THE PERFORMANCE OF CUSTOMSS SERVICES UNDER RWANDA

REVENUE AUTHORITY. A CASE STUDY OF

GATUNA CUSTOMS POST.

BY

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DECLARATION

I, Imboneza Gracieux, declare that the material in this dissertation has been done entirely by me and has not been presented elsewhere for any academic award.

Imboneza Gracieux

Sign...

Date ....16th Dec 2012...................

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APPROVAL

This is to certify that this dissertation by Imboneza Gracieux has been done under my supervision and is ready for Submission to the college of economics and management sciences for examination with my approval.
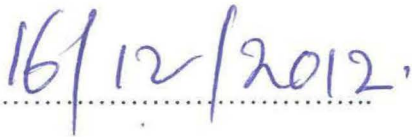
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DEDICATION

I would like to dedicate this research work to my parents who did contribute too much Dr. RUZIBIZA Aloys and ZANA Adelphine, my brothers for their unifying support both financially and morally. Lastly to my friends for advice they injected in me while pursuing this course. Thank you, may the Almighty God bless you.

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God bless you all.

As the saying goes" life is like a dark forest but sometimes go" (Vaughan 2005), I am indeed humbled by the hectic and stressful life witnessed over the past years.

ABBREVIATIONS

RRA   Rwanda Revenue Authority

VAT   Value Added Tax

GDP   Gross Domestic Product

ASYCUDA Automated System for Customs Data

PAYE   Pay as You Earn

MFPED   Ministry of Finance Planning and Economic Development

EAC   East African Community

COMESA   Common Market for East and Southern Africa

PTA   Preferential Trade Agreement

ITA   Income Tax Act

TIN   Tax Identification Number

PM   Performance Measurement

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ABSTRACT

The purpose of the study was to investigate the performance of customs services under Rwanda revenue authority. A case study of Gatuna Customs Post. The study was guided by the following objectives, to identify the various Tax structure and administration being implemented by Gatuna customs post in Rwanda, to identify the challenges faced by Gatuna Customs Post in tax administration and to find out procedures used by Gatuna customs post in administering Tax in Rwanda. The study employed descriptive research design in its methodology and the study findings included that various tax structures included, VAT customs duty and import duty and export duty .Further findings reveal that corruption is the leading problem facing Gatuna customs post. This was followed by bribery with 22%, 3rd embezzlement of public funds and 4th smuggling.

The study finally recommended that RRA should come up with more tax reforms which focus more to taxing income directly from tax payers, for instance lowering PAYE threshold so that earnings of majority citizens are captured for tax purposes, There is need to revise the list of zero rated supplies, so that more items are included in the taxable supplies for instance dairy products, Diplomatic Privileges Act must also be revised, for instance allowances and emoluments of members of Parliament need to be included in their income for tax purposes. Strengthening tax administration by empowering staff investigative machinery, making the tax procedures simple, and transparent National identification system needs to be integrated with the RRA tax system, this will aid in tax payers identification. More emphasis should be put in adding values to agricultural products before they are supplied to market, to increase taxable revenues of farmers, Rwanda Revenue Authority needs to improve on tax payer's education. RRA should put in place a mechanism that minimizes tax exemptions, RRA should come up with more balanced tax reforms that targets both direct and indirect form of taxes which enable domestic revenue to be mobilized from both tax heads.

CHAPTER ONE

1.0 Background to the study

Customs is an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, transports, personal effects and hazardous items in and out of a country. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, and the customs agency enforces these rules. The customs authority may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries customs are attained through government agreements and international laws. A customs duty is a tariff or tax on the importation (usually) or exportation (unusually) of goods. In the Kingdom of England, customs duties were typically part of the customary revenue of the king, and therefore did not need parliamentary consent to be levied, unlike excise duty, land tax, or other forms of taxes. Commercial goods not yet cleared through customs are held in a customs area, often called a bonded store, until processed. All authorized ports are recognized customs area. (Fjeldstad and Rakner, 2003).

Performance measurement (PM) is a contributory tool for successful modernization. The main underlying idea of PM is to help decision making using data which is as objective as possible. Some Customs administrations have implemented PM because they were facing budget constraints. They are thus most interested in efficiency: for instance the correlation between costs and results of Customs houses or technological means. This is why they are applying PM at the organizational level in order to drive their strategy of deploying human and material resources on the ground. Some administrations are also using PM to develop transparency and users-oriented policies of organizations in order to comply with global democratic norms. Some administrations are implementing PM in evaluating individual work as part of the human resource management system. PM can be also a tool to fight against corruption since corrupt practices means weaker performance of customs functions. This is why they are using PM both for "structural" and "individual" measurement. It should be noted, however, that measuring performance may create anxiety for some because of fear they will receive a poor evaluation. It is essential to enhance knowledge of this diversity to i)

ensure that approaches are not "copied and pasted" where it will not be beneficial or appropriate and ii) understand under which conditions PM of one kind or another may be relevant and effective. To be successful, Customs performance measurement must take into account the varying aims of the Customs service and the specific political, social, economic, and administrative conditions in their country. Government of Rwanda (2010 budget speech)

In Rwanda tax system has been under revision since the beginning of 1990, mainly due to poor domestic revenue mobilization as a percentage of GDP to public expenditure 4.2%-17% in 1987. The above deficit forced the government of Uganda to come up with a number of tax reforms like establishment of Uganda Revenue Authority, restructured the tax system, recruited and trained new personnel's and motivated them highly, came up with income tax act in 1997, introduced VAT. The success of the tax reforms were mostly realized between 1992-1997, GDP grew at an average of 7% to more than 10% annually (Background to the budget 1998/99).

Tax collection as a percentage of GDP grew significantly from 1992 by 1.7%, soon after Uganda Revenue Authority started various tax reforms such as reduction of import duties, establishment of revenue protection service this led to reduction of smuggling of goods across border, tremendous rise in collection of PAYE since enactment of income tax act 1997. Since then, RRA have been implementing various customs services mostly geared towards broadening tax bases, rationalizing taxes to improve the investment climate enhancing compliance and improving other aspects of tax revenue administration.

Despite tremendous Rwanda's macroeconomic stability over the recent years, poor domestic revenue mobilization is a major budget constraint, that's why 30% of the total budget is financed by our development partners (Maxwell Stamp 2003).

1.2 Statement of the problem

All customs administrations serve similar objectives of controlling goods crossing frontiers (imports, exports and transits), in order to collect duties and taxes, implement trade policy, combat smuggling and protect the public. The precise mandate of customs administrations will vary from one country to another, as other actors commercial banks, private control

agencies as well as other government departments, for example the Ministry of Finance or the Ministry of Interior may participate in some tasks. These mandates will also differ with the level of development of the country concerned, as well as the tools and resources at its disposal.

A country's tax administration is one of the few public sector organizations which touches the lives of a country's citizens and businesses on a daily basis and, arguably has the greatest impact on their livelihood. Tax administration employees are amongst the most frequently contacted government officials and often represent to the public what is right or wrong about their government. The responsiveness, integrity, and quality of tax administration staff must therefore meet a very high standard. Revenue collected from taxes along with customs collections represents the major funding source for governmental expenditures. In Rwanda, customs efficiency is hampered by widespread corruption. This creates a major disincentive and obstacle to trade expansion. It also leads to disastrous consequences in terms of national security and public finance.

1.3 Purpose of the Study

The purpose of the study was to examine the performance of Gatuna customs post Under Rwanda Revenue Authority.

1.4 Objectives of the study

i. To identify the various Tax structure and administration being implemented by Gatuna customs post in Rwanda.

ii. To identify the challenges faced by Gatuna Customs Post in tax administration.

iii. To find out procedures used by Gatuna customs post in administering Tax in Rwanda.

1.5 Research questions

i. What are the different Tax structure and administration established by Gatuna customs post?

ii. What are the challenges faced by Gatuna customs post in administering tax?

iii. What the procedures used by Gatuna customs post in administering tax in Rwanda?

1.6 Scope of the study

1.6.1 Geographical scope

The study covered Gatuna customs post. Gatuna

Gatuna is located in Burera District, Northern Province, at the border with the Republic of Uganda. Its location is about 80 kilometers (50 mi), by road, north of Kigali, Rwanda's capital and largest city. The coordinates of the town are: 01 26 06S, 30 01 16E (Latitude:-1.4350; Longitude: 30.0210).

1.6.2 Content scope

This study examined the performance of Gatuna customs post services Under Rwanda Revenue Authority in tackling or highlighting the problem of performance of Gatuna customs service and finds the solutions to this problem.

1.6.3 Time

The time scope covered a period of three years from 2009-2012. The research was carried for a period of two months.

1.7 Significance of the study

i.   The study helped RRA improve on the collection of domestic taxes

ii. The study helped RRA to come up with more tax reforms, which provides expansion in both direct and indirect tax bases

iii. To enable the citizens understands the importance of paying taxes

iv. It benefited other researchers who may refer to the publication in the future

1.8 Conceptual Framework

INDEPENDENT VARIABLE	DEPENDENT VARIABLE
Rwanda Revenue Authority	Performance Customs
	· Services

Role of Rwanda Revenue authority

- Assessing tax

- Collecting tax

- accounting for tax

- Administering and enforcing the laws relating to those revenues.

Operation of customs services

- Facilitating smooth movement and clearance of legitimate trade.
- Implement and control over compliance with the legislation of Rwanda on customs
- Apply, in accordance with the law, tariff and non-tariff regulatory measures upon movement of goods through the customs border of Rwanda.
- Compile customs statistics.
- Fight against contraband and violations of customs rules

INTERVENING VARIABLES

- Trade supply chain security
- The facilitation of international trade
- Enhancement of customs enforcement and compliance activities,
- Anti-counterfeiting and piracy initiatives,
- Public-private partnerships.

From the conceptual framework in above; Rwanda revenue authority is considered as the independent variable which is studied in terms of the roles Rwanda Revenue Authority such as Assessing tax, collecting tax, accounting for tax and Administering and enforcing the laws relating to those revenues.

Performance of customs Services is considered as the dependent variable and studied in terms of Facilitating smooth movement and clearance of legitimate trade, Implement and control over compliance with the legislation of Rwanda on customs, Apply, in accordance with the law, tariff and non-tariff regulatory measures upon movement of goods through the customs border of Rwanda, Compile customs statistics, Fight against contraband and violations of customs rules

Trade supply chain security ,The facilitation of international trade, Enhancement of customs enforcement and compliance activities, Anti-counterfeiting and piracy initiatives, Public-private partnerships are considered as an intervening variables.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of existing literature relevant to the performance of customs services under Rwanda revenue authority a case study of Kigali main branch It will be based on the assessment of various scholars, writers and researchers who have studied this problem before and analyze the accuracy and their appropriateness of their findings as well as assessing the applicability of their conclusions and recommendations.

2.2 Tax reforms

The major focus of long run tax reforms should be to improve revenue mobilization inform of direct taxes which should be the basic source of overall tax revenue. Tax reform is defined as a deliberate change in the tax system geared towards improving tax revenue administration and collection that comply with various tax policies (Fjeldstad and Rakner, 2003).

2.2.1 Minimum tax gap

A tax should be structured to minimize non compliance. The tax gap is the difference between taxes such as non filling, under reporting of income or overstating of deductions and unintentional errors such as miscalculations and lack of understanding rules. A number of tax provisions may encourage non compliance because the provision is too complex to understand or to comply with procedural rules generally required for all tax systems. Rules to encourage compliance might include mandatory withholding of taxes at source and penalties for non compliance. Generally compliance measures need a balance between the desired levels of compliance against the costs of enforcement of the tax laws (Fjeldstad, 2003)

2.2.2 Tax structure and administration

Different tax regimes require different types of administrative arrangements. Tax policy not only has an impact on the costs of administration, but also on the organization of the administration. On the other hand, the level of administrative capacity in the tax and customs administration should be a key factor to consider when designing a tax system. This point has been made very clear in Milka Casanegra's famous statement that "Tax Administration is

Tax Policy". This means in practice that Tax Administration involvement in policy making should be guaranteed. Also Simplification of tax legislation, which is an objective of tax reform in many OECD countries, may to a certain extent be driven by administrative considerations. For the administration of the overall tax system a decision has to be made as to which agency should be responsible for certain types of taxes. While the tax administration in any country will have the main responsibility for the administration and collection of taxes in general, different approaches might be chosen for the administration of VAT, which in a number of countries has been assigned to the customs organization, and the administration of local taxes, which often is done by local governments or as a shared responsibility between the central government tax administration and local governments. In federal countries, but also in China, we find a coexistence of national and sub national tax administrations. In a strongly developed federal structure, like in Germany, this can even mean that a federal tax administration barely exists, so that the tax system is administered by sub-national tax administrations. Finally, an important organizational issue that needs to be considered is the Fixing of collection targets for the tax administration.

2.2.3 Tax administration

Tax administration comprises three interrelated activities, identification of tax payer based on existing tax legislation, assessment of taxes to determine the tax liabilities and, the collection, prosecution and penalties that impose sanctions on tax payers who evades taxes. Such activities require some degree of autonomy if tax administration is to realize the predictable tax revenue (Mutambi, 2004). In order to increase revenue and curb corruption, a number of African countries have implemented comprehensive reforms of their tax administration over the past twenty years one of them was establishing semi autonomous revenue authorities. This was aimed at limiting political interference in the management of the tax bodies. The revenue authority recruited, motivated highly trained staff above the civil service standards and can easily dismiss staff on the ground of misconduct yet in civil service staffs are not easily terminated It is assumed that such steps provides incentives for greater job motivation and minimize corruption tendency (Fjeldstad, O.2003).

2.2.4 Tax administration Procedures

The preparation of a Strategic Plan for the operation and further development of a tax administration is an important document to clarify the tasks and objectives of the organization. The strategic plan should also provide information on the Vision and Mission of the administration. Clear and transparent formal procedures are important to implement the plan. They are also crucial for equitable administration and an important way of restricting corruption. Streamlining and simplification of procedures is part of tax administration reform in many developing and developed countries to reduce compliance costs of taxpayers and administration costs. Overcomplicated procedures may induce the emergence of Informal Procedures, which are agreed upon by the taxpayer and tax inspector without a legal basis. A strong Internal Audit system is necessary to avoid such practices. A Code of Conduct can be a useful tool to set out the behavior and standards expected of employees. Apart from administrative procedures defining the work processes of the tax administration, special attention should be given to Taxpayer grievance and appeals procedures clarifying taxpayers' rights in the taxation process. Another area of specific importance is Information System Related Procedures. (Moyi and Muriithi 2003).

2.2.5 Revenue collection

This refers to obtaining cash from tax payers previously assessed. Assessment and collection of taxes requires personnel and equipment, they are the assets and should be provided efficiently. They further argue that, it is important to examine the effectiveness of a tax system with regard to how much revenue is actually collected per unit cost, since costs rise with every function implemented (Ghura, 1998).

2.2.6 Objectives of taxation

The objectives of tax reforms are similar to those of public expenditure budget mostly in developing countries and overlap with the purposes of the tax system most government adopts. There are five reasons for mobilizing taxes, to give government resource strength, enable government allocate public goods and services, encourage general economic growth, enable government to stabilize monetary system in the economy and lastly to foster equitable distribution of national resource (Chipeta, 1998).

Economic Growth

Most developing countries are extremely yarning for constant rate of economic growth in both private and public sectors. Taxation is usually referred to as a system of re-allocating resources from the private sector to public sector. Even in a purely private led economy government need to acquire assets for public sector capital formation in order to ignites the overall economic growth. Most developing countries encourage foreign direct investment through the use of tax incentives, availing them with government lands. However, effectiveness of such incentives remains doubtful as there is insufficient data to link such incentives to economic growth as well as the criteria in selecting which investors qualify for tax incentives in the form of tax holiday (Chipeta, 1998).

Stabilization

The use of tax instrument to enhance economic stability is important in developing countries because this enable them to bring about full employment and price stability in a market economy. Taxation can also be used as a final tool for macro-economic stability necessary for economic growth and development. Taxes can be imposed during inflationary periods to reduce unnecessary expenditure hence checking on inflation. Without fiscal policy guidance the economy suffers from periodic fluctuations that eventually create unemployment (Chipeta, 1998).

Equitable Distribution of Resource

According to Howell, the distribution role of taxes in developing countries is another important purpose of the tax system. Income disparities hampers economic developments since very few people are capable of purchasing items of their choice, majority of people will have low purchasing power hence reduction in the aggregate level of demand. This also increases government expenditure in terms of providing public goods. This function is concerned with creating equity among members of society. Distribution is concerned with systems that will lead to equitable distribution of wealth and income. The tax system should put emphasis on reforms that constitutes a fair or just state of distribution. Tax reforms can also be intended to achieve a Parreto Phenomenon, a situation where improvement in economic condition of a person should not lead to worsening condition of other people. In other words it is a win-win situation nobody loses everybody wins (Chipeta, 1998).

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Provision of Public Goods

Public goods are supposed to be available to all those concerned however, the provision is spatially limited. Some public goods can only be provided in given locations yet they are developed using national taxes. The structure of tax reforms must take this problem into account, which is the problem of spatial limitation of benefits (Chipeta, 1998).

2.2.7 Tax reforms

The Tax structure of Uganda shows a heavy dependence on indirect taxes, particularly import taxes, as opposed to direct taxes .Traditionally, tax reforms have emphasized shifting the composition of taxes from indirect to direct taxes. The current tax reforms do not seem to show preference for one or the other. The reforms provide general scope for expanding tax bases of both indirect and direct taxes. The expansion of tax base seems to have received higher priority than explicitly targeting shift in the balance between direct and indirect taxes (Fjeldstad and Rakner 2003).

2.2.8 Administrative reforms

The URA was established in 1997nder the ministry of finance and economic planning, as an autonomous agency responsible for administering and collecting of taxes. Previously the administration and collection of taxes fell under the jurisdiction of Ministry of Finance; three separate departments within the ministry were responsible. One the Income Tax department, secondly Customs and Excise department, lastly Inland Revenue department. These departments were under the Ministry of Finance whose final authority resided in the high count for purposes of modification and enforcement of the tax laws. However, tax reforms are still the responsibility of Ministry of Finance (Holmgren and Kasekende 1999). RRA is responsible for administering and collecting taxes through four operative departments and some service departments these included internal revenue, Customs and Excise, VAT department, large taxpayers unit, and Expansion and collection department. RRA was expected to improve revenue mobilization through enhanced autonomy, recruitment of skilled personnel's, training and motivation of staff. The authority was expected to adopt private sector-style of management where targets are set in terms of budgeted revenue and expected to be achieved any variations calls for explanations from the managers and solutions found. All these measures were expected to result in a sustainable increase in revenue mobilization, and to achieve a tax

GDP ratio comparable to countries such as Kenya, Mauritius, Zambia and South Africa.

RRA introduced measures aimed at increasing tax compliance such as taxpayer education and tax advice facilities, Tax identification Number to reduce the time taxpayers spent fulfilling their tax obligations. The large taxpayers department was set up in 1998 to offer corporate service on all domestic taxes to top 100 taxpayers and their subsidiaries. The Tax Appeal Tribunal was also introduced in August 1998 to provide an independent mechanism to which tax payers can seek redress of their grievances.

Other measures included computerization of the Income Tax Department in 1994, automation of RRA operation using ASYCUDA system in Customs, Electronic Tax system in the VAT and introduction of small and medium taxpayers department in April 2000. A special unit called Anti-Smuggling Unit was set up to crack down smuggling and tax evasion.

2.2.9 Value added tax

Another major reform was the introduction of VAT in 1996 at the rate of 17% replacing sales tax at the rate ranging between 12%-30% and commercial transaction levy, a tax system charged on service. VAT was introduced on the ground that it had a higher revenue potential compared to the sales tax. VAT also fulfills the tax principle of fairness than sales tax since it can eliminate double taxation effect on the same income. It also has a mechanism of audit trail to verify VAT amounts declared which sales tax did not have (Rwanda Revenue authority 2003)

Before VAT was introduced, most of the tax reforms concerned more with rising revenue than equity, and relied more on ministerial discretion. Example of these are the introduction of sales tax on all zero rated and exempt products in 1989/90 and the removal in 1993/94 of all exemptions from tax except those under bilateral agreements with foreign countries and accredited international agencies. Since then Uganda has witnessed a significant move away from ministerial discretion in tax reforms. The VAT law of 1996 prohibited the granting exemptions, in other words the discretionary exemptions have reduced. Under the current VAT system, supply of most basic items such as salt, soap which account proportionately high percentage of low income spending are exempted hence favoring the poor. Enrolment of pupils in private schools in percentage terms was only 13% compared to 87% in government aided schools. Private education is expensive and commonly established in urban areas. Private

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medical facilities are also commonly found in urban areas whose services are extremely expensive mainly accessed by well to do individuals. While in public health centre's medical services are provided for free especially after abolition of cost sharing (Ayoki, Bategeka and Mukungu, 2004). VAT relief for agricultural products and exemption on inputs such as pesticides, hoes cannot be justified by merely advancing the principle of equity. For instance, domestically produced rice, wheat do not make up basic dietary of the poor. And since the small producers and traders who are effectively exempt from VAT generate a high proportion of the value-added in the production and distribution of those products. Therefore, extending VAT to agricultural output would not hurt the poor (Grandcolas, 2004). The list of VAT exempt products needs to be reassessed and kept to minimum to broaden the tax base and facilitate compliance by taxpayers and control by tax administration. The zero rated should be applied exclusively to exports as required by international convention. Extending zero rates to many sectors results in a mor e difficult control systems and increases the number of refund in the form of VAT claimable, which in most cases are managed poorly by the tax administration (Grandcolas, 2004).

2.2.10 Income Tax Act 1997

With respect to direct taxes, reforms aimed at reducing overall complexity each of the sources of personal incomes are similarly taxed and that those in the less formal sector are brought into the tax system by use of a presumptive tax to ensure equity payment between all sources of income. The Income Tax Decree of 1974 allowed considerable discretion to the minister to declare any class of income to be exempt from tax.

This loophole was eliminated by the Income Tax Act of 1997, it aimed at broadening the definition of taxable income. It abolished discretionary exemption and tax holidays, and reduced the personal income tax rates to four main bands 0%, 10%, 20% and 30%. Setting annual threshold income to Ush 1,560,000 over 3 time per capita income, excluding the majority of the population whose personal income is below Ush 130,000 per month. Otherwise the main exemption include pensions, official employment income of persons employed in the Uganda People Defence Force, Uganda Police Force, Prison Service, Interest payable on treasury bills, gains made on disposal of personal assets and income of diplomats.

2.2.11 Import duty

The current tariffs in Uganda are based on the Harmonized Code having changed it from the original system in 1995/96. Customs tariff reforms have evolved reduction in tariff rates, simplification of the structure, reduction of exemptions and phasing out import bans, import license requirements and pre shipment inspection. The import tax rates have been reduced to three standards rates 0%, 7% and 15% (Hess, R 1998). Plant and machinery is zero rated, while raw materials and final goods from non COMESA are subject to 7% and 15% duty respectively. Rates for similar goods originating from COMESA countries are at 0%, 4% and 6%. To compensate for the reduction in tariff, government introduced excise duty of 10% on imports on an ad valorem basis. The excise was meant to protect domestic producers against imports from other COMESA countries. The bans on the importation of cigarettes, beer, sodas, and car batteries were removed in 1998/99 replacing the ban with temporary import surcharge (Mutambi, B. 2004). In 1995/96, government amended section 22 of the 1991 Investment Code to abolish the granting of discretionary exemption on import duties and all other taxes payable on imported plant and machinery for investors licensed by Uganda Investment Authority. Consequently, the tax system became more transparent, easier to administer and has contributed to an increase in the domestic revenue mobilization. However, section 4 of the customs tariff act 1970 allows the minister to remit duty in whole or in part. Frequently, these statutory instruments are used to benefit specific industries that could manage lobbying the politicians.

Most of these statutory instruments have the flexibility to allow raw materials for specific industries to be imported at preferential rates. For instance, remitting the customs duty payable from 15%-7% the preferential treatment tends to target goods with high degree of protection such as textile and sugar. In the case of sugar, the industry benefits simultaneously from high duties on sugar imports at 15%, and preferential access to imported sugar as a raw material for other production of beer and soft drinks. The textile industry benefits from the high duties on textile imports at 15% charged on ad valorem basis plus a 10% excise duty per meter. The preferential treatment accorded to domestic textile industry, denies consumers mainly the poor access to better and cheaper imported clothing. More so, the taxing of second hand clothes at 15% import duty and a 10% excise duty. The poor who cannot afford to buy new clothes eventually suffers the high prices charged by the second hand cloth dealers. Extensive tax evasion in form of smuggling occurs, not because of weak customs administration, lack of

effective surveillance and deterrence mechanism but also of the existence of such protection. Removal of those protectionist duties bears a significant revenue implication in the form of better domestic revenue mobilization (Government of Uganda Budget Speech 1997).

2.2.12 Structure of domestic taxes

Domestic indirect taxes in Uganda comprises of the following import duty, excise duty, value added tax. The direct taxes include employment income tax, corporation tax, withholding tax, taxes on interest. Other revenue items include fees and licenses, donations, aid, borrowings. The major taxes income tax, import duty, value added tax and excise duty are elaborated on in terms of their coverage, rate structure, contribution to domestic revenue mobilization relative to other Sub Saharan African countries (Holmgren and Kasekende, 1999).

2.3. Importance of customs service

Budget is a financial manifestation of a government's political commitment. A budget first enumerates the possible expenditure for the ensuing financial year and then finds sources of funds for such expenditure. Its main source is certainly revenue earning. The major portion of the revenue comes from taxes. Other sources are grants and loans from the donors. Taxes are mainly divided into direct tax and indirect tax. Government of Rwanda (2010 budget speech)

This write-up mainly discusses the important role of indirect taxes in the budget. We have two major indirect taxes in our country. These are customs and value added tax. Another indirect tax, excise, has lost its importance and only three minor services are covered by it. So far the structure of administration for preparation and implementation of budget and budgetary measures are concerned, the ministry of finance has the main functional responsibility for the purpose. Its macro portion and details of expenditure is the function of Finance Division and Economic Relations Division (ERD). They enumerate probable expenditure for the next fiscal year and then project probable source of fund. They project loan and grant on the basis of commitment of the donors. The rest of the fund is targeted to be realised from tax and non-tax measures. Calculation of estimated fund is made on the basis of previous year's actual realisation, current fiscal year's target achievement till date and projected total realization during the fiscal year, projected growth and inflation, and new measures. The measures are not only for increase of revenue. It considers trade facilitation,

protection and promotion of local industries, employment generation, etc. However, the Ministry of Finance (MoF), as a whole works on it and fixes budget target for the ensuing fiscal year. (Ministry of finance and economic planning 2011).

The National Board of Revenue (NBR) prepares budget proposals and new tax measures on the basis of target fixed by the Ministry. Under the Internal Resources Division (IRD) of the MoF, the NBR is the organization responsible for preparation and implementation of tax-revenue budget proposals. For this purpose, it has their wings and one policy and budget unit under each wing. Recently, these three policies and budget units have been officially placed under direct supervision of the IRD. Each of these three units works for budget preparation for one tax, e.g. customs, value added tax (VAT), and income tax. Government of Rwanda (2010 budget speech)

Budget and policy units work throughout the year and especially from the beginning of the latter half of the fiscal year. They exchange views with experts, academicians, various technical groups and with of the stake-holders, e.g. chambers of commerce and industries. They enumerate and outline the popular expectations for the ensuing budget which includes non-tax proposals like simplification of laws and procedures, increase of transparency, reduction of compliance cost etc., along with tax-related proposals with a view to enhancing facilitation of trade, protection of local industries, reduction of tax-burden on less fortunate people, creation of employment opportunities, increase of foreign investment, etc. On the basis of this groundwork -- projected national growth and inflation for the next fiscal year and targeted amount of revenue expected from the respective tax, the concerned NBR personnel prepare proposals for the next budget. For this, they follow the guideline they receive from the government through the Finance Minister. This guideline reflects governments' political commitment and policy. These 'raw' proposals are discussed in various forums like chambers, keeping some proposed tax measures confidential because of their nature of influencing on-going trades and consumer market. After approval by the secretary, IRD and Chairman, NBR, the proposals take a structured shape. These structured proposals are reviewed by the Finance Minister several times. The head of the government reviews each of the proposals at least once. After approval by the Head of the Government, drafts for change of provisions of Acts and Rules are formulated to effect the budget proposals. These drafts are vetted by the Ministry of Law. Draft Acts, Rules, Statutory Regulatory Orders

(SROs), along with the budget proposals and the budget speech of the Finance Minister are printed and placed before the lawmakers, just before the announcement of the budget by the Finance Minister. The remaining portion of the budget exercise is open to the press. Mambule, M.D. (2003).

Tax determinant factors are different for different kinds of taxes. Therefore, for each kind of tax, there is some specific area which needs discussion. Here below, customs- and VAT-related matters are discussed. In the developed world, customs is no more treated as a revenue earning department; rather, it is treated as a law-enforcing agency. Its share in the US national revenue is riot more than 3.0%. But it plays an important role in the execution of the US government's international trade policy. It protects their local trade, resists commercial invasion by other strong economies, etc. It also acts as watchdog against illegal transmigration of flora and fauna through illegal trade and carrying It acts as agent against money laundering, environment pollution, drug, trafficking and human trafficking. It, thus, practically works as an important policing agency of the government. It earns a little revenue. The most of that is imposed and realized to regulate international trade. Government of Rwanda (2010 budget speech)

In the developing and underdeveloped countries, the customs has a dominant role as a revenue earning source, though it acts as policing agency of trade regulation, anti-money-laundering activities, intellectual property right, protection of environment, anti-drug activities, etc., too. Bangladesh is not exception to that. In spite of reduction in the duty rates and forecast of reduction of share of customs revenue in the total revenue earning, total revenue of customs duty has been increasing every year, showing its important role in our resource of fund for annual expenditure. Mambule, M.D. (2003).

Customs is an indirect tax on international trade. It is imposed and realized on goods imported and exported. In Bangladesh, the export is zero-taxed, i.e. no customs duty on exports. Rather, import duty and other taxes paid on procurement of raw materials are returned back by way of drawback. Therefore, the customs duty is charged on importation of goods through international trade. In addition to customs duty, value added tax (VAT) supplementary duty and advance income tax are also charged and realized on imported goods. These taxes are administered by VAT and Income Tax administration, but there are realized by the customs administration. Customs duty is 23% of total tax revenue. Customs

duty, VAT and supplementary duty realized at the import stage is 41% of the total tax revenue. If advance income tax realized at the import stage is added to this, the tax revenue collected by the customs will be nearly half of the total tax revenue. These figures relate to the budgetary situation in fiscal year (FY) 2007-2008. In the outgoing fiscal, the targeted share of customs duty is 18%, customs and VAT at the import stage is 40% and tax revenue realized at the import stage is above 46% of the total tax revenue. Therefore, customs remained important as before. Government of Rwanda (2010 budget speech)

Customs is generally ad valorem i.e. tax calculated on the basis of value of commodity imported or exported. In Bangladesh, export is zero-taxed, i.e. customs duty is not charged on export commodity. In addition, tax paid on raw materials used for production of export commodity is returned back through draw-back. So, customs duty here means tax on imported commodity. Total customs duty depends on total value of the commodity. Unscrupulous traders naturally attempt to undervalue goods attracting a little higher customs duty. Under-declared value may be paid through illegal transfer money by various methods. One of these methods is to take money out of Bangladesh by overvaluing duty-free or low-duty commodities. Sometimes, bank-financed industries may overvalue their low-duty machineries to hoodwink the bank and remove some money from the total investments. To defeat this fraudulent attempts, customs budget always contains some measures on valuation (Rwanda revenue authority 2003)

Another important thing is classification of commodity. In international trade, goods are grouped into some classes or headings for easement of identification, tariff fixation, maintenance of statistics, etc. This was the function of international trade organization previously, known as GATT. But after establishment of International Customs Organization, customs cooperation council (CCC), customs classification of commodity is done by the CCC and presently the WCO (World Customs Organization). The present modern and explicit classification is named as "Harmonised Commodity Description and Coding System". Goods are arranged in order of stages of production, i.e. it starts from animals, birds, fish and mollusc, their products and by-products, earth, stone, inorganic chemicals, organic chemicals, medicine, fertiliser, rubber, wood, papers, complex organic natural and synthetic products, natural and synthetic fibres and fabrics there from, clothes and garments,

glass, ceramics, ores, metals and products thereof. Government of Rwanda (2010 budget speech)

Goods in the headings may be one single item or number of items. In case of number of items, each important item or group of some similar items are put under one code of two digits. Thus internationally, one item shall have a six digit identification number. First two for chapter, second two digits for heading and last two digits for code. This is guided by set of rules and principles. Thus it is almost ascertained that for one item only one code is possible. But due to ignorance, or motives, sometimes issues are created and in some rare cases there are actual grey areas to decide the HS code of a certain commodity. To cater to the national need, countries can add two more digits to specify some commodity under the HS code. These 8 digit codes themselves are tax-neutral. The government fixes rates of customs duty for each HS code by the Customs Act, 1969. Mambule, M.D. (2003).

To affect the budget, these rates are changed as per decision of the government. If there are more than one commodity under one HS code, but the government desires to increase duty on one item, to reduce on the other, and keep others unchanged, then first they bifurcate the HS code into three new HS code and fix three rates. In such cases, at the tax collection stage, the tax people intend to take the entire commodity to higher tax group, the trade claims reduced rated code should apply. Therefore, there remains a continuous clash of interest and continuous claims for appropriate classification. In these cases, the NBR is the authority to issue clarification. If the confusion or conflict is between two international HS codes, then NBR can take the help of the WCO to get a decision up to six digits HS code. The WCO is continuously working, on the proper classification of commodity and amending text to eliminate this sort of conflict. If value and classification are correct, calculation of customs duty and other related tax is automatic.

Value Added Tax: Value Added Tax or VAT is modern indirect tax on consumption. If it is applied properly up to the consumer level, it will have no cascading effect i.e. there will be no VAT on VAT in the ideal form. This tax is based on self compliance which is the basic concept of a modern tax administration.

2.4 Challenges associated with customs services

An import or customs compliance manager needs time to keep abreast of changes to the business, the federal laws and regulations and politics. Just browsing the Federal Register can take a half hour on a light day. Managing countervailing and antidumping risk, Lacey Act and tariff engineering takes the rest of your time. Recent fun regulation changes are Mexican tomatoes...again, aluminum extrusions (recently contradictory rulings), and now PV cells from China. This list goes on for things to steal your time away.

While the Customs Union is generating major benefits, it has also brought about greater competition among domestic firms. In the short run, the firms that stand to gain most are those that are already competitive. It is with this consideration that the principle of asymmetry was adopted in the phasing out of internal tariffs, in order to provide firms located in Uganda and Tanzania with an adjustment period of five years. Nevertheless, such firms may in the medium term overcome lack of competitiveness, through: additional investment in newer production technologies; specialization in activities where they have a competitive advantage, Re-training of human resources; and forming strategic alliances with their competitors. Government of Rwanda (2010 budget speech)

Another implication of the Customs Union is that it is minimizing discretionary powers earlier enjoyed by Partner States, and which sometimes had created uneven playing ground for firms. Such powers, in particular, related to granting of exemptions from customs duties. The Partner States have undertaken harmonization of their exemption regimes which shall be administered regionally. In some cases, this has been viewed negatively as reduction of national sovereignty.

In view of the current global trend where trade negotiations are increasingly being carried out under regional blocs, formation of a Customs Union in East Africa was not a matter of choice but a necessity. It would have been difficult for Partner States to negotiate a Free Trade Area (FTA) with other regional blocs unless they had liberalized trade among themselves. Due to the multiple memberships of the Partner States in other regional organizations, the EAC Customs Union could enter into a FTA with other trading blocs, or in the extreme circumstance, merge with them to make a larger trading bloc.

It is worth noting that countries which on their own have strong competitive economies such as Germany, France and United Kingdom are strong supporters of the European Union (EU) which is still expanding, taking on board former less developed countries of Eastern and Central Europe. The USA together with Canada and Mexico have come together under the North American Free Trade Agreement (NAFTA), and want to expand taking on board countries of Central and Latin America. In Asia, the countries of South East Asia are revolving around Japan. Therefore, it will be difficult for small countries such as those of Africa to negotiate with such giants on their own. Government of Rwanda (2010 budget speech)

The process of regional integration as stipulated in the Treaty for the Establishment of the East Africa Community aims at creating opportunities for the East African people. However, it will be difficult for the East African to realize such opportunities without deepening economic integration through formation of a Customs Union. Therefore, formation of the EAC Customs Union is a necessary step towards translating provisions of the Treaty into economic opportunities for the East Africans. Government of Rwanda (2010 budget speech)

2.5 Tax rate

In theory, income tax rates have an effect on mobilizations through their effect on tax payer attitude. High tax rates encourage tax evasion because the benefits of not paying are high while low rates encourage compliance. The government of Uganda has over the years considerably decreased the statutory income tax rates in a bid to boost compliance and thereby increase domestic revenue mobilizations. Corporation tax rate was reduced from 60% to 30% in 1992/93 (Budget Speech 1993/94). The decrease of the rate, however appears not to have had a big impact on income tax mobilizations which have remained low as a percentage of total domestic revenue mobilization, when compared to other countries Tanzania 25% and Rwanda 26% (Table 2 Appendix). The income tax rates in Uganda are among the lowest in the region. Their failure to boost income tax mobilizations by significant levels suggests that the main cause of the low income tax mobilizations lies elsewhere. Tax evasion is basically independent of the tax rate and cheating is a habit, once people are accustomed to evading tax, they continue to do so even if tax rates are lowered. Decreasing tax rates further is not an option (Mambule, 2003).

2.6 Levels of income in the country

A low income country has little scope for the transfer of resources private hands to the public hand through taxation. At a very low level of per capita income, all private income is needed to meet the very necessities of life such as food, clothing, shelter, and health care nothing left for tax. Imposing tax on such low income would therefore, amount to heavy burden on the households (Musgrave, 1980).

While the level of income of the population contributes, it does not seem to be the major cause of the low income tax mobilization in Uganda. Tanzania and Rwanda which are poorer than Uganda, collects more revenue in form of income tax. Table 2 Appendix further shows that Uganda's income tax mobilization is at 14% of GDP is well below the average for low income countries at 22.7% (World Bank 2002).

Some other factors seem to be responsible for the substantial difference in revenue mobilizations between Uganda and other Sub Saharan African countries. The immediate solution to boosting domestic revenue mobilization cannot depend on the levels of income in the country.

2.7 Income tax administration

There seems to be agreement from available literature that by comparison to substantive issues, insufficient consideration was paid to questions of tax administration at a time when the tax problems of under developed countries were being tackled. Tax administration has a number of aspects such as codification and drafting of the law, administrative procedures, management capability (Bird 2003). The creation of the RRA in 1991 was meant to address the question of management capability. Since the creation of RRA there has been massive recruitment of new officers, retraining of existing staffs and highly motivated. The 1997 Income Tax Act addressed the question of the law. Lastly the introduction of the Tax Identification Number, redesigning of forms and documents was meant to sort out codification of tax payers. The administrative measures introduced above were aimed at improving the effectiveness of the management in domestic revenue mobilization. (Ghura, D. 1998)

2.8 Administrative procedures

The basic administrative procedures include locating and assessment of taxpayers, initial taxpayer's compliance, checking on taxpayer's compliance through audit and examination, collection of taxes and penalties (Bird, 1992). Administrative procedures are the essential steps in the overall procedure of tax administration (Surrey 1974). They are the enforcement measures of the tax system and each administrative procedure represents a step in the enforcement process (Bird, 1992). Improved administration to enforce tax compliance has to be reinforced by action, meaning enforcing the tax system by using the administrative procedures. The effectiveness of the administrative procedures means the level at which, each of the administrative procedure is being enforced on ground. When an administrative procedure is reasonably used on the ground then it is effective and contrary it is ineffective. The effectiveness of the tax administrative procedures represents administrative effort in enforcement of tax laws. And all the other aspects of tax administration are just support functions designed to ensure that the administrative procedures are effective (Bird, 2003). Tax evasion is not the only reason why government fails to mobilize enough domestic tax revenue, there are other problems with existing administration systems arising as a result of faulty techniques and ineffective administrative procedures.

2.9 Customs clearance

The Customs Department is part of the Rwanda Revenue Authority. Efforts have been undertaken to computerize customs operations. The Automated System for Customs Data (ASYCUDA v.2.7) was reintroduced at the airports of Gikondo and Kigali in 2000.Goods worth less than RF 200,000 are cleared directly at the border, using document 126 Bis. Goods worth more than that amount are forwarded to the customs warehouse for declaration and payment of duties and taxes. All air freighted goods are transferred to the warehouse.

Goods are cleared following receipt of the Notice of Arrival and the "Laisser suivre" by the customs clearing agents. The importer is required to deposit the CD-COM and accompanying documents at Customs for the purposes of registering the declaration and data entry by ASYCUDA. Customs then conducts a documentary and physical verification of the imported goods and collects the import duties and taxes .According to the authorities, the average time for completion of the formalities is two days. Rwanda also applies simplified

procedures: fast-track clearance and on site clearance. For homogeneous goods verification is not systematic, but targeted.

After payment of the duties and taxes by means of a cheque certified by a commercial bank, the original of the declaration is returned to the importer or customs declaring, who will then pay a fee amounting to 4 per cent of the value of the goods to Rwanda Bonded Warehouses (MAGERWA 2010) for handling services. Thereafter, the importer must remove the goods from the warehouse within 15 days, otherwise they are deemed to have been abandoned. Goods stored in the warehouse for three months without settlement of the duties and taxes are sold by auction.

2.10 Customs valuation

Since 1 January 2004, Rwanda has used the transaction value method for customs valuation. In the event of doubt regarding the value declared by the importer, goods are released subject to a surety equal to the customs duty on the declared value, plus 25 per cent. Customs then conducts enquiries, which may last for up to three months. If no agreement as to the value is reached with the importer, the WTO Committee on Customs Valuation may be consulted. Rwanda is requesting technical assistance in order to improve implementation of the WTO Agreement on Customs Valuation. Government of Rwanda (2010 budget speech)

Goods with an f.o.b. value of over US$3,000 in the case of pharmaceuticals, and US$5,000 in the case of other products, are subject to preshipment inspection and a bank import declaration. Since 7 June 2002 the inspection has been carried out by Interlink Testing Services International Ltd (ITS), which checks quality, quantity and price. However, Customs is not bound to use the values established by ITS. The current contract with ITS ends in July 2004. (Ghura, D. 1998)

2.11 Duty and tax concessions

The customs legislation in force provides for: permanent importation (release for consumption with or without payment of customs duties) and permanent re-importation; a suspensive procedure (temporary importation, transit and storage); and exportation and re-exportation, dealt with in Section 3(ii) below. All the above operations are covered by the COMESA customs declaration (CD-COM). Government of Rwanda (2010 budget speech)

Goods exempt from duties under the permanent importation procedure include: travellers' luggage (including new articles not exceeding a value of RF 10,000 or tobacco, cigars and cigarettes not exceeding one kilogram); items entering under a removal; goods covered by diplomatic, consular or similar immunity; commercial samples "of negligible value"; products and articles for religious purposes; crews' provisions; products and articles for blind and physically disabled persons; educational, scientific or cultural objects; gifts to the State or its organizations, to medical and paramedical establishments, teaching institutions and certain philanthropic organizations; equipment for the repair of transport category aircraft; archives of private persons or companies; coffins, urns and funeral requisites; gifts to be distributed or made available to the population. The permanent re-importation of products that have not benefited from the temporary export procedure is free subject to the conditions set by the Ministry of Finance; the re-importation of products that have benefited from temporary exportation is subject to payment of import duties and taxes on the value added outside Rwanda, although the legislation does not specify the stage of processing from which taxation applies. (Ghura, D. 1998)

Under the customs legislation the Ministry of Finance may allow the temporary importation, with suspension of duties and taxes, of goods for re-exportation after use or processing in Rwanda; and of fuel and lubricants, to be loaded before departure from Rwanda, for use by aircraft flying for international airlines. The Investment Code has introduced drawback for all duties and taxes levied on raw materials imported for the manufacture of products destined for export .temporary importation for a period of less than six months is exempt from duties and taxes in the case of motor vehicles, trucks, vans, trailers and buses or public works equipment. Beyond that period the goods are subject to import duties and taxes payable upon exportation and amounting to one-eighth of the duties and taxes due per period of six full months spent in the country. After four years, the importer must submit an import declaration and pay the requisite import duties and taxes. Government of Rwanda (2010 budget speech)

Under the transit procedure goods may be imported and exported without payment of customs duties, consumption tax or export tax, but unless the Ministry of Finance grants a waiver a surety must be provided. It is equal to the customs duties that would be payable on permanent imports of the goods, plus a lump sum equal to 25 per cent of the duties (and not

less than RF 1,000) to cover possible fines. An additional surety may be required for prohibited goods and for imports subject to restrictions or inspection measures. Goods stored in public warehouses are subject to handling and storage charges. The Customs Administration's handling charge is RF 20 per 100 kilograms gross weight, indivisible. Import storage charges per 100 kilograms gross weight, indivisible and per month, are: indoors, RF 900 for the first and second months and RF 2,250 for the third month; outdoors, RF 450 for the first and second months and RF 1,500 for the third. For exports the charges are RF 150, and RF 500 if storage exceeds two months. The legislation also provides for private and "ad hoc" bonded warehousing. (Rwanda revenue authority 2003)

2.12 Conclusion

The continued poor domestic revenue mobilization despite many tax reforms established since 1990's intended to improve the budget structure with very huge deficits funded by development partners. Some other factors seem to be responsible for the substantial difference in revenue mobilizations between Uganda and other Sub Saharan African countries. This study therefore, focuses on the relationship between tax reforms and domestic revenue mobilization (Budget Back ground 2009/10).

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter focuses on how data was collected in the study. The chapter looks at the population target, research approach, research design, sample selection and size, tools and instruments of data collection, research reliantly, procedure of data collection, data validity and data analysis.

3.1 Research Design

In this study, the researcher was interested to use qualitative and quantitative approach method in collecting data. This choice was based on the nature of the data collected which involves description and also the nature of interaction with correspondents, and aimed at giving a detailed account and in depth description of the views, feelings and altitudes description in Kigali.

3.2 Target population

The study covered total of 100 employees of Gatuna customs post which included 20 top managers, 30 middle managers and 50 lower level managers responsible for tax assessment and collection.

3.3 Sample size and selection.

It was impossible to study the whole of the target population and therefore, the study used a sample of eighty (80) respondents out of the one hundred (100) in Rwanda Revenue Authority. The sampling technique or method was a simple random sampling, which involves giving number to subject or member of the accessible population, putting these no and in list and then picking any number randomly.

Table 1. Sample Size by Sloven's formula.

Category of respondents	Population	Sample size
Top managers	20	15
Middle managers	30	25
Lower level managers	50	40
Total	100	80

3.4 Sampling procedure:

The researcher used Sloven's formula to select the respondents of the study from the population using the following formula.

$$n = \frac{N}{1 + N (e)^2}$$

where n is the required is the required sample size.

N is the targeted population size

e is the standard error or level of significance which is popularly known to be 0.05 or 5%

for study N = 100

n = ?

$$n = = \frac{N}{1 + N (e)^2}$$

$$n = \frac{100}{1 + 100 (0.05)^2}$$

$$n = \frac{100}{1 + 100 (0.0025)}$$

$$n = \frac{100}{1+0.25}$$

$$n = \frac{100}{1.25}$$

$$n = \underline{80}$$

3.5 Data collection Methods and Instruments

3.5.1 Questionnaires

This was a discussion in written form whereby the responses of the participants are put on paper provided by the researcher, the questionnaires were in two forms, namely:

● *Open-ended questionnaire* in which the responses by the participants were free according to their understanding.

● *The close-ended questionnaire* in which responses were provided by the researcher and the participants one of them accordingly, for example strongly agree, agree or strongly disagree.

The researcher left out questionnaires to mainly the literate group. These included Top Managers, Middle Managers, and lower managers. These had guiding questions which the researcher gave to individual respondents to fill .The researcher gave some two days to respondents to study and fill the questionnaires. He requested the respondents to ask for clarification where they did not understand.

3.5.2 Interview Guide

This involves face to face interaction between the researcher and the participant through discussion. The interviews were in two ways, namely:

● *Structured interview*, in which the responses by the participants are brief and specific.

● *Unstructured interview that* is where the responses are long, elaborated and not specific .The interview was conducted in group, individual.

The research was carried out interviews with to top Managers, middle mangers and other lower managers who work in the industry, using the interview guide because it is the most

appropriate method which was used to study the attitudes, values, beliefs and motives of people. It also has an element of flexibility. These persons were interviewed individually so as to get independent answers.

3.6 Procedure for Data Collection

The researcher used questionnaires which are to be administered to carefully chosen respondents. Oral interviews with Top Managers, middle managers and other lower management will be carried out. The researcher took the questionnaires to respondents proceed by a briefing about the purpose of the questionnaires and asks them to fill them on their convenience to allow them more time and flexibility. Later the researcher made a follow-up and collects the filled questionnaires.

3.7 Reliability and validity

3.7.1 Validity of the instruments

Validity means that a research tool actually measures what it is meant to measure. Alternatively it means that the tool is logical. For this case, the validity of the questionnaire will be tested using the Content Validity Index test (CVI). This involves item analysis to be carried out by the supervisors and an expert who is knowledgeable about the theme of the study. The process involves examining each item in the questionnaire to establish whether the items used will to bring out what it will be expected to bring out.

3.7.2 Reliability

Reliability means the degree of consistency of the items, the instruments or the extent to which a test, a method, or a tool gives consistent results across a range of setting or when it is administered to the same group on different occasions. The reliability of research questionnaire was tested using Cronbach's alpha coefficient test for its internal consistency to measure the research variables.

3.8 Data analysis and Presentation

The data was filled in the questionnaires, copied and analyzed by tallying it and tabling it in frequency tables, identifying how often certain responses occurred and later evaluation was

done. The information was later presented in terms of percentages, and frequency tables were used for presentation. The collected data in form of questionnaires were entered in a computer package called MS- Excel and was analyzed

3.8.1 Editing and Spot Checking

The researcher edited and spot checked during and after each interview with the respondents. This was done in order to ensure that information given is logical, accurate and consistent. Obvious errors and omissions were corrected to ensure accuracy, uniformity and completeness so as to facilitate coding.

3.8.2 Coding

This was done in order to ensure that all answers obtained from various respondents are given codes and classified into meaningful forms for better analysis.

3.9 Limitations

There was mounting pressure from the administration for students to complete the research on schedule which affects the quality of research.

The study required a lot of time to be dedicated to collect substantial data from one respondent to another making observations, continuous review of literature, data analysis and report writing and this was worked out by devoting more time on the research work by reducing on the leisure time at his disposal.

Some of the targeted respondents were not willing to set aside time to respond to the investigator's questions thus somehow end up frustrating the researcher's efforts to collect substantial data.

The researcher also faced a problem of some rude and hostile respondents, this was as well solved by both seeking prior permission and remaining calm.

3.10 Ethical considerations

It is important during the process of research for the researcher to understand that participation is voluntary; participants are free to refuse to answer any question and may with draw any time.

Another important consideration, involves getting the informed consent of those going to be met during the research process, which involves interviews and observations bearing in mind that the area bears conflict.

Accuracy and honesty during the research process is very important for academic research to proceed. The researcher should treat the project with utmost care, in that there should be no temptation to cheat and generate research results, since it jeopardizes the conception of research.
Personal confidentiality and privacy are very important since the thesis was public. If individuals have been used to provide information, it is important for their privacy to be respected. If private information has been accessed then confidentiality has to be maintained.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the findings of the study and their subsequent interpretations. The data was collected using both quantitative and qualitative methods, which was then analyzed and processed to make it useful and understandable. Data was collected, tabulated and then analyzed.

4.1 Socio-demographic Characteristics

4.1.1   Age of the respondents

Respondents were asked questions related to their age and the results are shown in the table below:

Table 2. Age distribution of respondent

Age group	Frequency	Percentage
Below 25	20	30%
25 - 29	30	40%
30 – 39	15	15%
40 – 49	10	10%
50 – above	5	5%
TOTAL	80	100

Source: field study 2012

Table 2 above show that 30% of the respondents were below 25 years, 40% were between 25-29 years of age, 15% were between 30-39 years of age, 10% were between 40-49 years and 5% were above 50 years of age. This means that majority of the respondents are between 25-29 years of age followed by those above the age of 50.

4.1.2   Marital Status of the respondents

Another variable which was important in respect to the situation of the people in the area was marital status. Information regarding marital status of the respondents was obtained by asking them whether they were married, single, widowed or widowers.

Table 3. Marital status of the respondents

Marital Status	Frequency	Percentage
Married	40	50
Single	20	30
Widow	8	8
Divorced	12	12
TOTAL	80	100

Source: Field study 2012

Table 3 above shows that 50% of the respondents were married, 30% were singles, 12 were divorced and 8% were widows. This means that majority of the respondents were married people followed by singles.

4.1.3   Sex of the respondents

Sex was also another factor which was considered during the study. This is because the researcher was interested in finding out the number of females and males in the whole of the population, and compares the percentage composition of the two.

Table 4. Sex of the respondents

Sex	Frequency	Percentage
Female	50	60%
Male	30	40%
Total	80	100%

Source: field study 2012

Table 4 above shows the sex of the respondents and it was found that 60% of the respondents were females and 40% were males. This therefore means that there were a greater percentage of female respondents compared to males.

4.1.4 Educational status of the respondents

Respondents were asked questions related to their educational status and their responses are shown in the table below;

Table 5. Educational level of the respondents

Education levels	Frequency	Percentage
Uneducated	5	10
Secondary	30	40
University	20	20
Primary	25	30
Total	80	100

Source: field study 2012

From Table 5, 40 % of the respondents reached secondary and 30% primary, 20% reached university while as 10% never attained education. This means that a greater percentage of respondents reached secondary followed by primary.

4.1.5 Distribution of the Respondents by nationality

The study sought about the gender differences of the respondents and the findings were as represented in Table 6.

Table 6. Nationality Distribution of the Respondents

Sex	No of respondents	Percentage
Rwandese	60	80%
Foreigners	20	20%
Total	80	100

Source: Field study 2012

According to the study findings in Table 6, 80% of the respondents were Rwandese while foreigners constituted 20%. This means that Rwandese dominated a bigger percentage of the total population sample.

4.2 Tax structure and administration being implemented by Gatuna customs post in Rwanda.

The respondents were asked the various tax structures implemented by Gatuna customs duty in Rwanda; the findings are presented in Table 7

Table 7. Various tax structures implemented by Gatuna customs post

Response	Lower managers	Middle managers	Top managers	Frequency	Percentage
VAT	20	10	5	35	44%
Customs duty	5	5	6	16	20%
Import duty	8	7	1	16	20%
Income duty	7	3	3	13	16%
Total	40	25	15	80	100%

Source: field study 2012

From the above table, VAT seems to be the leading tax structure being implemented by Rwanda Revenue authority as it was suggested by 44% of the respondents. It was urged that Before VAT was introduced, most of the tax reforms concerned more with rising revenue than equity, and relied more on ministerial discretion. Example of these are the introduction of sales tax on all zero rated and exempt products in 1989/90 and the removal in 1993/94 of all exemptions from tax except those under bilateral agreements with foreign countries and accredited international agencies. This was followed by customs duty and import duty in the 2nd position with each taking a percentage of 20, lastly is income duty with 16%

4.3   Challenges faced by Gatuna Customs Post in tax administration.

Table 8. Showing challenges faced by Gatuna customs post in tax administration

Response	Lower managers	Middle managers	Top managers	Frequency	Percentage
Corruption	19	10	5	34	43%
Smuggling	3	5	5	13	16%
Embezzlement of public funds	8	5	2	15	19%
Bribery	10	5	3	18	22%
Total	40	25	15	80	100%

Source: Field study 2012

From the above table, 43% of the respondents reported corruption as the leading problem facing Gatuna customs post with 43%. This according to the researcher implies that most of the officials at Gatuna are corrupt. In order to increase revenue and curb corruption, a number

of African countries have implemented comprehensive reforms of their tax administration over the past twenty years one of them was establishing semi autonomous revenue authorities. This was aimed at limiting political interference in the management of the tax bodies. This was followed by bribery with 22%, 3rd embezzlement of public funds and 4th smuggling.

4.4 Procedures used by Gatuna customs Post in administering Tax in Rwanda.

Table 9. Showing procedures used by Gatuna Customs post in tax administration

Response	Lower managers	Middle managers	Top managers	Frequency	Percentage
The collection, prosecution and penalties that impose sanctions on tax payers who evades taxes	20	10	5	35	44%
Tax assessment	3	5	6	14	18%
Identification of tax payer based on existing tax legislation,	10	7	1	18	22%
Assessment of taxes to determine the tax liabilities	7	3	3	13	16%
Total	40	25	15	80	100%

Source: Field study 2012

From the above table, 44% Of the respondents suggested the collection, prosecution and penalties that impose sanctions on tax payers who evades taxes as the leading procedure used by Gatuna customs post in tax Administration. This according to the researcher implies that they are the enforcement measures of the tax system and each administrative procedure represents a step in the enforcement process.

Further more improved administration to enforce tax compliance has to be reinforced by action, meaning enforcing the tax system by using the administrative procedures. The

effectiveness of the administrative procedures means the level at which, each of the administrative procedure is being enforced on ground. When an administrative procedure is reasonably used on the ground then it is effective and contrary it is ineffective. The effectiveness of the tax administrative procedures represents administrative effort in enforcement of tax laws. This was followed by Identification of tax payer based on existing tax legislation, in 2nd position, tax assessment 3rd with 18%followed by Assessment of taxes to determine the tax liabilities with 16%

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter therefore presents the summary of the major findings. Conclusions and recommendations for the performance of customs services under Rwanda revenue authority. A case study of Gatuna Customs Post.

5.1 Summary of findings

30% of the respondents were below 25 years, 40% were between 25-29 years of age, 15% were between 30-39 years of age, 10% were between 40-49 years and 5% were above 50 years of age. This means that majority of the respondents are between 25-29 years of age followed by those above the age of 50.

50% of the respondents were females and 50% were males. This therefore means that there was equal distribution of respondents by gender

40 % of the respondents reached secondary and 30% tertiary, 20% reached university while as 10% never attained education. This means that a greater percentage of respondents reached secondary followed by Tertiary.

80% of the respondents were Rwandese while foreigners constituted 20%. This means that Rwandese dominated a bigger percentage of the total population sample

5.2 Conclusions

5.2.1 Conclusion on various tax structures

From the findings most RRA staffs had sufficient knowledge of major tax structures; more emphasis was put on value added tax structures giving direct tax heads a very negligible attention. This therefore, results into more tax revenue raised from direct form of taxes.

5.2.2 Conclusion on challenges faced by Gatuna customs Post

Gatuna customs Post is still performing poorly, larger portion of this revenue is raised from indirect taxes and it's very difficult to collect taxes from individual tax payers who are

predominantly engages in informal businesses. Domestic revenue mobilization procedures are not effective the research revealed. This is as result of bribery, corruption, embezzlement of public funds among others

5.2.3 Conclusion on procedures used by Gatuna Customs Post in tax administration

Improved administration to enforce tax compliance has to be reinforced by action, meaning enforcing the tax system by using the administrative procedures. The effectiveness of the administrative procedures means the level at which, each of the administrative procedure is being enforced on ground. When an administrative procedure is reasonably used on the ground then it is effective and contrary it is ineffective. The effectiveness of the tax administrative procedures represents administrative effort in enforcement of tax laws. And all the other aspects of tax administration are just support functions designed to ensure that the administrative procedures are effective .Tax evasion is not the only reason why government fails to mobilize enough domestic tax revenue, there are other problems with existing administration systems arising as a result of faulty techniques and ineffective administrative procedures.

5.3 Recommendations

- RRA should come up with more tax reforms which focus more to taxing income directly from tax payers, for instance lowering PAYE threshold so that earnings of majority citizens are captured for tax purpose.

- There is need to revise the list of zero rated supplies, so that more items are included in the taxable supplies for instance dairy products.

- Diplomatic Privileges Act must also be revised, for instance allowances and emoluments of members of Parliament need to be included in their income for tax purpose.

- Strengthening tax administration by empowering staff investigative machinery, making the tax procedures simple, and transparent National identification system needs to be integrated with the RRA tax system, this will aid in tax payers

identification. More emphasis should be put in adding values to agricultural products before they are supplied to market, to increase taxable revenues of farmers.

- Rwanda Revenue Authority needs to improve on tax payer's education. RRA should put in place a mechanism that minimizes tax exemptions.

- RRA should come up with more balanced tax reforms that targets both direct and indirect form of taxes which enable domestic revenue to be mobilized from both tax heads.

5.4 areas for further research

i) Property tax and domestic revenue mobilization.

ii) Electronic payment system and income tax revenue.

iii) National identification and domestic tax revenue.

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APPENDIX I

RESEARCH INSTRUMENTS

a) QUESTIONNAIRE ADDRESSED TO THE RESPONDENTS.

Dear Respondent, Am a student of Kampala international University, carrying out research to fulfill the requirements for the degree award Bachelor of international business administration and the topic is the performance of customs services under Rwanda revenue Authority Kigali main branch. The questionnaire is designed with view of collecting reliable data to analyze above variables. Please assist me by responding to these questions and your response will be treated with highest level of confidentiality as the research is purely academic.

Name: ....

Qualification:

Uneducated ☐   Primary ☐

Secondary ☐   University ☐

Age:

Below 25 ☐   25-29 ☐

30-39 ☐   40-49 ☐

50+ ☐

Sex:

Male ☐   Female ☐

Marital status:

Married ☐   Single ☐

Divorced ☐   Widow ☐

Nationality:

Rwandan ☐ Foreign ☐

Questionnaire

Instructions: Put "√" to the correspondent answer

SD=Strongly Disagree, D=Disagree, A=Agree, SA=Strongly Agree

1. Introduction of VAT is a major indirect tax reform under taken.

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐

(c) A=Agree ☐   (d) SA=Strongly Agree ☐

2. Abolition of export taxes is an indirect tax reform

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐

(c) A=Agree ☐   (d) SA=Strongly Agree ☐

3. Staffs have sufficient knowledge of all major tax reforms such as VAT, income tax act, abolition of export taxes, and reduction of import duties, administrative structure, and tax education

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐

(c) A=Agree ☐   (d) SA=Strongly Agree ☐

4. Reduction of import duties is an indirect tax reform

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐

(c) A=Agree ☐   (d) SA=Strongly Agree ☐

5. Income tax Act is considered as the major direct tax reform. Strongly agree

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐

(c) A=Agree ☐   (d) SA=Strongly Agree ☐

6. Administrative procedures are properly followed in the tax management.

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐
(c) A=Agree ☐   (d) SA=Strongly Agree ☐

7. All tax payers are provided sufficient tax education.

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐
(c) A=Agree ☐   (d) SA=Strongly Agree ☐

8. All tax revenue is collected from assessed tax payers.

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐
(c) A=Agree ☐   (d) SA=Strongly Agree ☐

9. RRA main branch collect more tax revenue from indirect form of taxes than direct form of taxes.

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐
(c) A=Agree ☐   (d) SA=Strongly Agree ☐

10. Collecting tax revenue from organizations is easier than from individual tax payers.

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐
(c) A=Agree ☐   (d) SA=Strongly Agree ☐

11. Budgeted tax revenue target is always achieved.

(a) SD=Strongly Disagree ☐   (b) D=Disagree, ☐
(c) A=Agree ☐   (d) SA=Strongly Agree ☐

12. Tax administrative procedures determine the level of domestic revenue

mobilization in your branch.

(a) SD=Strongly Disagree ☐   (b) D=Disagree,   ☐

(c) A=Agree ☐   (d) SA=Strongly Agree   ☐

13. I can identify the importance of customs services

(a) SD=Strongly Disagree ☐   (b) D=Disagree,   ☐

(c) A=Agree ☐   (d) SA=Strongly Agree   ☐

b) INTERVIEW GUIDE

1. What are customs services?

2 What challenges are you facing in implementing customs services?

3. Has the government sensitized the community about customs services?

4. Has the Revenue authority responded in any way in order to promote customs services?

5. Why is it that the problem still exists?

6. What do you think would be the best way to report the challenges facing customs services?

7. What do you think are the benefits of customs services?

8. How can the government improve on the way it is implementing customs services?

APPENDIX II

BUDGET

A budget item	Quantity	Unit price	Total
Data costs		15,000	15,000
Flash disk	1	15,000	15,000
Concept paper	2	500	1,000
Interviews		1,000	5,000
Spiral binding .	3	15,000	45,000
Digital camera	1	350,000	350,000
Traveling cost			10,000
Miscellaneous			25000
Total			466000

APPENDIX III

TIME FRAME

	Task Name	Duration 2012
1	Proposal writing	Oct 12th
2	First review of proposal by supervisor	Oct 20th
3	Final review of proposal by supervisor	Oct 25th
4	Handing in the proposal	Oct 31st
5	Start of project report	Nov 1st
6	Finishing of the research report and review by the supervisor	Nov 30th
7	Handing in of the research report	Dec 14th