




# Value Added Tax



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***Tulipe Ushuru, Tujitegeme!***



## **What is Value Added Tax (VAT)?**

VAT is an indirect tax paid by the person who consumes taxable goods and taxable services supplied in Kenya and/or imported into Kenya. It is a consumer tax on goods and services.



## **Who collects VAT?**

The tax is collected at designated points by VAT registered persons who act as agents of the Government. These registered persons are also required to charge VAT as per the effective date of registration for the obligation.



## **Who registers for VAT?**

Any person supplying or who expects to supply taxable goods or services with a value of KSh. 5 Million or more in a year qualifies to register for VAT. However, the law provides for voluntary registration where the threshold is below the stipulated amount.



## **Which are the main laws administered under VAT?**

- i. VAT Amendment Act 2013
- ii. Tax Procedures Act 2015
- iii. Ties: EACCMA and Excise Act 2015.



## **Which Principle governs VAT operations?**

If a person has supplied or expects to supply taxable goods whose value is Kshs. 5,000,000 and above within 12 months; one needs to register within 30 days from the date on which he becomes a taxable person



## What is a Tax Point in VAT administration?

A Tax Point is the time at which one recognizes or charges VAT. It is the earlier of the following;

- i. Delivery or performance
- ii. Issuance of a Certificate e.g Architect
- iii. Issuance of an invoice
- iv. Receipt of part or full payment on account of supply.



## How does VAT operate?

VAT operates on an **INPUT – OUTPUT** Principle

- i. **Input tax** refers to VAT charged on purchases of taxable supplies and expenses for business purposes.
- ii. **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 as demonstrated below;

**Output Tax – Input Tax = Tax Payable**



## What are the VAT rates?

The following are the VAT rates;

- 16% - Applicable to taxable goods and services other than zero-rated supplies.
- 8% - Applicable to petroleum and petroleum products



- 0% - Applies to exports/ supplies to privileged persons or generally services/ goods listed under 2nd Schedule to the VAT Act 2013. Zero rating makes the supplies cheaper as tax chargeable is zero while Input Tax is claimable.

### **What is the difference between zero rated and exempt supplies?**

Exempt supplies are not taxable and are therefore different from zero rated supplies in which the supplier is entitled to Input tax deduction.



### **How is VAT accounted for?**

VAT is accounted for through;

- i. Issuance of tax invoices.
- ii. Input tax deduction.
- iii. Keeping of records.
- iv. Submission of returns.



### **What is a tax invoice?**

This is an invoice issued by a registered person and contains details of the sale transaction including the VAT charged. It should be serially numbered.



For further assistance, visit KRA Tax Service Offices countrywide.

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