



TAX RETURNS AUDITS BY KRA

BACKGROUND

In a bid to meet revenue targets that it has persistently missed in recent years, the Kenya Revenue Authority (KRA) has in the recent weeks been undertaking comprehensive compliance checks on all taxpayers.

The commissioner through the authority's investigation enforcement unit is keen on nabbing tax cheats be they individuals or corporates through compliance check measures that scrutinize the individuals and or companies declared income and their expenditure against their tax remittances and this has been evidenced by the increased tax reviews on Income Tax going as far back as five years ago.

This is in accordance with mandate granted under various laws including the relevant provisions of the Constitution of Kenya, 2010, the Tax Procedures Act 2015, the Income Tax Act (CAP 470); the Excise Duty Act 2015; the East African Community Customs and Management Act (EACCMA) 2004. These instruments provide the basis for the ongoing compliance checks.

The compliance checks may be done through tax returns review, comprehensive audits or investigations. The outcome may include additional assessments or in the case of fraud; prosecution of the offenders.

Similarly, the compliance checks may cover issues on Individual Income Tax (individuals or corporate companies), VAT, and Customs Duty, Excise, PAYE, Withholding and other taxes administered by KRA. It is against this backdrop that we advise on the following;

HOW DOES NON-COMPLIANCE COME ABOUT?

Noncompliance arises when a tax payer information as declared in the year end income tax returns is inconsistent with the monthly tax returns filed during the year. Tax payers are supposed to ensure the following tax areas, amongst others, are reconciled in the final accounts.

Tax Head	ITax Monthly returns	ITax Final Income Tax returns
Pay as You Earn (PAYE)	Total Twelve Month payroll returns	Should be reconciled with the Total payroll expense in the final accounts
Income	Total Twelve Month VAT returns	Should be reconciled with the total income in the final accounts
Professional fees	Withholding tax returns	Reconcile with total professional fees as per final accounts
Bonuses	PAYE paid on bonuses	Ensure PAYE has been charged on all bonus payments
Stamp duties	Paid on transfer of properties and shares	Ensure stamp duty payments are disclosed in the final accounts



Wear and Tear allowances	-	Ensure correct balances are brought forward and correct rates are used.
Late payment penalties	PAYE,VAT,Withholding Tax-By the 20 th of the following month	Adhere to the payment deadlines
Corporate Income Tax	Installment and Final taxes	Estimate expected final tax liabilities to guide payment of Installment taxes. Pay final tax liabilities by 20 th of the fourth month after your financial year end.

In summary, non-compliance can be avoided by ensuring adherence to the following:

- Pay monthly taxes within the stipulated timelines;
- Paying installment taxes within the stipulated timelines;
- Perform monthly reconciliations for sales, payroll, withholding tax and addressing any gaps before the year end.
- Engage professionals for advice on all matters of tax compliance, where necessary.

WHAT SHOULD YOU DO WHEN YOU ARE UNDERGOING KRA AUDITS?

Whether you are already undergoing a KRA audit or not, it is in the interest of every taxpayer to know how to manage tax audits. We advise the following;

- Prepare for KRA compliance responses within the stipulated timelines as per the KRA letter;
- Where gathering support documentations for KRA responses may take more time it is recommended to seek for time extension in writing to the commissioner;
- Always ensure your responses adequately address the issues raised;
- Seek professional help where necessary.

IN CONCLUSION

Besides taking administrative time to resolve KRA queries, confirmed cases of non-compliance could result in penalties and interest being levied. It is therefore important for tax payers to institute internal control measures to prevent/reduce instances of non-compliance.

In case of confirmed outstanding tax liabilities after compliance audit, it is possible to negotiate and enter into a payment plan with KRA. This helps to alleviate pressure that the assessment imposes on the company's or individual cash flow.

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