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# Effect of taxation on income redistribution in Rwanda

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## Abstract

The focus of this study is to assess the effect of taxation on income redistribution in Rwanda with attention on the trend of seven (7) fiscal periods from 2013/14 to 2019/20. Income redistribution refers to a reduction in household income inequality. This implies that when taxes are well collected and administered in terms of social and economic transformation projects, they lead to easing income inequality among individual households thus reducing poverty levels.

The purpose of this research is to assess the association between indirect taxes and income redistribution, including tax to GDP ratio which was considered to determine the influence of taxation on the former. Secondary data for the period from 2013/14 to 2019/20 were collected to achieve the set objective, and it was collected through data sources and existing literature. As per the study objective, the following findings were noted. There is a strong positive correlation of 0.963 between indirect taxes including tax to GDP ratio and income redistribution. The correlation coefficient (R2) is 0.927, which indicates that 92.7% of the variation of income redistribution is influenced by indirect taxes and tax to GDP ratio. According to the study findings, it was noted that indirect taxes (excluding customs taxes) taxes are statistically significant to influence income redistribution, though the study findings show that there is a positive relationship between indirect taxes and income equality, arguments by different authors show that indirect taxes are regressive in nature because they target consumption rather than income, thus they should be used with caution when aiming to redistribute income.

**Keywords:** Income redistribution, taxation, poverty, indirect taxes, direct taxes, tax compliance, tax evasion, tax avoidance, digital economy, and tax base.

# INTRODUCTION

Tax is many times vastly perceptible almost in every class of lifestyle such as in political manifestos, in public debates, in conversations people have in pubs, in colleges, with different professionals and or friends, however, it is interestedly invisible. The discussion makes the whole concept more interesting because it is as if people do not want to understand or admit the effect of taxation on our living standards in terms of equal redistribution of resources and income whose result is socio-economic transformation and development. Besides, economic inequality has also become a serious concern in policy debates. In Rwanda, there has been a gap between the rich and the poor, with resources and capacity in the hands of a small representation of the total population.

With data from seven (7) fiscal periods, from 2013/14 to 2019/20 (Fig. 1), the trend of tax to GDP ratio in Billion Rwandan Francs increased from 14.3% to 16.2% (RRA, 2020). This is a reflection of good performance in terms of fiscal policies and this has consistently led to increased tax collections over the years. During the same period, poverty was at a rate of 39.1% in 2013/14 and 38.2% in 2016/17 while, extreme poverty was at 16.3 and 16% respectively. Besides, income inequality (by Gini Coefficient) dropped from 0.447 to 0.429 respectively (Rwanda poverty profile report, 2018).

Despite a reduction in poverty levels as discussed above, and the increase in GDP, Rwanda is still facing a challenge of poverty by household, which still stands at 16% and a Gini Coefficient of 0.429.

Considering the above, one may need to know why the Government charges taxes, Stephen [33]. Taxes are typically charged with the aim of raising revenues to pay for public services such as roads construction and maintenance, public security and defense, the courts, public schools, health care, job creation, and wages, among others. Besides and more clearly, as a key characteristic, a tax is a payment by taxpayers and is used by the Government for the benefit of all the citizens of the Country, Nasir [24]. In this perspective, a penalty may be imposed though with a particular intention, say to stop the public from certain things or consumptions. However, a tax may be fixed to discourage certain things goods (or services) such as drugs; and discourage importation of certain products or services to protect local industries and services firms against foreign competition.

| | Tax Revenue collections in Rwf Billion | | | | | | | Tax to GDP | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Tax head** | **FY 2019/20** | **FY 2018/19** | **FY 2017/18** | **FY 2016/17** | **FY 2015/16** | **FY 2014/15** | **FY 2013/14** | **FY 2019/20** | **FY 2018/19** | **FY 2017/18** | **FY 2016/17** | **FY 2015/16** | **FY 2014/15** | **FY 2013/14** |
| **1. Direct Taxes** | **656.3** | **597.7** | **519.9** | **450.9** | **392.5** | **358.7** | **310.8** | **7.0 %** | **6.9 %** | **6.5 %** | **6.2 %** | **6.0 %** | **6.1 %** | **5.8 %** |
| PIT (Incl. PAYE) | 85.3 | 351.9 | 312.6 | 284.2 | 254.4 | 229.3 | 206.2 | 4.1 % | 4.0 % | 3.9 % | 3.9 % | 3.9 % | 3.9 % | 3.9 % |
| CIT | 267.3 | 243.3 | 204.9 | 163.9 | 134.6 | 126.7 | 101.9 | 2.8 % | 2.8 % | 2.6 % | 2.3 % | 2.1 % | 2.2 % | 1.9 % |
| Vehicle Registration | 3.8 | 2.5 | 2.3 | 2.7 | 3.5 | 2.6 | 2.7 | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.1 % | 0.0 % | 0.1 % |
| **2. Tax on Goods and Services** | **720.1** | **690.0** | **616.2** | **544.4** | **510.3** | **436.9** | **396.4** | **7.7 %** | **7.9 %** | **7.7 %** | **7.5 %** | **7.8 %** | **7.5 %** | **7.4 %** |
| Value Added Tax (VAT) | 491.5 | 458.7 | 405.7 | 352.0 | 323.2 | 286.2 | 259.1 | 5.2 % | 5.3 % | 5.1 % | 4.9 % | 4.9 % | 4.9 % | 4.9 % |
| Excise | 167.0 | 164.9 | 147.9 | 134.2 | 138.1 | 120.6 | 110.4 | 1.8 % | 1.9 % | 1.8 % | 1.9 % | 2.1 % | 2.1 % | 2.1 % |
| Mining Royalties | 2.8 | 4.7 | 4.9 | 3.3 | 3.0 | 4.2 | 2.4 | 0.0 % | 0.1 % | 0.1 % | 0.0 % | 0.0 % | 0.1 % | 0.0 % |
| Road Fund | 48.4 | 50.7 | 47.5 | 44.6 | 37.3 | 25.9 | 24.4 | 0.5 % | 0.6 % | 0.6 % | 0.6 % | 0.6 % | 0.4 % | 0.5 % |
| Strategic reserve Petroleum Levy | 10.3 | 10.9 | 10.2 | 10.2 | 8.7 | | | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.0 % | 0.0 % |
| **3. International Trade taxes** | **118.4** | **111.7** | **98.1** | **91.2** | **83.9** | **63.5** | **56.2** | **1.3 %** | **1.3 %** | **1.2 %** | **1.3 %** | **1.3 %** | **1.1 %** | **1.1 %** |
| Import Duty | 98.0 | 90.4 | 80.9 | 76.5 | 72.9 | 60.8 | 52.9 | 1.0 % | 1.0 % | 1.0 % | 1.1 % | 1.1 % | 1.0 % | 1.0 % |
| Other Customs Revenues | 20.4 | 21.3 | 17.3 | 14.7 | 11.0 | 2.7 | 3.3 | 0.2 % | 0.2 % | 0.2 % | 0.2 % | 0.2 % | 0.0 % | 0.1 % |
| **Total Tax Revenues** | **1,494.8** | **1,399.5** | **1,234.2** | **1,086.5** | **986.7** | **859.1** | **763.4** | **15.9 %** | **16.1 %** | **15.4 %** | **15.0 %** | **15.0 %** | **14.7 %** | **14.3 %** |
| **Nominal GDP** | **9,399** | **8,713** | **8,014** | **7,237** | **6,559** | **5,839** | **5,340** | | | | | | | |
| **Tax to GDP** | **15.9 %** | **16.1 %** | **15.4 %** | **15.0 %** | **15.0 %** | **14.7 %** | **14.3 %** | | | | | | | |
| **Local Government Taxes & Fees** | **62.0** | **60.6** | **53.7** | **47.9** | **40.4** | | | | | | | | | |
| *LG Tax* | 28.8 | 19.4 | 18.8 | 17.5 | 13.8 | | | | | | | | | |
| *LG Fees* | 33.2 | 41.2 | 35.0 | 30.4 | 26.5 | | | | | | | | | |
| **Tax to GDP incl. LGT** | **16.2 %** | **16.3 %** | **15.6 %** | **15.3 %** | **15.3 %** | **14.7 %** | **14.3 %** | | | | | | | |

**Figure-1: Revenue collections and tax to GDP ratio FY 2013/14 to FY 2019/2020**

**Source:** Rwanda Revenue Authority annual performance reports (n.d) equally, taxes are the most source of Government income, and very interestedly though in a different perspective, tax may not be solely intended to raise revenue, it may be levied with the aim to remove the inequalities for the redistribution of incomes in a society. As a result, the haves may be taxed so that certain services like education and medical facilities and services to the needy herein considered as the poor can be provided by the Government [24]. This is a solid move for properly allocating resources from the well off to the

entire society including the needy, hence growth and or transformation is satisfactory because it mutually benefits the poor than the rich and middle-income earners, while also promoting sustainable future growth and poverty reduction[12].

François[12], continues his discussion that recognizing a further equivalent allocation of resources may be a key aspect for social-economic transformation; but rather having the right instruments to implement is much more important. The instruments in question may range from fiscal policy, income (cash money) transfers, capital investment especially in human capital, to regulation and inclusive growth policies. In the short run, income transfers (take an example of VUP in Rwanda) to the poorest and or vulnerable groups of the public are the straightest way to control economic differences among people, hence easing poverty. These instruments may be applicable when economic growth benefits do not reach the underprivileged. Thus, the performance of taxation and its impact on redistribution of income with a focus on the contribution of indirect taxes on poverty reduction, in general, will be examined. This is because there is more tax burden (on various expenditures), especially on essential goods. As a result, it will be greatly assumed that domestic taxes significantly reduce income inequality effects hence enhancing income redistribution and poverty reduction in Rwanda

Bearing in mind the above discussion, it is evident that institutionalizing and expanding those programs requires more resources. Programs such as enhancing tax compliance and widening the tax base with focus on the wealthier could help to get the basic resources and money. In that matter, the comprehensive use of bank accounts, debit and credit cards, and Mobile Money pay - by the haves should make it easy to follow up on individual incomes and control tax evasion. Putting apart other playing factors such as politics, this should encourage Governments to put much focus on indirect taxation. Growing economies need to depend on the indirect taxation of local and imported goods and services because if income is equally redistributed through especially domestic taxes, the taxable capacity will be harmoniously reduced. But if income was largely in the hands of a few, obviously the Government would raise more revenue by taxing the rich and unsustainably spending much on the poor or the vulnerable. Therefore, the researcher intends to examine the relationship between indirect taxes and income redistribution covering a trend of seven (7) fiscal periods from 2013/14 to 2019/20.

## A THEORETICAL REVIEW OF INCOME REDISTRIBUTION

Advocates for redistribution of income have advanced a couple of models or theories justifying governmentally convinced moves in the Country's revenue [27]. Some of the key models include the theory of redistribution as social welfare maximization, the theory of income redistribution as a public good, and the theory of entitlements and redistribution, which are discussed in this section as follows:

### The theory of redistribution as social welfare maximization

One of the ancient opinions used to justify redistribution of income offers for a misapprehension and exploitation of the principle of diminishing marginal utility in consumption, which assumes that "as someone consumes an extra unit of a good, there is some level beyond which the relative marginal utility of each extra unit consumed will begin to decrease". This principle considers that beyond some level of consumption, the entire marginal utility of consuming extra units of a good begins to decrease. Definitely, it was gladly but imperfectly presumed by a number of thinkers and economists that marginal utility in consumption decreased from the initial unit [28].

Socialists argued that moderate social welfare can be improved by redistribution of the income of the state or Government from the privileged to the underprivileged. It was believed that the marginal utility of the final unit of a good consumed by the privileged was based on the assumption that they consumed extra and inferior to the marginal utility of the final units consumed by the underprivileged. Hence, redistribution augmented the total "utils' of pleasure in society, and or that a change in the dissemination of income from the privileged to the underprivileged automatically increases communal prosperity in a society.

### The theory of income redistribution as a public good

According to Milton & Friedman [22] reducing poverty is said to be a public good. It is said to be beneficial to a big number of people in society more or less at the same time, and those who are said to have given back to the aid of the underprivileged enjoy the advantages of reducing poverty if this incentive is offered. In this regard, many people, including researchers and economists, understand poverty reduction as a legitimate Government obligation to its people.

The significances that accrue from poverty reduction have proved some Government reallocation agendas based on the fact that individuals or private agencies may raise less aid to those in need than is socially required, where he goes further and state that. "I am distressed by the sight of poverty; I am benefited by its alleviation, but I am benefited equally whether I or someone else pays for its alleviation; the benefits of other people's charity therefore partly accrue to me. To put it differently, we might all of be willing to contribute to the relief of poverty, provided everyone else did. We might not be willing to contribute the same amount without such assurance."

Therefore the traditional assumption in such a statement is that collective initiatives using such agendas as income redistribution as a consequence of appropriate taxation will lead to more liberation for the poor hence also leading to improved standards of living and subsequent economic growth.

**The theory of entitlements and redistribution**

This theory has triggered thinkers and economists equally to re-evaluate the goodness of fiscal policy. It basically discusses fiscal policy only to the degree that the "minimal state," which is limited to developing and ensuring that property rights are respected, is in place [27, 28]. It further puts that the tax system beyond that degree can be interpreted as stealing due to the fact that it involves the same tricks which a usual thief uses on his/her target.

This theory discusses that taxation of earnings from labor is equally at par with forced labor. It also goes beyond this to rationalize the unavoidable compensations that a person who likes leisure benefits from taxation. Someone who foregoes work for leisure or enjoys the benefits enjoyed from leisure, his/her earned money income is not subject to tax. S/he enjoys the advantages of non-work but does not have to pay tax on those returns, due to the fact that those rewards are in a non-taxable arrangement and or the benefits are not money [28].

Conversely, someone who chooses goods equally as items must surrender leisure and the things that accrue with leisure time in order to earn the necessary money to buy goods/items. In this perspective, the money income earned is subject to tax, yet the leisure, as earlier discussed, does not attract tax. In addition, someone who likes possessions may choose to work long hours, because of taxes, so that s/he can be able to get a given quantity of goods or forego some of the things s/he planned to purchase?

Robert [28] makes further critics that if it would not be allowed for a fiscal system to take hold of some of someone's leisure equally as involuntary labor for the purpose of serving the disadvantaged, how can it be allowed for a fiscal system to get hold of some of someone's possessions for that purpose? Why should we treat someone whose pleasure requires definite substantial goods or services in a different way from the person whose choices and needs make such goods not necessary for his/her pleasure? Why should someone who chooses to watch a film be concerned with helping those in need, while this person who prefers to have all leisure time (yet also does not need to earn an extra money) is not?

Really, is it not surprising that Governments and authorities decides not to consider the person whose happiness is so easily possible without working hard, yet adding burden to the underprivileged who must work hard for his/her happiness? Therefore, according to [27, 28] tax and the tax system is typically similar to stealing based on the fact that the inferred pressure makes one person to benefit at the expense of the other

However other thinkers such as Kearl [16] tend to disagree and suggest that property rights over properties, which are vital to the effective use of resources in a price-market system of allocation, are socially defined. If one then accepts Robert's [28] "rationalization of the minimal state and its monopoly position in protection", the minimal state has a right to social output. Moreover, this right would allow it to engage in redistributive accomplishments other than those essential for preserving the implementation gear of the minimal state. Hence, the tax system is not about stealing whereas income redistribution is morally accepted. Instead, it is a typical approach by which the state must step in to ensure that the rich support the poor though without expecting any direct gain in kind to the rich.

**AN EMPIRICAL REVIEW OF INCOME REDISTRIBUTION**

Empirical study shows that, typically, the effect of taxation is unvaguely to reduce inequality through the distribution of incomes and to enhance social and economic transformation. Typically on the global agenda, income-poverty is a function of two issues. First is the degree of average incomes and secondly their dissemination amongst families. Leaving income levels constant, poverty will in general be serious when incomes are not effectively and efficiently redistributed [18].

Subsequently, Nations with comparable income levels can have varied results regarding the rate and deep understanding of poverty. Although economic growth increases the degree of average incomes, it is in general more useful in improving poverty when the preliminary income dissemination is more reasonable or when it goes along with a decrease in inequity [34, 6]. Despite the fact that economic transformation has helped in poverty reduction in many countries ever since the mid-1990s, Fosu [10] concludes in his recent review of poverty trends that 'further progress could have occurred under a relatively more favorable redistribution of income.

According to Keeley [19], it was established that in developing countries, inequality rises but also a middle class emerges. This is based on the fact that starting from the end of the 1990s, economic development is said to have shifted from the conventionally wealthy OECD countries to developing and emerging economies. This situation is at times referred to as "shifting wealth". Countries such as Singapore, India, and China serve as the most well-known examples, however, they are not alone because in the 1990s, only 12 developing Countries noticed the growth of their GDP per capita above the rate of OECD Countries, further in the 2000s, and the number further rose.

Of recent, economies in many developing Countries have decelerated, hence controlling the speed of this change in global wealth. Keeley [19] further noted that the impact of the said shift has been significant. As a result, many emerging economies are observing a large number of their people moving away from poverty to a middle class. Statically in the mid-2000s, extreme poverty was reduced to at least 650 million households worldwide, that is for at least people who were living on less than $1.25 a day, though, over that same period, the worldwide population rose by about 2 billion. Many factors led to that decline, but the most important is the rise of China, which alone represented almost one-half of one billion households shifting out of absolute poverty.

Therefore it is not shocking that redistribution of income, largely explained as the use of tax systems and transfer strategies to reduce income inequity, has become a key aspect in many debates on poverty, where much like income inequity itself has been brought to light by the economics discipline in the mid-1990s [3].

More to that, especially as argued by François[12] income inequality is among the key issues affecting most Governments Globally. In developed countries, the obvious impact of globalization and technological change and the cost of stabilizing these determinants is raising concern. In developing countries, where income inequality is very much noticeable, the matter is if it poses a major hindrance to raising growth and easing poverty. In both cases, income redistribution might achieve not only greater likeness but also rapid growth and, for emerging economies, faster social-economic transformation in terms of poverty reduction.

While instruments for income redistribution are generally more developed in the developed countries, where relative poverty has remained at a minimal level, less developed and developing countries such as Brazil, a majority of African countries such as Rwanda, are now using cash-transfer agendas such as VUP [9] for the case of Rwanda, though along with other policy tools to improve on poverty and to control high inequality levels among households.

# METHODOLOGY

### Research approach

Different authors and scholars like Saunders et al. [31] put that research involves two different approaches known as deductive and inductive. A deductive approach is a research based on examining theory. It emphasizes the collection of quantitative data which is statistical in nature, enables the researcher to select a big sample size with the purpose of making general conclusions of the investigation, including ensuring that the researcher is independent of what is being studied.

This study is thus a deductive approach, Saunders et al. [31]; Bryman & Bell [4] and is based on quantitative data which was collected through secondary data analysis based on which generalized conclusions about the study were made. Thus, this approach does not only enable the researcher to understand better the nature of the research issue but also facilitates him to thoroughly assess the research objective of the study.

### Research data and data collection

The secondary data which refers to data and information collected from a source that has been previously published [32] was used to collect data because it provided sufficient data and information about the study.

The type of secondary data used in this research is called survey-based secondary data. This is statistical data collected using a review approach, usually by questionnaires that have already been examined for their original purpose [31]. This type of data typically refers to institutions or families and is made accessible as compiled data tables, and as downloadable tables of unprocessed data for re-analysis. Therefore with this type of data source, there is no need of having a population and sample size.

Survey-based secondary data are said to have been collected through census, regular surveys. This survey strategy is mostly used by Governments or public institutions and is unique because they provide good coverage of the study.

Therefore, since there are a lot of survey data on income inequality, poverty levels by households, statistics regarding taxation and tax administration, the researcher collected and used data from sources such as the National Institute of Statistics Rwanda (NISR), the Rwanda Revenue Authority (RRA), Ministry of Finance and Economic Planning of Rwanda (Minecofin), among others.

### Data processing and analysis

Secondary data was processed, manipulated, and analysed purposely to enable the researcher to make proper interpretations so that appropriate conclusions can be made. After collection of secondary data, quantitative data was obtained. Quantitative data was processed with the help of SPSS v20-32bit from which different and relevant statistical tables were generated herein referred to as research data.

Finally, research data and findings enabled the researcher to make relevant analyses and discussions which as well acted as a foundation for making appropriate conclusions. Secondary data obtained from available literature and survey-based researches were used to understand the effect of taxation on income redistribution in Rwanda.

**Model specification**

This research intended to estimate the following model: assessing the associationship between indirect taxes including tax to GDP ratio and income redistribution. The equation to be estimated is expressed as follows:

$$Y1=\beta0+\beta1VAT+\beta2CONST+\beta3TGDP+\varepsilon$$

Where Y1 represents income redistribution, TGDP is tax to GDP ratio, VATis Value Added Tax, CONST is Consumption tax (excise tax). β0, β1, β2, and β3 are the coefficients of the corresponding predictors variables estimated. ε is the error term which reflects that the relationship between the explanatory variables and the response variables is not deterministic.

**Normality test, Validity, and reliability**

According to Andy[1] normality test refers to the assumption that data are normally distributed. Normality test was tested using Shapiro-Wilk, through SPSS. Testing normality is a pre-requisite for many statistical tests because normal data is an underlying assumption in parametric testing. The test was conducted with the null hypothesis (the data is normally distributed)

According to Kothari [21], validity refers to the degree to which variances found with a measuring tool reflect true variances among those being verified or tested. Similarly, Roger [29] states that validity is the level to which a measure, indicator or technique of data collection possesses the quality of being thorough or factual as far as can be arbitrated. On the other hand, Roger[29] contributes that reliability is the degree to which a source of the data can be relied on and, therefore, the data itself. The author further puts that reliable data is dependable, trustworthy, unfailing, sure, authentic, genuine, reputable, and concludes that the main measurement for reliability is consistency.

In general, secondary data have an already established degree of validity and reliability, which need not be reassessed by the researcher who is using such data again. Therefore, to ensure accuracy and consistency of data, the researcher made sure that secondary data is available, and can be depended on, yet it is clear in the same way he understands it himself. Thus, it makes sense regarding the study [31].

# RESULTS AND DISCUSSIONS

The study findings from secondary data are presented in form of descriptive statistics; with tables. Quantitative data is made meaningful and useful by transforming it into statistical information, presented in form of percentages, tables and graphs through SPSS. Research data is analyzed and discussed accordingly.

On value added tax: As per table (Fig. 2), the P-value of 0.046 is less than the significance level of 0.05. There is enough evidence to reject the null hypothesis. Therefore, we can conclude that Value Added Tax is statistically significant to influence income redistribution.

On consumption tax: From the table (Fig. 2), the P-value of 0.062 is greater than the significance level of 0.05 but less 0.1. We can therefore conclude that Consumption tax is statistically significant to influence income redistribution at 90%.

**On tax to GDP ratio**: As per the table (Fig. 2), the P-value of 0.097 is greater than the significance level of 0.05 but less 0.1. We can therefore conclude that tax to GDP ratio is statistically significant to influence income redistribution at 90%.

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| 1 (Constant) | -.106 | .230 | | -.461 | .676 |
| Value Added Tax | .000 | .000 | 2.605 | 3.295 | .046 |
| Consumption Tax | -.003 | .001 | -5.361 | -2.920 | .062 |
| Tax to GDP ratio | .053 | .022 | 3.598 | 2.389 | .097 |

**Figure 2: Coefficients statistical significance of variables**

The findings indicate that all types of indirect taxes (Value Added Tax and Consumption tax) are statistically significant to influence income redistribution. The findings are in conformity with the findings of Asiya et al.[2] who found a positive effect on household income distribution and consumption.

On the other hand, some authors disagree with them. For example, Nasir [24] and Oliver [26], argue that indirect taxes on necessities especially in terms of consumption tax and value-added tax are typically regressive in nature based on the fact that the rich spend a less percentage of their incomes on them and the reverse may be true for the poor. In a socio-economic context, taxation of necessities in a regressive tax system increases income inequality because it raises the price of the relevant goods or services and consequently reduces their consumption especially by the poor who represent a large proportion of the population.

Besides, Şahin [30] determined empirically that indirect taxes negatively affect income distribution. Jaejoon et al.[17] state that at large, direct taxes (for example., corporate income tax, employment income tax, to mention but a few ) and expenditures by the Government for the welfare of the people are found to address income distribution, whereas indirect taxes (including consumption taxes and custom duties) have a tendency to intensify inequality, because they are regressive in nature for the reason that they tax consumption and not income, and yet the rich save a higher percentage of their revenue. But furthermore, the indirect taxation in underdeveloped Countries may even not address poverty depending on the construction of tax rates and the spending levels of households at different heights of earning.

Regardless of the outcome, cutting taxes on products such as foods that represent a lot in the budget of the underprivileged people attains fairly little redistribution because the privileged also consume these same products, maybe as a small percentage of their budget but perhaps in abundance. Similar arguments may apply to subventions for acquiring essential services and goods such as bread or gas and electricity.

The authors in question propose that instead a progressive tax system especially in terms of taxation of luxury goods by fixing their tax rates higher typically creates an impact on the rich who can afford them than the poor [24, 26]. This tax system, therefore, leads to favourable income redistributive effects. Hence indirectly reducing income inequality in societies.

# CONCLUSION AND RECOMMENDATIONS

To conclude, this study whose objective is to examine the relationship between indirect taxes and income redistribution in Rwanda covers the period from 2013/14 to 2019/20.

The research findings are discussed from the survey-based secondary data also referred to as research data. Secondary data is presented in form of descriptive statistics, with tables. Quantitative data was made meaningful and useful by transforming it into statistical information presented in form of tables and percentages through the help of SPSS. In addition, research data was analyzed and discussed accordingly.

The findings indicate that all types of indirect taxes (Value Added Tax and Consumption tax) are statistically significant to influence income redistribution. On the other hand, although the study findings show that there is a positive relationship between indirect taxes and income equality, arguments by different authors show that indirect taxes are regressive in nature because they target consumption other than capacity, thus they should be used with caution when aiming to redistribute income.

**Based on this study, the following recommendations were made:**

The Government must take further steps to widen the tax base, closely monitor taxpayer compliance, the digital economy, and illicit financial flaws, thereby reducing tax avoidance and tax evasion. In order to achieve this, all Rwandans and citizens of Rwanda must be issued a Taxpayer Identification Number (TIN), and to strengthen the Electronic Billing Machine (EBM) for all – this is an initiative to ensure that all registered business agents use EBM in their transactions. As a result, this will strongly enable the Government to keep track of taxpayers' transactions, thus this will lead to higher collections by the tax administration. These collections will enable the Government to meet the needs to its people, hence further being able to control poverty and income inequality.

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