

# Tax & Exchange Control ALERT

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CLIFFE DEKKER HOFMEYR

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#### Understanding the implications of the KRA's recent notice on eTIMS

The Kenya Revenue Authority (KRA) recently published a notice on the enforcement of the electronic tax invoice through software called eTIMS. eTIMS is the abbreviated form of electronic tax invoice management system. Through this software, the KRA seeks to ensure that all Value Added Tax (VAT) registered taxpayers generate electronic tax invoices that are transmitted to it in real time or near real time.



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KENYA

## Understanding the implications of the KRA's recent notice on eTIMS

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Starting from 1 June 2023, all VAT registered taxpayers will be required to only accept electronic tax invoices from taxpayers in compliance with the VAT (Electronic Tax Invoice) Regulations, 2020 (Regulations) for purposes of claiming input tax and processing of refunds. This notice carries some implications that taxpayers ought to be aware of.

### Increased tax compliance and accountability

By upgrading to eTIMS, the KRA has started a journey towards simplified VAT return filing. This is likely to increase the number of people filing returns as the invoices are sent in real time or near real time. Apart from real-time validation of invoices, it is likely that there will be improved accuracy due to automated VAT data management. This will subsequently reduce the constant challenge of invoice discrepancies. Accountability is expected to be enhanced since eTIMS includes an array of features such as the verification of invoice data, the use of standardised tax invoices and pre-filled VAT returns.

### Exemption of non-resident suppliers of digital services

The Regulations provide that a business-to-consumer supplier on a digital marketplace from an export country is not required to issue an electronic tax invoice provided that they register as per the Regulations. The suppliers are, however, required to issue invoices or receipts showing the value of the supply and tax charged for purposes of claiming input tax and processing refunds.

### Faster processing of VAT refunds

VAT taxpayers will have an easier time getting refunds if they only submit electronic tax invoices. This is because invoices are directly communicated to the KRA in real time or near real time. Furthermore, electronic tax invoices ensure the accuracy of tax invoice declarations as well as the reconciliation of submitted returns and payments. As a result, it reduces the time required to audit invoices and execute refunds.



KENYA

## Understanding the implications of the KRA's recent notice on eTIMS

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### Reduced cost of compliance

eTIMS is likely to eradicate the need for purchasing lots of hardware. The current system comprises electronic tax registers, which have numerous shortcomings such as high complexity, high costs of acquisition and unreliability that make it difficult for many VAT taxpayers to be compliant. With the new system, accessibility is guaranteed on various devices such as cell phones and laptops, hence it will be easily available to taxpayers at virtually no cost. The KRA expects the easy accessibility of this new system to translate into numerous benefits, including the creation of a fair business environment, enhanced revenue collection, improved ability to forecast revenue collection and increased efficiency in service delivery.

### Penalties

In its notice, the KRA reiterated the provisions of the Regulations, which provide that VAT registered taxpayers who have not complied with the

requirement to only accept electronic tax invoices will not be issued with their tax compliance certificates. Therefore, their VAT refunds will not be processed, and neither will taxpayers be able to claim input tax.

Under the Finance Bill, 2023 that was recently placed before Parliament, traders who do not issue electronic tax invoices to customers are likely to be fined either KES 1 million or 10 times the amount of tax due, whichever is higher.

### Conclusion

KRA has demonstrated serious commitment in using eTIMS as a means of not just tackling fictitious claims but also as a tool to increase the number of VAT-registered taxpayers from the current 113,239 to over 300,000. While this move presents numerous beneficial effects to all the concerned parties, it also presents challenges that may deter the KRA's revenue collection mission. One of the glaring setbacks is that small businesses within the informal sector may not cope well with the

prohibitive fines that have been proposed in the Finance Bill, 2023 in cases of default. The same cannot be said of large corporate entities, hence the gap between the two may further be widened.

The KRA has a huge task ahead in aligning its vision with the advancement in technology. According to the National Tax Policy, one of the administrative functions of the agency is to progressively improve technological efficiency in the collection of revenue. Additionally, the guidelines stated in the policy provide that technology should be continuously used in capacity development to improve revenue administration. The roll out of the eTIMS technology will thus go a long way in fulfilling this by streamlining the administration of VAT, reducing the number of tax cheats and boosting revenue collection.

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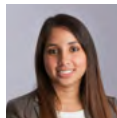
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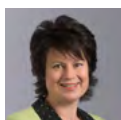
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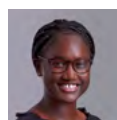
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**BBBEE STATUS:** LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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