MANAGING VAT COMPLIANCE THROUGH SELF-ASSESSMENT

Kenya operates a self-assessment tax regime for both direct and indirect taxes where Kenyan taxpayers (both individual and corporate) are allowed to calculate the taxes due for a particular tax period themselves. The taxpayers subsequently submit a tax return to the Revenue Authority and pay any balance outstanding by the due dates stipulated in the law.

It is worth noting that there are various types of tax assessments apart from self-assessment. Under the new Tax Procedures Act, the other assessments include the following: -

- **Default Assessment** - This assessment is administered by the Kenya Revenue Authority (KRA) where a taxpayer has failed to submit a tax return for a reporting period in accordance with the provisions of a tax law. In this instance, the Commissioner may, based on such information as may be available and to the best of his or her judgement, make an assessment.
- **Advance Assessment** – This assessment is issued by the Commissioner based on available information and to the best of his or her judgement. The assessment only applies in a few isolated cases such as: -

1. When there are bankruptcy, winding up or liquidation proceedings that have been instituted against a taxpayer,
2. When the Commissioner has reason to believe that a taxpayer is about to leave Kenya permanently,
3. Where a taxpayer has ceased, or the Commissioner has reason to believe that a taxpayer will cease, carrying on any business in Kenya, and
4. Where a taxpayer has died.

- **Amended Assessment** – This assessment applies where the Commissioner amends an original assessment by making alterations or additions, based on available information and to the best of the Commissioner's judgement.

KRA officers often carry out compliance checks and in-depth audits on taxpayers to check compliance levels. In instances of non-compliance, if arrears are established, payment of additional taxes together with penalties and interest are demanded through a notice of assessment.

It is against this backdrop that a taxpayer needs to ensure accuracy and compliance with the provisions of the law in making a self-assessment.

VAT self-assessment is declared through a special form called a VAT 3. In the form, a taxpayer declares the VAT charged on supplies made in a month and also claims a deduction on VAT incurred on purchases in order to make taxable supplies.

Below is a summary of the key points to remember every time you make a VAT self-assessment: -

- VAT returns are due by the 20th day of the month following the making of the supply. It is important to ensure that all records required to prepare the return are ready in good time to avoid late filing penalties,
- For sales, it is important to ensure that there is proper disclosure of the company's revenues in accordance with their VAT classification. According to the VAT Act, sales are classified as taxable attracting VAT at the rates of 16% and 0% or exempt meaning that they are not subject to VAT,
- In addition, it is also important to ensure that all sales are disclosed and reconciled with the management accounts. While carrying out compliance checks, KRA officers often undertake a reconciliation between the sales as disclosed in the financial statements and the sales as per the filed VAT returns.In the event of non-reconciliation, KRA, by default, takes the higher of the disclosed turnovers as the correct turnover and deems the taxpayer not to have disclosed income in relation to one form of taxation or another,
- Regarding the VAT to be claimed on the purchases, of importance is to ensure that any deduction is properly supported by a valid tax invoice in the name of the taxpayer, i.e. one that has an ETR (Electronic Tax Register) receipt attached or generated through an ESD (Electronic Signature Device).Further, the purchase must be allowable subject to the provisions of Section 17(4) of the VAT Act which excludes claims on purchase and repair of passenger vehicles, entertainment, accommodation and restaurant services which are not business related.

Ensuring compliance is one of the easiest ways of managing tax risk. Taxpayers can avoid exposure to back taxes together with hefty penalties and interest by complying with stipulated tax legislation. Next time you are filing your VAT return, ensure that your self-assessment is accurate and prepared in adherence to the VAT Act.

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