

THE 41st CATA TECHNICAL CONFERENCE

Managing SME Compliance Through Tax
Simplification

“The Kenyan Experience”

Taxation of SMEs in Kenya

- Tax Simplification has been embedded in the KRA 8th Corporate Plan (2021 – 2024) whose theme is “revenue mobilization through **tax simplification**, technology-driven compliance and tax base expansion”
- Small and Medium (SMEs) taxpayers account for majority of taxpayers in Kenya
- Kenya’s policy, technological and administrative reforms in simplifying taxation to support compliance among SMEs and micro enterprises
- General reforms that equally have implications for SMEs and specific and targeted reforms meant for SMEs and Micro Enterprises

1. Tax Policy Reforms

a) Simplified tax regimes to lower compliance costs:

i. Introduction of Turn over Tax (ToT) and Monthly Rental Income (MRI) Tax:

- ✓ ToT charged at 1% of gross turnover. TOT rate reduced from 3% to 1% from July 2021.
- ✓ MRI – charged at 10% of gross rent.
- ✓ TOT is a final tax targeting small businesses to reduce compliance costs.

ii. Residential Rental Income Tax

- Introduced in 2016 & is applicable to landlords in receipt of annual residential rental income of between Kshs 288,000 and Kshs. 15,000,000
- The taxpayers pay tax at a flat rate of 10% on gross rent received per month and this is a final tax. No other tax return is required for taxpayers in the regime
- Filing of the return and payment can be done through the KRA Mobile App (M-Service).
- Compliance costs are reduced since only one return is required.

1. Tax Policy Reforms (Contd.)

b) Voluntary Tax Disclosure Programme (VTDP)

- Amnesty program where taxpayers (including SMEs) may declare previously undisclosed income and obtain a relief on penalties & interest upon payment of principal taxes.
- Program will run from 1st January 2021 to 31st December 2023.
- This will enable SMEs to comply with tax laws moving forward.

2. Adoption of Information Technology

a) Online Tax services (iTax)

Kenya has implemented a mandatory online filing and payment, allowing taxpayers are able to undertake the following processes:

- ✓ Registration
- ✓ Filing of returns
- ✓ Payment of taxes
- ✓ Application for a Tax Compliance Certificates (TCC).
- ✓ Application for Tax Exemption Certificates
- ✓ Access their tax records (ledgers)

2. Adoption of Information Technology

b) M-Service and Mobile Money

- ✓ Development of the KRA mobile App, M-Service and USSD functions which allow taxpayers to access KRA services - registration, payment and filing of turnover tax and monthly rental income tax.
- ✓ Payment of taxes through mobile money.

2. Adoption of Information Technology

c) Tax Invoice Management System (TIMS)

- Introduction of TIMS will allow for standardization and authentication of tax invoices issued by VAT traders. This will result in
 - ✓ simplified VAT return filing through pre population of returns
 - ✓ faster processing of VAT refunds.

d) Integrated Customs Management System (iCMS)

- Roll out of iCMS enables trade facilitation by:
 - ✓ Reduction of complexities associated with manual processes and multiple systems.
 - ✓ Increasing speed of cargo clearance.

e) Excisable Goods Management System (EGMS)

- Implementation of EGMS to protect genuine businesses from illicit trade and influx of counterfeits.

2. Adoption of Information Technology

F) Other Notable Simplifications

- Integration of iTax with e-citizen (government services portal) that allows for auto-generation of the tax PIN upon company registration
- Automatic issuance of Tax Compliance Certificates for compliant taxpayers
- Integration of KRA's internal systems to give a single view of the taxpayer and enhance service delivery

3. Administrative Measures

- a) Simplification of VAT Refunds process: “Green Channel” for low-risk refund claims
- b) Flexible payment plans for SME taxpayers to clear their tax liabilities
- c) Introduction of **service delivery alternative channels** - KRA presence in decentralized government service delivery centres
- c) Continuous **taxpayer education**
- d) **Strategic partnerships** - Business Member Organizations, Chamber of Commerce and other public agencies

3. Administrative Measures

- e) Strengthened **Alternative Dispute Resolution (ADR)** to resolve tax disputes faster and at lower cost
- f) **Authorized Economic Operator Program** – Customs
- g) **Pre- Arrival Processing** – Import and Export
- h) **Kenya National Single Window** reduced the number of exports and imports documents

4. Impact of tax simplification

- Enhances revenue collection
- Convenient taxpayer service delivery – customer satisfaction
- Reduced tax compliance cost
- Widened tax base due to improved access to 3rd party information
- Dealing with the challenges of tax evasion/avoidance and related illicit financial flows

5. SME compliance challenges

- Taxing digital economy – most SMEs are active mobile payments/e-commerce
- High levels of informality - large and hard to reach
- Prevalent cash transactions
- Many micro enterprises lack a fixed place of business

6. Conclusion

- Strategic intent with respect to tax simplification
- Strategic partnerships – informal, micro, SME associations, and other government agencies
- Training and awareness creation
- Technological, administrative and policy simplification

THE END