

TAX COMPLIANCE AND SURVIVAL OF SMALL AND MEDIUM ENTERPRISES IN RWANDA A CASE STUDY OF MEDIUM TAXPAYERS IN KIGALI CITY.

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ABSTRACT

This study was sought to establish how Tax Compliance influences the survival of Small and Medium Enterprises in Rwanda-A case study of medium taxpayers in Kigali City. However, establishing the level of tax compliance by SMEs from 2011 to 2013, analysing the effects of non-tax compliance on SMEs in Rwanda, examining the extent to which tax compliance depends on bookkeeping records was the specific objectives of the study. The study aimed at helping the SMEs to take into account that keeping proper books of accounts and financial records are the major factors of tax compliance. The study also revealed the significance of sensitising taxpayers and SMEs in particular by the tax administration on how to keep financial records and books of accounts would lead to self-tax assessment hence reducing costs incurred by tax administration on tax collections. The researcher and academic community will use this study as a stepping stone for further research as it is giving a basis for further academic investigation in this area, especially regarding the factors affecting the tax compliance. Theoretically, having contributed to literature and methodology of such future studies, it also prompts more researchers in this area. This study was carried out on the basis of a case study where the researcher used a descriptive research design. The total population of this study was composed of the Medium Enterprise taxpayers (1,905) in Kigali City and 133 SMTO staff. However, the researcher used lottery method of simple random sampling to select 43 respondents. Primary data was collected from the respondents and RRA through the use of questionnaires and interviews respectively. Data was processed and analysed in line with the research objectives in order to get quality information in line with the research objectives. Tabulation was also used in summarizing and analysing the answers given to each question. It was evident that the level of SMEs' tax compliance is low. SMEs are extremely diverse and their tax compliance costs are influenced by a range of factors. As a result, the experience of both tax and non-tax compliance costs can vary significantly from business to business. For some few businesses, tax compliance costs will dominate, but for many others, non-tax compliance costs will be more significant. Some business operators choose not to grow beyond a certain size so that they can avoid additional risk, complexity and administrative burdens as a result of tax compliance costs. Some SMEs may become confused about what tax compliance costs are. They do not always distinguish between tax compliance costs and either the amount of tax they have to pay or the general accounting and record keeping costs that are an essential part of running an effective business. RRA, the tax profession association and PSF should improve on their strategies of taxpayers' education through targeting the large number of taxpayers in the community work mainly known as Umuganda. While charging penalties and fines to non-tax compliant has done little to avert the problem, tax auditors from RRA should put much time to discuss with taxpayers on how to declare and pay taxes on time and the type of penalties and fines they will have to pay if they failure to comply with tax laws. RRA should work hand in hand with tax advisors as they are the ones meeting taxpayers on daily basis.