax of 10% is applicable to specialised innovation park developers or specialised industrial park developers on interest on foreign loans, dividends, royalties and service fees, including management and technical service fees.

There are incentives for specialised innovation park developers and specialised industrial park developers.

A registered investor does not pay capital gains tax. However, income derived from the sale of a commercial immovable property is included in the taxable income of the investor.

There is a potential VAT refund.

There is a flat accelerated depreciation rate of 50% for the first year for new or used assets for an investor who meets certain criteria.

A registered investor who invests an equivalent of at least USD250,000 may recruit three foreign employees without demonstrating that their skills are lacking or insufficient in the labour market in Rwanda.

There are additional key incentives for priority sectors, such as talent attraction, film production and post-production, mining exploration and start-ups.

2.4 Basic Rules on Loss Relief

A loss in a tax period in which a long-term contract is completed may be carried back and offset against previously taxed business profit from that contract to the extent that it cannot be absorbed by business profit in the tax period of completion.

If the computation of business profit results in a loss in a tax period, the loss may be deducted from the business profit in the next five tax periods, earlier losses being deducted before later losses.

However, the tax administration may authorise the taxpayer who so applied for the loss carried forward of more than five tax periods if they fulfil the requirements determined by a ministerial order.

During a tax period, foreign-sourced losses cannot be deducted from present or future domestic-sourced business profits.

During a tax period, if the direct and indirect ownership of the share capital or the voting rights of a company whose shares are not traded on a recognised stock exchange changes more than 25% by value or by number, the second point above will cease to apply to losses incurred by that company in the tax period and previous tax periods.

2.5 Imposed Limits on Deduction of Interest

A financial service provider or a representative has to inform the financial service consumer of the methods of calculation of the interest rate and repayment of their loan, as required by Law No 017/2021 of 3 March 2021 relating to financial service consumer protection.

In addition, regarding the maximum amount of interest on an outstanding loan, a financial service provider must not exceed the following amount of outstanding debt:

- outstanding principal debt, in the case of repayment default by a financial service consumer;
- interest not exceeding the outstanding balance of principal debt, in the event that a financial service consumer fails to repay as per their contract with a financial service provider; and
- costs incurred while recovering the total amount from the debtor of the financial service provider.

Where the loan contract has undergone amendments due to repayment default, the latest contract applies.

2.6 Basic Rules on Consolidated Tax Grouping

There is no provision for consolidated tax grouping in Rwanda. Each individual corporate group member is required to submit their own tax return on a standalone basis.

However, in practice, consolidated tax grouping enables groups of companies to offset the losses and profits within a group of subsidiaries against the profits of their parent company (and profits transferred to the parent company from other subsidiaries).

It should be noted that the parent company is also liable for the losses of its subsidiaries.

2.7 Capital Gains Taxation

The capital gains tax rate is 5%, which is charged on the basis of the profit from the sale of shares,

where profit equals the sale/transfer price minus the purchase price.

The capital gains tax on the sale or transfer of shares is withheld by the company within which the transaction occurred and must be declared and paid by the 15th of the month after that in which the transaction was made.

Capital gains from the sale or transfer of shares on the capital market and capital gains from the sale or transfer of units of collective investment schemes are exempt from capital gain tax.

2.8 Other Taxes Payable by an Incorporated Business

Value Added Tax

VAT is charged at the standard rate of 18%. However, there are some services and goods that are zero-rated or exempt.

Excise Duty

Excise tax is imposed on the manufacturer or the importation of certain commodities – mainly soft drinks, bottled water, cigarettes, alcohol, fuels and lubricants – at applicable rates.

Customs Duties

Rwanda is a member of the East African Community, which uses the East African Community Customs Act (EACMA) for levying import duty. The EACMA prescribes common external tariffs for goods originating outside the East African Community Customs Union. Goods are generally subject to import duty of 0% for raw materials and capital goods, 10% for intermediate goods and 25% for finished goods.

Goods will only enjoy the preferential community tariffs if they meet the East African Community Customs Union Rules of Origin.

2.9 Incorporated Businesses and Notable Taxes

Immovable property tax is levied on the market value of a building and the surface of a plot of land.

Should an incorporated business own any land and/or buildings, it is required to register for immovable property tax. The tax base of the immovable property is the surface of a plot of land and the market value of any buildings, including improvements.

3. Division of Tax Base Between Corporations and Non-corporate Businesses

3.1 Closely Held Local Businesses

Most closely held businesses, such as private entities owned by a small number of shareholders whose shares are not publicly traded, operate in corporate form.

3.2 Individual Rates and Corporate Rates

In the Rwandan tax system, individuals are taxed at a lower rate compared to corporate entities, so professionals are not affected by the current corporate tax rates.

For example, individuals pay tax at a progressive at the following rates.

- First year following the date of commencement of the new Law No 027/2022 of 20 October 2022 establishing taxes on income:
 - (a) annual taxable profit of RWF0–720,000 is taxed at a rate of 0%;
 - (b) RWF720,001–1,200,000 at a rate of 20%; and
 - (c) RWF1,200,001 and more at a 30% tax rate.

- From the second year after commencement of the new law:
 - (a) annual taxable profit of RWF0–720,000 is taxed at a rate of 0%;
 - (b) RWF720,001–1,200,000 at a rate of 10%;
 - (c) RWF1,200,001–2,400,000 at 20%; and
 - (d) RWF2,400,001 and more at a 30% tax rate.

Corporate entities pay 30% during the annual declaration of income tax.

3.3 Accumulating Earnings for Investment Purposes

There are no rules to this effect.

3.4 Sales of Shares by Individuals in Closely Held Corporations

A withholding tax of 15% is applicable to dividends. The tax rate on a capital gain on the sale of shares is 5%.

In both cases, companies paying dividends or selling shares still have the obligation to retain, declare and pay those taxes to the tax administration.

3.5 Sales of Shares by Individuals in Publicly Traded Corporations

A withholding tax of 15% is applicable to dividends. However, the withholding tax is 5% if levied on dividends and interest on securities listed on a capital market when the beneficiary of the dividends or interest is a resident taxpayer of Rwanda or the East African Community.

The tax rate on a capital gain on the sale of shares is 5%.

4. Key Features of Taxation of Inbound Investments

4.1 Withholding Taxes

Withholding Tax of 15%

In the absence of treaties, the Income Tax Law 2022 imposes withholding tax of 15% of the total amount levied on payments discussed in this section. This withholding tax is levied on the total amount of payment, or other methods of fulfilling an obligation, after deducting VAT where applicable. This tax is only applicable if the taxable payment, or other methods of fulfilling an obligation, is made by resident companies (companies registered in Rwanda), including tax-exempt entities, when such payments, or other methods of fulfilling an obligation, are made to a person not registered in the Rwandan tax administration or to a registered person who does not have a recent income tax declaration.

Dividends

Dividends, except those paid between resident companies and unrealised foreign exchange gains on outstanding loan and income distributed to the holders of shares or units in collective investment schemes, are subject to a withholding tax of 15%. However, if the payment of dividends is made by a local publicly listed company or when the beneficiary of the dividends is a resident taxpayer of Rwanda or the East African Community and interests are derived from treasury bonds with a maturity of at least three years, the withholding tax rate decreases to 5%.

Financial interest

A company paying off financial interest is required to withhold 15% of withholding tax on the payment. However, the payment of interest on deposits in financial institutions for at least a period of one year, interest on loans granted by a foreign development financial institution

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exempted from income tax under the applicable law in the country of origin, or interest paid by banks operating in Rwanda to banks or other foreign financial institutions is exempt from this tax.

Royalties

Any payment made as a royalty is subject to withholding tax of 15%.

Service fees

Service fees, including management and technical service fees, except transport services, are subject to withholding tax of 15%.

Performance payments

A withholding tax of 15% is subjected to performance payments made to a crafts person, a musician, an artist, a player, sports, cultural or leisure activities irrespective of whether paid directly or indirectly.

Goods

Goods sold in Rwanda are subject to withholding tax of 15%.

Profit after tax or retained earnings

Profit after tax or retained earnings that are converted into shares, except for financial institutions with paid-up capital below the minimum requirement set by the National Bank of Rwanda, are subject to withholding tax of 15%.

Repatriated profits

Profits repatriated from Rwanda are subject to withholding tax of 15%.

Payments made in cash or in kind

Payments made in cash or in kind by a resident person in Rwanda on behalf of a non-resident contracted person in Rwanda provided for under

the contract in addition to contractual remuneration, are subject to withholding tax of 15%.

Re-insurance premiums

Re-insurance premiums paid to non-resident insurers, except premiums paid to insurers that have signed agreements with the Government of Rwanda, are subject to withholding tax of 15%.

Gaming activities

A withholding tax of 15% is withheld by a company that carries out gaming activities on the difference between winnings of the player and amount invested by the player.

Goods imported for commercial use

A withholding tax of 5% of the value of goods imported for commercial use shall be paid at customs on the cost of insurance and freight value before the goods are released by customs.

Public tenders

A withholding tax on public tenders of 3% of the sum of the invoice, excluding the VAT, is retained when public tenders are paid. However, a tax of 15% shall be withheld on public tenders if the recipient is not registered with the tax administration or they are registered but do not have their previous income tax declaration.

Incentives Accorded to Investors

The government of Rwanda, in an attempt to streamline investment in the country, gives registered investors, in accordance with applicable investment rules and upon fulfilling certain conditions, fiscal incentives, including a 0% or 5% preferential withholding tax on dividends, interest and royalty payments.

A preferential withholding tax of 0%

A preferential withholding tax of 0% is applicable to dividends, interest and royalties paid by

investors benefiting from a preferential corporate income tax of 15% and 3%.

A preferential corporate income tax rate of 3%

(i) Pure holding companies

A preferential corporate income tax rate of 3% is granted to a registered investor licensed to operate as a pure holding company. The company should have total net assets consolidated in Rwanda of not less than USD1 million, annual expenditure in Rwanda of at least USD15,000, a physical office of the company in Rwanda, Rwandans comprising at least 30% of its professional staff, at least 25% of its directors residing in Rwanda, and at least 50% of the members of the board of directors physically present in Rwanda for the meetings of the board of directors. In circumstances where physical presence is rendered impossible, the board directors participate in the meeting through the use of a means of communication by which they can simultaneously hear each other. A meeting held by this means is deemed valid if at least 50% of the board of directors are in attendance, meetings of the board of directors for strategic decisions are held in Rwanda, resolutions of the board of directors are kept in Rwanda for safekeeping, and there are at least two professional or qualified Rwandan resident members of the board of directors.

(ii) Special-purpose vehicles

A preferential corporate income tax rate of 3% is also granted to an SPV registered for investment purposes. The SPV should have registered an investment purpose in projects, which are meant to last for more than two years; assets consolidated in Rwanda of not less than USD1 million; annual expenditure in Rwanda of at least USD15,000; a physical office of the company in

Rwanda; Rwandans comprising at least 30% of its professional staff; at least 25% of its directors residing in Rwanda; at least 50% of the members of the board of directors physically present in Rwanda for the meetings of the board of directors; meetings of the board of directors for strategic decisions held in Rwanda; resolutions of the board of directors kept in Rwanda for safekeeping; and at least two professional or qualified Rwandan resident members of the board of directors.

(iii) Collective investment schemes

A preferential corporate income tax rate of 3% is granted to a registered investor licensed as a collective investment scheme. The fund should have a minimum fund size of USD1 million within the first three years; a minimum expenditure in Rwanda of USD50,000 per year; a collective investment scheme manager, custodian and operator established in Rwanda; Rwandans comprising at least 30% of its professional staff; at least 25% of its directors residing in Rwanda; and at least 50% of the members of the board of directors in Rwanda for the meetings of the board of directors. In circumstances where physical presence is rendered impossible, the board directors participate in the meeting through the use of a means of communication by which they can simultaneously hear each other. Meetings held by this means are deemed valid if the board of directors' meetings for strategic decisions are held in Rwanda, the board of directors' resolutions are stored in Rwanda for safekeeping, and at least two professional or qualified Rwandan resident members on the board of directors.

(iv) Foreign-sourced trading income

A preferential corporate income tax rate of 3% on foreign-sourced trading income is granted

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to a registered investor operating as a global trading or paper trading enterprise. The operation must have an annual turnover or trade volume of not less than USD10 million, an annual expenditure in Rwanda of at least USD50,000, Rwandans comprising at least 30% of its professional staff, at least 25% of its directors residing in Rwanda, at least 50% of the members of the board of directors in Rwanda for the meetings of the board of directors, a physical office of the company in Rwanda, meetings of the board of directors for strategic decisions held in Rwanda, resolutions of the board of directors kept in Rwanda for safekeeping, and at least two professional or qualified Rwandan resident members on the board of directors.

(v) Foreign-sourced royalties

A preferential corporate income tax rate of 3% on foreign-sourced royalties is granted to a registered investor operating as an IP company, if they fulfil the following requirements: annual expenditure in Rwanda of at least USD10,000; a physical office in Rwanda; a bank account in a bank operating in Rwanda; at least 30% or three of the staff as Rwandan residents, whichever is higher; at least one or 25% of its directors residing in Rwanda, whichever is higher; and at least 50% of the members of the board of directors in Rwanda for the meetings of the board of directors. In circumstances where physical presence is rendered impossible, the directors participate in the meeting through the use of a means of communication by which they can simultaneously hear each other. Meetings held by this means are deemed valid if the meetings of the board of directors for strategic decisions are held in Rwanda, resolutions of the board of directors are kept in Rwanda for safekeeping, and there are at least two professional or quali-

fied Rwandan resident members on the board of directors.

(vi) A preferential corporate income tax of 15%

A preferential corporate income tax rate of 15% is granted to registered investors who are licensed to operate as a fund management entity, collective investment scheme, provider of wealth management services, financial advisory commercial entity, provider of family office services, fund administrator, financial technology commercial entity, provider of captive insurance schemes, private bank, mortgage finance institution, finance lease commercial entity, provider of asset-backed securities, reinsurance company, or provider of trust and corporate services.

Preferential withholding tax of 5%

Finally, a preferential withholding tax of 5% is applicable to dividends and interest income paid to an investor investing in a company listed on the Rwanda Stock Exchange.

4.2 Primary Tax Treaty Countries

In addition to multinational tax treaties such as the East African Community Double Taxation Agreement, Rwanda has signed 12 bilateral double taxation agreements (DTAs) and others are under negotiation. The country has DTAs with Belgium, Jersey, Mauritius, Singapore, Turkey, the United Arab Emirates, China, the Grand Duchy of Luxembourg, Barbados, Morocco, Qatar and South Africa. However, according to statistics from the Rwanda Development Board, the main countries providing foreign direct investment are not necessarily those that have signed tax treaties with Rwanda; therefore, there is no conclusive evidence that the tax treaties in place have influenced foreign investment in Rwanda.

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4.3 Use of Treaty Country Entities by Non-treaty Country Residents

Local tax authorities challenge the use of treaty country entities by non-treaty country residents because they are believed to cause treaty shopping, whereby non-treaty country residents intend to infiltrate the country with which the government has a treaty and illicitly benefit from the privileges of the treaty while not being a party to the agreement. This is done in many cases through a simple registration and opening a post office box.

4.4 Transfer Pricing Issues

The biggest transfer pricing obstacles for inbound investors operating through local corporations include that Rwanda's Transfer Pricing Rules (the "Rules") maintain that the "beneficial regime" restriction would apply to all transactions with counterparties in jurisdictions with corporate income tax rates lower than 20%.

One likely outcome is that anyone doing business with low-tax countries may be unable to deduct payments made to them, regardless of whether the costs are lawful, expended at arm's length, and with unrelated parties. This might be the biggest transfer pricing obstacle for inbound investors operating through local corporations but that have other operations in other jurisdictions, including those with low-tax regimes.

4.5 Related-Party Limited Risk Distribution Arrangements

First, it is understood that "limited risk distribution arrangements" are a supply chain concept that strategically aims at shifting a large share of the proceeds to go back to the mother company. The local tax authority challenges it in the context that when a related party is registered as a permanent enterprise in Rwanda, it should be considered in the same light as any other locally

registered company. Its risk distribution is limited to its business operations.

In the case of related persons involved in controlled transactions, they must have documents justifying that their prices are applied according to the arm's length principle.

4.6 Comparing Local Transfer Pricing Rules and/or Enforcement and OECD Standards

The Rules typically comply with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the "OECD Guidelines"), as well as the OECD's anti-BEPS recommendations. However, the scope of transactions in the Rules is larger than that of the OECD Guidelines and anti-BEPS recommendations. The two unique transactions that would typically be outside the OECD transfer pricing regimes but within Rwanda's transfer pricing scope are:

- transactions between resident related persons; and
- transactions between a resident and a non-resident who are both located in a country with which the tax administration considers it has a beneficial tax regime, whether or not they are linked.

The Rules are part of the ongoing legal reforms in Rwanda to promote the Kigali International Financial Centre, including the inclusion of two such unique transactions in the scope covered by the Rules. According to the Rules, a beneficial tax regime is one that is characterised by any of the following:

- it provides tax benefits to non-resident persons or businesses;

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- it has no income tax, or a maximum rate of 20%;
- it does not require a taxpayer to engage in significant economic activity within this country or tax jurisdiction;
- it does not tax foreign-sourced income, or taxes it at a maximum rate of 20%; or
- it does not allow access to information about legal entities' corporate structures, asset ownership, other rights or economic transactions.

4.7 International Transfer Pricing Disputes

Most related persons involved in controlled transactions have ensured that they have developed a transfer pricing policy, and prepared and kept documentation verifying that the conditions of its controlled transactions for the relevant tax period are consistent with the arm's length principle. This has so far ensured the operation in line with Ministerial Order No 003/20/10/tc of 11 December 2020 establishing general rules on transfer pricing. Further, Article 32 of the new Income Tax Law 2022 also states that before determining the price arrangement between related persons, the taxpayer may request the tax administration to enter into an advance pricing agreement for a fixed period to determine modalities of setting prices and profit, complying with the arm's length principle.

Resolving international transfer pricing disputes through double tax treaties (DTTs) and mutual agreement procedures (MAPs) is often used and appreciated by the tax administration. The DTA prevails in most of the transfer pricing issues – whether resolved amicably or through court proceedings – where Rwanda has a DTA with a resident of the counterpart.

The local tax authority has a positive view on MAPs because they incorporate the needs of the parties to the agreement and hence foster effectiveness and fairness in their implementation. For instance, corresponding adjustments for international transactions can be made upon request by a person resident in Rwanda or they are made or proposed by a tax administration of a foreign country.

5. Key Features of Taxation of Non-local Corporations

5.1 Compensating Adjustments When Transfer Pricing Claims Are Settled

The Rules allow compensating adjustments when a transfer pricing claim is settled; however, it is in the absolute power of the tax administration to decide whether the proposed arrangement should go through. The tax administration examines the consistency of that adjustment with the arm's length principle, consulting as necessary with the competent authority of the other country. Nevertheless, if the adjustment proposed or made by the other country is consistent with the arm's length principle, the tax administration makes a corresponding adjustment to the amount of tax charged in Rwanda on the profits of the taxpayer in order to eliminate economic double taxation.

International Transactions

Compensating adjustments for international transactions are mostly made once the following conditions are fulfilled:

- an adjustment to the conditions of transactions between a person resident in Rwanda and a related person is made or proposed by a tax administration of a foreign country;

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- an adjustment results in the taxation in that other country of an amount of income on which the person resident in Rwanda has already been taxed in Rwanda; and
- a country making or proposing the adjustment has a treaty with Rwanda that reflects an intention to provide for the relief of economic double taxation.

5.2 Taxation Differences Between Local Branches and Local Subsidiaries of Non-local Corporations

There is no difference with regard to taxation between local branches and local subsidiaries of non-local corporations. Rwanda's corporate income tax is based on the concept of permanent establishment (PE), which is defined as a known fixed place of business that gives rise to income and at which business is wholly or partially carried on. Therefore, non-resident entities shall be liable to corporate income tax on business profit per tax period, which is equivalent to the income tax applicable to resident entities, through a PE in Rwanda, which may be a branch or subsidiary.

5.3 Capital Gains of Non-residents

The sale or transfer of shares in local corporations, whether direct or indirect, is subject to capital gains tax. The capital gains tax is imposed at a rate of 5% on the capital gain. The difference between the share's acquisition value and its selling or transfer price is used to calculate the capital gain on sale or transfer. The corporation in which the share sale or transfer transaction happened is required to withhold and account for capital gains tax.

Capital gains derived from the sale or transfer of shares on the capital market, capital gains from the sale or transfer of units of collective investment schemes, and capital gains result-

ing from restructuring of companies in respect of the transferring company, are exempt from capital gains tax.

5.4 Change of Control Provisions

Article 54 of the new Income Tax Law of 2022 provides that in the case of restructuring a business entity, the transferring business entity is exempt from tax in respect of capital gains and losses realised on restructuring. The receiving business entity values the assets and liabilities involved at their book value in the hands of the transferring company at the time of restructuring. The receiving business entity depreciates the business assets according to the rules that would have applied to the transferring business entity as if the restructuring did not take place.

According to Rwandan tax legislation, an indirect holding and overseas group are taxed in the same way.

5.5 Formulas Used to Determine Income of Foreign-Owned Local Affiliates

There are no specific formulas used to determine the income of foreign-owned local affiliates selling goods or providing services. According to Rwandan tax legislation, foreign-owned local affiliated entities are registered as PEs and taxed in the same way as local companies.

5.6 Deductions for Payments by Local Affiliates

There are no specific rules regarding deductions for payments by local affiliates for management and administrative expenses incurred by a non-local affiliate. However, in general, the arm's length principle and the Rules must be taken into consideration. In addition, it is worth noting that the aggregate of expenses of management activities, technical services and royalty fees paid to a non-resident related person exceed-

ing 2% of the turnover of the taxpayer are not deductible from taxable income.

5.7 Constraints on Related-Party Borrowing

There are no constraints imposed on related-party borrowing by foreign-owned local affiliates paid to non-local affiliates in particular. All related-party borrowing transactions are subject to adjustment to ensure that the transfer pricing policy applied during the transaction indeed results in an arm's length outcome. Generally, any borrowing between related parties must comply with the arm's length principle.

The granting by a local affiliate of an interest-free loan or of one with an interest rate below market standards may result in a hidden profit distribution. In comparison, a loan granted with an interest rate that is above market standards may result in a hidden contribution.

6. Key Features of Taxation of Foreign Income of Local Corporations

6.1 Foreign Income of Local Corporations

Foreign income of local corporations is not exempt from corporate tax. A resident corporation generates income derived from taxable activities performed abroad, and the corporate income tax payable by that resident in respect of that income is reduced by the amount of foreign tax payable on such income. Furthermore, the amount of foreign tax payable shall be substantiated by appropriate evidence, such as a tax declaration, a withholding tax certificate or another similar document.

However, the reduction of the corporate income tax shall not exceed the tax payable in Rwanda on income from abroad.

6.2 Non-deductible Local Expenses

Foreign income of local corporations is not exempt from corporate tax; however, it is subject to a foreign tax credit refund.

6.3 Taxation on Dividends From Foreign Subsidiaries

Dividends from foreign subsidiaries of local corporations are taxed similarly to locally issued dividends, subject to a foreign tax credit refund.

6.4 Use of Intangibles by Non-local Subsidiaries

Intangibles developed by local corporations can be used by non-local subsidiaries in their business without incurring local corporate tax but they are subject to adjustment to ensure that the transfer pricing policy applied during the transaction indeed results in an arm's length outcome.

6.5 Taxation of Income of Non-local Subsidiaries Under Controlled Foreign Corporation-Type Rules

There are no specific controlled foreign corporation-type rules.

6.6 Rules Related to the Substance of Non-local Affiliates

There are no specific economic substance rules that apply to non-local affiliates.

6.7 Taxation on Gain on the Sale of Shares in Non-local Affiliates

A resident corporation generates income derived from a taxable sale of shares in non-local affiliates performed abroad; the tax on a gain payable by that resident in respect of that gain to a

foreign jurisdiction is reduced by the amount of foreign tax payable on such gain. Furthermore, the amount of foreign tax payable shall be substantiated by appropriate evidence, such as a tax declaration, a withholding tax certificate or another similar document. However, the reduction of the taxable gain shall not exceed the tax payable in Rwanda on a foreign gain.

7. Anti-avoidance

7.1 Overarching Anti-avoidance Provisions

Article 68 of the new Income Tax Law of 2022 has introduced anti-abuse rules on avoidance arrangements.

Acts that constitute avoidance arrangements between persons include:

- an arrangement whose principle purpose is to obtain a tax benefit;
- an arrangement that, in whole or in part, lacks commercial substance;
- an arrangement that creates rights or obligations that would not normally be created between persons dealing at arm's length; and
- an arrangement that may result, directly or indirectly, in the abuse of the provisions of tax laws in Rwanda.

In cases where there exists a form of an avoidance arrangement between persons, the Tax Administration determines tax after taking at least one of the following actions:

- treating the avoidance arrangement as if it had not been carried out;
- recharacterising the nature of any income, payment, expenditure or any other transaction;

- disallowing or reallocating any income, loss, deduction, allowance, relief, credit, exemption, or exclusion in whole or in part; and
- deeming any two or more persons to be related persons or to be the same person.

Rwanda also has general anti-avoidance provisions in its DTTs and has DTTs with 11 countries, including the two DTTs recently entered into with the Democratic Republic of Congo (DRC) and Qatar. The DTT with Qatar was ratified by Rwanda in May 2021, while the one with the DRC was approved for ratification by the Rwandan Parliament in July 2021 and is waiting to be signed by the President of the Republic.

8. Audit Cycles

8.1 Regular Routine Audit Cycle

Rwanda has a regular routine audit cycle.

The power to audit is limited to a period of five years, starting from January 1st following the relevant tax period. However, if it is established that the taxpayer has concealed information with the intent to evade tax, the power to audit lapses after ten years.

9. BEPS

9.1 Recommended Changes

Changes recommended to prevent BEPS are being implemented in terms of well-defined deductible and non-deductible expenses and transfer pricing, such as through Law No 027/2022 of 20 October 2022 establishing taxes on income.

9.2 Government Attitudes

The government of Rwanda has set forth guidelines to prevent base erosion and profit shifting, among which there are rules on transfer pricing, well-defined deductible expenses, non-deductible expenses and thin capitalisation.

The following expenses are not deductible from taxable income:

- dividends declared and profits paid out to their beneficiaries;
- reserve allowances, savings and other special-purpose funds, unless otherwise provided for in Law No 027/2022 of 20 October 2022 establishing taxes on income;
- fines and similar penalties;
- donations, save for donations given to non-profit-making organisations in which the value does not exceed 1% of the turnover;
- income tax paid in accordance with this law or paid abroad on business profit and recoverable VAT;
- personal consumption expenses;
- entertainment expenses, save for expenses on general sporting activities for employees;
- 20% of expenses paid on business overheads, as in the case of telephone, water, electricity and fuel where the private and business use cannot be practically separated;
- management, technical services and royalty fees paid to a non-resident person exceeding 2% of the turnover of the taxpayer;
- interest arising from loans between related persons paid or due on a total loan that is greater than four times the amount of equity. This equity should not include provisions or reserves according to the balance sheet, which is drawn up in accordance with the Generally Accepted Accounting Principles;
- realised foreign exchange loss arising from total loans between related persons in excess

- of four times of the amount of paid-up equity which excludes provisions or reserves and retained earnings according to the balance sheet, which is drawn up in accordance with the Generally Accepted Accounting Principles; and
- unrealised foreign exchange losses.

The provisions under the third-last bullet point do not apply to commercial banks, financial institutions or insurance companies. However, a mandatory contribution paid by a taxpayer is allowed as deductible expense.

Related persons involved in controlled transactions must have documents justifying that their prices are applied according to the arm's length principle. If they fail to do so, the tax administration adjusts transaction prices in accordance with the general rules on transfer pricing.

The government seeks to achieve effective and adequate taxation of related persons.

9.3 Profile of International Tax

International taxation does not have a high profile exceeding the country's local tax laws and regulations. Most of the international taxation principles have been incorporated in Rwanda's local laws to ensure that the country's taxation system matches international standards.

If the government of Rwanda has a DTA with another country, such agreement prevails.

9.4 Competitive Tax Policy Objective

The government aims at having competitive tax policy objectives with the current laws in place and this will be balanced against preventing multinational organisations from using techniques to avoid tax.

9.5 Features of the Competitive Tax System

There are some features of the Rwandan tax system that might be more vulnerable than other areas of the tax regime like the harmonisation of regional integration with the East African Community Customs Management Act.

There is no state aid but there are some consequential constraints relating to tax loss and tax avoidance acts. The tax administration is advocating for amendments and revised laws. For example, in 2022, a new tax law was published, replacing the 2018 version, which had repealed the 2015 version, and there is also another one concerning VAT that is in the pipeline. This new tax law has added digital services and gaming activities as sources of taxable income.

9.6 Proposals for Dealing With Hybrid Instruments

Rwanda recognises that different tax regimes may be exploited by businesses to reduce their tax burden. It has negotiated and signed DTTs and it recognises tax paid abroad as an expense.

9.7 Territorial Tax Regime

Rwanda has a territorial tax regime, with the binding principles that tax laws apply to all people, entities, organisations and corporations operating or residing on its territory (Article 3 of Law No 027/2022 of 20 October 2022 establishing taxes on income).

Rwanda has interest deductibility restrictions; for example, on interest arising from loans between related persons paid or due on a total loan that is greater than four times the amount of equity (Article 25 of Law No 027/2022 of 20 October 2022 establishing taxes on income).

9.8 Controlled Foreign Corporation Proposals

Rwanda is not bound by controlled foreign company rules, as it has not adhered to the BEPS actions and their principles.

9.9 Anti-avoidance Rules

In Rwandan tax laws, there are provisions regarding anti-avoidance and double tax convention limitations to ensure and facilitate an effective taxation system. Some articles are under the Tax Procedure Law and others are in the anti-avoidance policies set by the tax administration.

9.10 Transfer Pricing Changes

The transfer pricing changes introduced by BEPS are changing things radically in Rwanda, given that Article 32 of Law No 027/2022 of 20 October 2022 establishing taxes on income states that related persons involved in controlled transactions must have documents justifying that their prices or profits are applied according to the arm's length principle.

If such persons do not provide documents or the documents do not justify compliance with the arm's length principle, the tax administration adjusts transaction prices or profits in accordance with the general rules on transfer pricing under Ministerial Order No 001/20/10/TC of 10 January 2020.

9.11 Transparency and Country-by-Country Reporting

Rwanda agrees with and affirms the provisions of transparency in all sectors and it is one of the principles of taxation with which the tax administration must abide. Country-by-country reporting is also being used, whereby, according to the current ministerial order, a country-by-country report must be filed not later than 12 months

after the last day of the reporting fiscal year of the multinational enterprises group.

9.12 Taxation of Digital Economy Businesses

The new Law No 027/2022 of 20 October 2022 establishing taxes on income has incorporated taxation of digital services which include online advertising services, the supply of user data, online search engines, online intermediation platform, social media platforms, online media, digital content services, online gaming, cloud computing services or standardised online teaching services.

9.13 Digital Taxation

The new Law No 027/2022 of 20 October 2022 establishing taxes on income has included digital services among the activities that are a source of taxable income.

9.14 Taxation of Offshore IP

Rwanda is a member of the World Intellectual Property Organization and has introduced provisions dealing with the registration and recognition of IP deployed in the country. Under Articles 7, 8 and 9 of Law No 31/2009 of 26 October 2009 on the protection of IP, the law determines different grounds of registering and recognising IP rights, whether invented internally or offshore.

The transfer, sale and lease of intellectual property is listed as a source of taxable income by the new Law No 027/2022 of 20 October 2022 establishing taxes on income.

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K-Solutions & Partners was established in 2007 and has a vast number of domestic and international clients. The firm employs 15 permanent staff, including nine advocates, as well as external legal consultants. K-Solutions & Partners is a prominent law firm in Rwanda, exceptionally well positioned to offer clients practical insights on the legal issues arising in Rwanda's dynamic economic environment. The firm has a reputation for delivering in-depth knowledge of local and international business practice. The firm's

regional footprint as part of Africa Legal Network allows the team to advise domestic and regional clients as they expand their business and commercial interests throughout the continent. The firm's practice covers banking and finance, tax, capital markets, corporate, corporate governance and compliance, employment and labour, energy, environment, natural resources and infrastructure, intellectual property, litigation, arbitration and dispute resolution, project financing and real estate.

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