

Tax Alert

KRA directed to increase VAT collections

The number of Value Added Tax (VAT) audits by the Kenya Revenue Authority (“KRA”) is projected to increase as the authority seeks to meet its revenue collection targets.

In a recent article appearing in the Business Daily newspaper, it was reported that the Treasury had directed the KRA to audit large taxpayers with annual turnover of more than KES 750 million. This follows the announcement of a significant decrease in the collection of VAT in the six months to 31 December, compared to the previous period.

The KRA is likely to target the following:

- Companies with an annual turnover in excess of KES 750 million including their subsidiaries and associates;
- Banks and insurance companies irrespective of their turnover threshold;
- Manufacturers of wines and spirits irrespective of their turnover threshold;
- State corporations with annual turnover / budget in excess of KES 750 million;
- Head office operations of Central Government Ministries and Departments;
- Local authorities with city status; and
- Individuals of high net worth.

The above notwithstanding, other taxpayers may also be targeted as the authority seeks to bridge the gap between actual VAT collections and the set targets.

What are the likely areas which KRA will focus on?

Some of the key areas that the KRA is likely to audit will include:

- a) Restricted input tax claimed on blocked items;
- b) VAT on self supply – particularly for businesses making exempt supplies such as financial institutions;
- c) Reverse charge VAT on imported services;
- d) Apportionment of deductible input tax for businesses making both taxable and exempt supplies; and
- e) Declaration of output tax on certain streams of income for businesses operating in different industry sectors;

- f) Zero rated sales;
- g) Remissions of VAT
- h) VAT Refund Claims

What to do when you are issued with the KRA notice of intention to audit

When a business is issued with a notice of intention to conduct a VAT audit by the KRA, the business should take all the necessary measures to facilitate efficient management of the audit process. The business may also seek the services of professional tax advisors to help manage the KRA audit.

How can PwC assist you?

Businesses should take all the necessary steps to minimize non compliance and tax exposures. PwC would be happy to assist your business to comply with the VAT legislation by:

- Conducting VAT reviews on your business prior to KRA audits to ascertain levels of compliance and provide tax advice how to mitigate against any identified areas of tax exposure;
- Assist the business in managing KRA audits and reviews before, during and after the audits.

Please speak to any one of us for guidance and clarity

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