# CONVENIENCE PRINCIPLE OF TAXATION AND TAX SYSTEM: ANALYSIS OF QUARTERLY PREPAYMENT OBLIGATION IN RWANDA

**Case study: Kigali city registered company taxpayers**

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ABSTRACT

*The study sought to analyze the convenience principle of taxation and tax system: An analysis of quarterly prepayment obligation in Rwanda with the case study of Kigali city registered company taxpayers 2005-2016. To achieve objectives of this study, the study used the following hypotheses: H1: Established taxes based on requirements of principles of taxation are the determinants of a well-designed tax system, H2: Government need of cash flow and easy payment of taxes are the determinants of the quarterly prepayment obligation, H3: Convenient timing and manner to the taxpayer and Government that taxes are levied and collected are indicators of convenience principle of taxation towards a tax system. The sample of the study was 67 company taxpayers registered on CIT in the city of Kigali gotten in a population of 41,234 using the table of Alain Bouchard. The study used both primary and secondary data. The findings of the study revealed that quarterly prepayment has correlated negatively to the determinants of convenience principle of taxation. It was concluded that convenience is among core principles of taxation which are effective for any country to develop its economic growth and if the tax system abides by this canon of taxation perfectly, the tax administration and its stakeholders will work in harmony. The study further recommends that the governing, possibly supported by tax administration, should take adequate actions to consider the convenience principle of taxation when CIT and PIT are declared and paid.*

***KEY TERMS: Convenience principle, Tax system, Quarterly prepayment, Tax, Corporate income tax***

## Introduction

Tax has been defined as a financial charge or other levy imposed upon its payer by the state or its functional equivalent, usually considered as a source of funding for the funding of various public expenditures[1]. Accordingly, for it to be legitimate it must be supported by a valid statute (which includes a bye-law supported by a statue)[2] No country is a scaled up or reduced version of another, therefore each needs streamlined institutions and decision making to facilitate a comprehensive approach which allows a clear focus on the principles and objectives of taxation and welfare across the entire public sector and beyond. Thus, Rwanda has enacted various laws to suit the changing needs of the time and the country[3] .The principle of convenience has been variously, and for a long time, been held cardinal for an efficient and effective taxation system. It has been observed, for example, that every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it[4]. The Association of International Certified Professional Accountants (2017) observed that facilitating a required tax payment at a time or in a manner that is most likely convenient for the taxpayer is important and compliance costs for taxpayers and administrative costs for the tax authorities should be minimized as far as possible[5].

Furthermore it has been observed that the system should strike a balance between the interests of the tax payer and the tax authorities, for example, the method and timing of tax payment should be convenient for the tax payer, If based on income should be paid at the time the income is earned, If based on sales at the time the transaction takes place and If based on wealth (gift, inheritance, property) at the time of transfer[6].

As an example of efforts at achieving convenience, the Rwandan Revenue Authority (RRA) formed in 1998 to spearhead all reforms in taxation in the country with a mandate to administer, collect and account for all tax and some non-tax revenues and to provide services aimed at promoting business growth, introduced the use of Electronic Billing Machines (EBMs) in 2012. The reform, through making tax payment convenient, enhanced businesses payment of VAT and increased tax-payer compliance while at the same time reducing the tax collection and administration costs in Rwanda[7]

Good governance necessitates good tax policies. Smith (1776)[8] provided a benchmark for the principles of taxation that has demonstrated substantial applicability through time (Alley and Bentley, 2005). Tax prepayment techniques have been introduced all over the World, only procedures and calculations are different. In Rwanda, the tax system does neither allow taxpayers to estimate their income tax nor to calculate the quarterly prepayment tax basing on the current quarter, so to pay provisional taxes in order to deal with the issue of the tuff tax liability at the end of each fiscal period. The only option for taxpayers to pay provisional taxes is the quarterly prepayment based on the previous tax liability, which is provided for by article 31 of the law n° 16/2005 of 18/08/2005 on Direct Taxes on Income as modified and complemented to date (See, Art. 43 of the mentioned law n° 16/2005, O. G nº 19 of 11/05/2009), and default to it, penalties are applied to the defaulter (See, Art. 61 par. 1 and 62 par. 4 of the Law 25/2005 of 04/12/2005 on tax procedures, O. G nº 19 of 11/05/2009).

Prepayment similar to payment in advance, it is an illustration whereby the payment made generate right on accounting consideration and counted as company asset but which is properly chargeable against the revenues or profits of future trading periods. It is an obligation to pay income tax before earning an income to be taxed in the sense that, there is no taxable base for this liability, as the taxpayer must pay 25% of his previous tax liability. In Rwanda, since 2005 taxpayers are obliged to make a quarterly prepayment income tax based on the previously paid total income tax. This is simply means that at every quarter of the fiscal year, the taxpayer must pay 25% of his previous tax liability, and this not later than June 30th, September 30th and December 31stof the current year of taxable activities. It is on this regard that it is interesting to carry out a study on the convenience principle of taxation as one of pillars of a well-designed tax system with the analysis of the quarterly prepayment obligation in Rwanda.

The problem arises when taxes are estimated from financial statements of the previous fiscal year. Estimated and paid tax basing on the previous paid income tax, when the year ends taxes are found to be less or more than the tax that should have been paid, and it either results in a tax refund position or additional taxes are to be paid toward the tax liability. This obligation, not only it breaches the convenience principle of taxation, it also breaches the accounting principle

of independence of fiscal periods and it has an impact on taxpayers' cash flows as well. This is not the only problem, since more than 38 billion of tax refund are still not given to taxpayers who overpaid their taxes from 2012 (RRA Report, 2016)[9], and this impacted negatively taxpayers' cash flow since the year 2012.

This is simply mean that in order to follow the convenience principle of taxation and the independence of fiscal year as well, income tax of a certain fiscal year should be paid after comparing revenue and expenses incurred over the financial year, instead of being based on the income tax paid in the previous fiscal year.

The quarterly prepayment has a negative impact on taxpayers' cash flow, since a number of taxpayers has been penalized for failing to declare and pay quarters, not because they are not aware of the obligation, but only because their cash flow does not allow them to reinvest in their businesses and to make quarterly prepayments at the same time (RRA, 2106), unless financial statements are prepared and presented basing on current quarterly financial performance. Furthermore, the quarterly prepayment must surely have an impact on the tax administration's cash flow as well. The more difficult a tax is to pay, the more likely that payment will not happen (AICPA, 2017)[10].

To be a good tax system, the system should strike a balance between the interests of the taxpayer and the tax authorities. Expressed in other words, the timing of the obligation to pay taxes should be convenient for the taxpayer by following the timing that the taxpayer is receiving the revenue or by using dedicated withholding systems. Although, 6 centuries passed from the time principles of taxation were born, but these principles including declared in the past are used also nowadays creating tax reforms, changing taxation systems and searching for the best relationship between taxpayers and officials (Kristina, 2005)[11].

Rwanda tax system is designed to help taxpayers to improve their compliance, as well as their wealth. This is evidenced by the fact that in the last doing business (DB) report for 2017, Rwanda was ranked 56$^{th}$ globally due to constant improvements in business climates including paying tax reforms (DB, 2017)[12]. However, paying taxes in their due time has been identified as

a critical element for the success of the tax system which plan to establish its competitive advantage, since convenient timing of tax payment for the taxpayer is a principle of a good tax system. This will enable taxpayers to invest and reinvest in their existing and other businesses, as the good tax system should be investment oriented and encourage growth, competitiveness and employment (Norton, 2000)[13].

Previous RRA reports demonstrated that in Rwanda many taxpayers are considered as non-filers and non-payers because they did not fulfill their obligation of filing income quarterly prepayment returns and paying, despite this there has been no empirical study that has been undertaken in Rwanda to establish the relationship between the quarterly prepayment obligation and the convenience principle of taxation in Rwanda. The existing body of knowledge is not sufficient enough to explain the said relationship between the quarterly prepayment obligation and the convenience principle of taxation.

## 2.0 Conceptual and Theoretical Framework

This section reviews the theories and models related to the study variables. It starts with the conceptual framework from which the relationship between the study variables is identified. It then review the theories related to the study variables as advanced by the previous scholars.

| Independent variable | | Dependent variable |
|---|---|---|
| **Convenience principle of taxation**<br>- Convenient time of levying,<br>collecting and paying taxes,<br>- Convenient manner of<br>levying, collecting and<br>paying taxes, | | **Tax system**<br>- The well-designed tax system<br>taxation,<br>- Established taxes based on<br>the requirement of principles<br>of taxation<br>Quarterly prepayment<br>Obligation, |

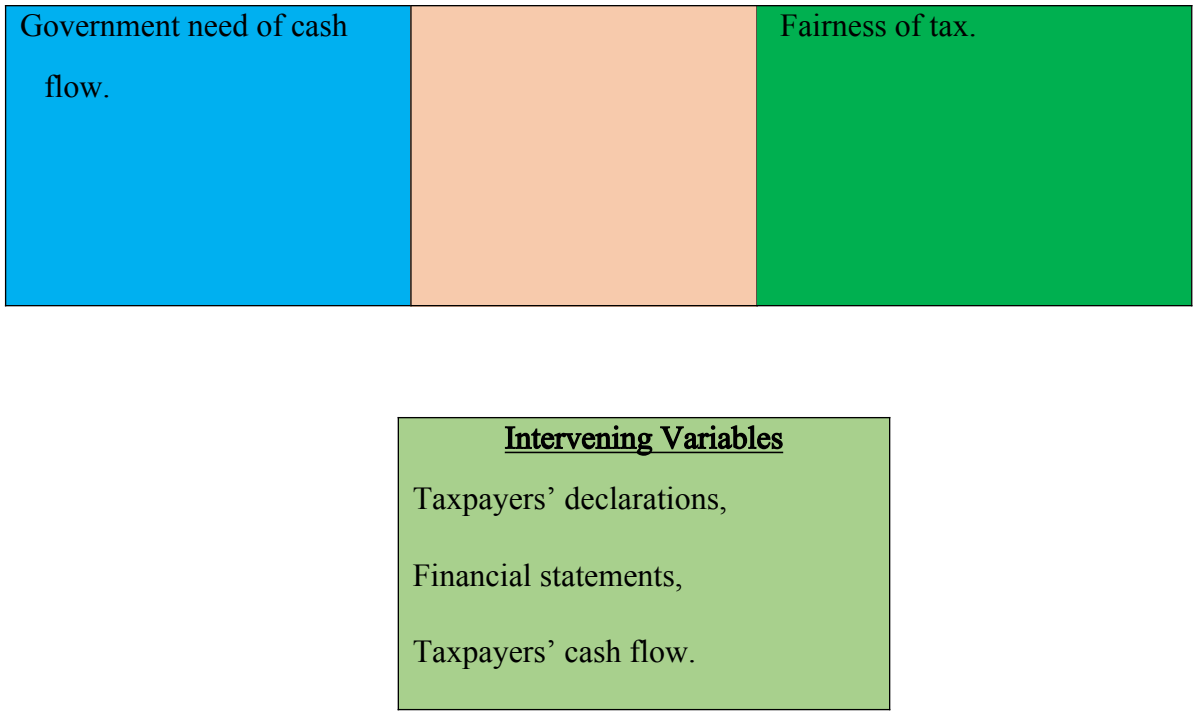


Figure 1: Conceptual Framework

Source: Researcher: 2018

**Tax system**

Adam Smith in *The Wealth of Nations* published in 1776 outlined four principles of an ideal tax system. These principles are equity, certainty, convenience and economy, and they are still relevant to today's tax environment. These principles are important to the creation of tax policy, because it is only when they are upheld that effective taxes are implemented in a manner which satisfies the purposes of a tax system. The following is a list of some of the principles that have been used over the years. The list is selective not comprehensive (Alley and Bentley, 2005)[14]

**Tax system in Rwanda**

Rwandan history indicates that the first tax legislation was inherited from colonial regimes. Such tax legislations include the Ordinance of August 1912 which established graduated tax and tax on real property. There was another Ordinance of 15th November 1925 adopting and putting into application the Order issued in Belgium Congo, on 1st June 1925 establishing a profit tax. The order was amended several times up to the Order of 25th March 1960, meant for Rwanda's development and cash in-flow. After independence, the first tax legislation passed was that of

2nd June 1964 governing profit tax, which was repealed and replaced by Law no 8/97 of 26/06/1997 on the Code of Direct Taxes on Different Profits and Professional incomes.

This law was amended from time to time in order to keep pace with time and the changing economic environment. Such other legislative instruments include the 1973 law governing property tax, the tax on license to carry out trade and professional activities, the law n° 29/91 of 28th June 1991 on sales tax /turnover tax (which was repealed and replaced by the law n° 06/2001 of 20/01/2001 on the Code of Value Added Tax (VAT) (now repealed and replaced by the law n° 37/2012 of 09/11/2012 on the code of Value Added Tax).

Other substantive Law governing Customs was enacted on 17th July 1968 accompanying Ministerial Order of 27th July 1968, putting into application the Customs Law. In addition, the administration and accountability of taxes and duties in Rwanda was initially under the Ministry of Finance and Economic Planning. In 1997, Rwanda Revenue Authority was established as an independent body by the law n° 15/97 of 8/11/1997 to administer the various taxes and tax related laws and to assess, collect, administer, and account for Fiscal and Customs revenue collected to the Government through the Ministry of finance in accordance with established procedure. RRA came into the country at a time when public institutions in the nation were either experiencing shortage of qualified staff or bearing the effect of it. Such burden partly linked to the 1994 genocide that caused knowledge and knowledge repatriation.

As a tax administration, RRA entered into an environment and niche that concerned with revenue collection. There was a lot of fraud and smuggling in the country and RRA therefore was seen as an enemy threatening peoples' hot business at time (RRA Communication Strategy, 2009)[15]. Through article 3 (c) of the law n° 15/97 of 08/11/1997, Rwanda Revenue Authority was given powers to institute prosecution of Tax offenders (Law No. 15/97 of 08/11/1997 establishing RRA, O.G. n° 22 of November 1997). The RRA was mandated to enforce compliance with the laws that it administers to ensure that taxpayers fully comply with their obligations under the tax laws by heavily guarding against all forms of non-compliance and offences.

The history of taxes in Rwanda indicates that the first tax legislation was inherited from colonial regimes. This tax legislation included the Ordinance of August 1912, which established graduated tax and tax on real property. There was another Ordinance on 15th November 1925 adopting and putting into application the Order issued in Belgian Congo on 1st June 1925, establishing a profits tax. This law was amended from time to time in order to comply with the changing economic environment. Such other legislative instruments include the 1973 law governing property tax, the tax on license to carry out trade and professional activities, the Law n° 29/91 of 28th June 1991 on sales tax /turnover tax (now repealed and replaced by the Law n° 06//2001 of 20/01/2001 on the Code of Value Added Tax (Charles, 2008).[16]

In 2005, the parliament adopted law n° 25/2005 of 04/12/2005 on tax procedures, amending decree-law of December 28, 1973 relating to personal tax, law no 06/2001 of January 20, 2001 on the code of value added tax (VAT) and law n° 9/97 of June 26, 1997 on the code of fiscal procedures. Similarly, law n° 16/2005 of 18/08/2005 2005 on direct taxes on income was adopted replacing law n° 8/97 of 26/6/1997 on code of direct taxes on different profits and professional income, and law n° 14/98 of December 18, 1998 establishing the Rwanda investment promotion agency, especially in its articles 30, 31 and 34 (RRA website, 2018)[17]. The parliament also adopted law n° 21 of 18/04/2006 establishing the customs law, replacing the law of July 17th 1968 concerning the customs law as amended and completed to date. However, on July 1, 2009, Rwanda adopted the EAC customs Management Act 2004, an act of the community to make provisions for the management and administration of customs and for related matters. The tax system of Rwanda is made of two main departments, namely the domestic taxes department (DTD) and customs department. The DTD is on the other hand made of the large taxpayers' office (LTO), the small and medium taxpayers' office (SMTO), the decentralized taxes office and the revenue investigation and enforcement department (RIED).

**convenience principle of taxation**

This canon states that every tax ought to be levied at the time or on the manner in which it is most likely to be convenient for the contributor to pay it. A tax imposes burden on the taxpayer. Hence a tax should be imposed at a time and in such a manner that the taxpayer feels minimum of inconvenience. For example, agricultural tax should be collected soon after harvest, since the

farmers are in a better position to pay it. Income tax should be deducted monthly from salaried taxpayers; this means that salary cannot be taxed before the taxpayer has got it. The time of payment and manner of payment should be convenient. This can justify administrative efficiency in revenue collection, as it is can be described in the terms of the payment, timing and manner of all tax payments. Practicably implies that there must be a feasible time to pay taxes (when a tax payment is made). The payment must take place at the right moment, when it is most convenient for the taxpayer. Taxpayers should know with certainty when, how much and how they are liable to pay in taxes (Du Preez, 2016).[18]

Taxes should be convenient to administer and to pay. That is to be easy to administer, offers few opportunities for noncompliance, easy to pay, easy to determine, and requires minimal time to comply. All these elements cannot be observed when income tax is paid on quarterly prepayment basis, since its administration and determination are not easy. The noncompliance is high because of the lack of cash flow, and the fact that the prepayment does not consider the current performance. Taxpayers should not have to devote undue time or incur convenience: undue costs in complying with the tax system (Edgar and Sandler, 1996)[19]. Because of the way tax laws are enforced and because of the separation of the burdens of tax from the benefits of government, tax burdens seem much heavy than they really are (Joshua, 2008).

### Tax quarterly prepayment obligation

Taxpayers are liable to pay income tax on their respective earned income. To do this, they have to submit a tax declaration to the tax administration using forms established by the revenue agency (See article 43, law 16/2005 on DTI). However, an estimated tax declaration must be submitted although there is no income to be taxed in the current fiscal year. This is called quarterly prepayment tax (See article 31, law 16/2005 on DTI).

Quarterly prepayment in Rwanda is regulated by article 31 of the above stated law n° 16/2005, where it stated that "During the current tax period, the taxpayer pays to the account of the Tax Administration before and not later than June 30th, September 30th and December 31st of the year of taxable activities, each twenty five (25%) per cent of the tax liability as calculated in the tax declaration of the previous tax period". Every taxpayer without any exception (based whether to the category of the taxpayer or to the income earned during the fiscal year) is obliged

to make the quarterly prepayment tax, by submitting the tax declaration to the tax administration in order to avoid different penalties to be applied.

During the current tax period, the taxpayer pays to the account of the tax administration before and not later than June 30th, September 30th and December 31st of the year of taxable activities, each twenty five (25%) per cent of the tax liability as calculated in the tax declaration of the previous tax period" (See article 31, law 16/2005 on DTI).

Analyzing the provisions of article 31 of the above stated law nº 16/2005, every taxpayer is liable to make quarterly prepayment, and its calculation is made basing on previous tax liability. Eg. If the tax liability of the previous fiscal year (2016) was 10,000,000, the quarterly prepayment for each quarter of the fiscal year 2017 will be 2,500,000 (10,000,000*25%), as it is illustrated in the table below:

| PERIOD | TAX TYPE | TAX AMOUNT |
|---|---|---|
| 2016 | CIT | 10,000,000 |
| 2017 | IQP | 2,500,000 |

However, if the taxpayer's tax liability for the previous fiscal period equal zero, or if the taxpayer had a loss from the previous fiscal year, there will be no quarterly prepayment, since there will be no previous tax liability as calculated in the tax declaration of the previous tax period, because it is the only base for quarterly prepayment calculation (Article 31, law 16/2005 on DTI).

Quarters are paid in installment as per the table below:

| Payment | Payment due date | Rates |
|---|---|---|
| First payment | June 30 | 25% |
| Second payment | September 30 | 25% |
| Third payment | December 31 | 25% |
| Final payment | March 31 | Balance |

**Source**: Article 31 of the stated law n$^{o}$ 16/2005 on DTI.

### Effect of the quarterly prepayment

Quarterly prepayment has affected either positively or negatively the taxpayers' behaviour, their cash flow and their economy as well. However, it is not only the taxpayer who is affected, but also the tax administration.

### Cash flow

Every payment made affects the wealth of the payer, since earning is better that spending. It is terrible when the payment is repetitively made in the same period to pay the future liability. According to the prepayment obligation, taxpayers are paying 25% of the tax liability as calculated in the tax declaration of the previous tax period. Assume in 2016 fiscal year, a taxpayer paid a CIT worth 1,000,000,000, the total quarterly prepayment in the year 2017 will be 750,000,000 (see the illustration in the table below).

| PERIOD | CIT PAID | IQP TO PAY FOR 2017 | TOTAL IQP TO PAY FOR 207 |
|---|---|---|---|
| 2016 | 1 000 000 000 | 250 000 000 | 750 000 000 (250 000 000*3) |

This should be a good wealth for the taxpayer to reinvest in the business so to enlarge its activities. Statistics show that a number of taxpayers are not complying with the IQP obligation (RRA, 2015-2016) not because they do not want or they are not aware of it, but just because they cannot pay and continue to run their business. It is then when penalties are applied.

## Penalties

It is an obligation for taxpayers to make IQP, and failure of it; penalties are applied to them in top of paying the amount of tax not declared and paid. According to articles 60, 61 and 62 of the law n$^{o}$ 25/2005 of 12/04/2005 on tax procedures;

A taxpayer or any person is subject to an administrative penalty of 100,000, 300,000 or 500,000 according to his/her category, if he/she fails to file a tax declaration (IQP) on time (See article 60);

If the IQP return is not filed on time, automatically its payment will be late too. In this case the taxpayer will be subject to a fine of ten percent (10%) of the tax payable (See article 61); and

When the taxpayer declared due taxes (IQP) in the required time limits provided by the law but did not pay those taxes in that time limits, shall pay the principal tax and an administrative penalty of 50% of due taxes (See article 62).

A taxpayer, who has not declared taxes in the required time limits provided by law, shall pay the due taxes and an administrative penalty of 60% of due taxes (See article 62).

Statistics show that a big number of taxpayer did not manage to file and pay the IQP on the due period, and penalties were charged to them (RRA, 2015-2016). Table 2 shows statistics of expected IQP declarations, declarations not made and declarations made whether on time, or late declaration, as well as their percentages.

## The ability to pay theory

Governments impose taxes to pay for their operations and state services. But how do governments decide how to use a system of taxation to charge taxpayers for those services? One of the most common theories of how people should pay taxes is the ability-to-pay theory of taxation.The meaning of ability-to-pay can be controversial at the margins. For example, commentators often refine the ability-to-pay fairness concept by subdividing it into a horizontal equity component; where taxpayers with equal incomes should pay equal amounts of tax and a vertical equity component; where taxpayers with unequal incomes should pay amounts of tax which are sufficiently unequal to fairly reflect the differences in their incomes. The ability to pay is one of the main theories of taxation, and according to the theory, taxes should be based upon the amount of money people earn. For example, those who earn more money are expected to pay a higher rate of taxes; which means a higher portion of their income than people who earn less money. It is a taxation principle that maintain taxes to be levied according to a taxpayer's ability to pay.[20]

Economics and different researchers are on the point of view that the income is only the measurement of ability to pay and if a person is having an income compared to another, and then the person is supposed to pay more. That is the way in developed countries income is defined as the only way of determining the ability to pay (Clifton *et al.*, 2001)[21].

## 3.0 RESEARCH METHODOLOGY

This section indicates various methods and techniques used by the researcher during the course of gathering relevant information from the field. It also describes methods and techniques used i.e. Research design, target population, sample design, data collection procedures and data analysis method

## Research design

Descriptive/diagnostic study design was adopted in this study. Descriptive study was used to describe the characteristics of the respondents whereas diagnostic study design was used to identify the determinant of the convenience principle of taxation and the quarterly prepayment obligation in Rwanda as well as to trace their relationship.

## Data collection

The quantitative and qualitative research approaches were adopted in this study. Quantitative research approach involves collection and production of quantitative data so that they can be quantitatively analyzed with the help of statistical calculations from which conclusions can be made[22]. Qualitative method was used to generate non-numerical data (through interviews) in order to get in-depth information about the variables. These approaches helped the researcher to identify determinant of the convenience principle of taxation and the quarterly prepayment obligation in Rwanda.

Quantitative data was collected using questionnaire. The questionnaire was comprised of closed ended questions. These types of questions were adopted since they are easy and clearly displayed allowing the respondents to answer questions in an easiest manner.

## Population of the study

The population of the study consisted of 41,234 company taxpayers registered on income tax in the city of Kigali reported by the RRA system (BI) to be the total number of registered company taxpayers. This population consisted of registered company taxpayers involved in day-to-day tax declaration and payment, and these include; 344 large taxpayers, 743 medium and 40,243 small taxpayers, operating in the Kigali city.

## Sampling design

The choice of that sample size from the sample population of the CIT registered company taxpayers in the city of Kigali of 67 was computed using the table of Alain BOUCHARD. Using this table from the sample population size, the sample size was determined as follows: Given that

our population size (N) lies between 10,000 and 50,000 company taxpayers, it corresponds to the sample of 67 companies with marginal errors of 10% with a precision of 90%. The respondents within the selected sample were randomly selected.

### Data processing and analysis

Data collected were presented in different tables for statistical analysis. Descriptive analysis is the process in which data collected are converted into statistical information which is used in an empirical study[23]. Collected data were displayed and represented in the frequency and percentage tables according to the scale of measurement used which are nominal and ordinal scales. After the checking, data have been coded and analyzed using Statistical Package for Social Sciences (SPSS) in order to verify hypothesis. The Ordinary Least Squares (OLS) was used to determine the statistical inference between the convenience principle of taxation and the quarterly prepayment obligation within a tax system.

## 4.0 RESULTS AND DISCUSSIONS

This section presents findings collected from the survey. The findings below were obtained from both the primary and secondary data sources. They were presented and analyzed using frequency tables and percentages in order to provide meaningful information.

**Table 1: Taxpayers perception on determinants of the quarterly prepayment obligation in Rwanda**

| What are the determinants of quarterly prepayment obligation in Rwanda | No respondents | percentage |
|---|---|---|
| Government need of cash flow | 22 | 33% |
| Easy payment of taxes | 40 | 60% |
| RRA target | 5 | 7% |
| **TOTAL** | **67** | **100%** |

**Source:** Primary data, 2018

The question above has been asked to respondents during the period of research and the majority of respondents revealed out that they agree that easy payment of taxes is mainly considered to be a determinant of quarterly prepayment obligation in Rwanda. Findings show again that a good number of respondents mentioned that they agree that the quarterly prepayment obligation is determined by Government need of cash flow.

Only the minority from respondents revealed that they agree that the quarterly prepayment obligation is determined by the RRA target set by the MINECOFIN. This indicates that a good number of taxpayers believe that it is easy to sprit payment in different quarters than paying much at the end of the year. However, the determination of the amount to pay should be based on the current financial statements. Even if it is not the view of the majority, respondents view of government need of cash flow may find evidence in the statement of Clarice (2013)[24], who stated that taxes are known to be the lifeblood of the Government. Without it, the Government is paralyzed, and it would be nothing but a rotten tomato; useless and put to waste.

**Table 2: Taxpayers' choice whether to pay CIT monthly, quarterly or annually**

| **If you have to choose whether to pay CIT monthly, quarterly or annually what would you choose?** | **No respondents** | **percentage** |
|---|---|---|
| Monthly | 3 | 4% |
| Quarterly | 13 | 19% |
| Annually | 51 | 76% |
| **TOTAL** | **67** | **100%** |

**Source:** Primary data, 2018

When respondents have been questioned to analyze taxpayers' perception of the quarterly prepayment obligation, by asking what are their choices whether to pay by month, quarter or by year, findings reveal that majority of respondents have chosen to declare and pay CIT year by year, while a good number of them responded that they chose to pay quarterly and only the minority of the respondents have chosen to pay CIT on a monthly basis. This indicates that the respondent majority wish they could pay income tax on an annual basis, with the annualization

method of the USA[25]. On another hand, those who responded to choose the payment by month or quarter, they went for the current period method; where the amount of tax to be paid is determined by the current income received in the period[26].

**Table 3: Taxpayers' perception on how convenient is the quarterly prepayment obligation**

| How do you find the quarterly prepayment obligation? (Use rank) | Strongly agree | Agree | Strongly disagree | Disagree |
|---|---|---|---|---|
| It is convenient | 1% | 3% | 85% | 10% |
| It is fair | 1% | 16% | 75% | 8% |
| It is easy to pay | 13% | 26% | 40% | 22% |
| It is certain | 20% | 15% | 44% | 22% |

**Source:** Primary data, 2018

The payment of a tax must take place at the right moment, when it is most convenient for the taxpayer. Taxpayers should know with certainty when, how much and how they are liable to pay in taxes. Findings in table 3 show that the majority of respondents strongly agreed that the quarterly prepayment obligation is convenient for taxpayers, while the minority strongly agreed the payment of CIT on a quarterly basis is convenient to him. The more difficult a tax is to pay, the more likely that payment will not happen (AICPA, 2017)[27].

**Table 4: Taxpayers' perception on the good side of paying CIT quarterly**

| What is the good side of paying CIT on a quarterly basis? | | | | |
|---|---|---|---|---|
| Statements | Strongly agree | Agree | Strongly disagree | Disagree |
| Not to pay much at the end | 21% | 22% | 34% | 22% |

| | | | | |
|---|---|---|---|---|
| Easy calculation | 69% | 22% | 6% | 3% |
| Easy recording | 58% | 22% | 4% | 15% |

**Source:** Primary data, January 2018

Quarterly payments are much smaller and easier to handle[28]. This is what respondents' majority indicated in their responses in table 4. They strongly argued that the prepayment calculation is easy, while a good number of respondents indicated that it is easy to record the prepayment rather than recording the amount to pay when the taxable base is calculated considering other components like expense. Moreover, even though taxpayers have found advantages in paying income tax by quarter, they also identified some negative side.

**Table 5: Taxpayers' perception on the bad side of paying CIT quarterly**

| What is the bad side of paying CIT on a quarterly basis? | Strongly agree | Agree | Strongly disagree | Disagree |
|---|---|---|---|---|
| It leads to lack of cash flow | 85% | 15% | 0% | 0% |
| It block business growth | 85% | 10% | 0% | 5% |
| It hinder reinvestment | 85% | 10% | 1% | 4% |
| It brings penalties | 90% | 8% | 0% | 2% |

**Source:** Primary data, 2018

The question was asked to see whether there is a negative side for taxpayers when fulfilling their obligation to pay quarters. Findings indicated that a number of respondents strongly agreed that the payment of quarters leads to lack of cash flow, block the business growth and hinders reinvestment, while the majority of them strongly argued that the said payment brings penalties (See art. 60, 61 & 62 of the law 25/2005). It is the minority of respondents that strongly indicated that disagreed that quarterly prepayment hinders reinvestment, since no one of them strongly disagreed the other components of this question. Statistics show that a number of taxpayers are not complying with the IQP obligation (RRA, 2015-2016) not because they do not want or they

are not aware of it, but just because they cannot pay and continue to run their businesses. It is then when penalties are applied.

**Table 7: related reasons of missing or delaying to pay quarters**

| What was the reason of missing or delaying to pay quarters? | No respondents | percentage |
|---|---|---|
| The lack of cash flow | 43 | 64% |
| Lack of knowledge of the law | 19 | 28% |
| Other reason | 5 | 7% |
| **TOTAL** | **67** | **100%** |

**Source:** Primary data, 2018

Majority of respondents to this question indicated that they failed to pay quarters on due date or they did not pay it at all, due to the lack of cash flow, while a good number of them stated that their failure was due to the lack of knowledge of the law. When a tax is difficult to pay, there are few chances that the said tax will be paid.

**Table 8: related to the convenient manner to pay quarters**

| Is the method of paying quarter convenient to you? | No respondents | percentage |
|---|---|---|
| Yes | 13 | 19% |
| No | 54 | 81% |
| **TOTAL** | **67** | **100%** |

**Source:** Primary data, 2018

The convenient canon of taxation states that every tax ought to be levied at the time or on the manner in which it is most likely to be convenient for the contributor to pay it (Jane,)[29]. This question was asked to find out if the manner to pay the IQP is convenient to taxpayers as stipulated by the canon of convenience, and findings shows that the majority of respondents

indicated that the way of paying IQPs is not convenient to them, while minority of them responded to pay IQP in a way that is convenient to them.

**Table 9: related to indicators of convenience principle of taxation towards a tax system**

| These are indicators of convenience principle of taxation towards a tax system. | Strongly agree | Agree | Strongly disagree | Disagree |
|---|---|---|---|---|
| Convenient timing to the taxpayer to pay taxes | 87% | 21% | 10% | 28% |
| Convenient manner to the taxpayer to pay taxes | 88% | 31% | 4% | 22% |

**Source:** Primary data, 2018

According to Jane[30] every tax ought to be levied at the time or on the manner in which it is most likely to be convenient for the contributor to pay it. Findings of this question indicated that the majority of taxpayers questioned responded that they strongly agree that the convenient timing and way to pay taxes are indicators of convenience principle of taxation in every tax system, and it is the minority of respondents that responded that they strongly disagree.

**Table 10 related to taxpayers perception on their profitability towards IQPs payment**

| What is the level of Profitability of the taxpayer when paying CIT on a quarterly basis? | Strongly agree | Agree | Strongly disagree | disagree |
|---|---|---|---|---|
| Very high | 5 | 9 | 32 | 21 |
| High | 2 | 7 | 39 | 19 |
| Moderate | 17 | 25 | 12 | 13 |
| Lower | 36 | 21 | 7 | 3 |

**Source:** Primary data, 2018

Findings of this question are seen as a hindrance for taxpayers, as every taxation should be fair, certain and convenient[31]. This is so that it cannot hamper taxpayers to grow their businesses; and this is in line with the mission of RRA (RRA mission statement). This question was asked to test taxpayers' perception on their profitability when paying IQPs and findings revealed that their perception is that they do not have as much profit as it is for the government, since it is the minority of respondents that stated that they strongly agreed that their profitability is on a very high and high level respectively, while the majority of respondents strongly indicated that the profitability is on a moderate and lower level respectively.

## 5.1 Conclusion

This is the recent situation of taxation system of Rwanda. Attaining an optimal tax system is a difficult and unenviable task, but nevertheless critical for revenue generation required for accelerating growth and to improve the quality of life of the citizens. Economist Adam Smith introduces convenience among core principles of taxation which are effective for any country to develop its economic growth. The rests are also playing an important role to cover common expenditure of a country and essential for economic development. If we abide by this canon of taxation perfectly we do not need the help of foreign aids. These are the weapon to take Rwanda ahead in globalization war. However, Government should take some step so that taxpayers and tax authorities are bound to abide by these canons. This study reveals the present situation of inconvenience when declaring, calculating and paying income tax on a quarterly basis among different income groups, in case of personal and corporation income taxes in Rwanda tax system. From the above conclusion, the Rwanda tax system and taxation will keep being considered as optimal when canons of taxation which includes the convenience principle of taxation will be fully considered.

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