INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF SOMALILAND (ICPAS)

CATT Qualification- Technical Articles

Employment Income Tax in Somaliland and Rwanda: A Comparative Note

A. Introduction

In this article, we will present a comparative analysis of employment income in Somaliland and Rwanda. The purpose of this comparison is to equip CATT candidates with the knowledge and skills needed to critically evaluate and comment on future updates and amendments to Somaliland tax legislation. After reading this article, candidates will be able to assess what Somaliland can learn from its fellow African states without ignoring the circumstances of the local setting.

B. Revenue Collection Bodies

Somaliland taxes are currently administered by two bodies that are in charge of revenue collection; the Inland Revenue Department (IRD) and the Customs Department. However, Somaliland Revenue Act 72/2016 required the establishment of Somaliland Revenue Authority which merges these two bodies under one authority, but has not yet been implemented. **In Rwanda**, Rwanda Revenue Authority is in charge of revenue collection. The authority was established in 1998, a year after the Rwandan Parliament passed the law that required its establishment.

C. Individual Residence

Why do we need to determine if an individual is resident for tax purposes? In both Somaliland and Rwanda, income of resident individuals is taxed regardless of its geographical source. On the other hand, for non-residents, only

country-sourced income is subject to income tax. The same tax rates, however, apply to both residents and non-residents in Somaliland and Rwanda.
So, how to determine whether an individual is resident for tax purposes in Somaliland and Rwanda? The tax residence conditions of the two countries are quite similar. In both Somaliland and Rwanda, individuals are considered resident for tax purposes if they meet one of the following conditions:

a. She/he has a permanent home/residence in the country (while Somaliland Revenue Act uses the term “permanent home”, the Rwandan Tax Legislation uses “permanent residence and habitual bode”).
b. She/he is an employee or official representing the country abroad.
c. She/he stayed in the country for more than 183 days in any 12-months period either on a continuous or intermittent basis.

Unlike Rwanda, in Somaliland, the individual is also considered resident if:

d. She/he stayed in Somaliland during the year of income and in each of the two preceding years of income for periods averaging more than 122 days or a continuous or intermittent basis.

D. Employment Income: Somaliland vs. Rwanda

Scope

The employment income in Somaliland includes all salaries and payments from employment contracts, including benefits-in-kind. Generally, there are no substantial differences in the items that are included in the employment income between the two countries. However, tax rates and valuation of benefits-in-kind are two areas in which Somaliland differs from Rwanda.

Tax administration

Somaliland and Rwanda use a Pay-as-you-earn (PAYE) system in which employers are required to withhold employment income tax and transfer to tax authorities within 15 days after the end of the month. However, unlike

Somaliland, employers with annual turnover of less than $197,000 (RWF 200 million) are required to report quarterly and transfer the withheld tax to authorities within 15 days following the end of the quarter.

Monthly Tax rates

The employment income in Somaliland is taxed at a rate of 6%, comprising 5% employment income tax and 1% stamp duty. However, Rwanda charges no tax on personal income, including employment income, for individuals who earn RWF 30,000 (about $30) or less and charges 20% for individuals whose income is more than RWF 30,000 but is equal or less than RWF 100,000(about $100), and 30% for those who earn more than RWF 100,000.

Valuation of Housing Benefit

In **Somaliland**, housing benefits are included in the employment income at a value equal to the lower of:

a. The rent of the accommodation or housing (using market rates) less any amounts paid by the employee for the benefit
b. 15% of the employment income (including the value of the housing in a).

In **Rwanda**, housing benefits are taxed at 20% of employment income, excluding benefits-in-kind.

Valuation of Motor Vehicle Benefit

In both countries, the transfer of vehicle ownership is valued at an amount equal to the market value of the motor vehicle reduced by any payments made by the employee. However, if the employee is given the benefit of using the organization's motor vehicle, the valuation of the benefit is treated differently.

In **Somaliland**, the benefit is valued at 20% of the market value of the motor vehicle (apportioned on a pro-rata basis if the car was not made fully available for the employee). In **Rwanda,** the use of motor vehicle benefit is taxed on 10% of employment income, excluding benefits-in-kind.

The treatment for all other expenses paid by the employer directly on behalf of the employee is the same in Somaliland and Rwanda. The amount paid is considered an allowance and included in the employment income.

E. Conclusion

By reading this article, you have noted that the substantial difference between the two tax regimes lies in tax rates and the way some common benefits-in-kind are valued. The Rwandan tax regime is based on valuation of benefits-in-kind that is calculated from the employment income. This seems more practical than estimating the market value of the benefit in kind. Also, the tax rate system that is based on income brackets is more progressive than a flat rate. However, the tax rates in Rwanda are applicable to all types of individual income, including employment income and rental income. The tax rate on employment income in Somaliland is, therefore, effectively lower than Rwanda.

Note: this article is part of the Somaliland Taxation (TX) paper and was written by Saed Sulub, a member of the examining team.