KENYA REVENUE AUTHORITY

Tulipe Ushuru, Tujitegemee!



Value Added Tax (VAT)

Disclaimer: KRA notifies taxpayers that it will not accept responsibility for payments not received, credited and validated in the relevant KRA accounts.

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Value Added Tax (VAT)

Value Added Tax (VAT) is an indirect tax charged on taxable goods and services supplied in Kenya and on the importation of taxable goods and services into Kenya. VAT is generally borne by the final consumer VAT on imported goods and taxable imported services is accounted for by the importer, subject to the applicable provisions of the VAT Act.

Eligibility

Any person supplying or who expects to supply taxable goods and taxable services with a value of Kshs 5 million or more in a year is required to register for VAT. However, Non-resident persons who supply taxable services to consumers in Kenya through the internet, an electronic network or a digital marketplace are required to register for VAT, regardless of whether their taxable supplies meet the KSh 5 million annual registration threshold.

The Law provides for voluntary registration where the threshold is below the stipulated amount. Please note that voluntary registration is not automatic; it is granted subject to statutory conditions.

No VAT number is issued, taxpayers are identified using their Personal Identification Number (PIN). This means that taxpayers have VAT as an obligation under their existing PIN.

Every VAT-registered taxpayer is required to on-board onto eTIMS and issue electronic tax invoices for applicable business transactions. Electronic invoices may be generated through an approved eTIMS solution or a compliant electronic tax register.

How VAT Works

VAT works under the Input / Output Tax system.

Input tax refers to VAT charged on taxable purchases and expenses for business purposes.

Output tax refers to the VAT charged on the sales of taxable goods or services.

Tax payable is the difference between the Output tax and the Input tax.

Output Tax – Input Tax = Tax Payable

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Example of VAT Calculation

PURCHASES	Kshs
Purchase net price	10,000
16% VAT	1,600 (Input tax)
Gross purchase price	11,600

SALES	Kshs
Gross purchase price	11,600
Less VAT paid	1,600
Net Purchase price	10,000
Add 20% profit margin	2,000
Net Sales Price	12,000
Add 16% VAT	1,920 (Out Put Tax)
Selling Price	13,920
Tax payable	1920 - 1600 = 320

Rates

The principal VAT treatments include:

1. The general rate of 16%;

2. The zero rate of 0% for supplies listed in the Second Schedule to the VAT Act;

   0% (zero rate) - it is applicable to certain categories of supplies meant for promotion of trade, Exports, Agriculture, Education and Health. Zero rating makes the supplies cheaper as no tax is chargeable while input tax can be claimed. Registered taxpayers who sell zero-rated supplies are entitled to a refund of input tax paid. This helps in furtherance of business.

3. Any other rate prescribed by law or applicable to specified supplies.

Certain petroleum products may be subject to a special or temporary VAT rate.

Exempt supplies are not taxable and any related input tax is therefore not deductible.

These supplies are listed in the first schedule of the VAT Act 2013. Taxpayers who supply exempt supplies only are not required to register for VAT.

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Due date

VAT is due on or before the 20th of the following month. This includes both the return and payment. Returns are submitted online via iTax. A VAT-registered person must submit a return for every tax period, including a nil return where no taxable transactions occurred.

Tax Invoice

This is an invoice issued by a registered person and contains details of the sale transactions including the VAT charged.

Only one original invoice, credit note or debit note should be issued on a particular supply. A certified copy clearly marked as so may be issued to a registered person claiming to have lost the original.

A tax invoice should be serially numbered and generated from an Electronic Tax Register (ETR) or attached to a receipt containing details of the sale transaction. In case of returned goods or a valid reduction of the value of the supply by the registered person after the issue of an invoice, a credit note shall be issued. A credit note is issued within six months after the issue of the relevant tax invoice.

Input Tax Deduction

Registered persons are entitled to input tax deduction at the end of the tax period in which the taxable supply or importation occurred.

Input tax deduction is valid for only six months after the end of the tax period in which the supply or importation occurred.

The input tax is only applicable on supplies or importations acquired to make taxable supplies and the registered person must be in possession of valid documentations to support the input tax.

Excess input tax is ordinarily carried forward to subsequent tax periods. However, a registered person may apply for a refund where the excess arises from circumstances specified in the VAT Act, including:

- Making zero-rated supplies;

- VAT withheld by appointed withholding VAT agents;

- Qualifying supplies connected with approved official-aid-funded projects; and

- Other qualifying supplies or permanent credit positions expressly provided for under section 17 of the VAT Act.

- Refund claims must be submitted within the applicable statutory period and supported by the prescribed documentation.

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Keeping Records

VAT registered persons are required to maintain proper records to support all transactions.

The records should be kept electronically or otherwise either in English or Kiswahili for a period of 5 years.

Some of the records to be kept include:

- Copies of all tax invoices and simplified tax invoices issues in a serial order number or certified copies of the original invoice,
- Copies of all credit and debit notes issued in a chronological order,
- Purchase Invoices, Copies of customs entries, receipts for the payment of customs duty or tax, credit and debit notes received filled chronologically,
- Details of the amount of tax charged on supply made or received.

Time of supply (Tax Point)

Tax point is the time when tax becomes due and payable. This is determined by the EARLIEST of the following: -

- The date on which the goods are delivered or services performed.
- The date a certificate is issued by an architect, surveyor or any other person acting as a consultant in a supervisory capacity.
- The date on which the invoice for the supply is issued.
- The date on which payment for the supply is received in whole or part.

In the case of the national carrier, time of supply shall be the date on which the goods are delivered or services performed.

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Deregistration for VAT

- A registered person who ceases to make taxable supplies shall apply in writing to the Commissioner, for the cancellation of the person's registration, within thirty days of the date on which the person ceases to make taxable supplies sec 36.

A registered person who continues to make taxable supplies whose annual value does not exceed the registration threshold (KShs 5 million) may apply in writing to the Commissioner, for cancellation of the person's registration.

- Death of a sole proprietor, insolvency or legal incapacitation. The executor, liquidator or any other person conducting the business shall notify the commissioner immediately.

- Taxable goods or taxable services become exempt

N/B: Upon application for deregistration, the taxpayer, executor, liquidator or any person conducting the business should continue submitting returns until advised to stop.

Obligations of a VAT Registered Taxpayer

1. Notify the commissioner in writing in case of any change of name, including business name, address, place of business or nature of business. Notification should be made within 21 days of the change.

2. File tax returns on time

3. Pay tax due on time.

4. Pay penalties and interest (where applicable).

Tax Returns

VAT return in respect of each tax period is submitted on or before the 20th day after the end of that tax period.

Tax Returns

After filing the VAT return online via iTax, the taxpayer is required to generate an E-slip which is used to when making the payment at KRA appointed Banks.

Payments can also be made via Mpesa using the Government **Pay Bill Number 222222,** the Account Number is the Payment Registration number quoted at the top right corner of the generated payment slip.

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