FEBRUARY 2020 | 6.56

OVER 40 YEARS OF ACCOUNTING EXCELLENCE

POINTS TO CONSIDER WHEN SETTING UP A CHART OF ACCOUNTS

Fringe Benefit Tax, Deemed Interest Rate and Low Interest Benefit

Newsletter

MBAYA AND ASSOCIATES February 2020 | Issue 056 | Volume 6

Introduction

Warm greetings from all us at M&A! We are pleased to release our second edition for the year 2020 tax newsletter. This newsletter covers recent changes in the tax regime and accounting practice in Kenya to keep you current and updated on tax matters and the latest in business trends.

In this issue we detail the changes in acquiring a Tax Compliance Certificate, Refund of Excess VAT, various tax penalties and points to consider when setting up a chart of accounts.

On the right column of the newsletter you will find contact details for the senior members of our team who can help answer any questions you may have about the issues highlighted in this newsletter or any other questions.

We are interested in your feedback on the items covered and what topics you would like covered in the future.

Please provide any feedback at **tax@mbaya.co.ke**

In this issue

Contacts

Head Office

3rd Floor, Western Heights

Karuna Road, Westlands

P. O. Box 45390 – 00100

Nairobi, Kenya

Tel. +254(20)4443868

254 20 4448938

254 20 4446466

Fax: 254 20 4449819

Mike Mbaya | Managing Partner

Email: mike@mbaya.co.ke

Muhungi Kanyoro | Partner

Email: mkanyoro@mbaya.co.ke

Andrew Bulemi | Partner

Email: abulemi@mbaya.co.ke

Leah Nganga | Partner

Email: lwambui@mbaya.co.ke

Christine Yego | Outsourcing Dept. Manager

Email: christine@mbaya.co.ke

Kevin Njenga | Tax Manager

Email: knjenga@mbaya.co.ke

Darlyn Mbaya | Manager and Partner

Savanna Associates

» From the *Tax***Desk** »

FRINGE BENEFIT TAX, DEEMED INTEREST RATE AND LOW INTEREST BENEFIT

Fringe Benefit Tax (FBT) is applicable when employers provide loans to their employees and charge interest lower than the prescribed rate (ITA-section 12(b)). This becomes a benefit to the employee for which the employer needs to file and pay Fringe Benefit Tax. FBT is paid by the employer at the corporate tax rate of 30 % on total taxable value each month. The tax is payable on or before the 9th day of the following month to KRA.

Deemed Interest Rate (DIR) is the amount of interest deemed payable by a resident person in respect of an outstanding loan provided or secured by a non-resident person, where such loan has been provided free of interest.

Low Interest Benefit (LIB) results from the charging of a low rate of interest on an employment benefit as compared to the prescribed market rate of interest.

The rates were last reviewed downward through a notice dated 21st July 2019 which we highlighted in our eighth edition of year 2019 newsletters. KRA has maintained the rates at 7% through a notice dated 24th January 2020 for the periods below:

- Fringe Benefit Tax (FBT) - 7% for three months, January, February & March 2020.
- Deemed Interest Rate (DIR) - 7% for three months, January, February & March 2020.
- Withholding tax rate of 15% on DIR shall be deducted and paid to the Commissioner by 20th of the month following the month of computation.
- Low Interest Benefit (LIB) - 7% for six months, January to June 2020.

TAX COMPLIANCE CERTIFICATE – SIMPLIFIED PROCESS

Through a public notice dated 15th January 2020, Kenya Revenue Authority wishes to notify the public that it has enhanced the Tax Compliance Certificate (TCC) application process to a full self-serviced process managed by the taxpayer. This move is meant to create efficiency, transparency, and to expedite generation of TCCs. The Authority urges all taxpayers to take full responsibility for their own tax compliance.

The iTax system is now interactive to support the self-service process, where the taxpayer applies and gets a TCC without staff intervention. However, where there is any outstanding debt the taxpayer will need to pay or apply for a payment plan which, upon approval, enables the taxpayer to continue with the self-service process.

We are urging all our clients to take advantage of this and secure the Tax Compliance Certificate in good time. Trying to get it in the last minute may lead to disappointment and/or inconvenience. We are willing to assist you in securing the TCC and to do any follow-ups.

APPLICATION FOR VAT REFUNDS

Through a public notice dated Tuesday 3rd February 2020, Kenya Revenue Authority informs the public that they have automated the applicable refund process. KRA have rolled out a module in the iTax system to process the refunds. This follows amendments to section 17 (5) of the VAT Act 2013 that reintroduced refunds of VAT arising from excess VAT credits. The credits must be due to withheld VAT by appointed tax withholding agents.

In line with the amendment, a registered person who accumulated excess Withholding VAT credit within 36 months prior to 23rd July 2019 may apply for offset or refund of the excess tax. The application for the refund should be within twelve months from 23rd July 2019.

In the case of any such excess credits arising after 23rd July 2019, a registered person may apply for an offset or refund within 24 months from the date the tax became due.

Taxpayers who qualify for refund or offset of excess VAT credit arising out of Tax Withheld under the stated provision of the Act may lodge a claim for offset or refund of the excess tax using the module provided. They are particularly reminded of the time restrictions on lodging the claims.

Further, registered persons who submitted manual applications are advised to reapply for VAT offset or VAT refund on the iTax system. Please note that **refund claims submitted manually will not be processed.**

PENALTIES CHARGED ON TAX OFFENCES

Tax offences attract punitive penalties and interest charges. These penalties will restrict you from obtaining a clearance certificate. Some of these penalties include:

Tax Obligation	Description	Penalty
PAYE	Failure to deduct PAYE, account for it or to submit a certificate upon request	Kshs. 10,000 or 25% of the amount of the tax involved, whichever is higher.
Withholding Tax	Failure to deduct or pay the tax	10% of the amount of the tax involved, up to a maximum of Kshs. 1 million.
Stamp Duty	Failure to pay the tax	An additional 5% of the duty payable for every quarter, from the date of the Instrument.
Excise Duty or VAT	Failure to pay the tax	Kshs. 10,000 or 5% of the amount of the tax due, whichever is higher.
Annual Returns	Failure to file annual returns by the due date	Kshs. 10,000 or additional tax equal to 5% of the normal tax whichever is higher.
	Failure to pay tax on due date	An additional 20% of tax involved. Interest of 1% per month is charged until the tax is cleared.

We take this opportunity to advise all our clients to check their iTax accounts and regularise the tax information. You can always get in touch with us in case you have any query or need assistance on this.

POINTS TO CONSIDER WHEN SETTING UP A CHART OF ACCOUNTS

An effective Chart of Accounts structure directly or indirectly drives virtually all financial reporting. Yet, many organizations ignore this foundational concept and go a long way with unmet expectations.

A C**hart of Accounts** (COA) is a financial organizational tool that provides a complete listing of every account in an **accounting** system. This is then incorporated into the accounting software to allow recording of transactions in its general ledger. Usually, it has the account number code, name of the account and a brief explanation of what is to be included in that account.

The following are the categories of Chart of Accounts:

1. Assets
2. Liabilities
3. Equity
4. Revenue
5. Expenses

There are three aspects to consider when preparing a chart of accounts:

1. The number of accounts.
2. The definition of what goes into each account.
3. The way the accounts are organized.

The following are the steps to take to address each one of these points:

- **Account numbers** - Use account numbers to group the different categories together logically.
- **Room for adjustments** - Ensure enough room has been left to expand each category – consider the future, not only the past.
- **Relevance** - Set up a structure that is relevant for management accounting purposes. Try to ensure your software gives you the information in a meaningful way.
- **Divide the reporting on what is compatible to you** – do you need to track your P&L based on your products or services or by departments or by location, etc.? If so, do not duplicate the line items but consider setting up segments in order to compartmentalize the relevant line items.
- **Define gross margin -** Ensure the gross margin has been computed properly (if relevant for your industry) and the cost of sales includes all direct costs.
- **Keep the COA in line with the budgeting** to avoid duplication of efforts.
- **Give careful thought to indirect costs -** Liaise with all departments to ensure there is consistency and to avoid duplication

The chart of accounts structure determines the level of detail available for financial reporting. It is therefore the foundation of the financial statements.

In practice, financial statements are what get faithfully generated and reviewed by management each month. Accurate set of accounts originate from a carefully designed chart of the accounts.

[Alert]

It has come to our attention that a lot of taxpayers fail to file the excise duty returns. Most of the challenges come in streamlining Excise VAT and Income Tax. Please do not miss our next issue for a comprehensive discussion.

Tax Due Dates

Withholding Tax | 20th Day of the following month
Pay as You Earn | 9th Day of the following month
VAT | 20th Day of the following month
Balance of Tax on Self-Assessment | 4th Month after year end
Monthly Rental Income | 20th Day of the following month

KENYA REVENUE AUTHORITY

Instalment Tax

1st Instalment |20th day of the 4th month after year end
2nd Instalment | 20th day of the 6th month after year end
3rd Instalment | 20th day of the 9th month after year end
4th Instalment | 20th day of the 12th month after year end
Kindly note that all the returns must be filed on I tax while the payments e-slips must be generated from the I-Tax platform.