

iTax Enhancements and VAA Presentation

KRA

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Taxpayer's Journey

2013 to Date: iTax

iTax System: Key Milestones

August 2014: Roll-out of First online back office process (Tax Compliance Certificate)

August 2015: Public Notice issued for mandatory online tax returns filing and payment for all taxpayers

November 2016: All DTD back office processes rolled-out

June 2018: Roll-out of the 'enhanced' DTD back office processes: for restructured Debt and Audit processes

2009 – 2012: ITMS

Parallel Manual/Online Taxpayer facing processes – Registration, Filing, Payment

Mandatory online PIN registration instituted

Manual/paper-based back office operations

Prior to 2009

Manual taxpayer facing and back office operations

iTax Credits

Taxpayer:

- **Convenient access** to tax services: Avg. 100,000 new registrations monthly, increased returns filing compliance
- **Incremental customer satisfaction** with system interactions
- **Simplified Returns filing**: pre-population of PAYE remittances and lump sum entry and validation of withheld taxes (VAT, Income Tax)
- **Reduced tax payer/tax auditor interaction**



iTax Credits

KRA:

- Increased **visibility of tax related practices** – increased efficiency in tax compliance efforts: leveraging on data for compliance purposes (desk audits, data analysis, etc.), data sharing through integrations
- Increased **revenue yield per case/officer/period**
- **Audit trail** on staff operations for improved checks on standards of integrity



Room for Growth



Customer's Complaints and Ongoing Reforms:

“Returns filing is complicated”

Optimise pre-population of data for faster processing of returns

Explore mobile returns filing solutions

Roll-out of Taxpayer Software filing option – FY 2019/20/21

“Refunds take long to be processed”

Refunds process undergoing re-engineering; includes a review of risk-based criteria and automated selection of cases for Green and Amber channels to minimising refunds processing time

“Fix your data!!”

- Data cleaning

Room for Growth



Customer's Complaints and Ongoing Reforms:

“Audits are unpredictable”

Audit module in iTax being enhanced through integration with internal system Data Warehouse and Business Intelligence system; includes automated and risk-based selection of Audit cases

“Changes happening too fast, too sudden”

Strengthening internal structures for taxpayer interactions and partnerships prior to release of major enhancements.

Establishment of monthly subscription for iTax enhancements and other reforms affecting taxpayers

Key iTax Enhancements

2019/2020

Key Upcoming iTax Enhancements

1. Legislative changes:

- **Excise Inflationary Adjustment:** Excise rate changes effected in accordance with the Legal Notice No. 109 of July 2019
- Withholding VAT 2% rate as per Finance Act, 2019
- Excise rate changes, Finance Act 2019

3. VAT Ledger correction for ledger reconciliation

4. Refund of Excise Duty on illuminating Kerosene – Refund of excise duty paid in respect of illuminating kerosene and used by a licensed or registered manufacturer to manufacture goods not subject to excise duty

4. Transfer of Income Tax Company and PAYE overpayments to advance payment ledger – Section 47 of the TPA; tax overpayments will not be transferred to Advance Payment account but instead availed for refund.

Key Upcoming iTax Enhancements

- 5. New Version of the Income Tax Company Return:** Provision to declare foreign income subject to DTA or any credits under special arrangements as provided under section 42 of the ITA
- 6. IT2P return changes:** Validation of partners' ratio in the IT2P return from return filed, as opposed to validation from the iTax registration form.
- 7.** Additional 'mandatory' fields for declaration of withholders' tax details in the WHT excel declaration form in iTax
- 8.** Approval workflow in exemption of Capital Gains Tax (CGT3)

Key iTax Enhancements cont.

1. Integration with E-Citizen for real-time processing of new company PINs:
 - -More than 16, 500 PINs issued automatically through Business Registration Service
 - - Identified gaps currently being addressed by the multi agencies
2. IFMIS/iTax/CBK (Income Tax component/PAYE) integration for real-time reconciliations and ledger updates:
 - Integration of IPPD with iTax and IFMIS: A government Ministry, Department and Agency (MDA) using the IPPD payroll system will now be able to download the CSV of the employee details from IPPD payroll when logged in iTax

MAJOR REFORMS - 2019

- ❑ Enhanced Tax Compliance Certificate Processing
- ❑ VAT Automated Assessments

TCC Process Changes

1. **Automatic issuance of TCCs** for PINs newly registered in iTax and those with 'green' compliance status in iTax. *56,000 TCCs issued automatically to date*
2. **Multi-level workflow** for processing of TCCs – for increased accountability – for taxpayers with history prior to iTax and those with unreconciled ledgers
3. Next milestone: Full automation of TCC process to increase transparency and improve customer satisfaction. Dependent on completion of Data cleaning & migration to iTax

VAT AUTOMATED ASSESSMENTS (VAA)

Background

- ❑ Management noted a trend of VAT fraud that involved:
 - i. Over-declaration of input tax on purchases
 - ii. Unsupported input tax
 - iii. Under-declaration of Output tax on Sales
- ❑ VAT Auto-Assessment module was **rolled out in Oct. 2018** and piloted on January 2018 VAT returns
- ❑ Inconsistency reports for February to May 2018 were ran between Feb. and July 2019
- ❑ Input taxes relating to unresolved invoice inconsistencies were disallowed in November 2019

HOW VAA IS TO WORK?

Workflow - Cross Matching of Invoices in iTax

Batch run on the midnight
of VAT due date
(threshold amounts to
apply)



Inconsistency
Report emailed to
Purchaser and
respective Supplier



Return Amended?
*Increased
Output/Reduced Input
Tax*



*Applicable
Taxes
settled*

*System to issue 2 notices in 30 days (batch
to run prior to each reminder)*

*Taxpayer given 30 days
(configurable) to amend*



System automatically disallows inputs on
outstanding inconsistencies

Transitional Period

- ❑ An extension period of **75 days** was issued to receive user feedback and effect changes.
- ❑ 21 stakeholder forums held to obtain feedback and prioritise issues for address. 8 key functionality changes were effected as at 22nd Feb. 2019.
- ❑ An additional **60 days** was issued to allow affected taxpayers amend their returns before the first set of input tax is disallowed.

VAA IMPACT - Summary

1

Improved degree of matching input tax invoice declarations from 28% in January 2018 to 49% in October 2019

2

Incremental decline in Input tax declarations by 13.9% as per October 2019 returns

3

Impact on VAT Revenue to be established following disallowing of input taxes – November 2019

Additional Information on VAA

www.kra.go.ke

- ❖ <https://www.kra.go.ke/helping-tax-payers/faqs/itax-vat-automated-audit-vaa>
- ❖ <https://www.kra.go.ke/downloads>
- ❖ <https://www.kra.go.ke/media-center/news/499-itax-vat-automated-audit-vaa-system-improvements-as-at-22nd-february-2019>

Feedback

1. Need for improvement to the iTax VAA summary of Assessment
2. Debit Adjustment Vouchers (DAVs) are not accurate
3. Staff: VAA works

Lessons:

- Need to publicise the VAA resolution framework and
- Bridge the knowledge gaps/related myths

Work in Progress

1. Finance Act, 2019 changes
2. Address the misuse of Auditors PINs by taxpayers when filing returns
3. Appointment of Tax representatives in iTax
4. Reinstatement of credits offset against liabilities not so applied for, in the iTax system
5. Addressing PAYE reconciliation gaps

Next Milestones

- ✓ Unified Payroll Return: PAYE/NSSF/NHIF
- ✓ Return simplifications: PAYE, IT2C, IT2P
- ✓ Tax Invoice Management System (TIMS)
- ✓ Mobile service option for tax returns filing/payment
- ✓ Ensure collaboration with stakeholders on reform initiatives and pro-active communication on existing and ongoing reforms
- ✓ Leverage on data and risk

END.

