




Understanding VAT for Businesses



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Tulipe Ushuru, Tujitegeme!

Value Added Tax (VAT)

VAT is an indirect tax that is paid by the person who consumes taxable goods and taxable services supplied in Kenya and/or imported into Kenya

The tax is collected at designated points by VAT registered persons who act as the agents of the Government.

VAT on imported services is paid by the importer.

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.

The Law provides for voluntary registration where the threshold is below the stipulated amount.

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

Every VAT registered taxpayer should install and use an ETR machine to account for ALL sale transactions and issue ETR Generated receipts to every customer.

How VAT works

VAT works under the Input / Output Tax system.

Input tax refers to VAT charged on purchases of 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

Example of VAT calculation

PURCHASES	Kshs
• Purchase net price	10,000
• 14% VAT	1,400 (Input tax)
• Gross purchase price	11,400

SALES

• Gross purchase price	11,400	
• Less VAT paid		1,400
• Net Purchase price	10,000	
• Add 20% profit margin	2,000	
• Net Sales Price	12,000	
• Add 14% VAT	1,680 (Out Put Tax)	
• Selling Price	13,680	
• $1,680 - 1,400 = 280$		N/B: $14 \times 2,000 = 280$

Rates

There are 3 rates of VAT;

- 14% (general rate) - this is applicable to all taxable goods and services other than zero rated supplies.
- 8%- it was introduced in the Finance Act 2018 for petroleum and petroleum products
- 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.

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.

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.

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.

Any excess input tax is carried forward and deducted in the next tax period.

Excess input tax may be refunded by the Commissioner if it arises from Zero rated supplies.

Keeping Records

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

The records should be kept in Kenya 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.

Deregistration for VAT

- Registered person ceasing to make taxable supplies or the turnover of the taxable business falling below Kshs. 5,000,000 in a year may opt to be deregistered.
- 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.

Payment

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 KRA Pay bill number 572572, the Account Number is the Payment Registration number quoted at the top right corner of the generated payment slip.

