



# ***Tax compliance for counties***

***Avoiding Compliance pitfalls***

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# Introduction

## National tax reform agenda

- In 2004/05, the Kenya Revenue Authority ('KRA') introduced Revenue Administration Reform and Modernization Program (RARMP) in an attempt to enhance revenue collection, improve tax administration and reduce compliance and collection costs.
- Online filing of tax returns and introduction of Simba system for clearing of imported goods.



## Broadening tax base

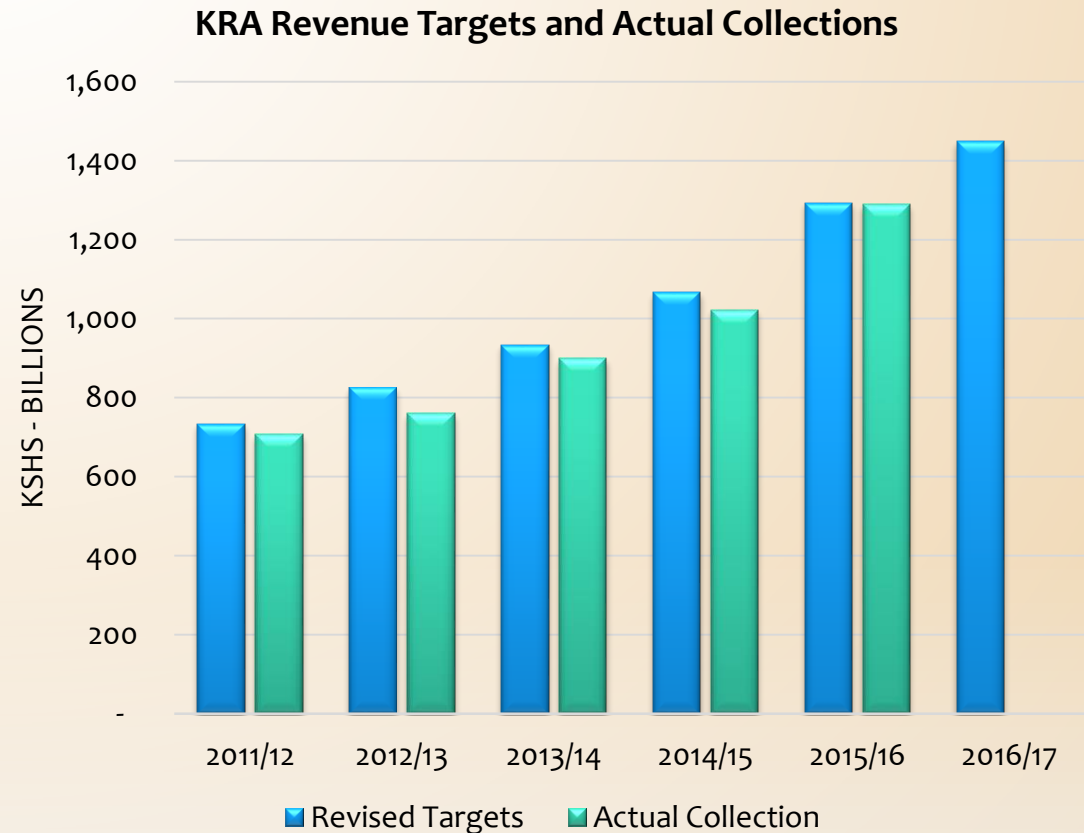
- Informal businesses are required to register and account for taxes via the itax system.
- Withholding VAT – Withhold 6% on payments for the purchase of taxable goods and services and remit to KRA.
- Appointment of the government as a withholding VAT agent.





# Tax trends - How do KRA targets compare with actual collections?

- Growth in tax collections can be attributed to enhanced collection measures.
- Actual collections struggle to keep up with rising government expenditure.
- Need to broaden the tax base to keep up with the revenue targets.



Source: KRA and the Economic Survey 2016

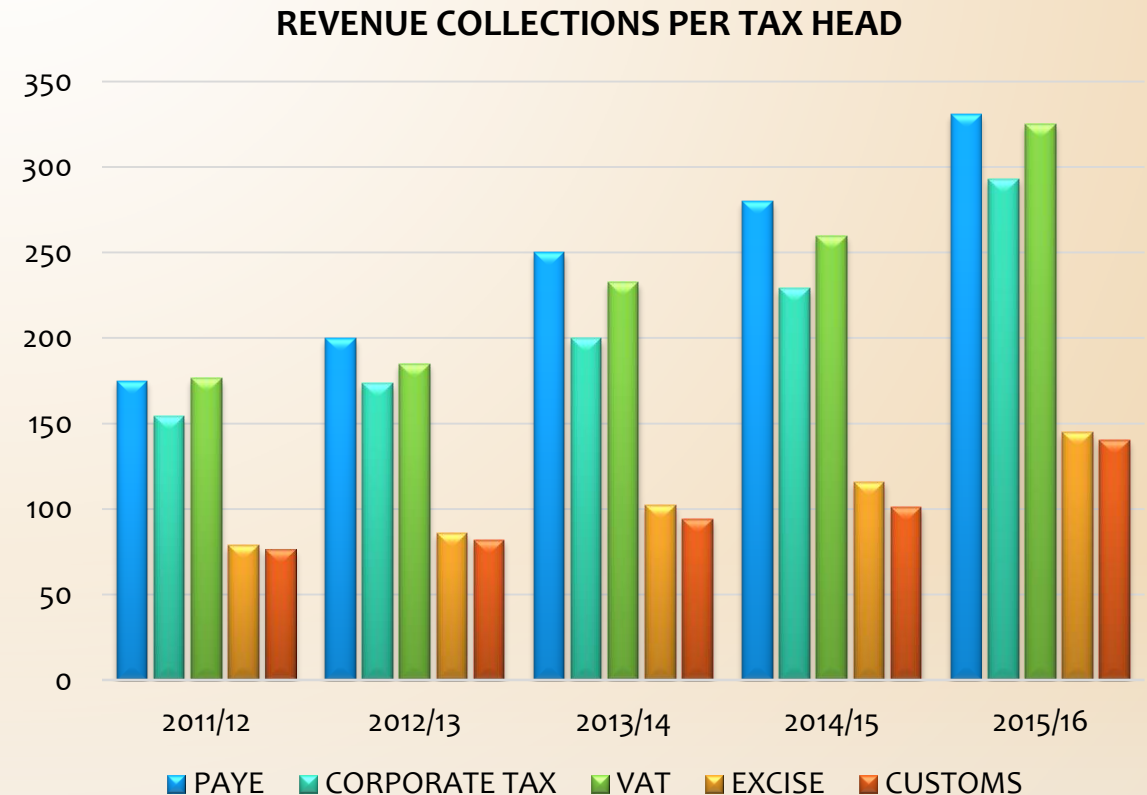






# Tax trends - What are the revenue collections per tax head?

- PAYE remains the highest contributor.
- VAT collections have significantly increased since the introduction of the 2013 VAT Act.
- The impact of the new Excise Duty Act is yet to be felt.
- Ongoing quest to shift from direct to consumption taxes.
- What further measures can be adopted to enhance tax collections?



Source: KRA and the Economic Survey 2016





# *Taxation of county governments - Counties are exempt from Income Tax – However!!!*

## Counties are not exempt from Withholding Tax

- County governments **MUST** withhold tax when making payments to suppliers of services e.g. contractors and other professional service providers
- County governments must **REMIT** withheld tax to KRA

## Counties are not exempt from Withholding VAT

- County governments are appointed withholding VAT agents
- County governments must **REMIT** withheld VAT to KRA

## Counties are not exempt from VAT

- County governments must **REGISTER** for VAT obligations
- County governments must **ACCOUNT** for VAT on the supply of taxable goods and services

## County staff are not exempt from PAYE

- County governments must **DEDUCT** payroll taxes on benefits (emoluments) paid to employees
- County governments must **REMIT** payroll taxes deducted to KRA





# *Have you considered the tax implications of some of the following county revenue streams?*

- Game parks/reserves entry fees
- Market entry and slaughter fees
- Sign board & advertising
- Hire of county assets
- Disposal of county assets
- Rental income from plots
- Rental income from commercial and residential buildings
- Meat inspection
- Liquor license fees
- Auction fees
- Sale of tender documents
- Sand harvesting fees
- Royalties and mineral extraction - Machakos
- Technical support such as audit of Cooperatives – Murang'a
- Local quarry - Lamu
- Revenues from cement – Marsabit
- Income from charcoal – Tana River
- Income from Gypsum – Tana River
- Export fees – Tana River





# *Pitfalls and how to avoid them*

## **Common pitfalls**

- Failure to register for applicable taxes
- Failure to account for applicable taxes
- Failure to remit deducted/withheld taxes
- Failure to adhere to filing timelines
- Incorrect application of tax rates
- Failure to maintain appropriate records
- Failure to keep up to date with changes in revenue laws

## **How to avoid the pitfalls**

- Automation of tax accounting systems
- Assigning clearly defined roles and responsibilities
- Maintaining proper documentation and controls
- Training of the finance teams
- Employing the services of a reputable tax advisor







# Best practice

## The United Kingdom

- The UK has local governments that carry out a range of services e.g. the provisions of ambulance services, transportation, fire brigade, cable TV, electricity, gas and leisure facilities.
- The UK tax laws require that these local governments should register and account for VAT when they make taxable goods and services.



## Australia and New Zealand

- In Australia and New Zealand, essentially all goods and services provided are treated the same way if they were made by any other business.
- VAT is chargeable on these goods and services at the applicable rate.
- **Note:** Most countries with a devolved system of governance that receives allocation from the Central Government seek to seal revenue leakages and safeguard allocations received and later expand on the revenue streams.





*Questions?*

