The value of good advice

Experimental evidence on tax advice in Rwanda

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PARTNERS

Tax Advisors and their compliance effect: what do we know?

- **Limited literature on** role of **tax advisors' compliance impact, mostly HICs:**
  - **All taxpayers' categories seek tax advisors support**, mostly **due to complexity** of tax legislation (Long and Caudill 1987).
  - **Desire to ensure proper compliance** with tax obligation prevails (Hite et al. 1992, Tan 1999, Sakurai et al. 2003), but **those wanting tax minimisation find aggressive advice** (Klepper et al. 1991, Erard 1993, Schisler 1994, Murphy 2003, Bustos et al. 2023)
  - **Advisors' background impact advice provided**: CPAs and lawyers more willing to take risks (Kaplan et al. 1988, Ayres et al. 1989), **higher qualification, higher capacity to exploit loopholes** (Zwick 2021), **better clients' education** (Chetty et al. 2013)
  - **State regulation matters**: stringent entry requirements decreases likelihood of mistakes, increases chances of aggressive advice (McKerchar et al. 2008)
- **Dual role**: increase compliance with unambiguous provisions, exploit grey areas.

Tax Advisors and their compliance effect: what do we know?

- A few recent studies look at advisors' impact in LIC, producing **clear evidence** that **advisors' use** has wide-ranging **impacts** on **compliance and reporting behaviour:**
  1. **Uganda (Occhiali and Kalyango 2025): positive impact -** nil-filing and reporting zero-liabilities significantly less likely, higher CIT liabilities (although higher losses). Higher likelihood of selection for audit does not results in significantly different audit adjustment.
  2. **South Africa (Riedel et al. 2025): use of advisors significantly and persistently lowers liabilities reported by firms.** The effect is in part explained by increased use of past losses to offset liabilities, as well as by higher take up of available incentives, be that related to youth employment or small business.
  3. **India (Choudary and Gupta 2025):** once external CPA auditing stops, significant decrease in reported EBITDA, and consequently on taxable income and tax due. Clear evidence that firms bunch below the threshold to avoid being subjected to third-party audit.

Rwanda: tax advisors state of play and project set-up

- **CG rules 005/2009:** first set of regulation; clarifies tax advisors' duties, last updated by **CG rules 001/RRA/2025**, setting out exact requirements to get RRA license. <u>All tax advisors representing their clients with RRA and officially submitting their returns must register with RRA, which vets their qualification.</u>
- **Professional bodies:** two exist, the Association of Tax Advisors of Rwanda (ATAR) and the Institute of Certified Public Accountants of Rwanda (ICPAR). A RRA licensed advisor need to be a member of either; someone allowed to certify financial statements needs to be a member of ICPAR and pass an additional ICPAR-run exam.
- **Our project:** survey of all ICPAR and ATAR members in Feb/Mar 2026 to understand their interaction with clients and with the RRA, their opinion of the tax system, their propensity to provide aggressive advice and what factors might influence the latter. We obtained 939 valid answers from a population of 1,432 (65.6% response rate).

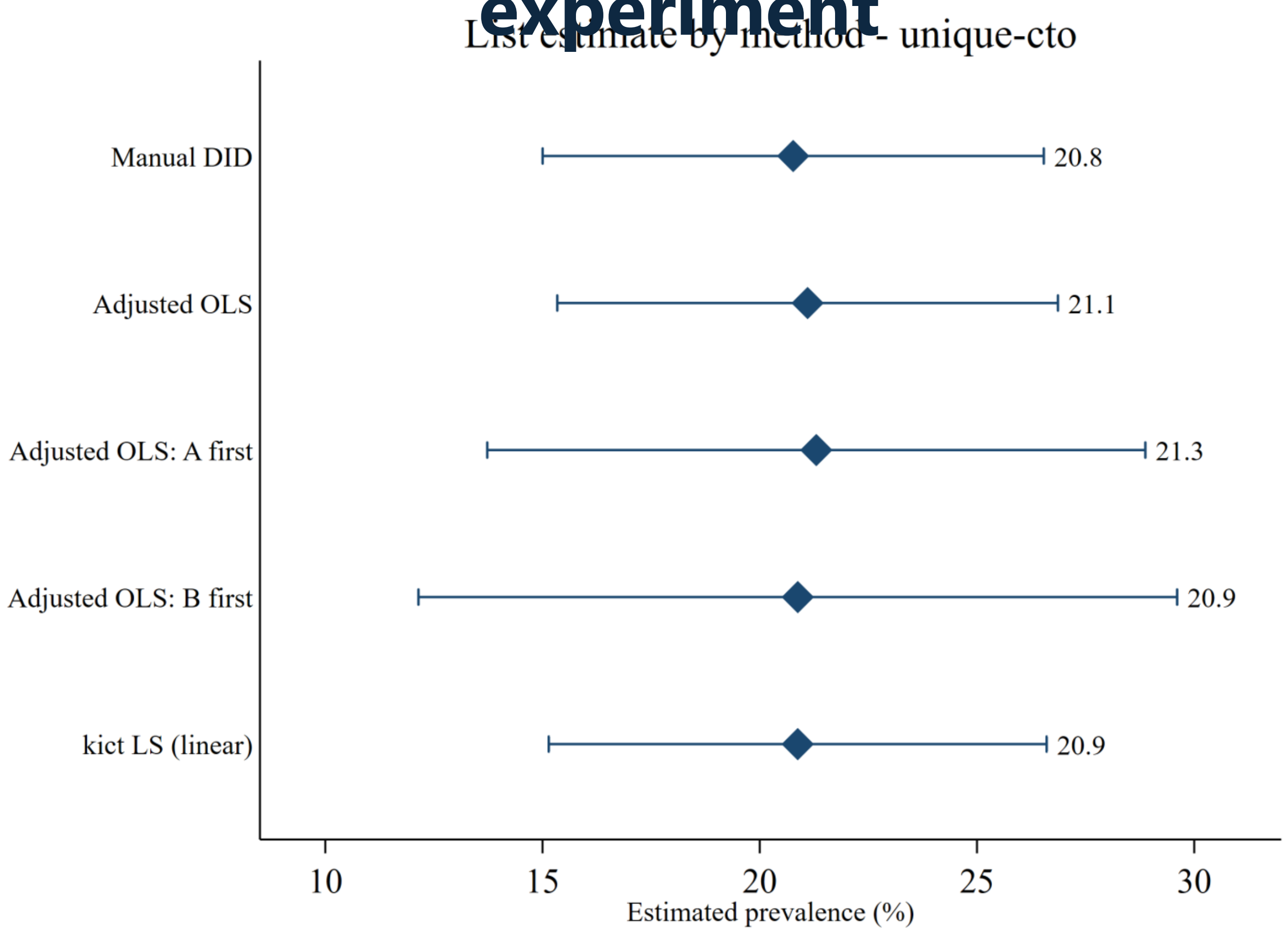
Rwanda: tax advisors market characteristics

- As expected, **most respondents** were **ICPAR members** (91%). Rwandan advisors are predominantly **based in Kigali** (94%), **male** dominated (79%), **relatively young** (81% 30-49) and **highly educated** (45% postgraduate degree).
- **Not a mass market**: 42% serve less than 10 clients, 28% between 10 and 50, 8% >100
- **Market driven by compliance complexity**: 40% mainly hired due to lack of bookkeeping or tax preparation knowledge, 32% to ensure book contains no mistake, 11% as taxpayers cannot keep up with changes in tax system. **Main service provided coherent with this picture:** preparation and auditing of book (53%), determination of tax liabilities (19%).
- Over **half of respondents interacts with RRA once per quarter**, generally **positive view** of these interactions; **similar share sees sanctions** for misconduct **as likely**.
- **Views of the tax system mixed**: 25% consider tax laws too complex, 20% tax rates too high and 18% argues that the tax system changes too frequently

Propensity to provide aggressive advice – list experiment

- Two direct questions on compliance vs. tax minimization included in the survey:
  - 8.7% responded that advisor main role is to *"support clients minimising tax payments, within the confines of the law"*
  - 39.4% answered that if a client asked to what extent they could stretch the law to minimize tax payment, they would "*accept to support my client in minimising their tax payment, while stressing that I will remain within the boundaries of the law while doing this"*
- **List experiment:** the statement *"I will always prioritise my client request to pay as little tax as possible as long as my advice is not in clear and direct breach of the law"* was included in one of two lists of non-sensitive statement to estimate true prevalence.

Propensity to provide aggressive advice – list experiment



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- Results show that **one in five advisors privately endorses a client-first, edge-of-legality interpretation of their professional role**, significantly higher than what revealed through direct answer.

Can propensity to aggressive advice be influenced? Nudge experiment

- We presented **three scenarios to respondents, asking** them **whether they would strictly comply with existing regulation** or endorse a more relaxed interpretation of the rules:
    1. Classifying transactions for tax purposes (84% strict compliance)
    2. Claiming personal expenses as business related (90% strict compliance)
    3. Producing required documentation for tax compliance (88% strict compliance)
- After the first scenario, **1/3 of respondents** received an **RRA-signed letter** reminding them of the **new regulations** from October 2025 **and of existing penalties**, and **another third** a signed letter on **similarities in the code of conduct of advisors and of RRA staff**.
- Both letters increased the likelihood that respondents would choose the strict-compliance options, but the one focused on deterrence was slightly more effective. Neither letter did however impact the “stretching the law” scenario, suggesting that they might shift compliance judgements more readily than overall behaviour.

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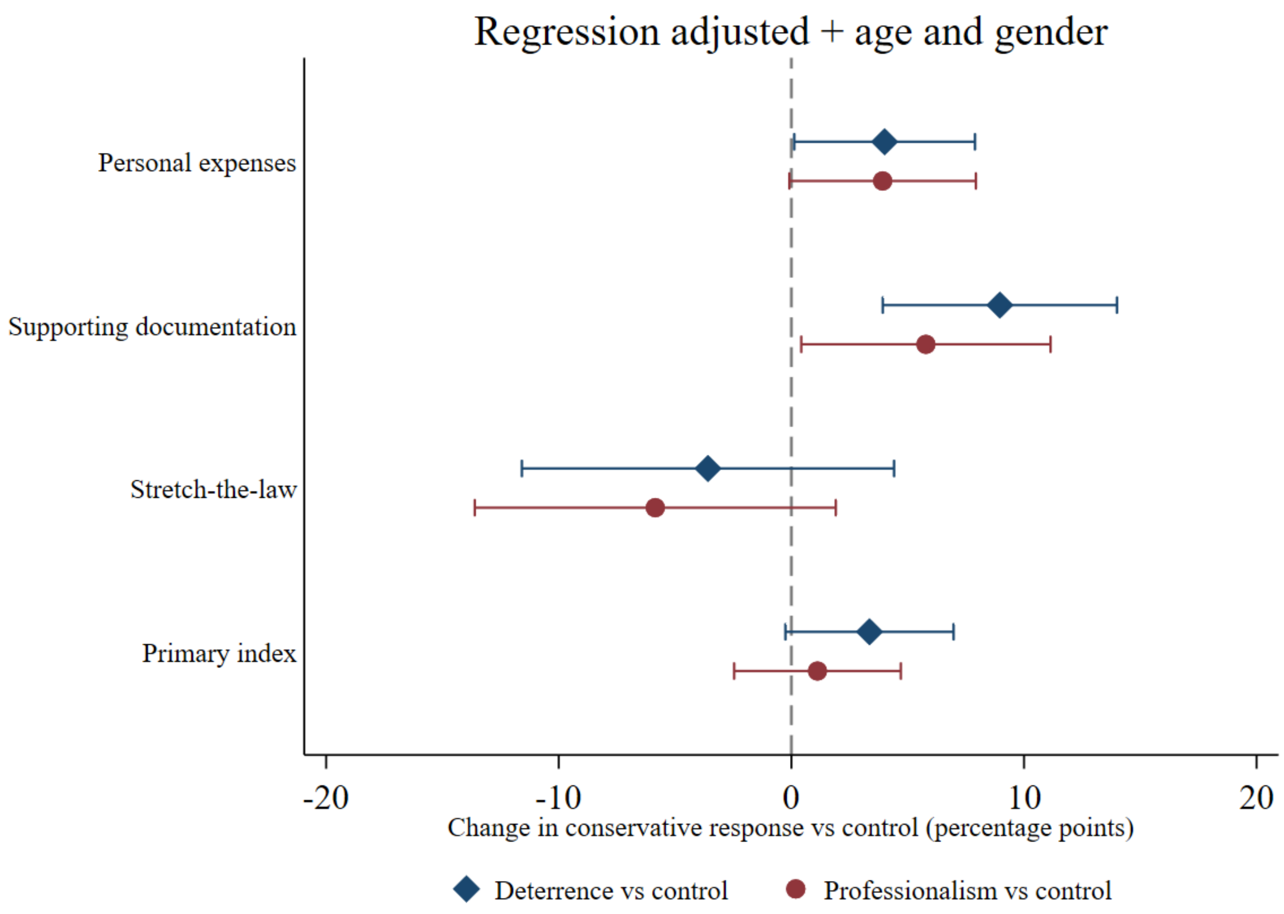

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Conclusion and policy implications

- **We know relatively little about the role of tax advisors** in promoting or hindering compliance in tax systems outside of HICs.
- **Our study** contributes to filling this gap through a **large-scale survey** of the **tax advisory profession** in **Rwanda** with **two experimental components.**
- Overall, our **results point to a profession shaped mainly by compliance complexity and taxpayer capability gaps**, but with a **non-trivial minority** of advisors holding **client-first, edge of legality private views** than direct questions alone would suggest.
- **Messaging from** the **RRA capable of affecting advisors'** propensity to provide more **aggressive advice** in specific circumstances, but **not to shift their underlying behaviour**.
- These **results support** both the **continuous and positive engagement between the RRA and the advisory profession** and its **effort to make** a **substantive use of information on** taxpayers' reliance on **advisors for risk-management** and compliance activities.

Thanks for the attention!