

Annual Management Accounting Conference

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Tax Planning :

The Views of the Management Accountant

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What is tax?



Tax...



Tax... The LOVE and the HATE



PREAMBLE

***Then the Pharisees went and plotted how
they might entangle Him in His talk.....
“.....Is it lawful to pay taxes to Caesar or
not?.....”***

(Matthew, 22:15-22)

The End Result....



How thin is the thin line...?

Tax Planning

- ☐ Tax avoidance (planning) is the legal utilisation of the tax regime to one's own advantage, by means that are within the law.
- ☐ So?
 - ☐ To reduce the tax burden;
 - ☐ To defer tax payment;
 - ☐ To avoid penalties;
 - ☐ To manage tax risks

• Tax Crimes

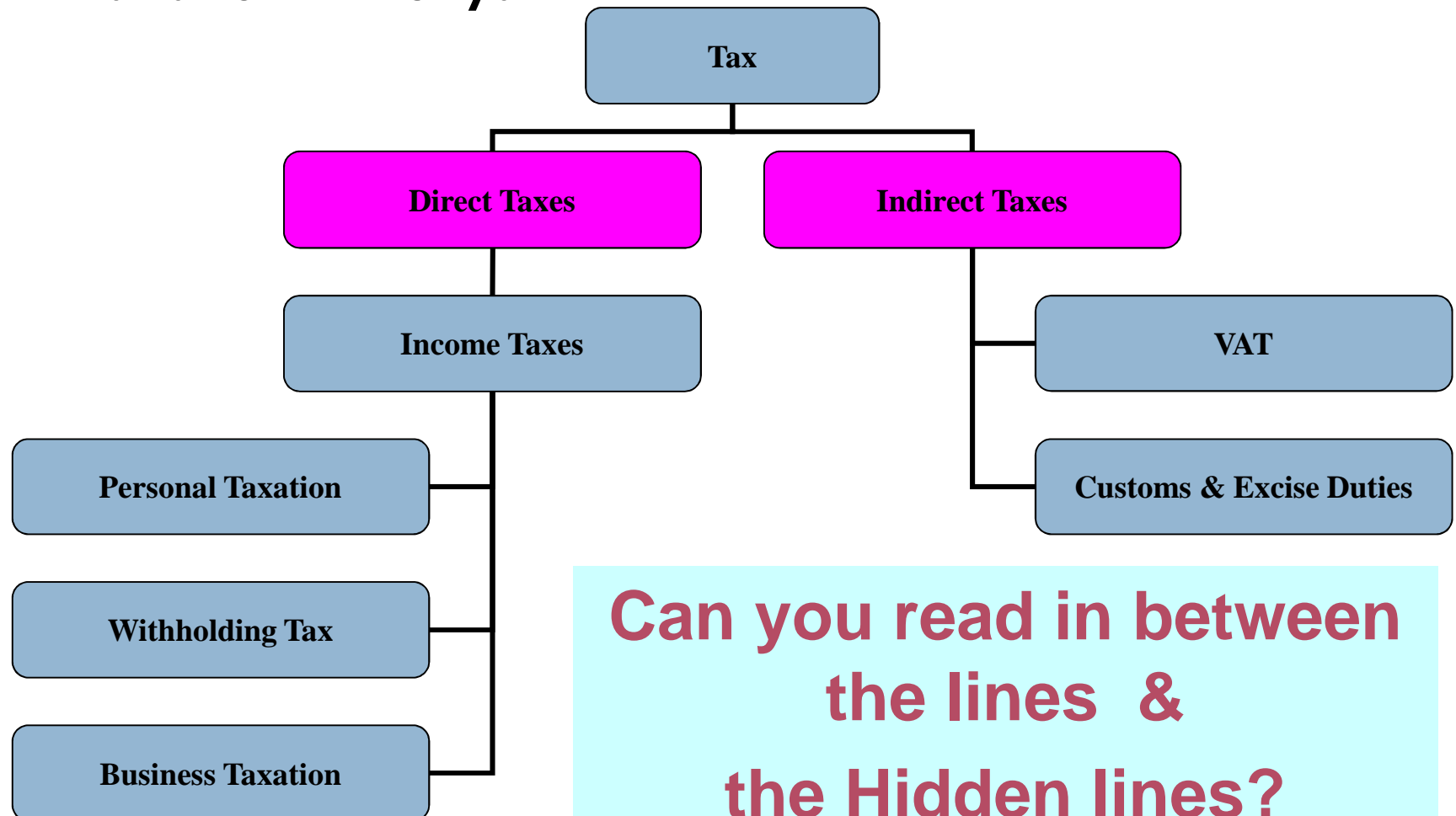
- Tax evasion (tax crime) is the general term for efforts to reduce tax or pay no taxes by illegal means.
- Tax crimes are the acts or omissions that constitute a violation of tax laws and regulations.
- Its dependent upon the amount of admissible evidence against the taxpayer, not the amount involved.

TAX PLANNING ... then THE TAX CRIMES

The tax structure



□ Taxation in Kenya



Tax Portfolio Costs



Do you know your Total Tax Portfolio Cost?

- **Compliance** – Are tax returns filed and tax payments paid in time?
- **Accounting** – Are the processes, the postings, & the descriptions right?
- **Planning** – Is it efficient?, is the risk managed?, is the approval right?
- **Transactional** – The big contracts

Tax Portfolio Costs

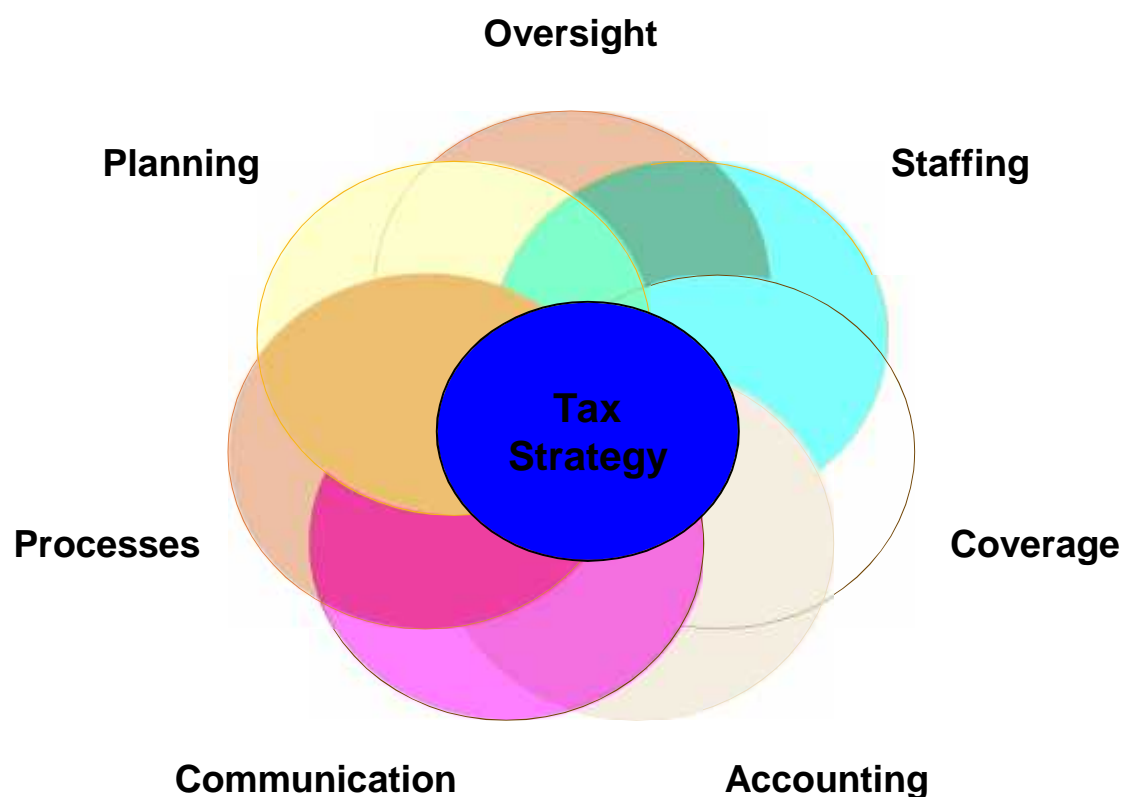


Do you know your Total Tax Portfolio Cost?

- **Operational** – The expansion and the secondments
- **Management** – The resource allocation, the responsibility, the communication
- **Reputation** – The communication policy: CEO, website...

Tax Cost Management...

- Embracing a sound tax management framework



Tax Governance Structures



Definition of responsibility

- **Whose responsibility? The Group Tax Director? The Chief Financial Officer? Both?**

Appropriate staffing

- **Do tax staff understand the business?**
- **Do other staff understand tax?**

Appropriate controls

- **Are reporting processes precise and prompt?**

Independent reviews

- **Need for an independent tax systems review...**

Tax Governance Structures

Active oversight of tax strategy	<ul style="list-style-type: none">● It's Board's responsibility to maximise shareholders' value (minimise tax)
Insightful & timely reporting	<ul style="list-style-type: none">● A regular report to the BOD on the state of the company's tax affairs
Perceptive questions on tax risk	<ul style="list-style-type: none">● How do we plan, manage, monitor, compare etc?
Appropriate reporting lines	<ul style="list-style-type: none">● Is tax a finance function, a risk management function or a stand alone

How does tax relate to the other departments?



- Where does tax fit in?
 - ▣ cost centre or a profit centre?
 - ▣ finance function, risk or stand-alone?
 - ▣ outsource, co-source or in-house fully?
 - ▣ reporting structure :
 - CFO?, CEO?, Board or committee?
 - Finance & administration?
 - Audit &/or risk?

Tax planning...



□ Personal tax...

- **Medical** – Upto KShs. 1 Million, local insurance
- **Pensions** – plenty of incentives
- **Telephone** – 30% of the usage
- **Training** – Non taxable benefit to both
- **Meals** – Maximum KShs 4,000 per month

How much PAYE tax is in your salary number? - Move away from Cash benefits

Remember your Tax Computation?



	KShs
Net profit per accounts/ ledger for a source	xx
<u>Add:</u>	
Non-allowable expenses for the source	xx
<u>Less:</u>	
Other deductible expenses for the source	(xx)
Adjusted profit/(loss) for tax	xx
	===

What is your effective tax rate?

Tax planning...



□ The structures...

- Export Processing Zones (EPZs)
- Newly listed Co.

Think of which SPV to use

Tax planning...



□ Corporation tax...

- Capital budgets versus losses
- Financing options – your capital structure
- Group operation re-organisation
- Exempt dividends

Think of your strategic decisions

Tax planning...



□ The Tax Treaties...

Nature of payment	UK	Germany & Canada	Denmark Norway Sweden Zambia	India	EAC
	%	%	%	%	%
Management or professional fees	12 ½	15	20	17 ½	20
Royalties	15	15	20	20	20
Consultancy fees	12 ½	15	20	17 ½	15

**What is the actual cost of your expatriate?
And the imported consultant?**

Tax planning...



□ VAT...

- Efficiency of your product mix
- Public participation – How do you influence the tax policy

Very Annoying Tax is indeed annoying

Tax crimes...



Tax crimes...



□ Why?...

- Ineffective tax planning measures
- Inadequate knowledge of taxation
- Unrealistic tax regimes
- Inefficient tax authorities
- Self – discipline
- Payback (perceived?)

Examples

- Compliance – return filing
- False returns - moonlighting
- Split payroll
- Aiding in preparation of false documents – CPA(K)
- Keeping four sets of books

Who is a tax criminal??

Tax Controls

**Do we have an Internal Control System to
arrest the tax cost?**

**External
Auditor**

**Are the
accounting
systems
adequate ?**

**Internal
Auditor**

**Does the ICS
manual
include a
section on tax
procedures?**

The CFO

**Is tax
compliance is
entrenched
within my
system?**

The BOD

**Communication
Assessment
Awareness?**

- **The way forward...**

Tax is your BIGGEST cost base!...

It is the Board's Responsibility...



The Direction...



Make it a Boardroom Agenda!

It's a BIG risk!



Make it a Boardroom Agenda!

It is certain!



***“There are only two things that are
certain in life, tax & death!”***

**Benjamin Franklin - Scientist, Author and
former American President**

Make it a Boardroom Agenda!

The Corporate Governance...



Make it a Boardroom Agenda!

The board and your strategy...



Make it a Boardroom Agenda!

THE BOARD

...where the buck stops...



Make it a Boardroom Agenda!

A large, green, three-dimensional ribbon graphic that forms a central rectangular box. The ribbon has a 3D effect with visible folds and shadows, giving it a sense of depth. The words "THE END" are written in white, italicized, serif capital letters across the front face of the central box.

THE END

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