



Managing KRA Audits in the Era of Desktop Audits

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Presentation agenda



- ☐ Introduction
- ☐ KRA Audit Triggers
- ☐ Process of KRA Audit
- ☐ Managing KRA Audits
- ☐ Q & A

Introduction....



***“In life, you do not
get what you
deserve, you get
what you negotiate”***

Definitions



What is a Kenya Revenue Authority audit?

- ❑ A KRA Audit is an examination a taxpayers affairs to ascertain whether the taxpayer has **correctly self assessed**, reported their tax liability and fulfilled their tax obligations.
- ❑ The audits are a major tool for tackling **non-compliance** and constitute the largest deployment of resources by the KRA for administration of the various tax laws.

KRA- Active engagement and negotiation



- ❑ Managing relationships with the KRA is key
- ❑ Failure could result in:
 - Substantial-costs (taxes)
 - Forced insolvency




KRA- Active engagement and negotiation



- ❑ Increased revenue targets –the KRA’s aggressive pursuit of overdue taxes
- ❑ Performance based contracts and evaluations
- ❑ Review of legislation for potential gaps:
 - PINs
 - Provisioning
 - Transfer Pricing

KRA- Active engagement and negotiation



What will relationships facilitate?

- Relationships will facilitate:
 - ☐ **Rescheduled** tax payment models of outstanding tax liabilities
 - ☐ **Speedier** processing of refunds
 - ☐ **Waiver** of penalties and interest
 - ☐ Commissioner's **discretion**

KRA Audit Triggers

General triggers



- ❑ Inter-company transactions:
 - Royalty payments, license and trade marks
- ❑ Staff – moles, unhappy employees
- ❑ Non compliance detected during a normal Audit
- ❑ Third party information – Exchange of information, iTax
- ❑ Related company audits

PAYE Audit Triggers



- ❑ **Salary figure** : Accounts versus PAYE returns
- ❑ PAYE not paid on time
- ❑ Significant fluctuations in PAYE
- ❑ Directors fees vis a vis the standard of living
- ❑ Higher salaries: Employees Vs Directors

Corporation tax audit triggers



- ☐ Failure to **separate source**
- ☐ **Perpetual losses**
- ☐ **Variance** in income: VAT returns and Income per Accounts
- ☐ Expenses **without** matching income e.g. rental

Corporation tax audit triggers



- ❑ Reputation of auditors and tax advisors
- ❑ Gross profit margin versus the industrial average
- ❑ Unexpected losses, e.g. lawyers using client accounts to hide professional fees

Transfer pricing audit triggers



- ☐ Cessation of business or a large part of business
- ☐ Lack of TP documentation (or failure to submit docs to KRA when requested)
- ☐ Exchange of information
- ☐ Companies in perpetual losses
- ☐ Publicity: Websites, launches

VAT Audit Triggers



- ☐ Consistently in a refund position
- ☐ Third party information. - WVAT and iTax
- ☐ Sales inconsistencies
- ☐ VAT refund claims
- ☐ Consistently filing VAT returns late
- ☐ Non-compliance with ETR regulations

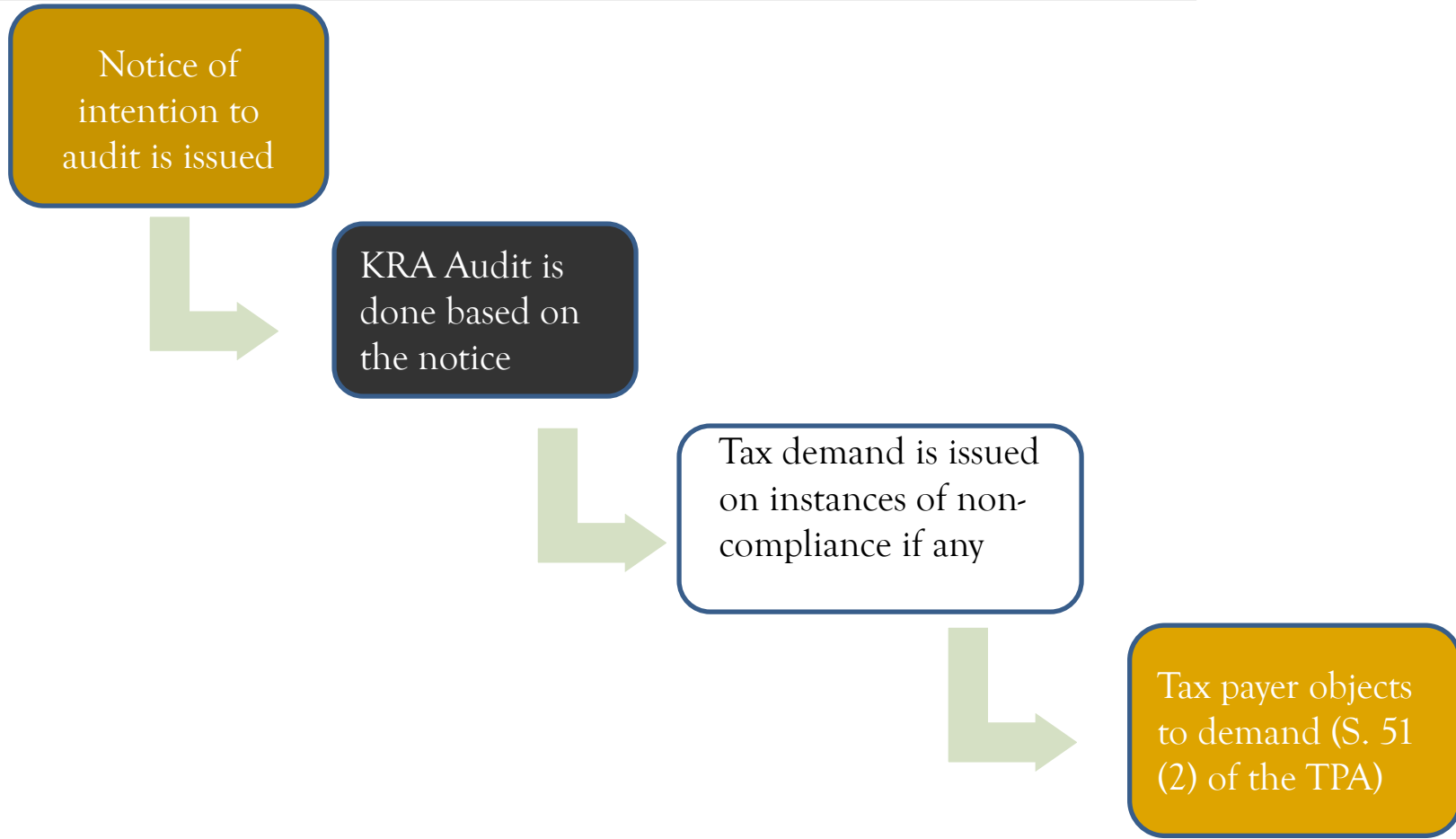
Customs & excise duty audit triggers



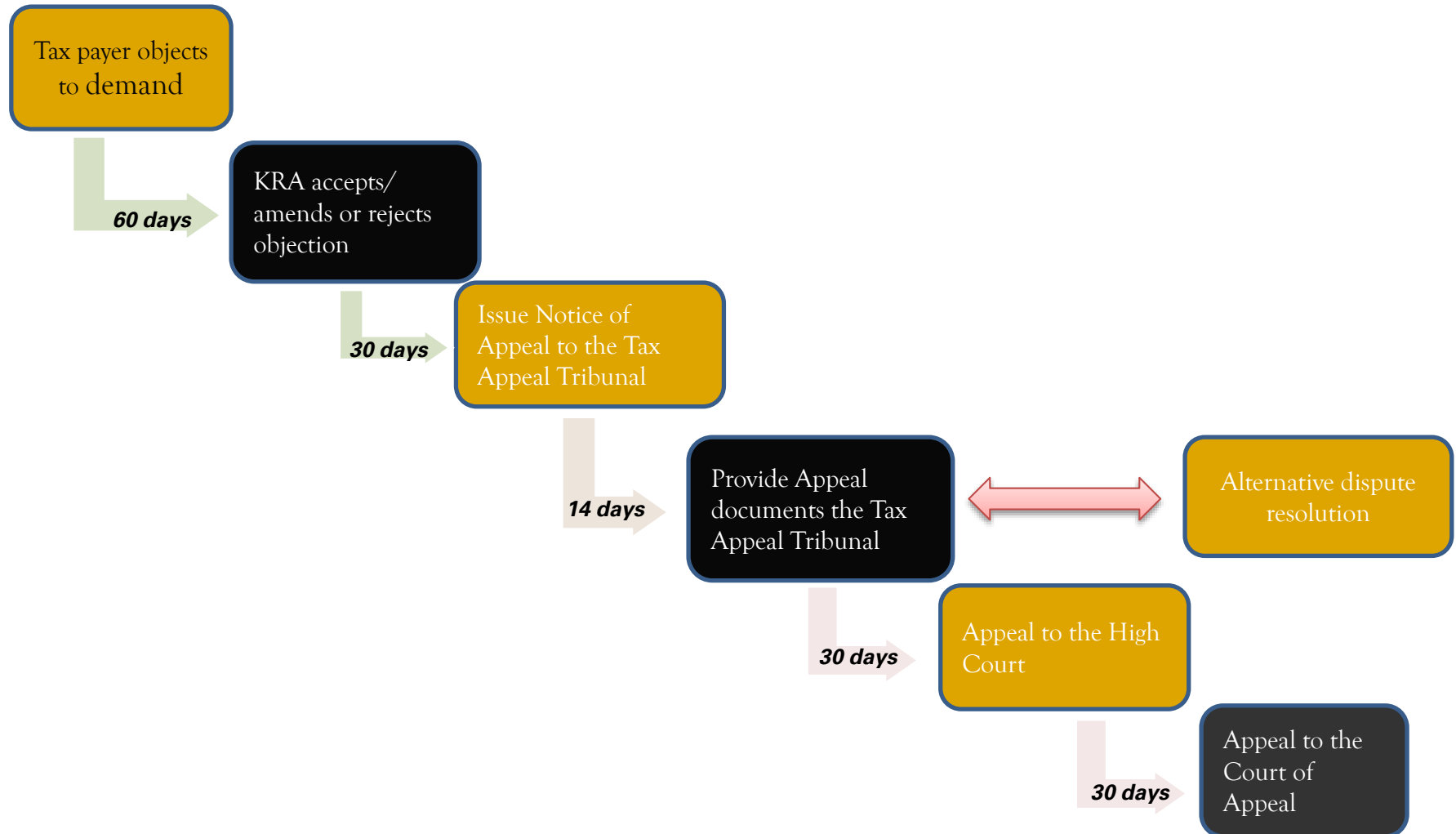
- ☐ Glaring differences on duty paid for similar goods
- ☐ Reputation of clearing agent
- ☐ Excise tax refund claims
- ☐ Failure to determine the correct ex-factory price
- ☐ Claiming remission or refund without complying with the provisions of the Act

KRA Audit Process

KRA Audit Process



KRA Audit- appeal process



Managing KRA Audits

Managing KRA Audits



- ☐ Before
- ☐ During
- ☐ After



Before the KRA Audit



- ☐ Involve a tax consultant before to analyze your systems
- ☐ Obtain official letter from KRA with the list of information required
- ☐ Prepare the relevant information
- ☐ Agree with the KRA on time frame
- ☐ Inform staff to avoid any surprises

During the KRA Audit



- ☐ Invite your tax advisors for the opening meeting
- ☐ Appoint one contact person to avoid many people dealing with KRA
- ☐ Senior most person to avoid dealing with KRA until last stages
- ☐ Document information provided to KRA, date provided and date returned
- ☐ Co-operate

During the KRA Audit



- ☐ Avoid off the cuff questions
- ☐ Consult your tax advisors on queries you are not sure of
- ☐ Invite your advisors for the exit meeting
- ☐ Resolve as many issues as possible before completion of audit

After the KRA Audit



- ☐ Follow-up with KRA to issue their official letter confirming the position
- ☐ Involve your tax advisors from this stage
- ☐ Pay any tax not in dispute – *in duplum* rule is now in force!
- ☐ Respond to KRA's letters on timely basis

Q & A

